EFRATI GALILI & CO
LAW OFFICES

2nd February 2015

Compensation Policy for Officers under the 20th Amendment to the Companies Law, 5759- 1999

Following public criticism in Israel regarding the salaries of senior officers and following some legislation proposals in this regard, on November 12th, 2012, the 20th Amendment to the Companies Law, 5759- 1999 (hereinafter: the "**Amendment**") was published, addressing the compensation of Officers and its approval process in public companies and private companies with publicly traded debt (hereinafter: "**Reporting Company**").

Under the Amendment, a Reporting Company should form a new committee of the Board of Directors (hereinafter: the "**Compensation Committee**"), which will include at least three members of the Board of Directors (hereinafter: the "**BoD**") as follows: (i) All of the external directors must be members and constitute a majority; and (ii) Other members must be directors whose compensation is consistent with the regulations governing the compensation of external directors in a public company. The Compensation Committee provides the BoD with recommendations regarding the compensation policy of the Reporting Company and the BoD determines the compensation policy based on such recommendations. Thereafter, the compensation policy should be approved in a special shareholders meeting. At such shareholders meeting a special majority is required, fulfilling one of the following conditions: (i) A majority of the non-controlling shareholders; or (ii) The votes against such resolution are less than 2% of the voting rights in the Reporting Company.

If the compensation policy is not approved at the special shareholders' meeting, the BoD may still approve it, provided that the Compensation Committee and the BoD will reconvene and contemplate the compensation policy again taking into consideration the fact that the policy was not approved at the shareholders meeting and provided that the Compensation Committee and the BoD set forth in writing that approving the compensation policy is in the best interests of the Reporting Company, based on elaborative arguments. However, this exception is inapplicable in case of a third tier company: a public company that is controlled by a Reporting Company that is also under the control of a Reporting Company, which is controlled by a controlling shareholder.

In addition, under the Amendment, a compensation policy should take into account the following considerations:

1. Achieving the Reporting Company's long-term goals and plans;
2. The creation of proper incentives for the Officers in view of its risk management policy;
3. Its size and activities;

4. Regarding variable components, instructions how to consider the contribution of each Officer to the business of the Reporting Company and other considerations.

The compensation policy should address different factors in relation to the terms of office and employment of the Officers including the following: the Officer's education, professional experience, qualifications, previous employment or service agreements with the Reporting Company, his/her position and fields of responsibility and the proportionality between the salaries of Officers and the salaries of other employees of the Reporting Company, including Contractors' Employees as defined in the Employment of Employees by Manpower Contractors Law, 5756- 1996.

Variable compensation components in the compensation policy must have a cap, be based on measurable criteria and long term performance. Insubstantial parts of the variable compensation components may be granted on the basis of non-measurable criteria, by taking into account the Officer's contribution to the Reporting Company.

The process of approval may be long and complicated. Therefore, when drafting a compensation policy, the Reporting Company should take into account certain factors. Amongst these, such Company may wish to consider that a detailed compensation policy may provide a road map, which may be easily followed subsequently, however may lack flexibility and disclose confidential information of the Reporting Company. In addition, the Compensation Committee and the BoD should consider whether to include as many components of compensation (options, bonuses or other benefits) as optional or to limit it to the standard compensation items the Reporting Company grants currently. The Reporting Company should consider the range and/or ceiling of compensation for every item it includes. By extending the limits of compensation or introducing new components (which are not already included in the individual agreements with the Officers), in the proposed compensation policy, the Reporting Company is taking a risk of an objection to it.

A dully approved compensation policy is valid for a period of three years. In this period of time, the Compensation Committee is responsible for: (i) Periodical examination and application of the compensation policy in the Reporting Company; (ii) Providing the BoD with a recommendation to update the compensation policy or its re-approval after three years; (iii); Approving the employment terms of the Officers. In addition to the responsibilities of the Compensation Committee the BoD is required: (i) To examine the compensation policy and the requirement for its update due to a material change in circumstances or any other reason; (ii) Take a part in the approval process of the service and employment terms for Officers. At the elapse of three years, the process of approval of a compensation policy will be repeated.

For additional information please contact our offices.

office@egl.co.il www.efratigalili.com (03) 604-0111 פקס (03) 545-2020 טל. 62338 תל-אביב, 6 רח' ויסוצקי