

## Annex A

### **Azrieli Group Ltd.**

(the "Company")

### **Officer Compensation Policy**

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.

#### 1. **General**

On December 12, 2012, Amendment no. 20 to the Companies Law, 5759-1999 ("**Amendment 20**" and the "**Companies Law**", respectively) took effect, which concerns regulation of the compensation structure for officers in public companies and in bond companies, and prescribes a special procedure for approval thereof. Pursuant to Amendment 20, the Company's compensation committee (the "**Compensation Committee**"), and the Company's Board of Directors and the Company's general meeting adopted a compensation policy in September 2013. In December 2014, an update to the said compensation policy (the "**Previous Compensation Policy**") took effect. Three years after the previous policy was first approved, the Compensation Committee and the Company's Board of Directors approved this Compensation Policy.

The Compensation Policy was prepared in consideration of the nature of the Company as a company which is active mainly in the field of income-producing property and its being among the largest companies in the Israeli economy, which is included in the TA-25 Index and in the TA Real Estate-15 Index.

In general, this Compensation Policy reflects the existing situation at the Company with respect to compensation of officers and is based on similar principles to those which stood at the foundation of the previous policy, all while adjusting the policy to the current legal provisions and to the developments on matters addressed by the policy.

The Compensation Policy is intended to provide a sufficiently broad framework to allow the Company's Compensation Committee, Board of Directors and CEO, as the case may be, to determine, for each one of the officers, a personal compensation plan, according to the needs of the Company and in keeping with the best interests of the Company, its employees and its shareholders and the Company's overall long-term strategy.

The policy is based on many years of experience in managing the Company, in its field of business and in the business volume, and on determinations deriving from many years of implementing a unique management method which has led the Company to impressive achievements.

The provisions of this Compensation Policy apply only to the Company's officers (as defined in the Companies Law).

The Compensation Policy is drafted in the masculine gender for convenience purposes only, but its provisions shall apply to both men and women, with no distinction or modification.

2. **Purposes and Considerations in Determination of the Compensation Policy**

The Compensation Policy is intended to assist in achieving the Company's goals, its policy and its work plans and, *inter alia*, with the following aims:

- 2.1. To grant the Company's officers considered, fitting and fair compensation, in consideration of their role and responsibilities.
- 2.2. The Company will be able to recruit and retain top-level, high-quality senior executives having specific expertise and professional knowledge, the ability to lead the Company to business success and to cope with the challenges it faces;
- 2.3. The officers' compensation will be in keeping, *inter alia*, with the size of the Company and the nature of its business.

In formulating the Compensation Policy, consideration was given, *inter alia*, to the Company's customary officer compensation levels and terms of employment in previous years. It is noted in this context that the group of officers of the Company is a relatively small group, most of which has been employed at the Company for long periods and it consists of officers who have unique expertise and vast experience in their specific fields of occupation.

Furthermore for the purpose of this policy, the compensation conditions of officers of the Company (including the directors), under agreements that are in force prior to the release of this policy, shall be deemed, for the term of the Compensation Policy, as compatible with the Company's Compensation Policy.

3. **Manner of Determination of the Compensation – Principles and Rules**

When examining and approving an officer's terms of office and employment, the Compensation Committee and the Company's Board of Directors shall address, *inter alia*, the following issues, insofar as they are relevant to the officer:

- 3.1. The officer's education, qualifications, expertise, professional experience and achievements.
- 3.2. The officer's role, responsibilities and his expected contribution to achieving the Company's goals.
- 3.3. Previous salary agreements of the officer.

