

Bezeq - The Israel Telecommunication Corp. Ltd.
Compensation Policy for Officers



January 2021

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1. Definitions

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| Stock Options | - | Options exercisable into ordinary shares of the Company including, <i>inter alia</i> , options whose exercise is conditional on the achievement of certain goals; |
| Bezeq | - | Bezeq Israel Telecommunication Corp. Ltd. |
| Bezeq International | - | Bezeq International Ltd. |
| Advance Notice | - | Notice given to an employee by the Company prior to his dismissal, and notice given to the Company by an employee prior to his resignation from the Company, in accordance with the provisions of the Advance Notice for Dismissal and Resignation Law, 2001 and/or in accordance with the employee's employment agreement. |
| The Company | - | Bezeq or each of the material subsidiaries, as the case may be. |
| Significant subsidiaries | - | Pelephone, Bezeq International, yes and all other companies controlled by Bezeq where the compensation committee and Bezeq's board of directors determined that it is a significant subsidiary of the group. |
| The Law or the Companies Law | - | The Companies Law, 1999. |
| The CEOs | - | The CEO of Bezeq, CEOs of the material subsidiaries and Senior Group Managers. |
| The VPs | - | Any Officer at Bezeq, as defined in the Companies Law, who is not a director and not a CEO. |
| The Group | - | Bezeq together with its significant subsidiaries. |
| Compensation Committee | - | A committee of the Board of Directors of Bezeq which meets the conditions prescribed in Section 118A of the Companies Law concerning a compensation committee. |
| yes | - | D.B.S. Satellite Services (1998) Ltd. |
| The Compensation Policy or the Policy | - | Compensation policy for Officers of Bezeq in accordance with the provisions and requirements of section 267A of the Companies Law. |
| The Officers | - | The Officers who are subject to the Compensation Policy pursuant to the provisions of section 4.1 of this document. |
| The Officers of Bezeq | - | The CEO of Bezeq and the VPs. |
| Pelephone | - | Pelephone Communications Ltd. |
| Adjusted free cash flow | - | Calculated as cash from operating activities less cash for the purchase/sale of fixed and intangible assets (net), and net of payments in respect of leases; |
| Terms of office and employment | - | As this term is defined in the Companies Law, as may be revised from time to time. At the date of approval of the compensation policy according to this document, the language of the Law is: the terms of office or employment of an officer, including the grant of an exemption, insurance, undertaking to indemnify or indemnification under a permit to indemnify, termination bonus, and any bonus, other |

payment, or undertaking to make such payment, which are given on account of the said office or employment.

Regulations for compensation of external directors

- The Companies (Rules Concerning Compensation and Expenses for an External Director) Regulations, 2000.

EBITDA

- Earnings before interest, taxes, depreciation and amortization, as defined in the chapter "Description of the Company's Business" in the annual periodic reports of the Company.

Adjusted EBITDA

- Calculated as EBITDA net of expenses / other operating income (net)/ losses /profit from decrease / increase in value (including losses from continued depreciation) and effects of applying IFRS 16 "Leases" and net of expenses relating to share-based payments.

2. Purpose of the document

2.1 The purpose of this document is to define and detail the compensation policy for the Officers in the Group who are subject to this Policy as described in section 4.1 below. The Policy addresses the scope and composition of the compensation, and the manner in which it is determined in accordance with the provisions of section 267A of the Companies Law and under any law. The Policy relates to the overall compensation for the Company's officers for their work (in the framework of an employment agreement) and/or the services they render (in the framework of a management agreement) to the Company and/or the Group, as the case may be.

2.2 It is emphasized that this Policy does not grant the Officers any right to receive any compensation as specified in this Compensation Policy by virtue of the adoption of this Compensation Policy. The compensation to which the Officers currently serving in the Group or officers who serve in it in the future will be entitled, will be based on the specific conditions defined for them individually and approved by the competent organs, subject to the provisions of any law as may be from time to time.
This Policy should not be seen as exhausting all the provisions of the law or the definitions in it. This Policy does not constitute an alternative to or derogate from the provisions laid down by existing statutes and regulations.

2.3 This Compensation Policy will come into force on January 1, 2019¹.

3. Objective of the Policy and considerations in its determination

The objectives of the Compensation Policy are as follows:

- To help advance the goals of the Company and the Group, work plans, and the policy of the Company in a long-term perspective, and to ensure that there is a correlation between the goals of the Company and the Group and the goals of management, and the compensation paid to the Officers.
- To create a worthy array of compensation for the Officers, taking into account, inter alia, the size of the Group or the Company, the nature of their business activity, their risk management policy, and the goals which it aspires to achieve from time to time.

¹ In accordance with the general meeting's approval dated February 6, 2020, the amendment to section 8.2 regarding the cumulative amount of indemnity to officers is effective as of June 30, 2019. In addition, amendments to section 7.2.1.6.3 relating to goals and weights defined for the Company's CEO and relating to the threshold criteria for the payment of a bonus conditional on the performance of the Company's CEO and the CEO of the material subsidiaries are effective as of December 16, 2019 in respect of 2020 (and thereafter). In addition, amendments to section 1 "definitions" of adjusted free cash flow, "EBITDA", and "adjusted EBITDA" and footnote 6 in the definition of "FFO" are effective as of January 1, 2020.

- To enable the Company and the Group to recruit and retain senior managers with the ability to lead them to long-term business success, to attain their goals and to confront the challenges they face.
- To provide the Officers with a sense of partnership with the Company's business results, all without deviating from the risk management policy of the Group and of the Company.
- To create an appropriate balance between the various compensation components - fixed and variable, short-term versus long-term, etc.

4. **The Officers**

4.1 The Officers referred to in the Compensation Policy are the CEOs² and the VPs at Bezeq.

4.2 The Compensation Policy also addresses the terms of office of directors of Bezeq (Section 99), which for the purposes of this document are not included in the definition of "Officers".

