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If you sell or transfer or have sold or transferred all of your ordinary shares of NIS 0.001 nominal value in the capital of Ethernity Networks Ltd. (“**Ordinary Shares**”) or depositary interests representing Ordinary Shares (“**Depositary Interests**”), please forward this document, together with the accompanying Form of Proxy or Form of Direction (as applicable), as soon as possible to the purchaser or the transferee or to the bank, stockbroker or other agent through or to whom the sale or transfer was effected for onward transmission to the purchaser or transferee. If you sell or transfer or have sold or transferred only part of your holding of Ordinary Shares or Depositary Interests, you should retain this document and the accompanying Form of Proxy or Form of Direction (as applicable).

If you have received this document from another Shareholder or holder of Depositary Interests, or transferee, please contact the Company’s Registrar for a Form of Proxy or Form of Direction (as applicable).

Any person (including without limitation custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this document to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any action. The distribution of this document and any accompanying documents into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this document and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.



## **Notice of Annual General Meeting**

To be held at the offices of Howard Kennedy LLP, at No.1 London Bridge, London, SE1 9BG at **10.00 a.m. UK time (12.00 p.m. Israel time) on 13 August 2019.**

A notice convening an Annual General Meeting of the Company to be held at No.1 London Bridge, London, SE1 9BG at 10.00 a.m. UK time (12.00 p.m. Israel time) on 13 August 2019, is set out at the end of this document.

Your attention is drawn to the letter from the Chairman of the Company which is set out on pages 4 and 5 of this document in which the Board unanimously recommends you vote in favour of the Resolutions to be proposed at the Annual General Meeting.

Enclosed with this document is a Form of Proxy for use by Shareholders or a Form of Instruction for use by holders of Depositary Interests.

Whether or not you intend to be present in person at the Annual General Meeting, please complete, sign and return the accompanying Form of Proxy and/or Form of Direction (as applicable) in accordance with the instructions printed on it as soon as possible but, in any event, so as to be received by the Company’s registrar, Link Asset Services, by 10.00 am (London time) on 9 August 2019 in the case of a Form of Proxy or by 10.00 am (London time) on 8 August 2019 in the case of a Form of Direction.

### **ETHERNITY NETWORKS LTD.**

Incorporated and registered in Israel with registered no. 51-347834-7

#### *Registered Office:*

13A Hamelacha St  
Lod Industrial Park  
7152001  
Israel

#### **Publication on website**

A copy of this document including the Form of Proxy and the Form of Instruction will be available on the Company’s website at <http://www.ethernitynet.com>.

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## DEFINITIONS

The following words and expressions shall have the following meanings in this document unless the context otherwise requires:

“AIM”	the AIM market operated by the London Stock Exchange plc
“Board” or “Directors”	the board of directors of the Company
“Company”	Ethernity Networks Ltd, incorporated and registered in Israel (with registration number 51-347834-7) whose registered office is at 13A Hamelacha St., Lod Industrial Park, 7152001, Israel)
“CREST”	the computerised settlement system to facilitate transfer of title to or interests in securities in uncertificated form operated by Euroclear UK & Ireland Limited
“Depository”	Depository Link Market Services Trustees Limited, incorporated in England (No.2729260) whose registered office is at 34 Beckenham Road, Beckenham, Kent BR3 4TU
“Depository Interest or DI”	depository interest or DI dematerialised interests representing underlying Ordinary Shares in the ratio of 1:1 that can be settled electronically through and held in CREST, as issued by the Depository who holds the underlying securities on trust
“Depository Interest Holder(s)”	holder(s) of Depository Interests
“Form of Proxy”	the form of proxy for use by Shareholders at the Meeting which accompanies this document
“Form of Direction”	the form of direction for use by Depository Interest Holder(s) at the Meeting which accompanies this document
“Meeting”	the annual general meeting of the Company convened for 13 August 2019 (or any adjournment thereof)
“Notice of General Meeting”	the notice of the Meeting, which is set out at the end of this document
“Ordinary Shares”	ordinary shares of NIS 0.001 nominal value each in the share capital of the Company
“Resolutions”	the resolution(s) to be proposed at the Meeting, as set out in the Notice of Meeting
“Shareholder(s)”	holder(s) of Ordinary Shares

## LETTER FROM THE CHAIRMAN

# ETHERNITY NETWORKS LTD.

(Incorporated and registered in the State of Israel with registered no. 51-347834-7)

*Registered Office:*  
13A Hamelacha St  
Lod Industrial Park  
7152001  
Israel

12 June 2019

Dear Shareholder or Depository Interest Holder,

### **Notice of Annual General Meeting**

I am pleased to be writing to you with details of the forthcoming annual general meeting of the shareholders of Ethernity Networks Ltd. (the "**Company**") to be held at the offices of Howard Kennedy LLP, at No.1 London Bridge, London SE1 9BG, at **10.00 a.m. UK time (12.00 p.m. Israel time) on 13 August 2019** (the "**Meeting**").

The formal notice of the Meeting is set out on page 16 of this document. The explanatory notes on page 6 outline the business to be considered at the Meeting.

### **Actions to be taken in respect of the Meeting**

The action to be taken in respect of the Meeting depends on whether you hold your Ordinary Shares in certificated form or as Depository Interests.

#### ***Certificated Shareholders***

Please check that you have received the following with this document:

- a Form of Proxy for use in respect of the Meeting; and
- a reply-paid envelope for use in connection with the return of the Form of Proxy (in the UK only).

Whether or not you propose to attend the Meeting, you are strongly encouraged to complete, sign and return the Form of Proxy in accordance with the instructions printed on it as soon as possible but, in any event, so as to be received by post, at Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, BR3 4ZF, United Kingdom or, during normal business hours, by hand to Link Asset Services, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, in each case by no later than 10.00 a.m. (London time)/12.00 p.m. (Tel Aviv time) on 9 August 2019.