- 3.4. The terms of employment of holders of parallel positions at the Company.
- 3.5. Compensation for holders of similar positions in similar companies in the Israeli economy.
- 3.6. The ratio of the cost of the terms of office and employment of the Company's officers to the cost of the salary of the other employees of the Company and of contractor employees who are employed at the Company<sup>1</sup>, and, particularly, the ratio relative to the average salary and the median salary of such employees and the effect of the disparities on the working relations at the Company. The Compensation Committee and the Company's Board of Directors have conducted such examination, as of the date of approval of this policy, and have determined that the ratio<sup>2</sup> is reasonable and not expected to affect the working relations at the Company. Following is the aforesaid ratio as of the date of approval of this policy:

<b>Position</b>	<b>Ratio relative to the Average Salary</b>	<b>Ratio relative to the Median Salary</b>
Directors who receive compensation other than in accordance with the Compensation Regulations <sup>3</sup>	Does not exceed 16.8	Does not exceed 18.5
CEO	7.7	20.2
The other senior officers <sup>4</sup>	Does not exceed 5.7	Does not exceed 15.6

- 3.7. The Company's policy with respect to the officers of the Company is that the fixed component as aforesaid is required to carry the main weight<sup>5</sup> in the total compensation package of the officers of a company of the Company's type and character, based on the view that such a mix has a mitigating effect on the risk profile of the conduct of the officers (compared with a mix in which the weight of the variable compensation (based on numerical targets) is more significant), and considering the fact that the phantom options plan, which was set by

<sup>1</sup> "Cost of Salary" – as per the meaning of such term in the First Schedule A of the Companies Law. In the calculation of such ratio, the employees of Azrieli Group Ltd. and the senior officers of Azrieli Group Ltd. shall be included.

<sup>2</sup> In the calculation of such ratio, the employees of Azrieli Group Ltd. and the senior officers of Azrieli Group Ltd. who receive consideration for serving as officers were included (with the exception of directors who receive compensation in accordance with the Compensation Regulations and with Section 4.1 below). With respect to the senior officers as aforesaid, the maximum possible variable annual bonus was included in the terms of service for the purpose of calculating the ratio, in accordance with the provisions of Sections 4.3 and 6.3 of this policy below.

<sup>3</sup> For details, see Sections 4.2 to 4.3 below.

<sup>4</sup> With the exception of directors who receive compensation in accordance with the Regulations and with Section 4.2 below.

<sup>5</sup> Standardizing the cost of salary to terms of full-time position – at least 80% of the total compensation to an officer (and with respect to the Chairman of the Board – at least 64% of the amount of the total compensation). It is clarified that this ratio may vary due to Index linkage differentials.

the Company at the time of the IPO, has expired. Furthermore, such mix encourages action based on long-term vision and considerations and conduct founded upon long-term processes.

#### 4. Compensation Conditions of Directors

##### 4.1. Compensation of outside directors and other directors at the Company (who are not controlling shareholders of the Company and do not receive a salary or management fees):

The compensation of outside directors and other directors of the Company who are not controlling shareholders of the Company and do not receive a salary or management fees, as shall serve from time to time, will be the maximum compensation as shall be determined pursuant to the Companies Regulations (Rules regarding Compensation and Expenses of Outside Directors), 5760-2000 (the "**Compensation Regulations**"), as shall be updated from time to time, and in accordance with the Company's ranking, as being from time to time. For this purpose, whether the director is an expert in accordance with the definition of an expert outside director in the Compensation Regulations will be taken into account. In addition, the said directors will be entitled to reimbursement of expenses pursuant to the Compensation Regulations.

##### 4.2. Compensation of directors who are controlling shareholders (who do not receive a salary or management fees):

The compensation of directors who are controlling shareholders (who do not receive a salary or management fees)<sup>6</sup> shall be the compensation approved by the Compensation Committee and the Company's Board of Directors in May 2016, and it shall be deemed compatible with this policy. For details, see the immediate report of May 25, 2016 (Ref. No.: 2016-01-033138).

##### 4.3. Compensation conditions of the (Active) Chairman of the Board:

###### 4.3.1. The Fixed Component

In this Section:

The "**monthly cost of employment**" – as defined in Section 5 below.

