



## **ON TRACK INNOVATIONS LTD.**

### **COMPENSATION COMMITTEE CHARTER**

#### **Purpose**

The Compensation Committee (the “**Committee**”) is appointed by the Board of Directors (the “**Board**”) of On Track Innovations Ltd. (the “**Company**”) relating to compensation of the Chief Executive Officer (the “**CEO**”) and the Company’s other executive officers (collectively, including the CEO, the “**Executive Officers**”). The purpose of the Committee shall be to recommend to the Board the compensation of the Executive Officers. In addition, the Committee shall review and evaluate the compensation plans, policies and programs of the Company, and make recommendations to the Board and shareholders of the Company relating to compensation to be provided to Executive Officers.

The Committee has the authority to undertake the specific duties and responsibilities listed below and will have the authority to undertake such other specific duties as the Board from time to time prescribes, subject to the limitations of Section 112 of the Israeli Companies Law, 1999 (the “**Companies Law**”).

#### **Compensation Philosophy Statement**

The main focus of the Compensation Philosophy is to align executive compensation to the achievement of established performance metrics and strategic goals, as well as the long-term interests of the shareholders. In order to accomplish its goals the Committee commits to the following philosophy statements:

1. The Company should strive to provide competitive compensation that will attract highly qualified individuals. The Company's desire should be to retain and motivate employees to achieve higher levels of performance and to appropriately reward employees for that effort.
2. Base salary should be targeted to be relevant within the marketplace that the Company competes, as well as OTI’s ability to pay.
3. Incentive compensation should be based upon the achievement of expected performance targets, with upside potential tied to achieving superior performance.
4. Performance goals and objectives should be developed by senior management and finalized by the Committee.

5. Bonuses should be tied to long-term corporate performance (rather than short-term stock market performance) with the goal of eliminating abuses resulting from a short-term focus. The purpose of longer-term incentive awards will be to link compensation to future shareholder value.
6. The use of stock options should be minimized in order to prevent excessive dilution to shareholders. The fair value of options issued to the CEO and top executives should be in balance to the fair value of options issued to other employees and consultants.

All of the above has to be within the Company's ability to fund compensation based on its financial resources.

### **Committee Membership**

1. Members. The Committee shall consist of as many members as the Board shall determine, but in any event not fewer than three (3) members. All of the Company's External Directors (as defined by the Companies Law) shall be members of the Committee and they shall constitute the committee's majority. All members of the Committee must also be Board members, whose remuneration is in accordance with Section 244 of the Companies Law (see below under "Compensation"). Neither the chairman of the Board nor any director who is otherwise employed by the Company, by a Controlling Shareholder (as defined by the Companies Law) or by a corporation controlled by a Controlling Shareholder, or any director who otherwise provides the Company, a Controlling Shareholder or a corporation controlled by a Controlling Shareholder with services on a regular basis or whose main livelihood is dependent on a Controlling Shareholder, nor a Controlling Shareholder or any Relative (as defined by the Companies Law) thereof, shall be members of the Committee.
2. Qualifications. In addition to the qualifications set forth above, the members of the Compensation Committee shall meet the requirements of Nasdaq Listing Rule 5605(d), under which they must (i) meet the independence requirements of Nasdaq Listing Rule 5605(a)(2), as amended, and (ii) not accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or any subsidiary thereof. Compensatory fees shall not include fees received as a member of the Compensation Committee under applicable law..
3. Chairman. The Chairman of the Committee shall be appointed by the Committee members and shall be an External Director, as defined in the Companies Law, providing that no member shall hold such position for a period exceeding nine years.
4. Removal and Replacement. The members of the Committee may be removed or replaced, and any vacancies on the Committee shall be filled by the Board.

## **Operations**

1. Meetings. The Committee shall meet as often as necessary to carry out its responsibilities. The Committee Chairman shall preside at each meeting. In the event the Committee Chairman is not present at a meeting, the Committee members present at that meeting shall designate one of its members as the acting chair of such meeting. Those who may not be members of the Committee shall not be present at Committee meetings during discussion and resolution-making, unless the Committee Chairman has determined such individual is required for the presentation of a certain topic. However – (a) a Company employee who is not a Controlling Shareholder or its Relative (as defined by the Companies Law) may be present at Committee meetings during discussion, so long as the resolution be made in his absence; (b) without derogating from section (a) above, the legal counsel and Company's secretary who are not a Controlling Shareholder or its Relative (as defined by the Companies Law) may be present at Committee meetings during discussion and resolution-making.
2. Quorum. A majority of the Compensation Committee members shall constitute a quorum. The action of a majority of those present at a meeting, at which a quorum is present, shall be the act of the Committee.
3. Agenda. The chairman of the Committee shall develop and set the Committee's agenda, in consultation with other members of the Committee, the Board and Company management. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practicable, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.
4. Report to Board. The Committee shall report regularly to the entire Board and shall submit to the Board the minutes of its meetings. Any decisions or recommendations made by the Committee and requiring the Board's approval shall be communicated to the members of the Board sufficiently in advance before the Board's meeting in order to permit meaningful review. In the event of any extraordinary and material findings within the scope of the Committee's duties, the chairman of the Committee shall without delay inform the chairman of the Board of such findings.
5. Assessment of Charter. The Committee shall assess the adequacy of this charter on an annual basis and recommend any changes to the Board.