This will enable your vote to be counted at the Meeting in the event of your absence. The completion and return of the Form of Proxy will not prevent you from attending and voting at the Meeting, or any adjournment of the Meeting, in person, should you wish to do so.

#### ***Depository Interest Holders***

Please check that you have received the following with this document:

- a Form of Direction for use in respect of the Meeting; and
- a reply-paid envelope for use in connection with the return of the Form of Direction (in the UK only).

Whether or not you propose to attend the Meeting, you are strongly encouraged to complete, sign and return the Form of Direction in accordance with the instructions printed on it as soon as possible but, in any event, so as to be received by post, at Link Asset Services, PXS1, 34 Beckenham Road, Beckenham BR3 4ZF, United Kingdom or, during normal business hours by hand, to Link Asset Services, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, in each case by no later than 10.00 a.m. (London time)/12.00 p.m. (Tel Aviv time) on 8 August 2019.

This will enable your vote to be counted at the Meeting. You will not be able to vote at the Meeting, but if you would like to attend the Meeting in person as a Depository Interest Holder, please contact

the Depository Link Market Services Trustees Limited to request a letter of representation to be issued to you.

In the case of joint shareholders, the vote of the senior of such shareholders who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding. In the case of joint holders of Depository Interests, the vote of the senior holder shall be accepted to the exclusion of the votes of the other joint holder(s). For this purpose, seniority will be determined by the order in which the names appear in the Company's register of holders of Depository Interests in respect of the joint holding.

**Recommendation**

The Directors of the Company believe that all of the proposals to be considered at the Meeting are in the best interests of the Company and its shareholders as a whole and, accordingly, unanimously recommend that you vote in favour of all the proposed resolutions, as they intend to do in respect of their own holdings.

Yours faithfully,

**Graham Woolfman**

*Chairman*

## EXPLANATORY NOTES TO THE PROPOSED ACTIONS AND RESOLUTIONS

### Presentation of Audited Financial Statements

The audited financial statements of the Company for the fiscal year ended 31 December 2018 will be presented for discussion at the Meeting pursuant to the provisions of the Israeli Companies Law, 5759-1999 (the “**Companies Law**”). These financial statements are available on the Company’s website at <http://www.ethernitynet.com/> and on the London Stock Exchange’s website at <http://www.londonstockexchange.com>. None of the financial statements, the accompanying auditors’ report, the contents of the Company’s website, or the information that can be accessed through the Company’s website, form part of the voting solicitation materials.

### Resolution 1. Reappointment of the Independent External Auditor

Pursuant to the Companies Law, it is proposed to approve and ratify the reappointment of Fahn Kanne & Co., a member firm of Grant Thornton International Limited, as the Company’s independent external auditor for the year ending 31 December 2019 and to serve as the Company’s independent external auditor until the next annual general meeting of the Company’s shareholders and to authorise the Company’s board of directors to determine their remuneration upon recommendation of the audit committee of the Company.

### Resolution 2. Company’s Compensation Policy for Office Holders

Pursuant to the Companies Law, the Company is required to adopt a formal compensation policy for office holders (as such term is defined in the Companies Law). The Company’s board of directors approved, following the recommendation of the remuneration committee, the Compensation Policy for Office Holders, and the Shareholders are being asked to approve the Compensation Policy at the Meeting. Under the Companies Law, subject to certain conditions, the board of directors can adopt the Compensation Policy if it is not approved by the shareholders. The full text of the Compensation Policy can be found on the Company’s website at <http://www.ethernitynet.com/>.

In order to provide our shareholders with relevant information in deciding the direction of their vote on this resolution set out below are details of some of the more relevant sections of the policy relating to executive directors remuneration.

1. In this Compensation Policy, the term “Non-Executive Director” is defined as a member of the Company’s board of directors (the “Board of Directors”) who is not employed by the Company or one of its subsidiaries in any other position. Unless expressly stated otherwise, this Compensation Policy relates to all Office Holders other than Non-Executive Directors.
2. In formulating this Compensation Policy, Eternity has considered, among other things, the following considerations:
  - advancing the objectives of the Company, its work plan and long-term strategy;
  - creating appropriate incentives to Office Holders of the Company, taking into account, among other things, the risk management policies of the Company;
  - the Company’s size, complexity and the nature and landscape of its operations;
  - regarding those sections of the Compensation Policy that provide for variable compensation components – the Office Holder’s contribution to achieving corporate objectives and profit maximization, with a long-term perspective and in accordance with the role and position of the Office Holder with the Company.
3. In determining the compensation for each Office Holder, among other relevant factors, the following considerations shall be taken into account:
  - the education, professional experience and achievements of the Office Holder;
  - the Office Holder’s position in the Company (including geographical considerations), scope of responsibilities and contribution to the Company;
  - the circumstances of the Office Holder’s recruitment (which may include compensation arrangements with his or her previous employer) and the terms of prior employment or service agreements with the Company (if any);

- requirements prescribed by the Companies Law and AIM rules, as applicable to the Company from time to time;
- a comparison of the terms of compensation of the Office Holder to the terms of compensation of other Office Holders in the Company; and
- a comparison of the total cost of compensation of the Office Holder and the Cost of Salary (as such term is defined in Part A of the First Addendum “A” to the Companies Law) of all Israeli employees of the Company (including, to the extent applicable, Manpower Contractors Engaged by the Company (as such term is defined in Part A of the First Addendum “A” to the Companies Law)), other than the Office Holder, if applicable, and most notably the ratio between the compensation of Office Holders and the median and average salary of all such Company employees, and the ramifications of such ratio on the labour relations of the Company. For the fiscal year ended December 31, 2018, the ratio between the highest total compensation package of an Office Holder (excluding Non-Executive Directors) and the median and average salary of all such Company employees was 0.98:1 and 1.76:1, respectively. The Remuneration Committee and the Board of Directors determined that said ratios are reasonable taking into account the size, complexity and the nature of the Company and its operations and are not expected to have an adverse effect on the labour relations of the Company

#### 4. **Compensation Components**

The compensation package of Office Holders may consist of one or more of the following components:

- base cash compensation;
- benefits and perquisites;
- performance-based cash incentives and other cash compensation;
- equity-based compensation (such as options to purchase the Company’s ordinary shares or other equity-based instruments, including restricted share units, restricted shares and share appreciation rights (collectively, “**Equity Awards**”); and
- retirement and termination of service arrangements.