The monthly cost of employment paid to the Company's (Active) Chairman of the Board shall be NIS 225 thousand, linked to the rise in the Consumer Price Index for November 2014, as published on December 15, 2014, for a 100% position<sup>7</sup> In addition, 0% to 7% may be added to the monthly cost of

<sup>6</sup> As of the date of this Report, Dr. Naomi Azrieli and Dr. Sharon Azrieli, who are indirectly controlling shareholders of the Company, serve as directors.

employment each year (over and above linkage to the index), subject to appropriate approvals pursuant to any law.

#### 4.3.2. Related Benefits

In addition to the management fees that shall be paid to the Chairman of the Board, the Company may bear related benefits, as specified in Sections 5.6.5 to 5.6.8 below, with the following modifications: (1) the car that will be made available to the Company's Chairman of the Board shall be of grade 7 or higher. The expenses of the car maintenance and the use thereof shall be borne by the Company; (2) in addition, the Company shall bear the costs of use of a landline telephone at the home of the Chairman of the Board.

#### 4.3.3. Variable Component – Bonus

The Chairman of the Board shall be entitled to a bonus, as specified in Section 6 below.

4.4. Section 8 below shall apply to all of the directors serving at the Company.

### 5. **Officers (who are Not Directors) – the Fixed Component**

In this policy – "**monthly cost of employment**" – total cost of monthly management fees or of salary, plus social rights, 13<sup>th</sup> salary and the cost of benefits related to the salary, but excluding variable salary components (if any) and related payments such as bonuses, and excluding vehicle and communication expenses and so forth.

5.1. The ceiling for the monthly cost of employment paid to the Company's CEO shall not exceed NIS 313 thousand, linked to the rise in the Consumer Price Index for June 2016, as published on July 15, 2016, for a 100% position<sup>8</sup>. In addition, and subject to appropriate approvals pursuant to any law, 0% to 10% of the monthly cost of employment may be added to the said ceiling each year (over and above linkage to the index), subject to the approval of the Compensation Committee and the Board of Directors. It is clarified that the rate of the said annual raise is cumulative such that if no annual raise was given in a certain year or only a partial raise was given, the entitlement to such a raise will accumulate and an increased raise may be granted in the following years, until expiration of the compensation policy.

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<sup>8</sup> The compensation conditions of the Company's CEO, in office as of the date of approval of this Compensation Policy, were approved by the competent organs of the Company, including the Company's general meeting in June 2013, for details, see the immediate report released on June 6, 2013 (Ref. No.: 2013-01-058431). In August 2016, the Compensation Committee and the Company's Board of Directors approved an amendment to the compensation conditions of the Company's CEO, which is being brought for the approval of the Company's general meeting in parallel to this policy. For details see the notice of meeting report, to which this policy is attached.

- 5.2. The ceiling for the monthly cost of employment paid to the most senior officer (who is not a director or CEO) shall not exceed NIS 241 thousand linked to the rise in the Consumer Price Index for June 2016, as published on July 15, 2016, for a 100% position. The ceiling for the monthly cost of employment paid to all the other officers (who are not a director, CEO or the most senior officer) shall not exceed NIS 162 thousand, linked to the rise in the Consumer Price Index for June 2016, as published on July 15, 2016, for a 100% position. In addition, and subject to appropriate approvals pursuant to any law, 0% to 10% of the monthly cost of employment may be added to the said ceilings each year (over and above linkage to the index), subject to the approval of the Chairman of the Board of Directors and the Company's CEO. It is clarified that the rate of the said annual raise is cumulative such that if no annual raise was given in a certain year or only a partial raise was given, the entitlement to such a raise will accumulate and an increased raise may be granted in the following years, until expiration of the compensation policy.
- 5.3. The Compensation Committee and the Board of Directors approved that in view of the fact that during the previous compensation period the employment costs were not updated at the maximum possible rates, according to the terms of the Previous Compensation Policy, and in view of the expiration of the phantom options plan which was set by the Company at the time of the IPO, and in order to allow for the retention of incumbent officers over time, the Company may, on a one-time basis, immediately after the adoption of this policy, update the cost of the employment (for the annual salary update for the first year following the adoption of this Compensation Policy) at rates exceeding those stated in Section 5, provided that the total monthly cost of employment (after the said update) shall not exceed the amounts stated in Sections 5.1 and 5.2 above.
- 5.4. The monthly cost of employment of an officer shall be linked to the Consumer Price Index.
- 5.5. Due to the officers being holders of senior executive positions, within the meaning thereof in the Hours of Work and Rest Law, 5711-1951, this law shall not apply to their terms and conditions of service and they shall not be entitled to compensation for working overtime or during the weekly rest time.
- 5.6. Social and related benefits: In addition to the current monthly salary (gross) or management fees for each officer, the Company may bear social and other related benefits, as specified below (the provisions of Sections 5.6.1 to 5.6.4 will only apply with respect to officers who are salaried employees of the Company and not with respect to those who provide services through a management company):
- 5.6.1. Favorable pension arrangement, loss of working capacity and advanced study fund;

