

**Elron Electronic Industries Ltd.**  
**(the “Company”)**

**November 21, 2018**

**Israel Securities Authority**

**22 Kanfei Nesharim Street**

**Jerusalem 95464**

(Via Magna)

**Tel Aviv Stock Exchange Ltd.**

**54 Ahad Ha'Am Street**

**Tel- Aviv 65202**

(Via Magna)

**Re: Immediate Report on the Convening of an Annual General Meeting of the Shareholders of the Company and an Immediate Report in accordance with the Securities Regulations (Private Offer of Stock of a Registered Company), 5760-2000**

An immediate report is hereby made (the “**Report**”) in accordance with the Companies Law, 5759-1999 (the “**Companies Law**”), the Securities Law, 5728-1968 (the “**Securities Law**”), the Securities Regulations (Immediate and Periodic Reports), 5730-1970 (the “**Immediate Report Regulations**”), the Companies Regulations (Notice and Announcement of General Meetings and Class Meetings in a Public Company and the Addition of an Issue to the Agenda), 5760-2000 (the “**Notice and Announcement Regulations**”), the Companies Regulations (Voting in Writing and Position Statements) 5766-2005 (the “**Voting Regulations**”), Securities Regulations (Private Offering of Stock of a Registered Company) 5760 - 2000 (the “**Private Offering Regulations**”), concerning the calling of an annual general meeting of the shareholders of the Company, which will be held on December 26, 2018, at 15:30 (Israel time), in the Company’s offices at 3 Azrieli Center, the Triangular Tower, Floor 42, Tel Aviv, the agenda of which meeting shall consist of the issues described in this Report below.

**1. Issues on the Agenda and Summary of the Resolutions Proposed thereon:**

- 1.1. Re-appointment of Eduardo Elsztain, Saul Zang<sup>1</sup>, Gerardo Ariel Tyszberowicz and Amiram Erel as directors of the Company for an additional term of office until the next annual general meeting of the Company, all in addition to the external directors holding office at the Company.

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<sup>1</sup> On February 15, 2016, the Company’s Board of Directors resolved to appoint Mr. Sholem Lapidot as an alternative director of Mr. Saul Zang.

A separate vote shall be conducted on the appointment of each one of the directors.

The aforesaid candidates for the office of directors of the Company have delivered to the Company declarations in accordance with Section 224B of the Companies Law, copies of which are enclosed to this Immediate Report. For details regarding the directors nominated for re-appointment, please see the voting card attached in this Report.

- 1.2. Re-appointment of the accounting firm of Kesselman & Kesselman (PwC), as the Company's auditors, for an additional term until the next annual general meeting of the Company, and authorization of the Board of Directors of the Company and the Audit Committee, as required, to determine their fees as auditors.
- 1.3. Report to the shareholders regarding the auditors' fees in 2017. No resolution is required on this issue.
- 1.4. Discussion of the annual periodic reports of the Company for 2017. No resolution is required on this issue.
- 1.5. Approval of the grant of Options to the CEO of the Company, as specified in paragraph 12 below. For further details please see part B of the Report below.
- 1.6. To approve the increase of the Company's authorized share capital and to amend the Company's Articles of association<sup>2</sup> accordingly – It is proposed to increase the Company's authorized share capital by 35,000,000 Ordinary Shares, par value NIS0.003 each (the "**Shares**"), such that the authorized share capital of the Company shall consist of 70,000,000 Shares. Subject to the increase of the authorized capital as aforementioned, Article 11 to the Company's Articles of Association will be deleted and replaced with the following: "the Company's authorized share capital is NIS210,000 divided into 70,000,000 ordinary shares, par value NIS0.003 each (hereinafter: the "**Ordinary Shares**"). The Company may change its authorized share capital in accordance with the provisions of the Companies Law and these articles."

## 2. **Record Date**

The record date for the purpose of a shareholder's entitlement to participate in and vote at the meeting, in accordance with Section 182 of the Companies Law, is the end of the trading day on Tel Aviv Stock Exchange Ltd. (TASE)

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<sup>2</sup> For the existing Articles of Association of the Company, please see the Company's Immediate Report of March 14, 2012 (ref. 2012-01-067026). In addition, please see the report regarding opening data on the Company's securities and share capital of January 10, 2010 (ref. 2010-01-348675) for details regarding the Company's authorized share capital.

occurring on November 28, 2018 (the "**Record Date**"). In the event that no trading is carried out on the Record Date, the Record Date shall be the last trading day preceding such date.

3. **Legal Quorum and Adjourned Meeting**

A legal quorum shall be constituted upon the presence, in person or by proxy, of at least two shareholders holding, in total, more than 33.3% of the issued shares conferring voting rights in the Company, within 30 minutes of the time scheduled for the opening of the Meeting. If a legal quorum is not present at the general meeting 30 minutes after the time scheduled for commencement of the meeting, the general meeting shall be adjourned to the same day the following week, at the same time and location. If no legal quorum is present at the adjourned meeting 30 minutes after the time scheduled for the meeting, then one shareholder holding at least 25% of the issued share capital of the Company, who is present in person or by proxy, shall constitute legal quorum.

4. **Required Majority**

4.1. The majority required for adoption of the proposed resolutions specified in Sections 1.1 and 1.2 is a majority of the shareholders who may vote and are participating in the vote, in person or by proxy (including via voting card) or by means of the electronic voting system.

4.2. In accordance with Section 272(C1) of the Companies Law, the majority required for adoption of the proposed resolution specified in Section 1.5 is a majority of the shareholders who may vote and are participating in the vote, in person or by proxy (including via voting card), provided that one of the following is fulfilled:

- (1) The count of the majority votes at the general meeting shall include a majority of all of the votes of shareholders who are neither controlling shareholders of the Company nor have a personal interest in the approval of the appointment, who participate in the vote. The count of the total of votes of such shareholders shall exclude the abstaining votes;
- (2) The total of dissenting votes from among the shareholders specified in Subsection (1) above shall not exceed a rate of two percent of all of the voting rights in the Company.

It should be noted that the Company's Board of Directors shall be entitled to approve the grant of the Options to the CEO as stated in Section 1 above, even if the general meeting objects to their approval, to the extent that the Compensation Committee and thereafter the Board of Directors shall decide, on detailed grounds and after reconsidering the grant of the Options to the CEO, that its approval

despite the objection of the general meeting is for the benefit of the Company.

The Company is not a "public granddaughter company", as this term is defined under Section 267A(c) of the Companies Law.

The majority required for adoption of the proposed resolution specified in Section 1.6 of this Report is a majority of no less than sixty seven percent (67%) of the votes of the shareholders participating at the shareholders meeting, who may vote and voted, excluding the abstaining votes.

## 5. **Manner of Voting**

- 5.1. A shareholder of the Company may participate and vote in the meeting in person, may appoint a proxy who will be able to participate in the shareholders meeting and vote on his behalf (in accordance with the provisions of the Company's articles of association), or he may vote by means of the electronic voting system.
- 5.2. It is required that a document appointing a proxy (the "**Letter of Appointment**"), as well as the original power of attorney by virtue of which the Letter of Appointment was signed (if any), be deposited with the Company's registered office at least 48 hours before the time scheduled for the meeting. The Letter of Appointment shall also state the full names of the principal and his proxy, as appearing at the Registrar of Companies or on the identity card (as applicable), their number with the Registrar of Companies or their identification numbers (as applicable), and the place of their incorporation or their passport country (as applicable).
- 5.3. In accordance with the Companies Regulations (Proof of Share Ownership for the Purpose of Voting at General Meetings), 5760-2000, a shareholder to whose credit a share is registered with a TASE member and such share is included among the shares registered in the shareholders register in the name of the transfer agent, who wishes to vote at the meeting, will provide the Company confirmation of his ownership of the share on the Record Date, which may be received from the TASE member with which his right to the share is registered, as required by the said regulations.