5. **Parameters for reviewing the compensation conditions**

Following are general parameters that are likely to be taken into account when reviewing the compensation conditions of the Officers:

- The qualifications, skills, expertise, professional experience and achievements of the officer.
- The position, degree of responsibility, and previous salary agreements signed with the Officer.
- The Officer's contribution to the performance, profit and stability of the Company and/or the Group, as the case may be.
- The degree of responsibility imposed on the Officer in respect of his position in the Company and/or the Group, as the case may be.
- The Company's and/or the Group's need to retain the Officer in view of his skills, knowledge and/or special expertise.
- The size of the Group and/or the Company and the scope and nature of their activity.
- The market conditions, competition and regulatory environment in which the Company and/or the Group operates.
- The reasonability of the compensation mechanisms and scope of the amounts in relation to accepted conditions in the market for officers serving in similar positions in similar companies.
- Review of the ratio of the fixed component to the variable components based on the definitions prescribed as part of the Policy.
- Review of the ratio between the cost of the terms of office and employment of the Officer to the cost of salary/compensation average of the other employees of the Group and/or the relevant company (including temporary placement workers who are hired in the Group or the relevant company), and in particular the ratio to the average cost of the salary/compensation and to the cost of the median salary/compensation of such workers and the effect of the gaps between them on work relations in the Group and/or the Company, as the case may be. On this matter, "temporary placement workers who are hired in the Group or the relevant company", as the case may be, and "cost of salary", have the meaning assigned to them in Part 1 of the First Schedule of the Companies Law. At the time of approval of the Compensation Policy by the Compensation Committee and the Board of Directors of Bezeq, the ratio of the average cost of the compensation of the

² It is clarified that subject to any law, in the event of a merger of Bezeq with a material subsidiary or a merger of material subsidiaries, should that occur, then the provisions of the Compensation Policy will continue to apply to the CEO of the material subsidiary, and for the purpose of the Compensation Policy he will continue to be considered CEO of a material subsidiary even if his title in the Group is different.

Officers at Bezeq to the average and median cost of wages of the other Bezeq workers (including temporary placement workers)³, is 16.6 and 17.84, respectively.

6. **Entities involved in setting the Policy**

The Compensation Committee – makes recommendations to the Board of Directors of Bezeq for a compensation policy for the Officers, and for its renewal/extension and revision from time to time.

The Board of Directors of Bezeq - sets the compensation policy for the Officers after considering the recommendation of the Compensation Committee, reviews the policy from time to time, and is responsible for revision as necessary.

The general meeting of the shareholders - approves the compensation policy of Bezeq for the Officers insofar as such approval is required by the Law and with the reservations prescribed in the Law.

7. **Structure of officer compensation at the Group – General**

The overall compensation of the Officers comprises several components so that each component compensates the Officer for a different aspect of his contribution to the Company or the Group, as applicable:

7.1 **The fixed component**

7.1.1 **Base salary⁴**

7.1.1.1 This component is designed to compensate the Officer for performing the ongoing requirements of the position and for the time he invests in decision making and performing the duties imposed on him as part of his position. The base salary reflects the Officer's abilities and skills and incorporates the areas of responsibility and authority within the context of the officer's position.

7.1.1.2 The base monthly salary of the CEOs shall not be more than a total of NIS 172,500 per month (for a full-time position).

7.1.1.3 The base monthly salary of the VPs shall be in the range of NIS 40,000-100,000 per month (for a full-time position).

7.1.1.4. In the event of a part-time position, the basic salary will be adjusted accordingly, such that the basic salary and the ceiling of the basic salary will be updated linearly according to the share of the scope of the position.

7.1.2 **Benefits and social benefits**

7.1.2.1 This component includes benefits and social benefits which are additional to the base salary component, some of which are prescribed in law (e.g. pension savings, provision for severance pay, vacation days, sick pay, convalescence, etc.) and some of the Company may grant to the Officer (at its discretion) according to accepted practice in the labor market (e.g. education fund savings plan, insurance for work disability, etc.). The benefits and social benefits are designed to maximize the advantages for the Officer and also for the Company and/or the Group themselves, in part through tax benefits which the State offers in respect of these payments, and in an effort to supplement the base salary and compensate the Officer for expenses he incurs while fulfilling his duties (e.g. refund of per diem expenses).

7.1.2.2 Pension insurance – the Company will make provision for contributions to a pension provider or pension arrangement agent, as chosen by the Officer in writing, and in accordance with the provisions of the applicable law in this matter. The provisions will be made from the officer's base salary only and will not include any other

³ The ratios stated above were calculated on the basis of the total of all payments for employment (including the value of the vehicle tax attributed in the salary) that were actually paid during 2018 to the Officers and employees of the Company (during a whole year only, and the data relating to part-time employees was normalized to full-time employment), as of December 31, 2018. In addition, the data for temporary placement workers are correct for June 2018.

⁴ The salary amounts specified in the chapter "The base salary" are in gross terms.

compensation components. The Company's provision for pension insurance will be contingent on deducting the appropriate amount for the employee's share of the provisions from the Officer's salary. The Company will insure the Officers for work disability insurance as part of their membership in a pension fund or as an additional policy for the Officers who have managers insurance. Provision for work disability made by the Company shall not be more than 2.5% of the Officer's regular salary.

- 7.1.2.3 Education fund – every month, the Company will deposit 7.5% of the Officer's base salary in an education fund, and will deduct a further 2.5% from his salary and transfer these amounts to an education fund of the Officer's choice.
- 7.1.2.4 Company car – the Company will provide its Officers with a company car, or equivalent, for the purpose of performing their duties and for their personal use, according to the Company's accepted practice and in line with its procedures.
- 7.1.2.5 Other social benefits – additionally, Officers will be entitled to other accepted benefits such as: mobile phone, managers' review, refund of expenses incurred while performing their duties, and subject to individual approval of the Compensation Committee – grossing up of expenses in relation to the benefits and social conditions referred to in this section 7.1.2, and other standard manager benefits, all in accordance with Company practices, against presentation of relevant documentation. It is clarified that the maximum rebate of expenses for any one Officer is limited to NIS 10,000 per year.
- 7.1.2.6 The total cost of the vehicle and other social benefits (as these are defined in section 7.1.2.5 above) for any one Officer shall not exceed NIS 20,000 per month.
- 7.1.2.7 In addition to the foregoing, the Company may participate in the cost of the officer's attendance in different seminars and/or courses, up to a cumulative amount of NIS 1 million for a period of 3 years.