- 5.6.2. Leave days – up to a ceiling of 30 days a year and no less than as set forth in the law, including entitlement to accrual of the leave days and to redemption of the leave days.
- 5.6.3. Recuperation pay – up to a ceiling of 15 days a year and no less than as set forth in the law.
- 5.6.4. Sick days – up to a ceiling of 35 days a year and no less than as set forth in the law, including entitlement to accrual of the sick days and without entitlement to redeem the same.
- 5.6.5. Annual medical examination (executive health assessment) which shall be carried out for the Company's officers in accordance with the Company's procedures.
- 5.6.6. A company car (no higher than grade 7 for the Company's CEO and no higher than grade 6 for another officer) or alternatively payment of the cost of provision of such a car, as well as the payment of car expenses, including grossing-up of the value of the benefit for tax purposes.
- 5.6.7. In addition, the Company will be entitled to grant the officers related benefits as accepted for officers of the same ranking such as: a mobile telephone, including the bearing of the full cost and usage thereof, a laptop, internet connection, a subscription to a daily newspaper, financing of participation in professional conferences, professional literature, professional liability insurance, professional association membership fees, holiday gift, and financing of various advanced studies, including the bearing of the costs of academic studies, all including grossing-up of the value of the said benefits for tax purposes.
- 5.6.8. In addition, the Company will be entitled to indemnify the officers (including a management company through which the officers' services are provided), as accepted in such positions, in respect of out-of-pocket expenses that they shall incur in the framework of their position, all in accordance with the Company's procedures. Reimbursement of such expenses shall not exceed a maximum amount to be determined, from time to time, at the Audit Committee, and which shall be determined thereby as appropriate, considering the Company's business and the scope thereof.

6. **Officers (who are not directors or an (Active) Chairman of the Board) - Variable Component (Bonuses)**

The Company deems fit to determine, in the Company's best interests and for the promotion of its objectives, its work plan and policy based on a long-term perspective, that the Company will be entitled, but not obligated, to grant

officers who are not directors, a variable component (annual bonus), in accordance with the criteria specified below.

This policy stems, *inter alia*, from the view that a mix in the aforesaid scopes has a restraining effect on the risk profile of the officers' conduct, particularly in light of the Company's unique management structure, the complexity of their roles, the size of the Company and the nature of its operations and the Company's impressive achievements throughout years in which it has implemented such policy.

Due to the fact that the Company's management structure is unique and the officers of the Company have unique expertise and many years of experience in their specific field of occupation and the Company's business sectors, it has been determined that the criteria for measuring their entitlement for the bonus (considering that the variable component is not material in respect of the total compensation), shall be mainly based on their unique contribution according to their senior position, the scope of their responsibilities and their importance in long-term processes and in achievements of the Company's long-term goals.