## 6. **Confirmation of Ownership**

A shareholder whose shares are registered with a TASE member is entitled to receive confirmation of ownership from the TASE member by which he holds his shares, at a branch of the TASE member or by postal delivery to his address, if he shall have so requested, provided that a request in this regard shall be made in advance for a specific securities account. According to the Voting Regulations, an electronic message approved under Section 44K5 of the Securities Law which

concerns the data of users of the electronic voting system – is deemed a confirmation of ownership for every shareholder included therein.

## 7. Voting by means of Voting Cards and Position Statements

- 7.1. A shareholder may vote at the meeting on the proposed resolutions on the agenda by a voting card as specified below. The language of the voting card and position statements in respect of the meeting are available on the distribution website of the Israel Securities Authority (ISA) at <https://www.magna.isa.gov.il> and on the website of Tel Aviv Stock Exchange Ltd. at <http://maya.tase.co.il>. A shareholder may approach the Company directly and receive therefrom, free of charge, the language of the voting card and the position statements.
- 7.2. A TASE member will send, free of charge, via e-mail, a link to the language of the voting card and the position statements on the ISA's distribution website to every shareholder who is not registered in the Company's shareholders register and whose shares are registered with the TASE member, unless the shareholder shall have notified such TASE member that he is not interested therein, provided that the notice shall have been given with respect to a specific securities account and on a date preceding the Record Date.
- 7.3. The vote shall be indicated on the second part of the voting card, as posted on the aforesaid distribution website of the ISA.
- 7.4. The (non-electronic) voting card of an unregistered shareholder will be delivered to the Company together with the ownership confirmation, such that the voting card will reach the Company's registered office **no later than four hours before the time at which the meeting is convened** (i.e. – no later than December 26, 2018 at 11:30).
- 7.5. A shareholder who is registered in the shareholders register will deliver the voting card to the Company together with a photocopy of an identity card or a photocopy of his passport or a photocopy of the incorporation certificate, such that the voting card will reach the Company's registered office **no later than six hours before the time at which the general meeting is convened** (i.e. – by December 26, 2018 at 9:30).
- 7.6. **A shareholder participating in a vote on a resolution on the agenda shall furnish the required details as specified in Section 10 below, insofar as the provisions of the Section are relevant to him.**

## 8. Voting by means of the Electronic Voting System

- 8.1. A shareholder may vote on the resolutions on the agenda also via a voting card to be transmitted through the electronic voting system, as defined in the Voting Regulations (the “E-Voting Card”).

- 8.2. A shareholder to whose credit a share is registered with a TASE member is entitled to receive from the TASE member an identifying number and an access code as well as additional information with respect to the meeting, and - after a secured identification process - will be able to vote through the electronic voting system. A shareholder voting via an E-Voting Card is not required to furnish the Company with a confirmation of ownership in the manner specified above.
- 8.3. The E-Voting Card will be available for voting at the end of the Record Date. Voting by means of the electronic voting system will end **6 hours before the time of the meeting** (i.e., on i.e. – by December 26, 2018 at 9:30), at which time the electronic voting system will be locked.
- 8.4. An electronic vote may be modified or revoked until the electronic voting system is locked and will not be alterable by means of the electronic voting system thereafter. If a shareholder votes by more than one means, his later vote shall be counted. For this purpose, the vote of a shareholder in person or by proxy shall be deemed later to a vote via an E-Voting Card.

9. **Position Statements and the Response of the Board of Directors**

- 9.1. The last date for the delivery of position statements to the Company is up to ten days before the date of the meeting.
- 9.2. The last date for the delivery of the Board of Directors' response to position statements, if and insofar as shareholders' position statements are submitted and the Board of Directors chooses to submit its response to such position statements, shall be no later than five days before the date of the meeting.

10. **Notice of Personal Interest**

- 10.1. According to Section 276 of the Companies Law, a shareholder participating in the vote regarding the proposed resolution specified in Section 1.5, whether in person or by proxy, will notify the Company before voting at the meeting, or – if the vote is via voting card – on the voting card by indicating on Part B of the voting card, in the space designated therefor, whether or not he is deemed a controlling shareholder of the Company and/or has a personal interest in the approval of the resolution specified in Section 1.5 on the agenda of the meeting, and will describe the relevant connection.

The vote of a shareholder who fails to indicate the existence or absence of personal interest and/or his being a controlling shareholder of the Company (or indicates that he has personal interest but fails to specify the nature thereof), shall not be counted.

- 10.2. Furthermore, according to Article 36D(d) to the Immediate Reports Regulations, the Voting Regulations and the ISA Directive of

November 30, 2011 regarding disclosure of the voting manner of interested parties, senior officers and institutional bodies at meetings (the “**Directive**”), an interested party, a senior officer and an institutional investor (the “**Voters**”), as defined in the Regulations and in the Directive, voting at the meeting on the proposed resolution specified in Section 1.5 of the agenda, will provide the Company, in the context of their vote, with the details required under the regulations and Section 2(b) of the Directive, and if voting by proxy, the Voter or the proxy shall also provide the details with respect to the proxy. In addition, details will be given with respect to any connection (except for negligible connection) between the Voter or the proxy (who have no personal interest) and the Company or any of the controlling shareholders, including employment relations, business relations etc. and/or with a senior officer in the Company, while specifying the nature thereof.

11. **Inspection of documents**

A copy of this Report, the language of the proposed resolutions and the statements of the candidates for the office of directors are available for inspection at the Company’s offices at 3 Azrieli Center (Triangular Tower, Floor 42), Tel Aviv, after prior coordination with the Company's secretariat, by telephone: +972-3-6075555, Sundays through Thursdays (excluding holiday eves and holidays), between the hours 9:00 and 16:00, until the date of convening of the meeting, and also on the distribution website which address is: <https://www.magna.isa.gov.il> and on the TASE website at: <http://www.maya.tase.co.il>

In addition, this Report will also be available on Company’s website at: <http://www.elron.com> .

**Part B – Further Details regarding Resolution No. 1.5 on the Agenda –Allocation of Options to the CEO of the Company**

**12. Grant of Options to the CEO of the Company**

**12.1. Grant of Options**

- 12.1.1. The CEO of the Company, Mr. Ari Bronshtein, has served in his position since 2009, and since 2017 has been employed directly by the Company on a full-time basis. For details regarding the main terms of office and employment of the CEO, see the Company's immediate report of February 16, 2017 (ref. 2017-01-016902), and Section 6 of Part D of the Company's 2017 Periodic Report, which was published on March 22, 2018 (the "**2017 Periodic Report**") (ref. 2018-01-028465). For details regarding the CEO's education and professional experience, see Section 14 of Part D of the Company's 2017 Periodic Report.
- 12.1.2. In accordance with the provisions of the Company's compensation policy recently approved by the general meeting of the Company's shareholders on February 27, 2017, following the approval of the Company's Board of Directors and the Compensation Committee (hereinafter: the "**Compensation Policy**") and in accordance with the aforesaid resolution of the Company's shareholders, following the approval of the Compensation Committee and of the Board of Directors, as part of the approval of terms of office and employment, to apply the provisions of the Compensation Policy to the CEO, the CEO is entitled to an annual bonus consisting of three components, the main one being a component, that is a bonus in respect of the share's return.
- 12.1.3. In accordance with the Compensation Policy and based on the resolution of the Company's Board of Directors and the Compensation Committee, the grant of Options to the CEO shall be in lieu of the annual bonus component in respect of the share return index for 2019. Considering the Date of Grant, as set forth under Section 12.1.7 below, and subject to the approval of the grant by the general meeting of shareholders, the CEO will not be entitled to the annual bonus component in respect of the share return index for 2019.
- 12.1.4. It is proposed to approve the grant to the Company's CEO of non-tradable Options exercisable for ordinary shares of the Company of NIS 0.003 par value each, each at a Fair Value of NIS1,043,000, in an amount which shall be determined on January 1, 2019 (hereinafter: the "**Options**").
- 12.1.5. The grant of Options shall be made in accordance with the Company's employees and officers share option plan, approved

by the Board of Directors of the Company on November 21, 2018, the main terms of which are detailed in this Report (the “**Plan**” or the “**Option Plan**”).