7.1.3 Severance pay and retirement conditions

- 7.1.3.1 For incumbent Officers (who are not signed on Section 14 of the Severance Pay Law, 1963), the Compensation Committee is entitled, at the recommendation of the Chairman/CEO, as applicable, to approve payment of the full severance pay or part thereof even if the employee resigns (as opposed to being dismissed) or in the event of consensual termination of employment, subject to an individual arrangement made between the Company and the relevant Officer.
- 7.1.3.2 Officers will not be entitled to retirement bonuses except in extraordinary cases, as described in and subject to section 7.2.3.2 below.
- 7.1.3.3 For the CEOs, the period of advance notice shall be 6 months and for the VPs the advance notice period will be up to 6 months. During the advance notice period, the relevant Officer is required to continue to work in his position, unless the Company actually waives his work.
- 7.1.3.4 In case of the transfer of a Company or Group employee to another position in the Company or the Group, as the case may be, the Officer will not be entitled to an advance notice period or to payment in lieu of notice or to an acclimatization period.

7.2 **The variable component**

7.2.1 Performance-linked bonus ("bonus")

- 7.2.1.1 This bonus is designed to compensate the Officer for his achievements and contribution to attaining the goals of the Company or the Group, as applicable, during the calendar year for which the bonus is paid ("the Annual Bonus").
- 7.2.1.2 Structure of the bonus – the performance-linked bonus can have all or some of three components, at the discretion of the Compensation Committee and the Board of Directors of Bezeq, subject to the provisions of section 7.2.1.3 below, for each of the Officers:
 - (i) **Component based on the targets of the** - Targets which will apply to the bonus plans for all the Officers in a particular year, where separate targets are

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| Company and the Group | to be defined for the Officers of Bezeq and for CEOs of the material subsidiaries. |
| (ii) Component based on personal targets | - Targets which correspond to the relevant Officer's position and to the specific subjects and targets that the Company or the Group wishes him to promote in that year. |
| (iii) Discretionary bonus component | - The Company's Officers will be entitled to a bonus component which is not measurable, based on a qualitative evaluation of their performance by their superior. |
- 7.2.1.3 The Compensation Committee and the Board of Directors of Bezeq may delegate their authority for the matter of determining the composition of the bonus, so that for the VPs the structure of the bonus will be decided by the CEO of Bezeq, subject to the approval of the Chairman of Bezeq, and for the CEOs of the material subsidiaries the structure of the bonus will be decided by the Compensation Committee alone.
- 7.2.1.4 As a rule, eligibility for a performance-linked bonus for any year will be contingent upon the Officer being an employee of the Company or of the Group, as the case may be, at the end of the relevant year. If the Officer started his employment in the Company or in the Group during the year, or is not an employee of the Company or of the Group at the end of the relevant year, the Officer will be entitled to a proportionate part of the performance-linked bonus for that year, pro rata to the period in which he worked in that year and provided that he actually worked in his position for not less than four months in the relevant year, unless the Compensation Committee decides otherwise, and the bonus amount will be paid to him close to the date of termination of office or on the date of approval of the bonuses for all the Officers, as decided by the Compensation Committee. In special cases, the Compensation Committee and the Board of Directors of Bezeq may, after receipt of a recommendation from the CEO or the Chairman of the Board, as applicable, approve bringing forward payment on account of the bonus that is payable to an Officer, provided that the on-account payment does not exceed 50% of the maximum annual bonus to which that Officer might be entitled (subject to the provisions of section 7.2.1.6.2 below). For the sake of caution, it is clarified that if at the end of that year it is decided that the Officer is not entitled to a bonus or is entitled to a bonus that is less than the on-account payment, the Company will demand that the Officer pay back the advance that was paid to him as aforesaid.
- 7.2.1.5 The total amount of all bonuses for all the Officers shall not exceed 1% of the Group's adjusted EBITDA of the calendar year for which the performance-based bonuses were given. Without derogating from the foregoing, the total bonus amount actually distributed each year will be calculated according to the extent of attainment of the targets set out above and below.
- 7.2.1.6 Eligibility for a performance-linked bonus will be decided on the basis of measurable quantitative criteria and/or non-measurable qualitative criteria, subject to the aforesaid in this section 7.2. The targets and weightings for the bonus will be decided upon by the competent organs in the Group as described in sections 7.2.1.2 and 7.2.1.3 above, each year in advance, by no later than the end of February of that year, and will be structured individually and separately for each of the Officers in the manner described below:
- 7.2.1.6.1 The weighting of the component based on targets of the Company and the Group (component (i) above) will be up to 60% of all the targets of each Officer, where up to 20% of all the targets will be Group targets. The weighting of the component based on personal targets (component (ii) above) will be up to 50% of all the targets of each Officer. This section does not apply to the CEO of Bezeq, for whom the targets and weightings each year will be as described in section 7.2.1.6.3 below.
- 7.2.1.6.2 As part of the targets of the Company and the Group (component (i) above), the EBITDA or the adjusted EBITDA target and/or the net profit (after tax) target and/or the cash flow target of the Company or the Group will be the largest or most heavily

weighted of all the targets of the Company/Group. The weighting of the EBITDA or the adjusted EBITDA target (as the case may be) and/or the net profit (after tax) target cash flow target of each Officer will be determined in relation to his position in the Company or the Group, as the case may be.

