

ETHERNITY NETWORKS LTD. COMPENSATION POLICY FOR OFFICE HOLDERS

(Originally adopted on 13 August 2019)

I. Preamble

In accordance with the Israeli Companies Law, 5759-1999 and the regulations promulgated thereunder (together, as amended from time to time, the “**Companies Law**”), this document states the terms of Ethernity Networks Ltd.’s Compensation Policy for its “**Office Holders**” (as such term is defined in the Companies Law) (the “**Compensation Policy**”).

The effective date of this Compensation Policy is the date of its approval by Ethernity’s shareholders and it shall serve as the Compensation Policy of Ethernity Networks Ltd. (“**Ethernity**” or the “**Company**”), as required by the Companies Law.

The adoption of this Compensation Policy will not grant any of Ethernity’s current or future Office Holders a right to receive any components of compensation set forth in this Compensation Policy or otherwise. The components of compensation to which an Office Holder will be entitled will be exclusively those that are determined specifically in relation to him or her and in accordance with the requirements of the Companies Law. Nothing in this Compensation Policy shall be deemed to provide any rights or remedies to any person, other than the Company. In the event that the Companies Law contains or is amended to include any relief or exclusion, any such relief or exclusion shall be deemed incorporated into this Compensation Policy and shall supersede any provision hereof, including if such relief or exclusion creates a conflict, inconsistency or contradiction with the provisions hereof. This Compensation Policy will apply to compensation of Office Holders determined after its effective date and will not, and is not intended to, apply to, or be deemed to amend, employment and/or compensation terms of Office Holders existing prior to such date.

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.¹ Unless expressly stated otherwise, this Compensation Policy relates to all Office Holders other than Non-Executive Directors.²

II. Company Philosophy and Compensation Policy Objectives

Ethernity believes that an effective executive compensation program is one that is designed to reward achievements and performance of its Office Holders and which aligns their interests with those of the Company and its shareholders. The Company believes that Office Holders should be compensated for achieving the Company’s strategic targets and that an appropriate balance should be established between the various components of an Office Holder’s compensation – fixed and variable compensation; measurable and discretionary components; short-, medium- and long-term components; and cash and equity-based compensation. Ethernity seeks to ensure that its ability to attract and retain highly-skilled employees in key positions is maintained and that the compensation provided to key employees remains competitive relative to the compensation of similarly situated executives in peer companies and the broader marketplace from which it recruits and competes for talent.

In formulating this Compensation Policy, Ethernity has considered, among other things, the following considerations:

- advancing the objectives of the Company, its work plan and long-term strategy;

¹ To the extent the Company shall have an active chairman or active vice-chairman of the Board of Directors, such person would not be considered as a Non-Executive Director.

² References in this Compensation Policy to the employment or terms of employment of Office Holders shall also apply to the provision of services by Office Holders under a service contract (whether with such Office Holder or an entity controlled by him or her), *mutatis mutandis*. References to base salaries with respect to Office Holders with a service contract would mean the base fees payable under such contract. Value Added Tax payable by the Company under such service contract, if any, will not be considered or deemed to be part of an Office Holder’s compensation.

- 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.

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 labor 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 labor relations of the Company.

To the extent considered necessary or relevant and if information is timely available, terms of compensation of executives in similar positions in peer-group companies will be selected to provide an appropriate comparative model. Peer-group companies will be selected based on appropriate similarities taking into account a number of factors, which may include: market capitalization, type of industry, location of securities listing(s), level of revenues and/or other financial metrics, number of employees, geographical considerations, factors of relevance to the particular Office Holder's role and other factors that will be considered relevant to the comparison.

III. Compensation Components

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

- (i) base cash compensation;
- (ii) benefits and perquisites;
- (iii) performance-based cash incentives and other cash compensation;

- (iv) 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
- (v) 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.

A. *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 based on a rate of NIS 3.5912:\$1.00 at time of approval of this policy), 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.

B. *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.

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.