- 12.1.6. In accordance with the provisions of the Compensation Policy, the economic value of the Options proposed to be granted to the CEO, in respect of the 2019 bonus (on a linear basis and not on an accounting basis) shall be equal to seven times the cost of the CEO’s monthly compensation cost (as defined under the Compensation Policy), which is the maximum possible value of the bonus for 2019 in respect of the return on the share component. The Options shall be granted in lieu of the annual bonus component in respect of the return on the share included in the Compensation Policy, provided that the CEO waived the receipt of that component for the period for which the Options were granted. For additional details regarding the Compensation Policy, see the Company's immediate report dated February 16, 2017 (Ref. 2017-01-016902), which is incorporated herein by reference, including Section 7.5.2 of the Compensation Policy regarding the component of the annual bonus in respect of the share return index.
- 12.1.7. The calculation of the number of Options granted to the CEO shall be made on January 1, 2019, as a derivative of Fair Value in the amount of NIS1,043,000 (7 times the CEO’s monthly compensation cost), based on an economic opinion according to the Black & Scholes formula and the assumptions underlying the Fair Value, as specified in paragraph 12.2.12 below (including the Exercise Price, as defined below), mutatis mutandis.
- 12.1.8. The date of the grant of the Options shall be January 1, 2019, subject to receipt of the approvals determined for the grant as detailed in Section 12.2.17 below (and if such approvals are not received prior to January 1, 2019, the date of grant shall be determined as one business day after the date of receipt of all said approvals) (the “**Date of Grant**”).
- 12.1.9. It should be noted that, concurrent with the decision to grant Options to the CEO, following the approval of the Compensation Committee, the Company's Board of Directors resolved to grant Options to other officers of the Company (who are not directors), in lieu of their entitlement to a bonus in respect of the share yield component for the bonus period of 2019 according to the Compensation Policy. For further details, see the Company's immediate report regarding a non-material private placement in accordance with the Private Offering Regulations published soon after publication of this Report.

## 12.2. Details in accordance with Private Offering Regulations

12.2.1. These grants constitute a "material private offering" as defined in Regulation 1 of the Private Offering Regulations.

### 12.2.2. Offeree Identity

Mr. Ari Bronshtein, CEO of the Company. The offeree is not an "interested party" within the meaning of the term in Section 270 of the Companies Law. The Offeree is an interested party in the Company by virtue of his position, as this term is defined in the Securities Law.

12.2.3. The terms of the securities offered to be issued, their quantity and the percentage they will constitute of the voting rights and the issued and paid up share capital of the Company after the allotment and also on a fully diluted basis.

According to the Fair Value assumptions as detailed in Section 12.2.12 below, and assuming that the date for calculating the number of Options was on November 15, 2018 (close in time prior to the resolution of the Board of Directors), 628,313 Options would have been granted to the CEO, subject to vesting conditions, 282,741 shares would have been exercised constituting 0.94% of the voting rights and of the issued and paid-up share capital of the Company after the allotment (0.92% fully diluted)<sup>3</sup>.

As stated above, the number of Options granted to the CEO shall be determined on January 1, 2019, at Fair Value in the amount of NIS1,043,000 and according to the assumptions underlying the Fair Value, as specified in paragraph 12.2.12 below, mutatis mutandis.

### 12.2.4. Rights as Shareholder

The underlying shares of any Options exercised under the Option Plan (hereinafter: the "**Exercised Shares**") shall be equal in their rights to the Company's shares for all intents and purposes and shall be entitled to any dividend or other benefit, with respect to which the date determining the right to receive them applies on the date of allotment of the Exercised Shares or subsequent thereto.

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<sup>3</sup> It should be clarified that this is the maximum number of Exercised Shares and maximum holding percentage in the Company's share capital and voting rights deriving from Exercised Shares under the assumption of exercise at the Maximum Price (as defined in Section 12.2.8.3 below) and considering the existence of net exercise mechanism. The actual holdings are expected to be lower to the extent that the exercise will be done at a lower price than the Maximum Price.

In accordance with the Stock Exchange Regulations and the directives according thereto, the Exercised Shares shall be registered in the name of the Registration Company of Israel Discount Bank Ltd.

In any event where the offeree is entitled to receive rights and/or bonus shares and/or any other right granted to the offeree by virtue of the Options and/or the Exercised Shares (hereinafter: the “**Rights**”), in accordance with the provisions of the Plan, the rights (if any) shall be transferred to the trustee of the Plan (“**Trustee**”), which shall withhold tax at source according to applicable law, and all the rights shall be allocated to the Trustee for the benefit of the offeree and shall be held by the Trustee at least until the end of the lock-up period of the Options with respect to which the rights were granted, and the tax route terms shall apply to these additional rights.

In any event that the Company distributes a cash dividend and on the record date for the dividend distribution, the Trustee holds Exercised Shares for the Offeree, the Company shall pay the dividend to the Trustee in respect of such shares. The Trustee who receives the dividend in respect of the said shares for each offeree shall deduct tax, if and to the extent that it has not yet been deducted, and shall transfer the dividend it received for each share to the offeree for whom it is held, in accordance with the instructions of the administrator of the Plan (“**Administrator**”), subject to the provisions of the law, the terms of Section 102 and the Section 102 rules and in accordance with the Tax Authority’s guidelines.

For adjustments in respect of the distribution of a dividend prior to exercise of an option, see Section 12.2.5 below.

#### 12.2.5. Adjustments

- 12.2.5.1. Should the Company distribute to its ordinary shareholders, in the Option Period (as defined in Section 12.2.9 below), bonus shares, the rights of the Offeree shall be preserved as follows: Immediately after the record date of the distribution of the bonus shares (hereinafter: and for this section the “**Determining Date**”), the number of shares resulting from the exercise of Options shall increase by the number of shares that the offeree would have been entitled to as bonus shares had he exercised the Options (which were not yet exercised) prior to the Determining Date for the distribution of the bonus shares. The Exercise Price of each option shall not change as a result of the increase in the number of exercised shares to which the offeree is entitled following the distribution of bonus shares.

It is hereby clarified that the number of Exercised Shares to which the Offeree is entitled shall be adjusted only in the event of the distribution of bonus shares, as stated in this subsection above, but not in the case of any other offerings (including issuances to interested parties). It is also clarified that the offeree's right to increase the number of shares due to the

distribution of bonus shares as aforesaid shall apply in practice only in respect of Options actually exercised by the offeree under the terms of the Plan.

The Company shall maintain a sufficient number of ordinary shares of NIS 0.003 par value in its authorized capital, to secure the performance of the exercise rights of the Options offered by it and, if necessary, increase its authorized share capital. The said provisions shall be subject to a tax ruling of the Tax Authority, if any. It is also clarified that other provisions in the Plan relating to the Exercised Shares shall also apply to the bonus shares added to the Exercised Shares as aforesaid, *mutatis mutandis*.

12.2.5.2. Unless otherwise determined in accordance with the authority of the Administrator under the Plan, in any case of a merger, split and/or other restructuring of the Company, the Options or the Exercised Shares held by the Trustee, allotted under the Plan will be canceled and or sold and/or be exchanged and/or converted in exchange for cash or in exchange for alternative Options and/or an alternative share of the Company or of the new company, as the case may be, all subject to the absolute discretion of the Company's Board of Directors, subject to the provisions of the Options award letter and to additional approvals as required by law, and without obtaining the consent of the offeree, including with respect to one or more of the following:

- (1) If and how the vesting period of the unvested Options shall be accelerated and if the Options whose vesting period is not accelerated, will be canceled, sold, redeemed by the Company or exchanged for Options of another company, and to accordingly perform changes in the Exercise Price, if and to the extent required;
- (2) If and how vested Options (including Options whose vesting period has been accelerated as aforesaid) shall be canceled, exercised, exchanged and/or sold by the Trustee or the Company (as the case may be) for the offeree;
- (3) The manner in which the Exercised Shares held for the benefit of the offeree by the Trustee shall be exchanged and/or sold and/or converted by the Trustee for the offeree; as well as
- (4) Prescribe any instruction and carry out any action and/or adjustment in connection with the Options and their terms, to the extent required by its discretion.