The EBITDA or adjusted EBITDA target (as the case may be) will be a long-term target and the bonus for this target will be paid over two years, so that the Officer must meet the EBITDA or adjusted EBITDA target (as the case may be) set for him over a two-year period to entitle him to his full annual bonus.⁵ If the Officer works in one particular year and meets the EBITDA or adjusted EBITDA target, but his term of office terminates before completing the that year or the subsequent year, or alternatively he moves to another position within the Group before or during that year or the subsequent year – then the Group's Compensation Committee will, at its discretion, determine whether the officer is entitled to the performance-linked bonus or part thereof, on the date of termination/change of position or on the date of grant of the Annual Bonus, having regard, inter alia, of the projections for the subsequent year (insofar as is relevant).

7.2.1.6.3 The targets and weightings defined by the competent organs in the Group as described in sections 7.2.1.2 and 7.2.1.3 above, for the CEO of Bezeq for the performance-linked bonus in any year, will be from the list of targets and in accordance with the range of the weightings noted, as follows: (a) the EBITDA or adjusted EBITDA target for Bezeq (i.e. according to the (separate) financial statements of Bezeq) will be weighted at up to 30% of the Annual Bonus; (b) the free cash flow (FCF) target for Bezeq (separate) will be weighted at up to 30% of the Annual Bonus; (c) the after-tax profit target for Bezeq (separate) will be weighted at up to 20% of the calculation of the Annual Bonus; (d) the operating profit target for Bezeq (separate) will be weighted at up to 20% in the calculation of the Annual Bonus; (e) a Group target based on one of the parameters (a) to (c) above, to be decided on by the Compensation Committee and the Board of Directors of Bezeq, will be weighted at up to 30% of the Annual Bonus; and (f) the Chairman of the Board's assessment target for the CEO of Bezeq, which will consider the performance of the CEO and, together with the total of discretionary bonuses awarded him in the year, will be weighted at up to 25% of the actual Annual Bonus or three monthly salaries, whichever is the higher. For this matter, "discretionary bonus is any bonus that is not fully measurable or is not predetermined, as stated in section 7.2A below.

Regarding the threshold conditions for the grant of annual performance-linked bonus to the CEOs of Bezeq and the material subsidiaries ("the Subsidiaries"), the Compensation Committee and the Board of Directors of Bezeq will determine, close to the date of approval of the budget for the calendar year, one of the following alternatives: (1) the FFO⁶ results of Bezeq or the Subsidiaries, cumulatively (as the case may be), in a calendar year have not declined by more than 20% from the FFO results of Bezeq or the Subsidiaries, as the case may be, in the year preceding the year for which the bonus is paid ("the FFO Comparison Alternative"), or (2) the FFO results of Bezeq or the Subsidiaries, cumulatively (as the case may be) in a calendar year have not declined by more than 20% from the target set in the budget of Bezeq or the Subsidiaries, cumulatively, as the case may be ("the FFO Budget Alternative"); or (3) the adjusted EBITDA result of of Bezeq or the Subsidiaries, cumulatively (as the case may be), in a calendar year, has not declined by more than 40% from the adjusted EBITDA of of Bezeq or the Subsidiaries, cumulatively (as the case may be), in the year preceding the year for which the bonus is paid (the "Adjusted EBITDA Comparison Alternative").

If any of the above fails to meet the FFO or adjusted EBITDA target as described above and as applicable, they will not be entitled to a performance-linked bonus that

⁵ If the officer meets the target in one year but fails to meet the target in the subsequent year, he will be entitled to a partial bonus for the year in which he met the target.

⁶ (FFO) Funds from Operation – cash flow from operations (as defined in the Company's annual financial statements) before changes in working capital and before changes in other asset and liabilities items, less payments for leases. This target may be subject to adjustments for events detailed in section 7.2.1.9 of the Compensation Policy.

year even if they meet the other targets for the annual performance-linked bonus. If the Adjusted EBITDA Comparison Alternative is chosen Bezeq will publish in its financial statements the Adjusted EBITDA of Bezeq or the Subsidiaries, cumulatively (as the case may be) for the financial statements year, and if the FFO Comparison Alternative is chosen, Bezeq will publish the FFO data for Bezeq or the Subsidiaries, cumulatively (as the case may be) for that year. If the FFO Budget Alternative is chosen with regard to each of the aforementioned CEOs, Bezeq will publish in its financial statements the FFO targets of Bezeq or the Subsidiaries, cumulatively, as the case may be, for the year subsequent to the reporting year. It is clarified that the budget targets are determined close to the beginning of every year, following discussion of the estimates and forecasts underlying the budget, as of the date of determining the budget, while the budgets are approved by the Board of Directors of the relevant company, as the case may be.

In addition, Bezeq will publish, as part of its Periodic Report, the rate of compliance of each Officer for whom disclosure was made in the Additional Details chapter in Bezeq's Periodic Report, with all the bonus targets defined for each of them with regard to that calendar year.

7.2.1.6.4 The following rules will be used to set the targets and to ascertain whether they have been met:

- a. Each target will be assigned a pro-rata weighting which determines its importance and its weight in the total weight of the bonus budget.
- b. A quantitative target bar will be set for each measurable target, to be derived from the work plan (budget) or directly from the area which requires change or improvement (excluding a Chairman/CEO assessment target).
- c. When the target is a parameter that is included in or derived from the budget, then the target will be considered to have been met in full only if the quantitative target bar set in or derived from the budget is met.
- d. Each target will receive a separate score indicating compliance with the target and the relevant bonus will be computed pro rata to its relative weight.
- e. A lower quantitative bar will also be set for each target. If performance is below the lower bar, no bonus will be paid for the specific target.
- f. A bonus of 60% of the specific target weight will be given for reaching the quantitative bar defined as the lower bar, and for performance above this level a bonus of between 60% and 100% will be given, to be calculated on a linear basis (in relation to the difference between the target and the lower bar). If the target is met, a score of 100% will be given for this index.
- g. An upper bar will be set for each target for performance that surpasses the target. For reaching the upper bar or above, a bonus of 125% of the specific target weight will be given, and for performance between the target and the upper bar, a bonus of between 100% and 125% will be given, to be calculated on a linear basis (in relation to the difference between the target and the upper bar).