#### 6.1. Officers (who are not directors)

The manner of determining an annual bonus for an officer (who is not a director) shall be according to the criteria specified below:

6.1.1. First criterion – measurement of the officer's contribution - with respect to the CEO – the Compensation Committee and the Board of Directors shall examine (after receipt of the recommendation of the Company's Chairman of the Board), and with respect to the other officers who are not directors – the Chairman of the Board and the CEO of the Company shall examine, the officer's compliance with criteria, which shall be chiefly based on the officer's contribution to the Company in accordance with his position and the scope of his responsibilities.

6.1.2. Second criterion – the amount of the bonus – in the event that the aforesaid is fulfilled, the Compensation Committee and the Board of Directors may decide with respect to the CEO, and the Chairman of the Board of Directors and the Company's CEO may decide with respect to another officer who is not a director, to grant a bonus at a rate which shall not exceed (a) with respect to the Company's CEO – the annual bonus amount, if decided to be granted, will not exceed the sum of up to three times the monthly payment (b) with respect to the other officers who are not directors – the annual bonus amount, if decided to be granted, will not exceed the sum of three times the monthly cost of employment of the officer, for each one of the officers who are not directors, as aforesaid.

#### 6.2. To the (Active) Chairman of the Board



The (Active) Chairman of the Board shall be entitled to an annual bonus according to compliance with the following conditions and criteria:

6.2.1. Quantitative threshold condition for the bonus – a preliminary condition for the payment of bonus to the Chairman of the Board in a certain year is that the Chairman Adjusted Profit<sup>9</sup> for the relevant year shall increase NIS 925 million.

6.2.2. Bonus brackets

Upon compliance with the quantitative threshold condition for the bonus, as specified in Section 6.2.1 above, for a calendar year, the (Active) Chairman of the Board shall be entitled to an annual bonus, according to the following brackets:

In a year in which the adjusted profit shall be NIS 925 million up to NIS 1,050 million – a bonus shall be paid at a rate of up to 0.5% of the difference between NIS 925 million and the actual adjusted profit;

In a year in which the adjusted profit shall exceed NIS 1,050 million – a cumulative annual bonus shall be paid as follows:

- (a) For the adjusted profit in the amount of up to NIS 925 million – no bonus shall be paid;
- (b) For that part of the adjusted profit between NIS 925 million and NIS 1,050 million – 0.5% of the difference between NIS 925 million and the actual adjusted profit shall be paid.
- (c) For that part of the adjusted profit that shall exceed NIS 1,050 million – 0.75% of the difference between the adjusted profit and NIS 1,050 million shall be paid.

6.2.3. Bonus ceiling

The total annual bonus for the (Active) Chairman of the Board shall not exceed a total amount of NIS 1.5 million.

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<sup>9</sup> The "**Chairman Adjusted Profit**" in this respect, for each calendar year – the annual income before tax, according to the Company's annual consolidated audited financial statements, net of the following sums: (1) dividend received from financial assets available for sale that was included in the annual income before tax; (2) profit (loss) deriving from the revaluation of real properties; (3) results of companies that are not engaged in the Company's core business (properties), and included in the annual income before tax; (4) linkage differentials accrued to financial liabilities; (5) interest expenses at the rate of the actual weighted effective interest for that year, of the Company and companies controlled thereby which engage in the Company's core business, for loans (whether taken or not), at a financing rate of 65% on the historic purchase cost on the books of the investment in companies that are not in the core business; (6) the total amount of management fees (including bonus) for the (Active) Chairman of the Board for that year, as included in the annual income before tax and (7) profit (loss) from financial assets (marketable securities) held for trading, including interest and dividend in respect thereof.

6.3. General provisions pertaining to the annual bonus to officers who are not directors or an (Active) Chairman of the Board:

6.3.1. Reduction of bonus – it is clarified that the Chairman of the Board and the CEO, the Compensation Committee and the Company's Board of Directors (as applicable) shall be entitled, as per their absolute discretion, to decide on a bonus amount lower than the maximum rate according to this policy, or to not grant any bonus to the officer.