Certain benefits and perquisites may be subject to Company policies, as in effect from time to time. At the request of an Office Holder, the Company may, in its discretion, agree to make cash payments to him or her in lieu of amounts payable to pension funds or similar schemes, to education funds or in respect of other social benefits payable to institutions, which are in excess of the maximum allowance for tax exemption purposes, provided that the Office Holder agrees to be liable for any tax liabilities in respect thereof.

C. 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.

D. *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 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 terms and conditions of Equity Awards shall be governed by the Company’s existing or future equity incentive plans and applicable law.

E. *Termination of Service Arrangements*

When determining the terms of retirement and/or termination benefits, the following considerations will be taken into account, among other things:

- the amount of time the Office Holder spent with the Company (the “**Time of Service**”);
- the terms of his or her compensation during the Time of Service;
- the Company’s performance during the Time of Service;
- the Office Holder’s contribution to the achievement of the Company’s goals and attainment of profits; and
- the circumstances surrounding the Office Holder’s departure.

The retirement and/or termination benefits, whether or not retirement and/or termination were at the behest of the Company or the Office Holder, may include, among others, the following benefits:

- **Advance notice** – Advance notice upon termination of employment for a certain period of time, which, in any case, shall not exceed a term of 12 months (the “**Advance Notice Period**”). During the Advance Notice Period, the Office Holder may be entitled to all components of his or her compensation, including continued vesting of Equity Awards. The Company will generally be entitled to discontinue the Office Holder’s employment and will be obliged, unless agreed to otherwise with the relevant Office Holder, to make payment of the amounts he or she would be entitled to in respect of all components of his or her compensation through the end of the Advance Notice Period. In the event of a change of control in the Company, the Company may at its discretion decide to extend the Advance Notice Period as provided above to up to twice the original Advance Notice Period of the Office Holder. In addition to advance notice, the Company may agree to pay an Office Holder a special separation payment in the event such Officer Holder’s employment is terminated within six months after a change of control in the Company. Such special separation payment shall not exceed 12 monthly gross base salaries of such Office Holder.
- **Severance pay** – Under Israeli law, employees are generally entitled to severance pay equal to 100% of the employee’s gross base salary for the last month of employment multiplied by the number of years, including parts of years, of his or her employment with the Company (including notice periods). As such, retirement and/or termination benefits may include the transfer (including under Section 14 of the Israeli Severance Pay Law, 5723-1963) to the Office Holder of the amounts contributed to pension funds and/or similar schemes such as manager’s insurance programs, on account of severance pay, as well as additional amounts such that contributions on account of severance pay reflect the Office Holder’s most recent monthly gross base salary.
- **Contribution to funds** – The transfer to the Office Holder of the amounts contributed to pension funds and/or similar schemes, such as manager’s insurance programs and to education funds.
- **Transition period** – Office Holders may be entitled to a transition period of up to six months during which time he or she may continue to receive his or her compensation, however, he or she shall not be granted new Equity Awards during such period and shall not be entitled to an Annual Cash Bonus in respect of the transition period. In addition, the transition period shall be disregarded for the purposes of vesting of Equity Awards.
- **Retirement Bonus** – Office Holders may be given a cash bonus of up to 12 monthly gross base salaries upon retirement.

IV. Non-Executive Directors

Non-Executive Directors may be entitled to:

- an annual cash retainer not to exceed the greater of GBP 41,250.00 for the Chairperson of the Board of Directors, or GBP 33,000.00 for other Non-Executive Directors, plus in each case, in the event that he or she tended to the affairs of the Company in excess of 20 days in a year, an additional amount per day in excess of said 20 days not to exceed GBP 2,500 per day;
- reimbursement of expenses, including travel expenses; and

- participate in Ethernity’s equity incentive plans or to otherwise receive Equity Awards, subject to applicable AIM rules.