7.2.1.7 The maximum performance-linked bonus for the CEO and the CEOs of the significant subsidiaries will be limited to up to 100% of their annual base salary (assuming that 100% of the targets are met), with an option of up to 125% of the annual salary in the case of outstanding performance and for the VPs the maximum performance-linked bonus will be limited to up to 50% of the annual salary (assuming that 100% of the targets are met) and in the case of outstanding performance, up to 62.5%, as described in Section 7.2.1.6.5 (g) above,

7.2.1.8 **"Elimination" of uncertain events**

The Compensation Committee and the Board of Directors of Bezeq may "eliminate" from the calculation of performance for the purpose of the bonus, implications for the financial results of the relevant company and/or the Group, that will stem from provisions for early retirement or voluntary retirement of employees, accounting changes, taxation changes, business changes, regulatory changes or

material failures, provided that their impact was not taken into account in the Company's budget., insofar as such changes occur, as described below:

Accounting changes: Changes in the accounting standards during the year or in the interpretation of the accounting bodies or the Securities Authority concerning how they are applied, early adoption of accounting standards, change in application of an accounting policy, change in an accounting classification, change in a material estimate, an event necessitating restatement of comparison numbers of prior years or prior quarters and which has a material implication for the results of the reporting period, and the like ("Accounting Changes").

The elimination of Accounting Changes will be made close to the time of approving the bonuses, when the external auditors of the relevant company submits its opinion detailing the Accounting Changes that were made during the financial year applicable to the bonus, and the repercussions of those changes on the relevant targets with regard to granting the bonuses. The said opinion shall be submitted to the Compensation Committee, and will serve as a basis for its decision on whether to eliminate repercussions of the Accounting Changes when calculating the bonuses of the Officers

Taxation changes: Changes in tax rates, changes in legislation, regulations, or in the position of the tax authorities in Israel, or an arrangement or ruling with the tax authorities, following which material changes occurred in the tax expenses or tax payments, changes in the tax expense or tax payments in respect of prior years, whether owing to an agreement or an order, etc.

Regulatory changes: New regulation or material changes in existing regulation (whether in laws, secondary legislation, decisions of judicial instances, or service portfolios) which have a material effect on the results of the Company/Group in the reporting period in areas of competition and antitrust, the tariffs, the relations between Bezeq Group and its competitors (including in the wholesale market), cooperation between the companies of the Group, the licensing and ordering of the areas of operation of the Company/Group, the activities of Bezeq as a public company, etc.

Material failures: System-wide malfunction or material failure having a total or ongoing impact on the Company/Group (including owing to cyber attacks), force majeure events or a general emergency situation that have a material effect on the results of the Company/Group in the reporting period, etc.

Elimination of the implications of such events can increase or decrease the bonus, depending on the nature and impact of the event.

In the event that the aforementioned uncertain events are eliminated in the calculation of the bonus to officers, Bezeq will provide such disclosure in the "Additional Details" chapter in its periodic report.

7.2.1.9 **Discretionary bonus component**

7.2.1.9.1 Notwithstanding the provisions elsewhere in this section 7.2.1, the Compensation Committee and the Board of Directors of Bezeq may determine, with regard to the VPs, that some or all of the variable components of those Officers will be granted on the basis of non-measurable qualitative criteria as described in section 7.2.1.10.3 below, including to determine a bonus structure that differs from the structure described in this section 7.2.1, all subject to the Total Bonus Ceiling as defined in section 7.3 below. It is clarified that those organs may increase, for the relevant Officer, at the time of calculating the bonuses, the discretionary component and may even determine that it will be the only component for calculation of the bonus. For the discretionary component of the CEO of Bezeq, the provisions of section 7.2.1.6.3 above will apply.

7.2.1.9.2 The discretionary component of the bonus for the CEOs will be decided according to the assessment of the Chairman of the Board of the relevant company, while the discretionary component of the bonus for the VPs will be decided according to the assessment of the CEO of Bezeq, all subject to the approval of the Compensation Committee and the Board of Directors of Bezeq.

7.2.1.9.3 The discretionary component is likely to be based, inter alia, on "qualitative" criteria such as the contribution of the Officer to the business of the Company and/or the Group, its profits, its strength and stability; the need of the Company and/or Group to retain an Officer because of his special skills, knowledge or expertise; the measure of responsibility imposed on the Officer; changes that have occurred in the responsibility of the Officer during the year; satisfaction from the functioning of the Officer (including assessment of the extent to which the Officer demonstrates involvement and concern in fulfilling his function); assessment of the Officer's ability to work in cooperation and coordination with the team; the character and situation of the markets in which the Company operates; compliance with internal procedures or special targets; the Company's need to retain Officers with unique talents, knowledge or expertise; the Officer's contribution to corporate governance and an appropriate control and ethical environment, and the like.

7.2.1.10 **Authority to reduce the bonus**

The Compensation Committee and Board of Directors of Bezeq may, at their discretion, reduce the amount of the bonus to which the Officer is entitled, when there are extraordinary circumstances which justify such a reduction.

7.2.1.11 **"Clawback" – return of compensation given on the basis of erroneous financial information**

The Officer will be required to return to the Company any excess amounts he was paid as part of the terms of his employment, if they were paid on the basis of information which later turned out to be erroneous and were restated in the Group's financial statements, provided that no more than three years have elapsed since the date of the financial statement on which the surplus payments were based. The amount of the surplus payments will be determined as the difference between the amount received by the Officer and the amount he would have received according to the corrected financial data which were restated in the financial statements. The Company is entitled to offset such amount owed to it from any amount it payable to the Officer (even if his employment has ended).

7.2.2 **Equity-based compensation**

7.2.2.1 This compensation is intended to link an increase in the value for the shareholders as reflected in a rise in the value of Bezeq's shares over time, with the compensation paid to the Officers. It creates an identity of interests between the officers and the shareholders, and assists in generating the motivation and retention of key office-holders in the Company and in the Group.