The total compensation package and components thereof may vary between Office Holders, taking into account the factors described above. To reflect the Company’s philosophy and Compensation Policy objectives, with respect to any Office Holder, the ratio between the fixed compensation components and the variable compensation components with respect to any given year on an annual basis shall not be more than 1: 5 (the “**Fixed-Variable Ratio**”).

At any time and from time to time, the Board of Directors has the right to reduce any variable compensation to be granted to an Office Holder due to such circumstances as determined by the Board of Directors in its sole discretion.

A non-material change in the compensation package of an Office Holder who is subordinate to the Chief Executive Officer and who is not serving as a director of the Company may be approved solely by the Chief Executive Officer, provided that the terms of compensation of such Office Holder will continue to meet the requirements of this Compensation Policy. For these purposes, a change of up to 15% of the annual fixed compensation of such Office Holder shall be deemed to be non-material.

#### **Base Cash Compensation (Base Salary)**

The monthly gross base salary of any one of our Office Holders shall not exceed NIS 65,000 (US\$18,100)<sup>1</sup>, linked to the Israeli Consumer Price Index (“**CPI**”) and updated to reflect periodic increases, but not decreases, in the CPI. The monthly gross base salary may be increased from time to time, subject to the aforesaid limit.

#### **Benefits and Perquisites**

Certain benefits and perquisites for our Office Holders are provided in order to comply with legal requirements, while others serve as an additional component of the compensation packages offered to Office Holders.

<sup>1</sup> Based on an estimated exchange rate of US\$1:NIS3.60

Benefits and perquisites, including those which are required or facilitated under local laws or are customary in a relevant jurisdiction, may include, among others, the following:

- contributions to pension funds and/or similar schemes such as manager's insurance programs;
- contributions to education funds;
- car allowance or company car and related benefits, including tolls;
- reimbursement of travel expenses and stipends;
- gross-up mechanisms;
- annual vacation days and the ability to carry-over unused vacation days;
- sick leave and the ability to carry-over unused sick days, subject to applicable laws;
- redemption of unused vacation days for cash;
- recuperation pay;
- health insurance and medical expenses, including dental;
- disability insurance;
- relocation expenses;
- housing and/or related expenses;
- meal programs;
- cellular/smartphone expenses;
- laptop computer, tablets, accessories and communication expenses (including internet connection at the Office Holder's residence);
- reimbursement of out-of-pocket expenses;
- membership fees in professional associations;
- subscriptions to business newspapers, trade magazines and other relevant literature.

### ***Performance-Based Cash Incentives and Other Cash Compensation***

#### **1. Annual Cash Bonus**

##### **a. General**

Cash bonuses may be paid to Office Holders on an annual basis (the "**Annual Cash Bonus**"). The Annual Cash Bonus may be based, in whole or in part, on measurable criteria and/or non-measurable criteria and such criteria may be assigned a weight.

If predefined objectives or targets are set, then at least 50% of a particular pre-set objective or target must be achieved in order for the bonus amount attributable thereto to be payable. Upon surpassing 100% of a pre-set objective or target, then up to 200% of the bonus amount attributable thereto may be paid.

The amount of the Annual Cash Bonus for the Company's Chief Executive Officer that is based on *non-measurable criteria* shall not exceed three monthly gross base salaries.

Measurable criteria may be derived from various metrics, which may include, among others:

- revenues;
- gross profit;
- operating profit;
- EBITDA;
- net profit;
- net profit before tax;
- sales targets;
- productivity indices and growth in the volume of activity;



- cost savings;
- efficiency metrics;
- customer satisfaction;
- regulatory and legal targets;
- success in raising capital; and
- budget and/or work plan objectives.

To the extent relevant, extraordinary or non-recurring events, such as write-offs, acquisitions, divestitures, negative effects on financial results due to changes in applicable financial reporting standards or law and organizational changes shall be excluded.

The maximum Annual Cash Bonus for an Office Holder shall not exceed the amount of U.S.\$250,000.

**b. Eligibility**

To be eligible for an Annual Cash Bonus, the Office Holder must be actively employed by the Company or one of its subsidiaries during the relevant year to which the bonus relates. In addition, other conditions may apply in order for an Office Holder to be eligible to receive an Annual Cash Bonus, such as being employed for a minimum period of time during the relevant year or through a certain date.

**2. Discretionary Bonus**

Office Holders may receive a discretionary cash bonus as may be recommended and approved by the Remuneration Committee and approved by the Board of Directors, of up to six monthly gross base salaries (or up to three monthly gross base salaries in the case of the Chief Executive Officer) (the “**Discretionary Bonus**”) in any given year. A Discretionary Bonus may be given for any reason, including, without limitation, for special contributions, achievements, assignments and efforts, all as shall be determined by the Company. A Discretionary Bonus may not be subject to the achievement of predefined objectives or targets and may be in addition to the Annual Cash Bonus.

In addition, Office Holders may be awarded a fixed one-time cash payment upon recruitment or promotion, which shall not exceed three monthly gross base salaries.