12.2.5.3. In the event of a rights issue by the Company to the shareholders, the Exercise Price shall be adjusted to the benefit component in the rights, such that the Exercise Price will be divided into the benefit component in the rights. For this purpose, the " Benefit component in the Rights " means: the

ratio between the closing price of the share on the stock exchange on the last trading day before the "x" day and the base price of the share "x rights".

- 12.2.5.4. If the Company distributes a cash dividend to all of its shareholders, and the date determining the right to receive this dividend applies after the Date of Grant of the Options, but before their actual exercise date, the exercise price of each Option not exercised before the end of the above Determining Date shall be reduced by the full amount of the gross dividend per share. It is hereby clarified that if the Company distributes a cash dividend as stated in foreign currency, the gross amount of the dividend per share that will be deducted as aforesaid from the Exercise Price shall be calculated in the currency in which the Exercise Price was determined, at the representative rate of the said Determining Date or alternatively at the representative rate on the payment date of the dividend. For the avoidance of doubt, the Exercise Price shall in no event be less than the par value of the share.
- 12.2.5.5. In any event of a split or consolidation of the Company's share capital, the Company will make the necessary changes or adjustments to prevent dilution or an increase in the offeree's rights under the Plan with respect to the number of Exercised Shares in respect of Options not yet exercised by the offeree and not yet expired and/or in relation to the Exercise Price of each Option.
- 12.2.5.6. In the event that as a result of the adjustment specified above, the Company is required to allocate fractions of a share, the Company shall not allocate fractions of such share, and the number of rights allocated to the Offeree shall be rounded to the nearest whole number (upward or downward, as the case may be).
- 12.2.5.7. It is hereby clarified that no conversion of Options into shares of the Company on the record date for distribution of bonus shares, dividend distribution, rights offering, share capital consolidation, split or share capital reduction (each of which shall be called a "**Company Event**") shall take place.

Moreover, it is clarified that where the x-day of a Company Event occurs prior to the record date of a Company Event, no conversion shall be made on the x-day as aforesaid.

- 12.2.5.8. It should be clarified that the aforesaid in Section 12.2.5 above is subject to the instructions of TASE and any other stock exchange on which the Company's shares shall be traded, as shall be from time to time.

- 12.2.6. The price of the offered securities and their price on the Stock Exchange of the same series on the day preceding the date of publication of the immediate report, and the ratio in percentages between them
- 12.2.6.1. The Options shall be allotted to the Offeree for no consideration at the time of allotment and the exercise of the Options into shares.
- 12.2.6.2. In accordance with the Compensation Policy and the Compensation Committee and Board of Directors' resolutions, the Exercise Price of all Options shall be equal to the average price of the Company's share on the stock exchange during the 30 trading days preceding January 1, 2019 (hereinafter: the "**Exercise Price Calculation Date**"), plus a premium of 10% on the said price. It should be emphasized that the exercise price is theoretical only and it shall not actually be paid by the offeree, but rather a calculation will be made of the value of the benefit as detailed in Section 12.2.8 below (hereinafter: the "**Exercise Price**").
- 12.2.6.3. If the Exercise Price Calculation Date was on November 15, 2018 (close in time prior to the publication of this Report), the Exercise Price for each option allocated to the CEO as stated in this Report would have been NIS 13.74 (hereinafter: the "**Theoretical Exercise Price**").
- 12.2.6.4. The closing price of the Company's share on the stock exchange on November 20, 2018 (one day prior to publication of this Report) is NIS 11.84 (hereinafter: the "**Closing Price**"). The ratio between the Closing Price and the Theoretical Exercise Price (in accordance with the assumptions stated in section 12.2.6.3 above) is approximately 1:1.16.

12.2.7. Vesting Dates

- 12.2.7.1. Subject to the CEO being employed as an employee or providing services and serving as an officer as a service provider to the Company or at a related company<sup>4</sup> on the vesting date (unless the termination of the employment in the Company or the related company was due to death or disability<sup>5</sup> (as defined in the Plan)<sup>6</sup>, the vesting periods shall apply as follows:

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<sup>4</sup> "related company" is defined in the Option Plan as a company controlled the Company. "Control" or "Controlling Party" are defined in the Option Plan as defined under Section 102 of the Ordinance

<sup>5</sup> "Disability" - A 100% disability recognized by the National Insurance Institute, as a result of which the offeree is unable to work.

- A. 1/3 of the Options shall vest one year after the grant date (hereinafter: the **First Tranche**”).
  - B. 1/3 of the Options (hereinafter: the "**Second Tranche**") shall vest in the course of the second year in a gradual manner, such that three months after the vesting date of the First Tranche, 1/4 of the Options of the Second Tranche shall vest, and each additional 3 months, an additional 1/4 of the Options of the Second Tranche shall vest, so that the entire amount of Options of the Second Tranche shall vest two years after their allocation;
  - C. 1/3 of the Options (hereinafter: the "**Third Tranche**") shall vest in the course of the 3rd year in a gradual manner, such that three months after the vesting date of the full Second Tranche, 1/4 of the Options of the Third Tranche shall vest, and each additional 3 months, an additional 1/4 of the Options of the Third Tranche shall vest as well, such that the entire amount of Options of the Third Tranche will vest three years after their allocation;
- 12.2.7.2. The number of Options per tranche, and the number of Options vesting every three months in the second and third tranches, shall be rounded down for each fraction of an option lower than 0.5, and up to each fraction of an option equal to or greater than 0.5.
- 12.2.7.3. The vesting periods mentioned in Section 12.2.7.1 above are consistent with the provisions of the Company's Compensation Policy with respect to vesting periods of a variable equity component. It is hereby clarified that in accordance with the Company's Compensation Policy, it is possible to determine that Options shall vest in equal portions over a total vesting period of not less than three years, provided that the first tranche vests within a period of at least one year from the grant date, without reference to the vesting method of the second and third tranches (apart from each being equal to the first tranche). The Company is of the opinion that a gradual quarterly vesting of the second and third tranches, as stated above, is consistent with the Compensation Policy as long as the first tranche vests within a period of at least one year from the said grant date.
- 12.2.7.4. Subject to approvals in accordance with the law, the Administrator may decide, in its sole discretion, that certain circumstances to be specified in such decision or in the Options award letter (including in the event of a Change of Control in

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<sup>6</sup> According to the provisions of the Plan, any period during which the offeree is on unpaid leave (except in cases of maternity leave, illness or absence due to reserve duty) shall be added to the vesting period above, and the vesting dates shall be postponed accordingly.

the Company as defined therein) justify the acceleration of the vesting period of the Options that have not yet vested, in whole or in part, in relation to the offeree and in accordance with the law.

Accordingly, notwithstanding the provisions of Section 12.2.7.1 above, and without derogating from the authorities of the Administrator, in the event of a "Change of Control" in the Company, all of the Options allotted to the CEO under the Option Plan which had not then yet vested, shall vest.

For the purposes of this section, "**Change of Control**" shall mean one of the following:

- A. Any case in which the existing indirect controlling shareholder at the Date of Grant (Mr. Eduardo Elsztein) ceases to be the indirect controlling shareholder of the Company. "Control" - as defined in the Securities Law, 5728-1968. Furthermore, if another person who is not the current indirect controlling shareholder at the Date of Grant becomes the largest shareholder in the controlling group, this shall also be considered a Change of Control.
- B. Merger of the Company with another entity and/or sale of the Company or of a majority of the Company's assets. "Majority of the Company's assets" - an asset and/or assets whose total value constitutes at least 50% of the total balance sheet of the Company in the last audited financial statements (reviewed or audited) published prior to the said sale.

12.2.7.5. Notwithstanding the provisions of section 12.2.7.1 above, in the event of termination of the CEO's engagement with the Company as a result of death or disability, the vesting shall be accelerated in respect of all of the Options that have not yet been vested.