7.2.2.2 The Compensation Committee and the Board of Directors of Bezeq may adopt an equity-based compensation plan for the Officers ("the Plan").

7.2.2.3 The approved Plan will incorporate the following principles:

7.2.2.3.1 **The securities allotted as part of the Plan will be Stock Options.**

The holding or vesting period for the options will, as a rule, be in the range of 3-5 years from the actual date of grant to the Officer) (the "Vesting Period"). This Vesting Period is designed to constitute a long-term healthy and worthy incentive.

7.2.2.3.2 **Subject to obtaining the approvals required by law, in the event of a merger or reorganization involving the Company ("Acceleration Event"), the Compensation Committee may determine that the equity awards be replaced by the equity awards of the recipient company, converted into cash or shares of the recipient company, accelerate the vesting period of all or part of these equity awards and/or determine that equity awards which have not vested and/or are "outside the money" be cancelled.**

7.2.2.3.3 **The exercise price of the options, for calculating the benefit component, shall not fall below the average closing prices of the Bezeq share in the 30 trading days on the Tel Aviv Stock Exchange ("the TASE") prior to the date of approval of allotment of the options by the Board of Directors of Bezeq, or according to the closing price of the Bezeq share on the stock exchange at the close of trading on the day prior to the date of Bezeq's decision to grant the options, whichever is higher, unless approved otherwise by the General Meeting of the Company. The exercise price will be subject to adjustment provisions in the event of distribution, rights issue etc.**

as stipulated in the Plan (as it is worded from time to time) or in the letter of allotment.

- 7.2.2.3.4 Grant of the options under the Plan is subject to the provisions of section 7.2A below and the following restriction:

The value of a package of equity awards which are not settled in cash per year (according to the B&S formula or the "Monte Carlo" formula or another widely accepted and suitable formula for calculating the value of equity awards) on the grant date should not exceed the following percentages out of the maximum total annual salary (base salary + maximum bonus in cash) to which the officer is entitled in the grant year, and these are the percentages:

- ◇ For the CEOs – 55%.
- ◇ For the VPs – 35%.

- 7.2.2.3.5 In a year in which the grant of stock options to an Officer is approved, a special bonus of the types described in section 7.2.3 below will not be approved for that Officer unless the ratio of the fixed component to all the variable components, for that Officer, does not deviate, that year, from the ratios set for this matter in section 7.3 below (the value of the equity-based compensation for each year will be equal, for this matter, to the value of the full equity-based bonus as calculated on the grant date for the purpose of the financial statements, when divided by the number of years from the grant date of the equity-based compensation to the vesting date of the final portion).

- 7.2.2.3.6 Total maximum dilution in a case of grant of Stock Options shall not exceed ~~40~~5% of the issued and paid up capital of Bezeq.

- 7.2.2.3.7 The expiration date of the options shall not be earlier than one year from the vesting date of each portion and not later than 10 years from the allotment date.

- 7.2.2.3.8 The Plan should include terms for cases of termination of employment relations the Officer in various circumstances (moving between companies in the Group, termination, resignation, death or disability).

7.2.3 **Special bonuses**

The grant of a special bonus set forth in this section 7.2.3 will be subject to the terms set out in 7.2A below and the following provisions.

7.2.3.1 **Special bonus**

In addition to everything stated in this section 7.2, the Compensation Committee and the Board of Directors of Bezeq may award to any of the Officers a special bonus in an amount not exceeding 4 monthly salaries (gross) of the Officer, provided that the total amount of the Special Bonus granted to the officer throughout the entire compensation policy period does not exceed 12 monthly salaries (gross) of that officer. The special bonus will be awarded in special and unusual cases that meet the following criteria: accomplishment of a project that was not included in the work plan of the Company/Group (as the case may be); investment of exceptional and extraordinary effort in promoting and implementing a project of the Company/Group (as the case may be); in a case of a spot need to recruit personnel; in a case of retirement after at least 5 years of employment, and subject to review by the Compensation Committee and the Board of Directors of Bezeq of the terms of office and employment of the Officer during the period of his employment, of the performance of the Company/Group (as the case may be) in that period and the contribution of the Officer to achieving the targets of the Company/Group (as the case may be) and to increasing its profits (as the case may be) and the circumstances of the retirement; retirement owing to illness or in exceptional personal circumstances.

In any case of award of a special bonus to an Officer concerning whom a disclosure was made as part of the Additional Details chapter in the Periodic Report of Bezeq, Bezeq will publish in that report the criteria and reasons behind the decision to award the special bonus to that Officer.

7.2.3.2 Retirement bonus

The Compensation Committee and the Board of Directors of Bezeq may decide on grant of a retirement bonus for an Officer, as part of this employment agreement or alternatively at the time of his retirement, which shall not exceed 6 monthly base salaries (not including social benefits). Grant of a retirement bonus can be decided retroactively only if the Officer worked for at least 3 years in the Company or in the Group. In making its decision, the Compensation Committee and the Board of Directors of Bezeq will consider the contribution of the Officer to the Company and/or the Group, as the case may be, during the period of his employment, the performance of the Company and/or the Group, as the case may be, during his term of office and the extent to which the Officer contributed to them, and the circumstances of his retirement.

7.2.3.3 Retention bonus

The Compensation Committee and the Board of Directors of Bezeq may, subject to the terms set out below and in special cases or in cases such as change of control at Bezeq or expected structural changes in the Group and the like, approve payment of a "retention bonus" to an Officer, the purpose of which is to enable the Group to compensate successful Officers for their undertaking to continue working in the Group companies. Payment of the retention bonus is subject to the following conditions:

The retention bonus will not exceed six or four salaries of the Officer, in return for the Officer's undertaking to continue to work in the Company or in the Group, as the case may be, for at least three years or two years, respectively, commencing on the date of payment of the retention bonus.