***Equity-Based Compensation***

Office Holders may be granted Equity Awards. The value of Equity Awards at the date of grant, per any one vesting annum, as calculated using accepted valuation methods (such as, but not limited to, the Black-Scholes formula) will not exceed the sum of 24 monthly gross salaries and other fixed compensation benefits and perquisites in respect of the calendar year in which the Equity Awards are granted, including, but not limited to, pension payments, managers’ insurance, education fund payments, vehicle and travel allowances, recuperation pay). The Equity Awards shall vest over a minimum period of one year from the date of grant. Equity Awards may vest on a monthly, quarterly, semi-annual or an annual basis, or based on other time periods (in each case, which may not be necessarily equal). With respect to options, the exercise price shall not be less than 75% of the mid-market price of the Company’s ordinary shares on the AIM on the last trading day prior to the date of grant. The exercise period of Equity Awards, if applicable, shall not exceed 10 years from the date of grant. Notwithstanding the foregoing, the Company may extend the period of time for which Equity Awards are to remain exercisable and may make provisions with respect to the acceleration of the vesting period of all or a portion of the Equity Awards, including, without limitation, in connection with a corporate transaction involving a change of control of the Company or which results in the Company not being the surviving entity and, in connection with his or her retirement and/or termination (other than in connection with a corporate transaction), whether or not at the behest of the Company or the Office Holder, provided that the Office Holder has served the Company in any capacity for at least 12 months. The terms of Equity Awards may provide, among other things, that they may be exercised on a net exercise or “cashless” basis.

The Compensation Policy includes other provisions including provisions relating to retirement and/or termination benefits, exculpation, indemnification and insurance and compensation of non-executive directors.

### Resolution 3. Directors and other Office Holder Indemnities

In connection with the preparation and approval of the Compensation Policy (see under Resolution 2 above), the remuneration committee and board of directors reviewed the terms of the Company's current indemnification agreements for Office Holders, which was approved at the Extraordinary General Meeting held by the Company on 15 November 2017. The Company's remuneration committee and board of directors determined that, *inter alia*, in order to align the terms of the Company's indemnification agreements for Office Holders with the terms of the proposed Compensation Policy, to replace the Company's current indemnification agreements for Office Holders and the Shareholders are being asked to approve the entering into by the Company of indemnification agreements with each of the current and future Office Holders of the Company, from time to time, at the Meeting. The full text of the form indemnification agreement can be found on the Company's website at <http://www.ethernitynet.com/>. In order to provide our shareholders with relevant information in deciding the direction of their vote on this resolution, we draw your attention to some of the more material sections of the form indemnification agreement.

#### 1. INDEMNIFICATION AND INSURANCE.

1.1. The Company hereby undertakes to indemnify Indemnitee to the fullest extent permitted by applicable law for any liability and expense specified in Sections 1.1.1 through 1.1.7 below, imposed on Indemnitee due to or in connection with an act performed by Indemnitee, either prior to or after the date hereof, in Indemnitee's capacity as an Office Holder of the Company, including, without limitation, as a director or officer in a subsidiary thereof or, at the request of the Company, any another company in which the Company holds shares, directly or indirectly, or in which the Company has an interest of some kind (the "**Corporate Capacity**"). The term "act performed in Indemnitee's capacity as an Office Holder" shall include, without limitation, any act, omission and failure to act and any other circumstances relating to or arising from Indemnitee's service in a Corporate Capacity. The following shall be hereinafter referred to as "**Indemnifiable Events**":

- 1.1.1. Financial obligations imposed on Indemnitee, pursuant to a court judgment in favor of another person, including a judgment imposed on Indemnitee in a settlement or an arbitration that was approved by a court of law. For purposes of Section 1 of this Agreement, the term "**person**" shall include individuals and corporate bodies;
- 1.1.2. Reasonable litigation Expenses (as defined below), including legal fees, incurred by Indemnitee as a result of a criminal inquiry or an investigation or proceeding instituted against Indemnitee by a competent authority without the filing of an indictment and without the imposition of financial liability in lieu of a criminal proceeding, or which has ended in the imposition of a financial obligation in lieu of a criminal proceeding without the filing of an indictment for an offense that does not require proof of *mens rea*. For this section, the phrases "proceeding that has ended without the filing of an indictment" and "financial obligation in lieu of a criminal proceeding" shall have the meanings ascribed to them in Section 260(a)(1a) of the Companies Law;
- 1.1.3. Reasonable legal Expenses, including attorneys' fees, incurred by or charged to Indemnitee by a court of law, in a proceeding brought against Indemnitee by the Company or on its behalf by another person, or in a criminal prosecution in which Indemnitee was acquitted, or in a criminal prosecution in which Indemnitee was convicted of an offense that does not require proof of *mens rea*;
- 1.1.4. Payments which Indemnitee is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 5728-1968, as amended (the "**Securities Law**"), and legal expenses, including attorney's fees, that Indemnitee incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law;
- 1.1.5. Reasonable Expenses incurred by Indemnitee in connection with an Administrative Proceeding, including legal Expenses and attorney's fees. In this section, an "**Administrative Proceeding**" means any proceeding pursuant to Chapters H'3 (Imposition of Monetary Sanctions by the Israel Securities

Authority), H'4 (The Imposition of Administrative Enforcement Measures by the Administrative Enforcement Committee) or I'1 (Arrangement to Prevent the Initiation of Proceedings or to Conclude Proceedings) of the Securities Law;

1.1.6. Expenses incurred by Indemnitee in connection with a proceeding as permitted under Chapter G'1 of the Economic Competition Law, 5748-1988, as amended; and

1.1.7. Any other matter in respect of which it is permitted or will be permitted under applicable law to indemnify the liability of an Officer Holder.