#### 12.2.8. Manner of Option Exercise and Maximum Exercise

12.2.8.1. Subject to the provisions of the Option Plan, the offeree shall be entitled to exercise all or part of the Options during the Option Period, as defined in section 12.2.9 below, by sending a written exercise notice signed by the offeree to the registered office of the Company and to the Trustee, including, inter alia, the name of the offeree and his identity number and the number of Options that the offeree wishes to exercise and the exercise price thereof (hereinafter: the "**Exercise Notice**"). The exercise of the Options will be in accordance with the net exercise mechanism set forth below. The exercise notice shall be served to the Company and to the Trustee (if relevant) on a trading day only until 13:00 and in such case the date of receipt of the

exercise notice shall be deemed to have been received on that trading day, and if it is received after 13:00, the date of receipt of the exercise notice shall be deemed to on the first trading day thereafter (hereinafter" the "**Exercise Notice Receipt Date**"). The Administrator may change the form of the exercise notice or the manner in which it is sent.

- 12.2.8.2. On the first trading day following the Exercise Notice Receipt Date, the Company shall allocate the Exercised Shares to the Trustee (in accordance with the applicable trust period) or to the offeree, as the case may be, provided that the Exercise Notice was received complete and signed by the offeree and the full exercising consideration paid. According to the net exercise mechanism, the number of Exercised Shares shall be calculated according to the following formula:

$$\frac{(A \times B) - (A \times C)}{B}$$

|          |   |  |
|----------|---|--|
| <b>A</b> | = | The number of Options that the offeree wishes to exercise and which is set forth in the exercise notice;   |
| <b>B</b> | = | The lower of: (a) closing price in NIS of the Company's share on the Stock Exchange on the trading day preceding the exercise date or (b) the Maximum Price as defined below (to the extent determined); |
| <b>C</b> | = | The Exercise Price in NIS for each Option, as specified in the grant letter;   |

- 12.2.8.3. It is hereby clarified that for the purpose of calculating the number of exercised shares under the net exercise mechanism, the Administrator is entitled to determine, at the time of the grant of the Options, a maximum closing price for the Company's share, whether as a price or in relation to the Exercise Price (which price complies, *inter alia*, with the provisions under Section 12.2.5 above) (hereinafter: the "**Maximum Price**"). Accordingly, the Compensation Committee and the Board of Directors of the Company determined that the Maximum Price shall be the closing price in NIS, reflecting an increase of 100% of the average price of the Company's shares during the 30 trading days immediately prior to January 1, 2019, namely price of NIS 24.98 as of November 15, 2018.

12.2.8.4. In the event that as a result of the calculation specified above, the Company is required to allocate fractions of a share, the Company shall not allocate fractions of such share, and the number of rights allocated to the Offeree shall be rounded to the nearest whole number (upward or downward, as the case may be).

12.2.8.5. In any allotment of Exercised Shares, the Company shall capitalize the par value of the Exercised Shares to be allocated, to share capital, out of profits as defined in Section 302(b) of the Companies Law, from a premium on shares or from any other source included in its shareholders' equity in its financial statements, all in accordance with, and subject to, the provisions of Section 304 of the Companies Law.

12.2.9. Option Period

Unless expired earlier in accordance with the provisions of the Plan, each Option granted but not exercised under the Plan, including a vested Option, shall expire and be cancelled at the end of a period of five (5) years from the Date of Grant (hereinafter: the “**Option Period**”). Subject to receipt of the grant of approvals by law, the Administrator may decide, in its sole discretion, that certain circumstances justify an extension of the Option Period, in relation to the offeree, and subject to the Compensation Policy.

12.2.10. End of Engagement

In the event of termination of employment of, or service by, the offeree to the Company for any reason (hereinafter: “**End of Engagement**”) that is not described in this Section 12.2.10, then:

12.2.10.1. The right of the offeree to exercise Options granted to him under this Plan shall only be for the Options that the right to exercise has been vested until the date of termination of the employment or service and they may be exercised, if they have not expired earlier, on the earlier of: (a) 90 days from the date of termination of the employment or service, as the case may be; or (b) the expiration date of the Option Period. The offeree's entitlement to the remaining Options granted to him shall expire.

12.2.10.2. End of Engagement as a result of death, retirement or disability

Without derogating from the provisions of Section 12.2.7.5. above, in the event of termination of the employer-employee relations between the offeree and the Company or with one of

its affiliated companies as a result of disability (where the definition of an offeree as suffering from disability shall be made in the absolute discretion of the Administrator) or in the event of death of an offeree, the offeree or his heirs shall be entitled to exercise within a period of 12 months from the occurrence of the said disability or death, or until the end of the option Period, whichever is earlier (hereinafter: the “**Additional Period**”). The Options that the offeree was entitled to exercise by himself at any point in time in the Additional Period, which is not later than the end of the Option Period, shall be exercisable for a period of 12 months from the occurrence of the said disability or death event, as well as to receive the Exercised Shares from the Trustee. The entitlement to the remaining Options allotted in favor of the offeree shall expire on the date of the end of the employer-employee relations. In the event of transfer of the Exercised Shares to the heirs of the offeree, the heirs shall be subject to taxation pursuant to applicable law. Options that the offeree or heirs of the offeree were entitled to exercise under this Section, and which were not exercised by the end of the Additional Period, shall expire at the end of this period or at the end of the Option Period, whichever is earlier.

12.2.10.3. Termination of employment or service for Cause

The Administrator may prescribe limitations on the exercise of Options, including provisions regarding cancellation of grant of Options, whether vested or not, granted to the offeree, if their employment by or service to the Company (or any related company, as the case may be) is terminated for Cause<sup>7</sup>.

12.2.10.4. Change of place of employment

Unless otherwise determined by the Administrator, the offeree's right to the Options granted to him under the Plan or the right to its vesting shall not end or expire only as a result of the fact that the offeree has relocated to serve as an employee or officer or service provider at the Company and/or a related company or vice versa or from a related company to another related company.

12.2.10.5. Exceptions

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<sup>7</sup> "Cause" - in connection with the termination of an employer-employee relation of an offeree or termination of service or tenure of an offeree at the Company or at a related company - cause or basis for termination of such employment or service or tenure, for an act or omission that denies severance pay in accordance with the provisions of the law, including but not limited to: breach of fiduciary duty, disclosure of confidential information about the business of the company or a related company, behavior that harms the business of the company or a related company, and material breach by the offeree of: (1) the employment or service agreement, (2) any other obligation to the Company or the related company.

In exceptional cases relating to the end of employment relations between the Company or a related company to a specific offeree or events related to the Company itself, the Administrator may, at its sole discretion, extend the periods specified in Sections 12.2.10.1 to 12.2.10.4 above

12.2.11. The Trust Arrangement and the Offeree's Taxation

- 12.2.11.1. The Options shall be allocated to the offeree in accordance with the provisions of Section 102 of the Income Tax Ordinance (restated), 5721-1961 (hereinafter: the "**Ordinance**") and the rules thereof according to the capital gains through a Trustee tax track. Accordingly, the Options shall be allotted to a Trustee who shall hold in trust, for the offeree, the Options and the Exercised Shares following the exercise of the Options.
- 12.2.11.2. The lock-up period of the Options for the purposes of the tax provisions, and without derogating from the provisions of Section 12.2.7 above, shall be 24 months from the date of allotment of the Options to the Trustee for the benefit of the offeree or for a different period, as shall be determined in any amendment to Section 102 of the Ordinance and the rules that shall apply to the offeree (hereinafter "**Trust Period**" or "**Lock-up Period**").
- 12.2.11.3. During the Trust Period and subject to the terms of Section 102 and to the rules of Section 102, the offeree shall not be able to receive from the Trustee, Options or Exercised Shares granted and/or exercised pursuant to the Plan by the offeree, sell such Options or Exercised Shares, or perform any action with the Options or with the Exercised Shares as aforesaid, unless an appropriate approval has been received from the Tax Authority, including confirmation of the continued application of the exemption under Section 102 of the Ordinance with regard to the said Options and/or the Exercised Shares. If the offeree will instruct to sell or transfer from the Trustee the Options or the Exercised Shares as aforesaid before the end of the period (hereinafter: "**Breach**"), the Offeree shall pay all the taxes due to the Breach pursuant to Section 7 of the Section 102 rules. Until all taxes are paid pursuant to Section 7 of the Section 102 rules, such rights may not transferred, assigned, pledged or mortgaged, and the offeree shall not be able to grant any power of attorney or transfer deed, whether for immediate or future use, except for actions as stated in Section 12.2.19.5 below and subject to its provisions).
- 12.2.11.4. The Exercised Shares and the additional rights that were allotted by the Company to the Trustee shall be held by the

Trustee in favor of the offeree for a period not to exceed 3 years from the date of termination of the Option Period. The Administrator shall instruct the Trustee as to the manner of transfer of the Exercised Shares and the aforesaid additional rights to the offeree.