7.2A For the avoidance of doubt, it is stipulated that the total variable component that will be granted to the CEO of Bezeq in respect of: the discretionary bonus (as stipulated in section 7.2.1.10 above) and/or in respect of unique bonuses (as stipulated in section 7.2.3 above, except if entitlement to a retirement bonus to the CEO of Bezeq upon his retirement is specified in his employment agreement) and/or in respect of equity-based compensation (as stipulated in section 7.2.2 above) shall not cumulatively exceed 25% of the total annual bonus or a total of 3 months of base salaries (not including related benefits), whichever is higher (unless approval will be received from the General Meeting of the Company's shareholders, insofar as required by law at that time).

7.3 Ratio of the fixed component to the variable components

7.3.1 When determining the mix of the bonus components for the Officers and for the **Chairman of the Board of Directors**, the Compensation Committee and Board of Directors of Bezeq examined the ratio of the all the fixed components to all the variable components of the personal compensation plan for the relevant Officer, as noted in the rules set in this Policy. The purpose of this examination is to find an appropriate balance between the fixed and variable components. Such appropriate balance advances the targets of the Company and is consistent with its risk policy and its long-term goals.

The range of ratios⁷ between the fixed component and the variable component (in terms of the cost to Bezeq) shall be as follows:

⁷ It is emphasized that this refers to the potential range of ratios, based on the maximum amount of fixed components for Officers and assuming receipt of all possible variable components in the Compensation Policy, and on condition that in respect of the CEO of Bezeq Fixed Lines the total special bonuses as stipulated in section 7.2.3 above and the discretionary bonus component as part of the performance-based bonus were limited to 3.75 salaries (representing 25% of the annual maximum performance-based bonus that can actually be granted to the CEO of Bezeq Fixed Lines. It is emphasized that the actual ratio, in any given year, will be determined on the basis of the relevant variable compensation components for that Officer at that time, on the special circumstances for that year and on the various conditions for receipt of each of the components of the variable compensation.

Position	Fixed component*	Variable components**
Chairman of the Board	100% - 27%	0%-73%
CEO Bezeq Fixed-Line	27%-100%	0%-73%
CEOs - key subsidiaries	25%-100%	0% - 75%
VPs	33%-100%	0%-67%

* Base salary, benefits and social benefits, as described in section 7.1 above.⁸

** Performance-linked bonus, equity-based compensation (depending on value, as described in section 7.2.2.3.4 above) and the special bonuses described in section 7.2 above. It is clarified that the ceilings noted in section 7.2 above for these components are cumulative (together: "Total Bonus Ceiling"), with attention to the maximum ratio possible shown in the above table and subject to any law.

7.3.2 It is clarified that an upward or downward deviation of up to 10% of the rates specified in the above ranges will not be deemed a deviation from the Compensation Policy.

8. **Additional terms of office and employment**

In addition to the compensation described above in Section 7, the Officers and directors at Bezeq will be entitled to professional liability insurance, indemnification and exemption in accordance with the conditions set out below.

8.1 **Insurance**

Bezeq will enter into agreements from time to time with an insurance company/ies to provide Directors and Officers liability insurance (D&O) for its directors and other Officers, as may be from time to time. Bezeq will also be able to include other directors and Officers in its subsidiaries in these policies. The limit of liability in the insurance policies shall be between USD 100 to USD 250 million per claim and in aggregate for each insurance year, and an additional USD 20 million for legal expenses. ("the Insurance Policy").

The Insurance Policy will be renewable at the end of each insurance period for the term of the compensation policy, whether by extension of its validity as described above or by entering into a new directors and officers insurance policy, provided the Compensation Committee confirms that there is no material change in the terms of the Insurance Policy or no improvement compared with the aforementioned Insurance Policy or approves the terms of the new policy in accordance with Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000.

8.2 **Indemnification**

Bezeq will provide its Officers and directors with letters of indemnity with an undertaking to indemnify for any liability or expense imposed on any of the Officers or the directors, in consequence of their actions as Officers (including actions in Bezeq's subsidiaries), all subject to the provisions of the law, including compliance with the Companies Law, the Securities Law, 1968 and Bezeq's Articles of Association, as shall be in effect from time to time. The amounts of indemnity that Bezeq undertakes to pay, cumulatively, to all its Officers and directors shall be limited to a ceiling of 25% of the equity of Bezeq as at the time of granting the letter of indemnity or a total of NIS 400 million, whichever is higher. The undertaking to indemnify shall not apply to an event for which the insurance company recognized its liability pursuant to the insurance policy and has paid the Officer the required amount. The letter of indemnity will apply to a list of categories of events which are customary in letters of indemnity for companies with specifications similar to those of Bezeq.

⁸ Under this component, sick days and vacation days to which the Officer is entitled as part of social benefits, were not calculated. In granting vacation and sick days, the Company acts in accordance with market standards and the provisions of the law.

8.3 Exemption

Bezeq may grant its Officers and directors exemption, in advance, from liability for breach of the duty of care towards it, pursuant to any law, including Officers who are a controlling shareholder or his relatives, subject to the receipt of approvals required by law in a wording approved by the Company. It is clarified that such exemption shall not apply, inter alia, owing to breach of the duty of care in a distribution, and to a decision or transaction in which the controlling shareholder or any Officer (including an Officer other than the Officer to whom the exemption is granted) has a personal interest, all subject to the provisions of the Companies Law and the Articles of Association of Bezeq.

9. Directors' fees

9.1 Directors who are not the Chairman of the Board

9.1.1 Fees for directors of Bezeq for service on the Board of Directors of Bezeq and on the boards of directors of any of the subsidiaries that are wholly owned by the Company, who are not the Chairman of the Board of the Company or an employee-director, will be an amount that shall not exceed the maximum amount for an expert external director as set in the regulations regarding compensation for external directors, as shall be in effect from time to time, in accordance with the Company's ranking as shall be from time to time, and will be uniform for all the aforementioned directors, distinguishing between a director classified as an expert and a director who is not an expert.