For the purpose of this Agreement, "**Expenses**" shall include, without limitation, attorneys' fees and all other costs, expenses and obligations paid or incurred by Indemnitee in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any claim relating to any matter for which indemnification hereunder may be provided. Expenses shall be considered paid or incurred by Indemnitee at such time as Indemnitee is required to pay or incurs such cost or expenses, including upon receipt of an invoice or payment demand. The Company shall pay the Expenses in accordance with the provisions of Section 1.3.

- 1.2. Notwithstanding anything herein to the contrary, the Company's undertaking to indemnify Indemnitee under Section 1.1.1 shall only be with respect to events described in **Exhibit A** hereto. The board of directors of the Company (the "**Board**") has determined that the categories of events listed in Exhibit A are foreseeable in light of the operations of the Company. The maximum amount of indemnification payable by the Company under Section 1.1.1 of this Agreement with respect to all persons to whom the Company undertook to indemnify under agreements similar to this Agreement (the "**Indemnifiable Persons**") for all events described in Exhibit A shall be as set forth in Exhibit A (the "**Limit Amount**"). If the Limit Amount is insufficient to cover all the indemnity amounts payable with respect to all Indemnifiable Persons, then such amount shall be allocated to such Indemnifiable Persons *pro rata* according to the percentage of their culpability, as finally determined by a court in the relevant claim, or, absent such determination or in the event such persons are parties to different claims, based on an equal *pro rata* allocation among such Indemnifiable Persons. The Limit Amount payable by the Company as described in Exhibit A is deemed by the Company to be reasonable in light of the circumstances. The indemnification provided under Section 1.1.1 shall not be subject to the limitations imposed by this Section 1.2 and Exhibit A if and to the extent such limits are no longer required by applicable law.
- 1.3. If so requested by Indemnitee, and subject to the Company's repayment and reimbursement rights set forth in Sections 3 and 5 below, the Company shall pay amounts to cover Indemnitee's Expenses with respect to which Indemnitee is entitled to be indemnified under Section 1.1, as and when incurred. The payments of such amounts shall be made by the Company directly to Indemnitee's legal and other advisors, as soon as practicable, but in any event no later than fifteen (15) days after written demand by Indemnitee therefor to the Company, and any such payment shall be deemed to constitute indemnification hereunder. As part of the aforementioned undertaking, the Company will make available to Indemnitee any security or guarantee that Indemnitee may be required to post in accordance with an interim decision given by a court, governmental or administrative body, or an arbitrator, including for the purpose of substituting liens imposed on Indemnitee's assets.
- 1.4. The Company's obligation to indemnify Indemnitee and advance Expenses in accordance with this Agreement shall be for such period (the "**Indemnification Period**") as Indemnitee shall be subject to any actual, possible or threatened claim, action, suit, demand or proceeding or any inquiry or investigation, whether civil, criminal or investigative, and, subject to applicable law, whether in Israel, the United Kingdom or any other jurisdiction, arising out of Indemnitee's service in a Corporate Capacity, whether or not Indemnitee is still serving in a Corporate Capacity.

- 1.5. The Company undertakes that, subject to the mandatory limitations under applicable law, as long as it may be obligated to provide indemnification and advance Expenses under this Agreement, the Company will purchase and maintain in effect directors' and officers' liability insurance, which will include coverage for the benefit of Indemnitee, providing coverage in amounts as reasonably determined by the Board. The Company hereby undertakes to notify Indemnitee no less than thirty (30) days prior to the expiration or termination of the directors' and officers' liability insurance.
- 1.6. The Company undertakes to give prompt written notice of the commencement of any claim hereunder to the insurers in accordance with the procedures set forth in the relevant policies. The Company shall thereafter diligently take all actions reasonably necessary under the circumstances to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such action, suit, proceeding, inquiry or investigation in accordance with the terms of such policies. The above shall not derogate from the Company's authority to freely negotiate or reach any compromise with the insurer which is reasonable in the Company's sole discretion, provided that the Company shall act in good faith and in a diligent manner.

## 2. **SPECIFIC LIMITATIONS ON INDEMNIFICATION.**

Notwithstanding anything to the contrary in this Agreement, for as long as it is prohibited under applicable law, the Company shall not indemnify or advance Expenses to Indemnitee with respect to (i) a breach of Indemnitee's duty of loyalty to the Company, except, with respect to indemnification and insurance, to the extent that Indemnitee acted in good faith and had a reasonable basis to believe that such act would not prejudice the Company; (ii) a willful or reckless breach of Indemnitee's duty of care, excluding a breach arising out of the negligent conduct of Indemnitee; (iii) an action or omission committed with the intent to derive unlawful personal benefit; (iv) a fine, civil fine, financial sanction or penalty imposed upon Indemnitee; (v) any other act, event or circumstance with respect to which it is prohibited to do so under applicable law. Notwithstanding anything to the contrary in this Agreement, the Company shall not indemnify or advance Expenses to Indemnitee with respect to a counterclaim made by the Company or in its name in connection with a claim against the Company filed by Indemnitee.

## 3. **REPAYMENT OF EXPENSES.**

- 3.1. In the event that the Company provides or is required to provide indemnification with respect to Expenses hereunder and at any time thereafter the Company determines, based on advice from its legal counsel, that Indemnitee was not entitled to such payments, the amounts so indemnified by the Company will be promptly repaid to the Company by Indemnitee, unless Indemnitee disputes the Company's determination, in which case Indemnitee's obligation to repay the Company shall be postponed until such dispute is resolved in a manner that is final and unappealable.
- 3.2. Indemnitee's obligation to repay to the Company for any Expenses or other sums paid hereunder shall be deemed as a loan given to Indemnitee by the Company subject to the minimum interest rate prescribed by Section 3(9) of the Income Tax Ordinance New Version, 1961, or any other legislation replacing it, which is not considered a taxable benefit.