The value of Equity Awards to Non-Executive Directors at the date of grant, per one vesting annum, as calculated using accepted valuation methods (such as, but not limited to, the Black-Scholes formula), will not exceed GBP 960,000. The Equity Awards shall vest over a minimum period of one year from 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 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 Non-Executive Director, provided that the Non-Executive Director 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. However, with respect to the first grant of Equity Awards to a Non-Executive Director in connection with him or her first becoming a member of the Board of Directors (whether appointed by the Board of Directors or elected by the Company’s shareholders), the minimum vesting period and the maximum exercise period of such Equity Awards shall be measured commencing from the date that the Non-Executive Director first became a member of the Board of Directors (the “**Commencement of Service Date**”). The exercise price of Equity Awards (if applicable) shall be set as the closing price of the Company’s shares on the date of grant or the Commencement of Service Date, as applicable. 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).

Notwithstanding the above, Non-Executive Directors who (if any) are subject to the provisions of the Companies Regulations (Rules on Remuneration and Expenses of External Directors), 2000 (the “**Remuneration of External Directors Regulations**”), as amended by the Companies Regulations (Relief for Public Companies Traded on Stock Exchange Outside of Israel), 2000, as such regulations may be amended from time to time, may be entitled to remuneration and refund of expenses in accordance therewith (including if they qualify as an Expert Director (as such term is defined in the Remuneration of External Directors Regulations), including the relative compensation mechanism specified in sections 8A and 8B of the Remuneration of External Directors Regulations, and including in amounts that exceed the amounts set forth above.

V. Compensation Recovery (“Claw-back”)

In the event of an accounting restatement in the Company’s financial statements, the Company shall be entitled to recover from any Office Holder amounts paid to him or her that would not have been paid but for the incorrect financial data, provided that no more than 36 months have passed since the approval by the Board of Directors of the financial statements of the Company on which basis the payments were made.

The Company will only seek reimbursement from an Office Holder to the extent such Office Holder would not have been entitled to all or a portion of the payments made to him or her, based on the financial data included in the restated financial statements. The Remuneration Committee will be responsible for approving the amounts to be recovered, including if repayment will be made either on a pre-tax or an after-tax basis, and for setting terms for such recovery from time to time.

Notwithstanding the aforesaid, the compensation recovery will not be triggered in any one of the following events:

- a financial restatement required because of changes in applicable financial reporting standards or law;
- transactions that require retroactive restatement (e.g., discontinued operations);
- reclassifications of prior year financial information to conform with the current year presentation, or discretionary accounting changes;

- with respect to an individual Office Holder, if he or she acted in good faith in the performance of his or her duties as they relate to the relevant financial statements and the data included therein and did not actually know of the basis for the restatement and that the financial data included in the financial statements was inaccurate; and
- the Remuneration Committee and/or the Board of Directors determined that (i) it would be unreasonable or impracticable to seek reimbursement, (ii) that there is a low likelihood of success under relevant governing law or (iii) it is not worthwhile taking into account the cost and effort that may be involved.

VI. Exculpation, Indemnification and Insurance

In addition, Office Holders, including Non-Executive Directors, may be entitled:

- to exculpation from liability to the fullest extent permitted by applicable law;
- to indemnification for liabilities and expenses to the fullest extent permitted by applicable law;
- to be covered for liabilities in connection with the Company's Admission Document to AIM as published on 23 June 2017 for Admission effectiveness and commencement of dealings in the Company's ordinary shares on AIM on 29 of June 2017 (POSI Cover);
- to be covered by "Directors and Officers Insurance" at the expense of the Company, which may include "run-off" provisions for a period of up to 10 years after the termination of their services with the Company, or the resolution of existing claims, the later of the two.

Directors and Officers Insurance shall be subject to the following limitations:

- the annual premium to be paid by the Company shall not exceed GBP 80,000 per annum, however this limit is subject to fairly obtained policy quotations obtained from reputable agencies;
- the maximum total coverage (for each claim and in the aggregate) under the policy shall not exceed GBP 20,000,000; and
- the policy shall be on market terms and shall not have a material impact on the Company's profitability, assets or liabilities.

The Directors and Officers Insurance may also cover the liability of any controlling shareholders of the Company in their capacity as Office Holders, provided that the coverage terms are not superior to those of the other Officer Holders in the Company.