6.3.2. Relative bonus or no entitlement - in the event that it is decided on payment of a bonus and the bonus refers to a calendar year in which the employment relationship between the officer and the Company was terminated, the aforesaid criteria shall be updated proportionately to the period of the officer's employment in the same year.

6.3.3. Reimbursement of bonus amounts that were paid – Should it transpire, in retrospect, that the figures on which the Company relied at the time of granting the annual bonus, as specified in this Section 6 above, are incorrect, and that restatement thereof in the Company's financial statements is required, then the officer shall return to the Company the gap between the sum of the bonus that was paid to him based on the said incorrect figures and the sum of the annual bonus to which he is entitled based on the figures after their said restatement. The manner of repayment of the amounts to the Company, including a payment schedule, the reimbursement dates, linkage of the amounts etc. shall be determined by the Compensation Committee and the Company's Board of Directors.

6.3.4. For the avoidance of doubt, if a bonus is paid to an officer under this policy, it neither constitutes nor shall it constitute part of the officer's salary, and it shall not constitute a basis for calculation and/or entitlement and/or accrual of any related right, among which (but without derogating from the generality of the matter) it shall not be used as component for the purpose of payment of leave, severance pay, provisions to provident funds and the like, unless it is approved in advance in the framework of the employment agreement by the Compensation Committee and the Board of Directors.

7. **Retirement Arrangements (for Officers who are not Directors as well as for an (Active) Chairman of the Board)**

The Company will be entitled, with the approval of the Board of Directors and subject to the recommendation of the Compensation Committee, to approve for the officer conditions regarding retirement arrangements, *inter alia* as specified below:

7.1. Severance pay

In the event of termination of the employment relationship (except under circumstances of termination of the officer which, in the opinion of the Compensation Committee and the Board of Directors, confer upon the Company the right to terminate him without payment of severance pay pursuant to law) the officer (insofar as he is an employee of the Company and does not provide services through a management agreement) will be entitled to the release of monies accumulated for him in funds and to the supplementation of severance pay, as required, calculated in accordance with his last fixed salary for the purpose of severance pay multiplied by the number of years of seniority (i.e. he shall be deemed, for this purpose only, as having been terminated).

7.2. Prior notice

7.2.1. As part of the terms and conditions of service and employment, an officer (including an (Active) Chairman of the Board and a CEO) of the Company will be entitled to a prior notice period in any event of a termination of the office, ranging between 1 and 6 months, considering, *inter alia*, his position and the term of his office. The prior notice period for each officer shall be determined in the Officer's employment agreement (or the renewal thereof, as the case may be) and shall be mutual (also binding the officer). Other than with respect to the Chairman of the Board of Directors and the CEO, the Company is entitled, but is not required to approve the extension of the prior notice period up to the said ceiling (insofar as the maximum period has not been included in the employment agreement) only with the approval of the Company's CEO and the Chairman of the Board of Directors.

7.2.2. During the prior notice period, the officer will be required to continue to carry out his duties, unless the Company decides, as per its discretion, to release him from such obligation, provided that he will be entitled to have all of his terms of office and employment continue during the prior notice period, unmodified, except with respect to the bonus which, insofar as shall be granted in accordance with Section 6 above, will relate to the period of the officer's actual employment only. In such event where the officer is released from the obligation to continue fulfilling his duties, the Company shall be entitled (but not obligated) to pay the consideration due to the officer *in lieu* of the prior notice, plus the value of the related payments, in one payment, upon the actual termination of work.