## **Resolution 4. Amendment to the Articles of Association**

Further to the preparation and approval of the Compensation Policy and changes to the Company's indemnification agreements for Office Holders, the Articles of Association of the Company were reviewed and certain changes as detailed below to Section 76 of the Articles of Association titled "Exemption, Indemnity and Insurance" are proposed to be made and the Shareholders are being asked to approve said amendments at the Meeting.

In order to provide our shareholders with relevant information in deciding the direction of their vote on this resolution we have included for details of disclosure and understanding the changes, the proposed amendments to the Articles of Association are shown as ~~strike through~~ and underlined for deletions and insertions, respectively:

## EXEMPTION, INSURANCE AND INDEMNITY

### 76. Exemption, Indemnity and Insurance

#### 76.1. Exemption from Liability

Subject to the provisions of the Companies Law, the Company may exempt an Office Holder in advance from all or part of such Office Holder's responsibility or liability for damages caused to the Company due to any breach of such Office Holder's duty of care towards the Company to the maximum extent permitted by law. Notwithstanding, the Company shall not exempt a director in advance from its responsibility or liability towards the Company due to a breach of such director's duty of care in distribution.

#### 76.2. Indemnification

76.2.1. Subject to the provisions of the Companies Law and the Securities Law, the Company may indemnify an Office Holder to the fullest extent permitted by the Companies Law and the Securities Law, with respect to the following liabilities, expenses and payments, provided that such liabilities, expenses and payments were incurred by such Office Holder in such Office Holder's capacity as an Office Holder of the Company:

76.2.1.1. a financial obligation imposed on an Office Holder pursuant to a court judgment in favour of another person, including a judgment imposed on such Office Holder in a settlement or in an arbitration decision that was approved by a court of law;

76.2.1.2. reasonable litigation expenses, including legal fees, incurred by an Office Holder as a result of criminal inquiry or an investigation or proceeding instituted against such Office Holder by a competent authority, which inquiry or investigation or proceeding has ended without the filing of an indictment and without an imposition of financial liability in lieu of a criminal proceeding, or has ended in the imposition of a financial obligation in lieu of a criminal proceeding without the filing of an indictment for an offense that does not require proof of ~~means-are~~ mens rea (the phrases "proceeding that has ended without the filing of an indictment" and "financial obligation in lieu of a criminal proceeding" shall have the meanings ascribed to such phrases in section 260(a)(1a) of the Companies Law);

76.2.1.3. reasonable legal expenses, including attorney's fees, which the Office Holder incurred or with which the Office Holder was charged by a court of law, in a proceeding brought against the Office Holder, by the Company or on its behalf or by another person, or in a criminal prosecution in which the Office Holder was acquitted, or in a criminal prosecution in which the Office Holder was convicted of an offense that does not require proof of ~~means-are~~ mens rea (criminal intent);

76.2.1.4. payments which the Office Holder is obligated to make to an injured party as set forth in section 52(54)(a)(1)(a) of the Securities Law, and legal expenses, including attorney's fees, that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law;

76.2.1.5. ~~A monetary liability imposed on the Office Holder in favour of the injured party as a consequence of breach, as set forth in Section 52 (54)(a)(1)(a) of the Securities Law~~

76.2.1.5 Expenses incurred by the Office Holder in connection with a proceeding as permitted under chapter G'1 of the Economic Competition Law, 5748-1988; and

76.2.1.6 Any other liability that may be ~~insured~~ indemnified under the law.

- 76.2.2. Subject to the provisions of the Companies Law and the Securities Law, the Company may undertake to indemnify an Office Holder in advance with respect to:
- 76.2.2.1. financial obligations as specified in Article 76.2.1.1, provided, that the undertaking is limited to categories of events which, in the opinion of the Board can be foreseen, based on the Company's actual activities at the time the undertaking to indemnify is given, and in amounts set by the Board as reasonable; and
  - 76.2.2.2. ~~expenses, fees and payments as specified in Article 76.2.1.2, Article 76.2.1.3 and Article 76.2.1.4~~in Article 76.2.1.2 to Article 76.2.1.6 inclusive. Subject to the provisions of the Companies Law and the Securities Law, the Company may also undertake to indemnify an Office Holder retroactively for expenses, fees and payments as specified ~~in Article 76.2.1.2, Article 76.2.1.3 and Article 76.2.1.4~~in Article 76.2.1.2 to Article 76.2.1.6 inclusive.
- 76.2.3. An indemnification undertaking in advance or after the event as aforesaid may be given even if at the time of the indemnification the person being indemnified has ceased to hold office as an officer in the company.
- 76.2.4. An indemnification undertaking in advance or after the event as aforesaid may relate also to an office held by an officer of the company, at its request, as a director in another company in which the company holds shares, directly or indirectly, or in which the company has an interest of some kind.

In this Article 76 (Indemnity, Insurance and Exemption) "Administrative Proceeding" – means proceedings according to Chapters H'3 (Imposition of Monetary Sanctions by the ISA), H'4 (The Imposition of Administrative Enforcement Measures by the Administrative Enforcement Committee), or I'1 (Arrangement to Prevent the Initiation of Proceedings or to Conclude Proceedings) to the Securities Law, as shall be amended from time to time.