9.1.2 An employee-director shall not be entitled to extra payments for his service as a director, in addition to wages (including bonuses and other forms of remuneration) paid to him for his work at Bezeq.

~~9.1.3 Equity compensation~~

~~The provisions of section 7.2.2 above shall apply to equity compensation to directors except for the chairman of the board of directors and an employee-director, with the exception of the limits set forth in section 7.2.2.3.4, which will be subject to the conditions set out below:~~

- ~~• The annual value of a share-based compensation package that is not settled in cash (as stated in section 7.2.2.3.4) on the grant date shall not exceed NIS 300 thousand.~~
- ~~• The grant of equity awards to external and independent directors shall be made in accordance with the provisions of Companies Regulations (Rules Regarding Compensation and Expenses to External Directors) 2000.~~

9.1.43 Directors will be entitled only to fees for which their entitlement is specifically noted in this document, including as concerns wholly-owned subsidiaries of the Company in which they serve, and all the other policy provisions shall not apply to them.

Furthermore, the directors will be entitled to a reimbursement of travel expenses, subject to the provisions of the law, and they will be included in Bezeq's directors and officers liability insurance policy and letters of indemnity and exemption which were or will be given during this period, as noted in Section 8 above.

9.2 Terms of tenure and employment of the Chairman of the Board

9.2.1 The monthly base salary of the Chairman of the Board of Directors shall not exceed NIS 171,000 (gross, for a full-time position). In the event of a part-time position, the base salary will change accordingly, so that the base salary and maximum salary will be adjusted linearly according to the percentage employment.

9.2.2 The provisions of section 7.1.2 above shall apply to the social and other benefits to the Chairman of the Board of Directors. The chairman will be entitled to reasonable reimbursement of expenses for the performance of his duties against invoices. The scope of expenses shall be reviewed once annually by the Compensation Committee.

9.2.3 The early notice period for the Chairman of the Board of Directors will be up to 3 months. During the early notice period the Chairman will be obligated to continue performing his duties, unless the Company decides to waive this requirement.

9.2.4 In the event of termination of the Chairman's term of office, the Company may pay the Chairman compensation of up to two months of wages with the addition of benefits for a non-compete agreement.

9.2.5 The provisions of section 7.1.2 above shall apply to the grant of a share-based payment to the Chairman of the Board of Directors, provided that the value of an annual share-based compensation package, which is not settled in cash (as specified in section 7.2.2.3.4), does not exceed ~~120~~101% of the maximum annual salary (base salary + maximum bonus) to which the Chairman will be entitled in the relevant year.

9.2.6 When the terms of compensation of the Chairman of the Company's Board are reviewed, the parameters stated in sections 5 and 7.3 above will be taken into account, with necessary modifications. In this context, it is noted that on the date of approval of the amendment to the Policy, the ratio of the average cost of compensation of the Chairman of the Bezeq Board of Directors to the cost of the average and median compensation to other Bezeq employees (including temporary placement workers) is 1:20.4 and 1:21.7⁹, respectively.

10. **Existing arrangements**

The purpose of the Compensation Policy is not to make unfavorable changes in existing agreements between the Company and its employees, and the Company will uphold all existing arrangements on the date of approval of this Compensation Policy, for as long as such agreements remain in force.

11. **Rules of control, reporting and correction of irregularities**

11.1 Bezeq will operate subject to any existing and future provisions of law concerning the Compensation Policy for Officers of the Company.

11.2 Any deviation from the Compensation Policy set out in this document or from the principles therein must be approved by the Compensation Committee and Board of Directors of Bezeq, or in a different manner which is consistent with the requirements of the Companies Law. However, non-material changes in the terms of office and employment of the CEOs require prior approval of the Compensation Committee only, if it has confirmed that the change in the terms of employment is not material. Non-material changes in the terms of office and employment of VPs will be approved by the CEO of Bezeq and the Chairman of the Board of Bezeq, and the Compensation Committee will be advised accordingly, all within the limits set in the Compensation Policy. To this end, it is determined that all non-material changes in the terms of office and employment of an Officer which are approved by those organs in any reporting year, shall not exceed 5% (in real terms) in relation to all the terms of office and employment of an Officer which were approved by the competent organs of the Group for that reporting year.

11.3 At least once a year, before the date of grant of the annual bonus to the Officers, the CEO or whoever acts on his behalf shall submit a report to the Compensation Committee and the Board of Directors of Bezeq on the compensation given to the VPs, which addresses the outline of the compensation determined for that VP, the targets he met or the extent to which he met them, and computation of the amounts. The Chairman of the Board will submit a similar report to the Compensation Committee and the Board of Directors of Bezeq on the CEOs of the relevant companies.

11.4 The VP of Human Resources and CFO of the Group must ascertain that the payment of compensation to the Officers is consistent with the guidelines set out in this document.

11.5 At least once in three years, the internal auditor of Bezeq will prepare a designated report on the Bezeq's compliance with the Compensation Policy, as decided by the Board of Directors of Bezeq. The internal auditor's report on implementation of the Compensation Policy will be submitted as required by the Companies Law (to the Chairman of the Board, the CEO and the Chairman of the Audit Committee of Bezeq). If it is found that Bezeq has deviated from the Compensation Policy approved by the Compensation Committee and Board of Directors of

⁹ The cost of salary of Company employees, including contractor workers, was calculated by normalizing their positions to 100% (full-time position). The data relating to Company employees is based on the data for December 31, 2018 and for contractor workers is based on the date for December 2019, and has been calculated for employee who worked in the Company for a full year.

Bezeq, the internal auditor's report will be submitted for immediate discussion by the Compensation Committee and Board of Directors of Bezeq.

The above information constitutes a translation of the Compensation Policy published by the Company. The Hebrew version was submitted by the Company to the relevant authorities pursuant to Israeli law, and represents the binding version and the only one having legal effect. This translation was prepared for convenience purposes only.