## **Authority and Duties**

1. Without derogating from the Committee's obligations under the Companies Law, the Committee shall, from time to time, review and recommend to the Board, for the Executive Officers (a) the annual base compensation as employee or other structure of engagement, (b) the annual incentive bonus, including the specific goals and amount, (c) all other incentive awards and opportunities, including both cash-based and equity-based awards and opportunities, (d) equity compensation, (e) employment agreements and severance arrangements, (f) any change-in-control agreements and change-in-control provisions affecting any elements of compensation and benefits, and (g) any other special or supplemental benefits, compensation, compensation policies or arrangements for the Executive Officers and individuals who formerly served as Executive Officers, including supplemental retirement benefits and the perquisites provided to them during and after employment. In reviewing and recommending such matters, the Committee shall consider such matters as it deems appropriate, including the Company's financial and operating performance, the alignment of the interests of the Executive Officers and the Company's shareholders, the performance of the Company's ordinary shares and the Company's ability to attract and retain qualified individuals. The CEO may not be present during voting or deliberations about his or her compensation.
2. The Committee shall review and make recommendations to the Board regarding the compensation policy for such other officers of the Company as directed by the Board.
3. The Committee shall recommend a compensation philosophy and plan to the Board, and shall recommend once every three years regarding the prolongation of the Company's compensation plan, if such was established for a period exceeding three years. In recommending such matters, the Committee shall consider and refer to the following criteria, in accordance with the Companies Law: (a) the Executive Officer's education, skills, expertise, professional experience and achievements, (b) the Executive Officer's position, responsibilities and his or her previous compensation arrangements, (c) the ratio between the Executive Officer's office and employment terms and the salary of other Company employees and contractors, and in particular the ratio between the average salary and the median salary of such employees and the effect of differences between such on work relations in the Company ("contractors " and "salary"- as defined in the Companies Law), (d) if office and employment terms include variable components- the possibility of reducing such variable components at the discretion of the Board and the possibility of setting a limit to the realizable value of variable components of equity which are non-cash disposed, (e) if office and employment terms include a severance arrangement- the officer's term of office or employment, the office and employment terms during this period, the Company's performance during this period, the officer's contribution to achieve Company goals and for maximizing profits and circumstances of retirement.

4. The Committee shall approve the employment terms and compensation of Executive Officers as required under the Companies Law and shall further approve any exemption from the need to obtain shareholders' approval with respect to employment terms and compensation of a potential CEO, in accordance with the Companies Law.
5. The Committee shall produce the annual Compensation Committee Report, Discussion and Analysis, if required for inclusion in the Company's 20-F.
6. The Committee shall oversee the Company's compliance with Securities and Exchange Committee rules and regulations regarding shareholder approval of certain executive compensation matters, including advisory votes on executive compensation and the frequency of such votes.
7. The Committee shall review director compensation levels and practices, and recommends, from time to time, changes in such compensation levels and practices to the Board of Directors.
8. The Committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, legal counsel or other adviser and shall be directly responsible for the appointment, compensation and oversight of the work of any compensation consultant, legal counsel and other adviser retained by the Committee. The Committee shall have sole authority to approve the payment of reasonable compensation to a compensation consultant, legal counsel or other adviser retained by the Committee, and other retention terms. Subject to the foregoing authority, the Committee may select, or receive advice from a compensation consultant, legal counsel or other adviser to the Committee (other than in-house legal counsel) only after taking into consideration the factors set forth in Rule 10C-1 under the U.S. Securities Exchange Act of 1934, as amended.
9. The Committee may form and delegate authority to subcommittees as it deems appropriate, to the extent permitted under the Companies Law.
10. The Committee shall perform any other activities consistent with this Charter, the Company's Articles of Association and governing law as the Committee or the Board of Directors deem appropriate.

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