### 76.3. Insurance

- 76.3.1. Subject to the provisions of the Companies Law and the Securities Law, the Company may enter into a contract to insure an Office Holder for all or part of the liability that may be imposed on such Office Holder in connection with an act performed by such Office Holder in such Office Holder's capacity as an Office Holder of the Company, with respect to each of the following:
- 76.3.1.1. breach of his duty of care to the Company or to another person;
  - 76.3.1.2. breach of his fiduciary duty to the Company, provided that the Office Holder acted in good faith and had reasonable grounds to assume that the action in question would not prejudice the interests of the Company; ~~and~~
  - 76.3.1.3. a financial obligation imposed on him in favour of another person; and
  - 76.3.1.4. expenses incurred by the Office Holder in connection with a proceeding as permitted under Chapter G'1 of the Economic Competition Law, 5748-1988.
- 76.3.2. Subject to the provisions of the Companies Law and the Securities Law, the Company may also enter into a contract to insure an Office Holder for a payment which the Office Holder is obligated to make to an injured party as set forth in section 52(54)(a)(1)(a) of the Securities Law and legal expenses, including attorney's fees, that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law.

- 76.4. The Company shall not indemnify, exculpate or insure any Office Holder under any of the following circumstances:
- 76.4.1. a breach of fiduciary duty, except, with respect to indemnification and insurance, to the extent that the Office Holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
  - 76.4.2. a breach of duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the Office Holder;
  - 76.4.3. an act or omission committed with intent to derive illegal personal benefit; or
  - 76.4.4. a fine, civil fine, financial sanction or levied against the Office Holder.
- 76.5. Any amendment to the Companies Law and the Securities Law adversely affecting the right of any Office Holder to be indemnified or insured pursuant to this Article 76 (Indemnity, Insurance and Exemption) shall be prospective in effect, and shall not affect the Company's obligation or ability to indemnify or insure an Office Holder for any act or omission occurring prior to such amendment, unless otherwise provided by the Companies Law and the Securities Law.
- 76.6. The provisions of this Article 76 (Indemnity, Insurance and Exemption) are not intended, and shall not be interpreted so as to restrict the Company, in any manner in respect of the procurement of insurance and/or indemnification and/or exculpation, in favour of any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder.

### **The Company's Directors**

As described in the Company's AIM Admission Document dated 23 June 2017, and in accordance with the Company's Articles of Association, the Company's directors serve for a period of three years. The term of David Levi and Shavit Baruch, in their capacity as directors, extends until 22 June 2020, the term of Graham Woolfman, Mark Reichenberg and Neil Rafferty, in their capacity as directors, extends until 28 June 2020, and the term of Chen Saft-Feiglin and Zohar Yinon, in their capacity as external directors, extends until 14 November 2020.

### **Information about Compensation of Certain Executive Officers and Directors**

For information about the compensation, on an individual basis, of our five most highly compensated "office holders" (as such term is defined in the Companies Law) for the year ended 31 December, 2018, as required by regulations promulgated under the Companies Law, please see Note 29C in our annual report for the year ended 31 December 2018, which is available on the Company's website at <http://www.ethernitynet.com/> and on the London Stock Exchange's website at <http://www.londonstockexchange.com>.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an annual general meeting of Ethernity Networks Ltd. (the “**Company**”) will be held at the offices of Howard Kennedy LLP, at No.1 London Bridge , London, SE1 9BG **at 10.00 a.m. (UK time) (12.00 p.m Israel time) on 13 August 2019** for the following purposes:

1. To receive and discuss the audited financial statements of the Company for the year ended 31 December 2018.
2. To approve and ratify the reappointment of Fahn Kanne & Co., a member firm of Grant Thornton International Limited, as the Company’s independent external auditor for the year ended 31 December 2019 and to serve as the Company’s independent external auditor until the next annual general meeting of the Company’s shareholders and to authorise the Company’s board of directors to determine their remuneration with the approval of the audit committee of the Company. (Resolution 1)
3. To approve the Company’s Compensation Policy for Office Holders as is required by the Israel Companies Law, 5759-1999, the details of which are set out in the Notice of Annual General Meeting. (Resolution 2)
4. To approve the entering into by the Company of indemnification agreements, the details of which are set out in the Notice of Annual General Meeting, with each of the current and future Office Holders of the Company, from time to time. (Resolution 3)
5. To approve the amendments to the Articles of Association of the Company in connection with Resolutions 2 and 3 above, the details of which are set out in the Notice of Annual General Meeting. (Resolution 4)

The approval of each of Resolutions 1 and 4 requires the affirmative vote of the majority of the Ordinary Shares present in person or represented by proxy and voting at the General Meeting on such Resolutions.

The approval of each of Resolutions 2 and 3 requires the affirmative vote of the majority of the Ordinary Shares present in person or represented by proxy and voting at the General Meeting on each such Resolution, excluding abstentions, provided that either: (i) such majority includes a majority of the Ordinary Shares voted by shareholders who are not “controlling shareholders” and who do not have a “personal interest” in the resolution; or (ii) the total number of Ordinary Shares of shareholders who are not “controlling shareholders” and who do not have a “personal interest” in the resolution who voted against the resolution does not exceed 2% of the outstanding voting shares of the Company.

The term “controlling shareholder” means a shareholder who has the ability to direct the activities of the Company, other than by virtue of being an Office Holder. A shareholder is presumed to be a controlling shareholder if the shareholder holds 50% or more of the voting rights in the Company or has the right to appoint the majority of the directors of the Company or its chief executive officer (referred to in the Companies Law as the general manager). In addition, the term controlling shareholder includes any shareholder that holds 25% or more of the voting rights of the Company if no other shareholder holds more than 50% of the voting rights in the Company. As of the date hereof, the Company is not aware of any controlling shareholders.