12.2.11.5. The plan shall be subject to, construed by and shall comply with all the requirements of the Ordinance as a whole, and Section 102 and the Section 102 rules in particular, and any written approval from the Israeli tax authorities. All tax implications in accordance with any law deriving from it, inter alia, as a result of the grant of Options (or any other security that is allocated under the Plan) by or for the offeree, shall be paid by the offeree. The offeree shall indemnify the Company and/or the Trustee and/or a related company, as the case may be, and shall hold them harmless for any liability for any payment of any tax or fine, interest or indexation. If the Company chooses to grant Options under the terms of the income tax route without a Trustee, and if before the exercise of any or all of the aforesaid Options, the offeree ceases to be an employee, service provider, officer or director of the Company or of the related company, the offeree shall submit the Company with a guarantee or any other security required by law for securing the payment of the appropriate tax upon the exercise of the said Options.

#### 12.2.12. The Fair Value of the Options

12.2.12.1. The calculation of the amount of Options shall be made on January 1, 2019, based on the fair value of the Options to the CEO which is NIS1,043,000 according to Black & Scholes (hereinafter - the "**Fair Value**"). For the purpose of calculating the number of Options deriving from the Fair Value of the equity, the Company relied on an economic opinion prepared by BDO Ziv Haft (hereinafter: the "**Appraiser**").

12.2.12.2. The calculation of the number of Options specified in Section 12.2.12.1 above, given the Fair Value, was based on the following assumptions:

- A. The average price of the Company's share on the TASE during the 30 trading days preceding November 15, 2018 (close in time prior to the resolutions of the Compensation Committee and of the Board of Directors), was NIS 12.49.
- B. The Theoretical Exercise Price of the Options - NIS 13.74. For details regarding the actual Exercise Price determination, see Section 12.2.6.2 above.

- C. The expected duration of the Options - the Options granted to the CEO are for a contractual period of five years from the Date of Grant. It was assumed that the Options will be exercised at a time which is the average between the vesting period and their expiry date.
- D. Options tranches - the Options shall vest in three tranches, as specified in Section 12.2.7 above.
- E. Expected volatility - The historical standard deviation of the Company was used for a period consistent with the duration of the Options at the Date of Grant. The volatility used in the Fair Value calculation of the Options is between 25.2% and 26.5% (in accordance with the relevant period).
- F. The Exercise Price of the Options is subject to adjustments in respect of the distribution of dividends and bonus shares, and therefore it was assumed that the expected dividend rate is 0%.
- G. Risk-free interest rate - The interest rate taken is consistent with the expected duration of the Options and based on data of the Israeli government bonds that are not indexed to the CPI. The interest rate used in the calculation of the Fair Value of the Options is between 0.83% and 1.13% (in accordance with the relevant period).
- H. The Maximum Price determined for the CEO as stated in Section 12.2.8.3 above.
- I. The option value is NIS 1.66.

12.2.12.3. As stated above, the number of Options actually granted to the CEO shall be determined according to the above Fair Value and according to the assumptions underlying the Fair Value, as set forth above, mutatis mutandis, as of January 1, 2019.

#### 12.2.13. The Company's issued and paid up share capital

The issued share capital of the Company prior to the allotment specified in this Section 12 is 29,743,767 ordinary shares of the Company of NIS 0.003 par value each.

#### 12.2.14. Interested Parties' Holding Percentages

To the best of the Company's knowledge, the holdings of the interested parties in it, the holdings of the CEO and the rest of the shareholders in the issued share capital and voting rights of the Company<sup>8</sup> before and after the grant date are as follows (assuming that the number of Options to be allotted will be as specified in Section 12.2.3 above):

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<sup>8</sup> As of the date of this report, the Company has no dormant shares

| Holder name  | On September 30, 2018<br>[prior to allotment of<br>Options subject of this<br>Report] |                                 | Immediately after private<br>allotment |                                 | After the private<br>allotment and<br>assuming the<br>exercise (by the<br>offeree) of the full<br>amount of Options<br>offered <sup>9</sup> |                                 | On a fully diluted<br>basis (exercise of all<br>existing and offered<br>convertible<br>securities of the<br>Company) <sup>10</sup> |                                 |
|--|---|---------------------------------|--|---------------------------------|---|---------------------------------|--|---------------------------------|
|  | No. of shares   | % of<br>equity<br>and<br>voting | No. of shares                          | % of<br>equity<br>and<br>voting | No. of<br>shares  | % of<br>equity<br>and<br>voting | No. of<br>shares   | % of<br>equity<br>and<br>voting |
| Discount Investments Ltd.                              | 14,966,339  | 50.32                           | 14,966,339                             | 50.32                           | 14,966,339  | 49.84                           | 14,966,339   | 48.86                           |
| Yelin Lapidot -<br>Portfolio Asset<br>Management Ltd.  | 3,245,085   | 10.91                           | 3,245,085                              | 10.91                           | 3,245,085   | 10.81                           | 3,245,085  | 10.59                           |
| Yelin<br>Lapidot Provident<br>Funds Management<br>Ltd. | 74,946  | 0.25                            | 74,946                                 | 0.25                            | 74,946  | 0.25                            | 74,946   | 0.24                            |
| Epsilon Trust Funds<br>Management (1991)<br>Ltd.       | 9,392   | 0.03                            | 9,392                                  | 0.03                            | 9,392   | 0.03                            | 9,392  | 0.03                            |
| Ari Bronshtein   | 0   | 0                               | 0                                      | 0                               | 282,741   | 0.94                            | 282,741  | 0.92                            |
| The rest of the<br>Company's<br>Shareholders           | 11,448,005  | 38.49                           | 11,448,005                             | 38.49                           | 11,448,005  | 38.13                           | 12,796,198   | 39.85                           |

#### 12.2.15. Consideration details

The Options shall be allocated to the CEO without any monetary consideration as part of the terms of office and

<sup>9</sup> It should be clarified that this is the maximum number of exercised shares and maximum holding percentage in the Company's share capital and voting rights deriving from exercised shares under the assumption of exercise at the Maximum Price (as defined in Section 12.2.8.3 above) and considering the existence of net exercise mechanism. The actual holdings are expected to be lower for as long as the exercise will be made in lower price than the Maximum Price.

<sup>10</sup> Including exercise of Options granted to additional officers of the Company, who are not directors, as stated in Section 12.1.8 above, under similar assumptions for the calculation of the amount of Options proposed for approval to the CEO as stated in this Report.

employment. As aforesaid, the Exercise Price of each option shall be determined in accordance with Section 12.2.6.2 above. The Exercise Price is theoretical only and shall not actually be paid to the Company. As stated in Section 12.1 above, the allotment of the Options to the CEO shall be made in lieu of the annual bonus component in respect of the share return index for the bonus period of 2019.

12.2.16. The name of any substantial shareholder or officer of the Company which, to the best of the Company's knowledge, has a personal interest in the consideration and the nature of the personal interest of each of them

To the best of the Company's knowledge, except for the CEO's personal interest in the allotment of the Options, no substantial shareholder or officer of the Company has a personal interest in the consideration<sup>11</sup>.