7.3. Retirement and Adjustment Bonus

As part of the terms and conditions of service and employment, the Company will be entitled to pay the officers a retirement bonus, as specified below:

- 7.3.1. A CEO will be entitled to an adjustment payment at a rate equal to the monthly cost of employment due to a period ranging between 0 and 9 months of service, plus all of the related benefits specified in Section 4.3 or 5.6 above, as applicable, provided that the prior notice period according to Section 7.2 above and the adjustment period according to this Section 7.3.1 shall not exceed 12 months in the aggregate.
  - 7.3.2. Officers who are not directors or the CEO – an adjustment payment at a rate equal to the monthly cost of employment due to a period ranging between 0 to 3 months of service. Payment of a retirement bonus, as aforesaid, will be made in consideration of the officer's achievements and performance during his employment at the Company, as well as the Company's performance in such period. In any event, the prior notice period according to Section 7.2 above plus the adjustment payment period, as provided in this Section 7.3.2, shall not exceed 9 months in the aggregate.
  - 7.3.3. Other than with respect to the Chairman of the Board of Directors and the CEO, the Company is entitled, but is not required to approve a retirement and adjustment bonus as stated in this Section 7.3 up to the said ceiling (insofar as the maximum period has not been included in the employment contract), only with the approval of the Company's CEO and the Chairman of the Board of Directors.
- 7.4. Non-competition – as a rule, the officers shall undertake in writing, within their employment agreement, to refrain from competing with the Company for a period to be determined in the employment agreement. It is clarified that in any event in which the officer is entitled to an adjustment payment and/or retirement bonus and/or severance pay at a rate exceeding the rate prescribed by law, such amounts shall be paid against the officer's signing a non-competition undertaking and a letter of waiver and release vis-à-vis the Company and anyone on behalf thereof in connection with his office, employment and termination of employment at the Company, on the date of the termination of the office, in the languages customary at the Company.
- 7.5. Negation of retirement arrangements – in events where the termination of the officer's employment is done under circumstances, which, in the opinion of the Compensation Committee and the Board of Directors, grant the Company the right to dismiss him without payment of severance pay under law, the officer shall also not be entitled to prior notice, payment *in lieu* of prior notice, retirement bonus and adjustment payment, severance pay, all as the case may be.

## 8. **Exemption, Insurance and Indemnification**

The Company will be entitled to grant the officers exemption from liability, provided that the said exemption undertaking shall not apply to a decision or transaction in which the Company's controlling shareholder or an officer of the Company have personal interest, liability insurance (including run-off insurance policies) and an indemnification undertaking, all subject to the provisions of the Companies Law and the Company's articles.

Without derogating from the generality of the aforesaid, the Company will be entitled, at any time during the period of this Compensation Policy, to purchase liability insurance policies for directors and officers (including controlling shareholders in their capacity as directors and/or officers), as serving at the Company from time to time, to extend and/or renew the existing insurance policy and/or to engage in a new policy on the renewal date or during the insurance period, with the same insurer or another insurer in Israel or overseas, under the conditions specified below, for directors' and/or officers' liability insurance, provided that the said engagements shall be based on the main conditions specified below and the Compensation Committee approved the same:

- 8.1. The limit of liability in the insurance policies, as shall be taken out from time to time by the Company, shall not exceed U.S. \$100 million per event and for the insurance period, plus reasonable legal defense expenses in Israel beyond the limit of liability, and with respect to a claim filed abroad – reasonable legal defense expenses beyond the limit of liability, according to the legal costs which are acceptable in Israel, and according to Israeli law.
- 8.2. The deductible per claim to the company shall not exceed U.S \$150 thousand in accordance with the cause of action and the place of filing thereof.
- 8.3. The annual insurance premium shall not exceed U.S \$250,000.
- 8.4. The insurance policy shall be expanded to cover claims that shall be filed against the Company (as distinguished from claims against directors and/or the officers thereof) concerning a breach of securities law at least in Israel (entity coverage for securities claims) as well as entity employment practice claims with a limit of liability of up to U.S. \$3 million , and payment arrangements of insurance proceeds shall be determined whereby the right of the directors and/or the officers to receive indemnification from the insurer according to the policy precedes the right of the Company.
- 8.5. The policy is at market conditions and is not likely to materially affect the Company's profitability, assets or liabilities.
- 8.6. The policy shall cover also the liability of the controlling shareholders by virtue of their duties as directors and/or officers of the group, from time to time, provided that the coverage conditions in respect thereof

shall not exceed those of the other directors and/or officers of the group.