A “personal interest” of a shareholder is defined as: such shareholder’s personal interest in an act or a transaction of the Company, including (i) a personal interest of such shareholder’s relative, and (ii) a personal interest of a corporation in which such shareholder or any of his/her relatives serves as a director or the chief executive officer, owns at least five percent (5%) of its issued share capital or its voting rights or has the right to appoint a director or chief executive officer, but excluding a personal interest arising solely from the holding of shares in the Company. A personal interest includes the personal interest of either the proxy holder (whether or not the shareholder granting the proxy has a personal interest) or the shareholder granting the proxy, in each case, whether or not the proxy holder has discretion how to vote in the matter. The term “relative” means a shareholder’s spouse, sibling, parent, grandparent or descendant and the spouse’s sibling, parent or descendant; and the spouse of each of the foregoing persons. Under applicable Israeli law, in order for a vote on Resolutions 2 and 3 to be counted, the voting shareholder must notify the Company whether he or she has a personal interest in the vote.



By order of the Board

**Mark Reichenberg**

*Company Secretary*

13A Hamelacha St.

Lod Industrial Park, 7152001

Israel

Incorporated and registered in Israel with registered no. 51-347834-7

**12 June 2019**

## Notes to the Notice of Annual General Meeting:

1. Enclosed with this document is either a Form of Proxy for use by shareholders (the **"Form of Proxy"**) or a Form of Direction for use by Depository Interest Holders (the **"Form of Direction"**).
2. Only those Shareholders registered in the Company's register of shareholders as of close of business (London time) on 23 July 2019 (the **"Original Cut-off"**) are entitled to attend and/or vote at the Meeting, and each only in respect of such number of Ordinary Shares registered in his or its name at that time. If the Meeting is adjourned to a time not more than 48 hours after the original Meeting time (other than an adjournment due to a lack of a quorum), the Original Cut-off will continue to apply. Any changes to the Company's register of shareholders made after the Original Cut-off shall be disregarded for these purposes.
3. The quorum for the Meeting shall be two or more shareholders present in person or by proxy and holding Ordinary Shares conferring in the aggregate 25 per cent. or more of the voting power of the Company. If within half an hour from the time appointed for the Meeting a quorum is not present, the Meeting shall be adjourned to the same day in the next week, at the same time and place and the Original Cut-off shall apply. Two or more shareholders who attend an adjourned meeting in person or by proxy will constitute a quorum, regardless of the number of Ordinary Shares they hold or represent.
4. If you are a shareholder of the Company, whether or not you intend to be present at the Meeting, please complete and return the Form of Proxy (in accordance with the instructions set out in that document) to Link Asset Services, as soon as possible and in any event so as to be received by no later than 10.00 a.m. (London time)/ 12.00 p.m. (Tel Aviv time) on 9 August 2019 or 48 hours before any meeting following adjournment thereof (in accordance with the Uncertified Securities Regulations 2001, and any other provisions notwithstanding). Completion and return of a signed Form of Proxy will not prevent you from attending the Meeting and voting in person, if you so wish.
5. If you are a holder of Depository Interests, please complete and return the Form of Direction (in accordance with the instructions set out in that document) to Link Asset Services, PXS1, 34 Beckenham Road, Beckenham BR3 4ZF, United Kingdom, as soon as possible and in any event so as to be received by no later than 10.00 a.m. (London time)/ 12.00 p.m. (Tel Aviv time) on 8 August 2019 or 72 hours before any meeting following adjournment thereof. Holders of DI's must be registered in the Company's depository interest register at 10.00 a.m. (London time)/12.00 p.m. (Tel Aviv time) on 8 August 2019 (or at 10.00 a.m. (London time)/12.00 p.m. (Tel Aviv time) three days before the date of any adjourned Meeting).
6. In the case of joint holders, the signature of only one of the joint holders is required on the Form of Proxy, or Form of Direction (as applicable), but the vote of the first named on the register of shareholders or register of Depository Interests (as applicable) will be accepted to the exclusion of the other joint holders.
7. The approval of Resolutions 1 and 4 requires the affirmative vote of the majority of the Ordinary Shares present in person or represented by proxy and voting at the General Meeting on such Resolutions.
8. The approval of each of Resolutions 2 and 3 requires the affirmative vote of the majority of the Ordinary Shares present in person or represented by proxy and voting at the General Meeting on each such Resolution, excluding abstentions, provided that either: (i) such majority includes a majority of the Ordinary Shares voted by shareholders who are not "controlling shareholders" and who do not have a "personal interest" in the resolution; or (ii) the total number of Ordinary Shares of shareholders who are not "controlling shareholders" and who do not have a "personal interest" in the resolution who voted against the resolution does not exceed 2% of the outstanding voting shares of the Company. For this purpose, you are asked to indicate in the Form of Proxy or Form of Direction (as applicable) whether you are a controlling shareholder or have a personal interest in any of these Resolutions.
9. Depository Interest holders wishing to attend the meeting should contact the Depository at Link Market Services Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or by email by using [custodymgt@linkgroup.co.uk](mailto:custodymgt@linkgroup.co.uk) order to request a Letter of Representation no later than 10.00 a.m. (London time)/12.00 p.m. (Tel Aviv time) on 9 August 2019. However, Depository Interest holders will not be able to vote at the Meeting.
10. CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST Personal Member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
11. A corporation which is a shareholder may by resolution of its directors or other governing body authorise a person to act as its representative who may exercise, on its behalf, all its powers as a shareholder, provided the corporation does not do so in relation to the same shares.
12. Please note that the Company takes all reasonable precautions to ensure no viruses are present in any electronic communication it sends out, but the Company cannot accept responsibility for loss or damage arising from the opening or use of any email or attachments from the Company and recommends that shareholders and Depository Interest holders subject all messages to virus checking procedures before use. Any electronic communication received by the Company, including the lodgment of an electronic proxy form, that is found to contain any virus will not be accepted.
13. As at 12.00 p.m. on 11 June 2019, being the date immediately prior to the date of this Notice, the Company's issued share capital comprised of 32,556,686 Ordinary Shares. Each Ordinary Share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 12.00 p.m. on 11 June 2019 is 32,556,686.