12.2.17. The required approvals or the conditions prescribed for the performance of the allotment pursuant to the offer, whether they were accepted or fulfilled, and if not, at what date they are expected to be received or to exist

The allotment of the Options to the CEO pursuant to this Report shall be made after receipt of the cumulative approvals detailed below, and their receipt is a precondition for the grant to the offeree:

- A. The Option Plan shall be submitted to the Tax Authority as required under Section 102 of the Ordinance. The Options shall be allotted not before 30 days have passed since the date of submitting the option plan to the Tax Authority. The Option Plan will be submitted to the Tax Authority soon after publication of this Report. To the extent the option plan will not be submitted until such date, the option plan will be submitted to the Tax Authority following the publication of this Report.
- B. The approvals of the relevant organs in the Company as required by law. On November 21, 2018, the Company's Board of Directors approved the grant of the Options, after the approval of the Compensation Committee of November 11, 2018. Therefore, the approval of the general meeting convened pursuant to this Report is still required<sup>12</sup>.
- C. Obtaining Tax Authority pertaining to the following requests (and also the tax ruling, if required): (a) request for ruling under “green track”, pertaining to equity changes’ mechanisms, the distribution of bonus shares and dividends, (b) request for a tax ruling under the

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<sup>11</sup> As stated in Section 12.1.8 above, a similar allocation was also made for other officers of the Company.

<sup>12</sup> As stated in Section 4 above, the Compensation Committee and the Board of Directors may approve the allotment to the CEO even if the general meeting objects to its approval, subject to the aforesaid.

“green track” pertaining to net exercise of employees’ Options (Net exercise), which will include a note regarding the determination of a maximum exercise price.

- D. Obtaining all the required approvals from the stock exchange, including listing for trading the underlying deriving from the exercise of the Options.

12.2.18. Agreements between the Offeree and the shareholders or other Company’s Offerees

To the best of the Company's knowledge, there is no agreement between the CEO and a shareholder of the Company regarding the purchase or sale of the Company's securities or voting rights therein.

12.2.19. Prevention or restriction in carrying out transactions with the securities offered

- 12.2.19.1. In accordance with the provisions of the Securities Law and the Securities Regulations (Details regarding Sections 15A to 15C of the Law), 5760-2000, the Offeree will be subject to restrictions on the resale of the shares that will derive from the exercise of the offered Options pursuant to the provisions of Section 15C of the Law and the said Securities Regulations which shall be from time to time, when the allotment to the offeree shall be deemed an allotment under Section 15A (a) (1) of the Law.
- 12.2.19.2. Subject to the contents of the Option Plan, the Trustee shall not perform any transaction or action with the Options and/or the Exercised Shares, shall not transfer, assign, withdraw, foreclose or pledge them voluntarily and shall not issue a power of attorney or a deed of transfer for them, whether with immediate or future effect, other than a transfer by virtue of a probate will or by law, except following payment of the applicable tax due from their allotment or after securing such tax payment; If the shares were transferred by virtue of a probate will or by law, the provisions of Section 102 and the provisions of the rules shall apply to the offeree's heirs or transferees, as the case may be. The Trustee shall not transfer the Options to any third party, including the offeree, except in accordance with instructions received from the Administrator.
- 12.2.19.3. The Options and all the other rights of the offeree under the Option Plan, and during the Lock-Up Period - the Exercised Shares and any rights deriving therefrom - may not be transferred, assigned, sold, pledged or foreclosed, and no right may be granted to any third party other than to transfer to heirs by law subject to the terms of the Plan and the Options and

subject to the Lock-Up Period and the provisions of Section 102 and the 102 rules.

- 12.2.19.4. Prior to the payment of the applicable tax as stated in Section 7 to the Section 102 rules, Options or Exercised Shares may not be transferred, assigned, pledged, foreclosed or otherwise voluntarily encumbered, and no power of attorney or transfer deed, whether immediate or of future effect, may be issued, except by virtue of a probate will or by law; If the Options or the Exercised Shares were transferred by virtue of a probate will or by law as aforesaid, the provisions of Section 102 and the provisions of the Section 102 rules shall apply to the offeree's heirs or transferees.
- 12.2.19.5. Transfer of rights to Options or to Exercised Shares pursuant to a probate will or in accordance with the law shall be valid and binding on the Company only after the Company has been furnished with the following notarized documents:
- A. Written request for transfer and a copy of a legal document that creates or confirms the right of such person to act in relation to the offeree's estate and which creates or approves the right of the transferee;
  - B. Written consent by the transferee to pay any amount in respect of the Options or the Exercised Shares and consent to pay any payment required in accordance with the provisions of the Plan and consent to comply with all the provisions of the Plan and the Options award letter;
  - C. Any other evidence required by the Administrator in order to establish the right to transfer the Options or the Exercised Shares granted under the Plan and/or any right deriving therefrom, and the validity of the transfer.

#### 12.2.20. Options Grant Date

The Allocation Date is as set forth in Section 12.1.7 above. As stated above, the number of Options to be granted to the CEO on the Allotment Date shall be determined in accordance with the Fair Value in the amount of NIS1,043,000 and according to the assumptions on which the Fair Value is based as specified in Section 12.2.12 above, mutatis mutandis, as of January 1, 2019.

#### 12.2.21. Administrator's Authorities

Subject to the provisions of the Law, the Company's Articles of Association, the Compensation Policy and any other resolution of the Company's Board of Directors, the Administrator or a Board

of Directors' committee so authorized by the Board of Directors, shall be authorized, at its sole discretion, to exercise all powers and authorities (subject to Board of Directors' approval, if such an approval is required by law) and to interpret, whether such powers and authorities have been expressly given to them in the Plan or whether such powers or powers are required or desirable for the purpose of administering the plan, including:

- A. To determine:
- (1) Who shall be the offerees under the Plan, number of Options to be granted to each offeree in accordance with the Compensation Policy, the vesting conditions, the vesting and lock-up periods for each offeree and the Exercise Price of the Options (subject to the approval of the authorized organs, if such approval is required by law);
  - (2) Date or dates at which Options will be granted;
  - (3) Whether, to which extent and under which circumstances, shall it be possible to repay, cancel, foreclose, replace, return to the Company or waive Options or an Exercised Share held in trust;
  - (4) Any provision or condition according to which Options are granted, in addition to those specified in the Plan;
  - (5) Whether all or part of the Exercised Shares are allocated out of dormant shares of the Company, including those that the Company intends to purchase for this purpose;
  - (6) To resolve whether to deposit shares, in advance in trust in the hands of the Trustee, that are to be purchased for the purpose of their grant to the Trustee in favor of the offerees as Exercised Shares.
  - (7) To approve adjustments in the terms of the Options whose manner of execution was not explicitly determined in accordance with the provisions of the Plan;
  - (8) Take any measures or actions necessary or desirable for the management and implementation of the Plan.
- B. Interpret any provision of the Plan and take any action required as a result of this interpretation, including:
- (1) In accordance with the provisions of the Plan for vesting acceleration, to accelerate the dates according to which the Options are to be vested;
  - (2) Exercise the powers vested in it in accordance with the provisions of the Plan;
  - (3) If necessary - to interpret and guide how each of the provisions of the Plan has to be implemented.

Notwithstanding the foregoing, any interoperation, resolution or action of the Administrator will not contradict the provisions of Section 102 and the Section 102 rules, and any waiver or amendment of a term of the Option Plan, which are not set forth under the plan or under the grant letter, will not significantly

derogate from the rights of the offerees under the option letters granted under the option plan, unless consented in advance by those offerees.