9. **Miscellaneous**

- 9.1. It shall be emphasized that the provisions of this Compensation Policy do not prejudice existing agreements and/or binding customs (if any) between the Company and the officers thereof on the eve of approval of this Compensation Policy. Previous agreements between the Company and officers thereof shall not be terminated upon the entering into effect of this policy. An existing agreement that is limited in time, which shall come to termination, shall be renewed in accordance with the Compensation Policy. As of the date of the release of this policy, in the existing employment agreements with the Company's officers, the Company preserves the right to terminate their employment at any time, subject to a prior notice and/or an adjustment period in the scopes provided thereby. In addition, the (Active) Chairman of the Board has a management agreement which is limited in time.
- 9.2. There may be changes to the identity of the officers from one year to the next, and executives who served as officers in a certain year and the terms of whose office and employment were subject to this Compensation Policy, will not necessarily continue their office as officers in subsequent years, and the terms of their office and employment will not be subject to this policy and *vice versa*. In addition, the Company will be entitled to modify the terms of office and employment of any officer at any time, and shall be subject to no obligation to apply to the officer the same terms of office and employment that applied to him in previous years.
- 9.3. A non-material change in the terms of office of an officer reporting to the Company's CEO, as stated in Section 272(c)-(d) of the Companies Law, which complies with the limits determined in the Compensation Policy, shall be approved only by the Company's CEO. It is clarified that an update of the monthly cost of employment for an officer reporting to the Company's CEO, which complies with the ceilings determined in Section 5.2 above, shall be deemed a non-material change in the terms of office.
- 9.4. This Compensation Policy does not confer legal rights upon the Company's employees in general and the officers and directors of the Company in particular. It is clarified that the compensation components specified in this plan only constitute a framework and top bar, in relation to which the personal compensation plans shall be determined for each of the officers of the Company. It is emphasized that the Company is not obligated to grant the officers or any one of them, including the directors, all of the aforesaid components (except as mandated by law), and is not obligated to grant the maximum amount set for each one of the components. Insofar as the officer is granted compensation that is lower than the compensation described in

this policy for an officer holding a similar position at the Company, this shall not constitute a deviation from the provisions of this policy.

- 9.5. Payment to an officer, who provides services to the Company as an independent contractor or through a management company, shall reflect the cost of the fixed compensation components (plus taxes under law), in accordance with the Compensation Policy.
- 9.6. It is clarified that the compensation components specified in this policy do not refer to various components that the Company, at times, grants to some or all of its employees, such as: parking spaces, entry passes to its assets, *per diems*, vacations, company events and the like, and the Company shall not be restricted in connection therewith.
- 9.7. It is clarified that the provisions of this policy do not derogate from the provisions of the Companies Law and/or the Company's articles with respect to the manner of approval of the Company's engagement with any officer in connection with their terms of office and employment. For the avoidance of doubt, it is clarified that in the event that the provisions of the Companies Law or regulations by virtue thereof shall be amended in a manner which is more lenient on the Company with respect to its mode of action regarding compensation of the officers thereof, the Company will be entitled to act pursuant to such provisions, even if they are not included in this Compensation Policy and/or contradict the provisions of this Compensation Policy.
- 9.8. The Compensation Policy will be valid for 3 years from the date of approval thereof by the Company's general meeting, and once every three years the Compensation Policy shall be presented for the approval of the competent organs at the Company, pursuant to the provisions of Section 267A(d) of the Companies Law, unless this period is extended by law.
- 9.9. Without derogating from the provisions of Section 9.8 above, the Compensation Committee and the Board of Directors shall examine, from time to time, the implementation of the Compensation Policy and the need to adjust and update the same to the provisions of Section 267B of the Companies Law, if a material change occurs in the circumstances that existed at the time of determination thereof or for other reasons. Changes in the Compensation Policy, if any, shall be approved pursuant to the provisions of the law.

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