### 13. Office and Employment Terms

- 13.1. The CEO's maximum possible remuneration for 2019, insofar as the grant of the Options to the CEO is approved by the shareholders (in terms of cost, in USD thousands) is summarized in the table below:

| The Person receiving the Remuneration |          |                    |   | Remuneration for services |       |                          |                |                  |            |       | Total |
|---------------------------------------|----------|--------------------|---|---------------------------|-------|--------------------------|----------------|------------------|------------|-------|-------|
| Name                                  | Position | Position scope (%) | <sup>13</sup> Equity Holding Percentage (%) | Salary                    | Bonus | Share-based remuneration | Management fee | Consultation fee | Commission | Other |       |
| Ari Bronshtein                        | CEO      | 100%               | -   | 493                       | 246   | 96                       | -              | -                | -          | -     | 835   |

#### 13.2. Ratio between variable and fixed components

According to the data expected for 2019 (given the theoretical entitlement to the maximum annual bonus for 2019 after deduction of the share yield component<sup>14</sup>), the ratio between the annual cost of the variable components and the annual total cost of the CEO's office and employment terms for 2019 will be approximately 41%.

#### 13.3. Ratio between the terms of office and employment of the CEO and the terms of the Company's employees

The ratio between the expected cost of terms of office and employment of the CEO for 2019 (given the theoretical entitlement to the maximum ceiling for the annual bonus for 2019 after deduction of the share return component<sup>15</sup>) is 3.6

<sup>13</sup> As of the date of this Report, the CEO does not hold any securities of the Company. The allotment of Options to the CEO is being submitted for approval by the shareholders meeting of the Company as detailed in this Report.

<sup>14</sup> Regarding the capital remuneration for 2019, a third of the value of the capital remuneration was allocated on the grant date (a linear distribution of the equity compensation in its three years of vesting) and not the accounting value attributed to the equity compensation in 2019.

<sup>15</sup> See footnote 12 above.

times the average cost and 7.1 times the median external cost of the employment terms of Company employees<sup>16</sup> (including other officers of the Company other than the CEO based on 2017 data).

13.4. Process for approval of the grant of Options to the CEO and reasons of the compensation committee and the Board of Directors for the approval

13.4.1. On November 21, 2018, following the approval of the compensation committee on November 11, 2018, the Company's Board of Directors approved the grant of Options to the CEO as stated in Section 1 of this Report.

13.4.2. The following data and information have been reviewed and considered, inter alia, during the meetings of the Board of Directors and of the compensation committee:

- A. The Company's Compensation Policy;
- B. The current terms of office of the CEO;
- C. The terms of employment of the Company's employees (including the data required for reference pursuant to Amendment No. 20 to the Companies Law);
- D. An economic opinion prepared by the Appraiser for the purpose of calculating the number of Options derived from the Fair Value as stated in Section 12.2.12.1 above.

13.4.3. The members of the Compensation Committee who participated in the committee's meetings of November 11, 2018 were: Ehud Rassabi (External Director and Chairman of the Committee), Yehuda Freidenberg (External Director), Benjamin Gantz (External Director) and Lee-Bath Nelson (External Director),

13.4.4. The members of the Board of Directors who participated in the meeting of the Board of Directors dated November 21, 2018 were: Eduardo Elsztain, Saul Zang, Gerardo Ariel Tyszberowicz, Amiram Erel, Ehud Rassabi, Yehuda Freidenberg, Benjamin Gantz, Lee-Bath Nelson and Yael Andorn.

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<sup>16</sup> The Company does not employ contractors on a regular basis, but only rarely and for limited and fixed periods of time. Accordingly, the Compensation Committee and the Board of Directors found that an examination of the relationship between the CEO's terms of office and employment and the terms of employment of contractors is irrelevant.

- 13.4.5. Compensation Committee's and the Board of Directors' reasons for approving the resolution on the agenda regarding the CEO:
- A. The approval of the Plan and the grant of options to the CEO according to the Plan are in accordance with the Compensation Policy and are intended to incentivize and strengthen the mutual interests between the CEO and the shareholders, and to create a long term commitment by the CEO. The grant of Options is in line with the Company's interests and will strengthen the CEO's identification with the Company.
  - B. In relation to the CEO, the grant of Options is in lieu of the share return component in the annual bonus, and not in addition to the existing compensation components, and should bring savings in the Company's cash flow.
  - C. The terms of the Options, including their amounts and the vesting periods, comply with the principles determined for officers under the Company's Compensation Policy which was approved by the general meeting. In relation to the Company's officers, waiving the share return component under the annual bonus is a pre-condition for participation in the Plan.
  - D. The Plan and the grant of Options to the CEO is intended to balance between the fixed components and the variable components – the equity related remuneration, to assure that the variable components do not create a conflict of interest or encourage taking unreasonable risks. The amount of Options at the Date of Grant is limited by a ceiling which complies with the limitation set forth under the Compensation Policy, such that the connection between the fixed and the variable components is maintained and there is a ceiling for the variable component at the Date of Grant.
  - E. The CEO has served in his position since 2009. Since the beginning of his tenure, the CEO has succeeded in contributing significantly to the improvement of the Company's operations and the state of the Company's business and has a thorough knowledge of the Company's business in all its aspects.
  - F. The share return component of the annual bonus, which the approved grant of Options to the CEO replaces, was determined, inter alia, also taking into account the qualifications of the CEO, his experience, seniority in the Company, his achievements, his responsibilities and the remuneration he received in the past in respect of which the Compensation Committee and the Board of Directors found that it is relatively proportional to what is customary in companies with similar activity or scope of business. It should be noted that, due to the fact that there are only few public companies which are similar in nature to the Company, it is difficult to examine and learn from comparative information as to what is a customary compensation in similar companies.
  - G. The approval of the grant of Options to the CEO included an examination and a reference to the ratio between the CEO terms of office and employment, and the compensation cost of the other Company employees. The Compensation Committee and the Board

of Directors assessed that the gaps are not expected to have an effect on the employment relations in the Company, because of, inter alia, the complexity of the CEO position and the fact that the Options are granted, as mentioned above, in lieu of the share return component.

- H. The ratio between the fixed and the variable remuneration of the CEO's terms of employment is proportionate and balanced, taking into account the scope of responsibility assigned to the CEO and the desire to provide an incentive to the CEO in achieving the Company's goals.
- I. The Exercise Price was determined in accordance with the provisions of the Compensation Policy, including a premium increment of 10%, and was intended to be an incentive for raising the value of the Company.
- J. Pursuant to the provisions of the Companies Law, the Compensation Committee and the Board of Directors examined the possibility to determine a ceiling for the exercise value of a non-cash compensation, and in view of the nature of activities of the Company, determined a ceiling for the exercise of Options granted to the CEO (and to additional officers in the Company as set forth under Section 12.1.6 above) which shall be the closing price in NIS, comprising a 100% increase of the average price for the Company's shares during the 30 trading days immediately preceding January 1, 2019.
- K. In view of the above considerations, approval of the grant of the Options to the CEO is in the best interests of the Company and is reasonable under the circumstances

13.5. The names of the Controlling shareholders and the rights conferring control over the company

To the best of the Company's knowledge, those who may be considered controlling shareholders (as these terms are defined in the Companies Law) in approving the resolution on the agenda are:

- 13.5.1. Discount Investment Corporation. Ltd. (DIC) is considered to be the controlling shareholder of the Company, by virtue of DIC's holdings, as of the date of this Report, of 50.32% of the issued share capital of the Company and of the voting rights in the Company. DIC is a publicly-held company whose shares are traded on the Tel Aviv Stock Exchange.
- 13.5.2. DIC is controlled by Dolphin Netherlands BV (hereinafter: "**Dolphin Netherlands**"), through Dolphin A L Investments Ltd., a company incorporated in Israel that is wholly owned by it ("**Dolphin Israel**").
- 13.5.3. The controlling shareholder of Dolphin Netherlands is Mr. Eduardo Elsztain through corporations under his control. For

additional details, see Section 2.2 of the First Part of the 2017 Periodic Report.

13.6. Directors with a personal interest and the nature of their personal interest:

None of the members of the Board of Directors has a personal interest in resolution under Section 1.5 on the agenda.

**Sincerely,**

**Elron Electronic Industries Ltd.**

**Identity of signatories of the Report on behalf of the Company and their title:**

**Ari Bronshtein, CEO**

**Yaron Elad, CFO**