

ELRON

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Elron Electronic Industries Ltd.

(the "Company")

Shelf Prospectus

According to this Shelf Prospectus, the Company may issue various types of securities according to the provisions of the law, including: shares, non-convertible debentures (including through the expansion of existing debentures series of the Company, as may be from time to time), debentures convertible into shares (including through the expansion of existing convertible debentures series, as may be from time to time), warrants exercisable into shares, warrants exercisable into non-convertible debentures, warrants exercisable into debentures that are convertible into shares, commercial securities and any other security which can lawfully be issued under a shelf prospectus on the relevant date (the "**Offered Securities**").

The offering of securities under this Shelf Prospectus shall be made pursuant to the provisions of Section 23A(f) of the Israel Securities Law 5728-1968, through shelf offering reports in which all the details specific to such offerings will be completed, including the details and terms and conditions of the securities and the composition of the offered units, according to the provisions of any law and according to the rules and guidelines of the Tel Aviv Stock Exchange Ltd., as they shall be at that time. In addition, this Shelf Prospectus allows for at-the-market (ATM) offerings of the aforesaid securities, through transactions on the stock exchange.

The Company is an operating holding company focusing on building technology companies. The risk factors which the Company estimates as having a major impact on its business are as follows: **Macro risks**: global economic conditions; downturn in the capital markets. **Sector risks**: regulatory and contractual limitations on disposal of holdings; effecting exit transactions at significant values; the impact of the group companies' operating results on Elron; retaining key employees; uncertainty and risk in the group companies' technology fields; difficulty faced by the group companies in obtaining future financing; intellectual property; exposure to intellectual property lawsuits in the medical device field; the uncertainty facing research and development stage medical device companies; the impact of regulations on medical device product development, manufacturing and marketing; reimbursement; conducting clinical trials; difficulty and delays recruiting clinical trial candidates. **Specific risks**: Financing sources; volatility in the value of the Company's holdings. For further

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details regarding the aforesaid risk factors and additional risk factors which apply to the Company, see Section 22 of Part A of the Periodic Report for 2017, as published on March 22, 2018 (ISA ref.: 2018-01-028456).

The complete version of this Shelf Prospectus may be viewed on the website of the Israeli Securities Authority (“ISA”) at www.magna.isa.gov.il and on the website of the Tel Aviv Stock Exchange Ltd. at www.tase.co.il.

Date of the Shelf Prospectus: February 25, 2019.

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Elron Electronic Industries Ltd.

(the "Company")

Chapter 1 – Introduction

1.1 **General**

The Company was incorporated in Israel in 1961 as a private company under Israeli law. The Company is a public company whose shares are listed on the TASE since 1975.

In 1981, the Company listed its shares for trading on the NASDAQ in the U.S.A., in parallel to its listing on the TASE. The Company was delisted from trading on the NASDAQ in 2010.

In August 2017, the Company deregistered its shares in the U.S.A., and subsequently, from November 2017, its public reporting obligations under U.S. securities laws were terminated, and it files reports solely in accordance with the Israel Securities Law 5728-1968, and the regulations promulgated thereunder.

The Company publishes, and intends to continue publishing, in accordance with the provisions of U.S. law, certain financial information and other material information, in English, on its website, including an English translation of this Shelf Prospectus.

1.2 **Terms and definitions**

For convenience purposes, the following terms shall have, in this Shelf Prospectus, the meanings ascribed to them below:

"Corporation" or "Company"	Elron Electronic Industries Ltd.
"Periodic Report for 2016"	The Company's periodic report as of December 31, 2016, published by the Company on March 21, 2017 (ISA Ref.: 2017-01-026928).
"Periodic Report for 2017"	The Company's periodic report as of December 31, 2017, published by the Company on March 22, 2018 (ISA Ref.: 2018-01-028465) which is incorporated herein by reference, as detailed in Chapter 6 below.
"Quarterly Report for September 30, 2018"	The Company's consolidated financial statements report as of September 30, 2018, published by the Company on

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November 21, 2018 (ISA Ref.: 2018-01-112041). which is incorporated herein by reference, as detailed in Chapter 6 below.

"TASE"	The Tel Aviv Stock Exchange Ltd.
"Companies Law"	The Israel Companies Law, 5759-1999
"Securities Law"	The Israel Securities Law, 5728-1968
"Prospectus" or "Shelf Prospectus" or "this Prospectus"	This Shelf Prospectus.
"Date of the Prospectus"	On or about the date of publication of this Shelf Prospectus.
"Prospectus Details Regulations"	Israel Securities (Details, Structure and Form of Prospectus) Regulations, 5729-1969

Unless explicitly specified otherwise, or if the context otherwise requires, all terms and expressions in this Shelf Prospectus shall be given the meaning ascribed thereto in the chapter "Description of the Corporation's Business" which is included in Chapter A (Description of the Corporation's Business Chapter) in the Periodic Report for 2017, which is incorporated herein by reference.

1.3 Permits and Approvals pertaining to the Shelf Prospectus

1.3.1 The Company received all the permits, approvals and licenses which are required by law for the offering of the securities under this Shelf Prospectus, which is a shelf prospectus as defined in Section 23A(a) of the Securities Law, and the offering of securities thereunder shall be made pursuant to shelf offering reports wherein the details specific to that offer shall be completed, pursuant to the provisions of Section 23A(f) of the Securities Law.

1.3.2 **The ISA's permit to publish this Shelf Prospectus serves as no verification of the details included herein, nor as confirmation of their reliability or completeness, nor does it express any opinion on the quality of the Offered Securities.**

1.3.3 The Company received from the TASE an in-principle approval of the listing of the Offered Securities included in this Shelf Prospectus and which will be offered, if offered, through shelf offering reports (the "In-Principle Approval").

1.3.4 **The aforesaid approval by the TASE should not be regarded as confirmation of the details included in this Shelf Prospectus nor as confirmation of their reliability or completeness, nor does it**

express an opinion on the Company, the quality of the securities that shall be offered through the shelf offering reports nor the price at which they shall be offered in the shelf offering reports.

1.3.5 The granting of the aforesaid In-Principle Approval does not constitute approval to list the Offered Securities, and shall be subject to the receipt of approval to list the Offered Securities for trade through a shelf offering report to be submitted based on the provisions of the Israel Securities Law and the Securities Regulations (Shelf Offering of Securities) 5766-2005.

1.3.6 **The granting of the In-Principle Approval serves as no undertaking to grant approval to list securities offered through shelf offering reports for trading on the TASE. The approval of an application to list the securities offered for trading through a shelf offering report will be subject to the provisions of the TASE Rules and the guidelines promulgated thereunder, as shall be in effect at the time of filing the application for listing.**

1.3.7 It is clarified that the approval of the listing for trading of shares, non-convertible debentures (including through the expansion of existing debentures series of the Company, as may be from time to time), debentures convertible into shares (including through the expansion of existing convertible debentures series, as may be from time to time), warrants exercisable into shares, warrants exercisable into non-convertible debentures, warrants exercisable into debentures that are convertible into shares, commercial securities and any other security which can lawfully be issued under a shelf prospectus on the relevant date, if issued in the future under shelf offering reports, are subject to compliance with the requirements of the TASE Rules and guidelines promulgated thereunder, as shall be in effect at the time of filing the application for listing pursuant to a shelf offering report.

1.4 **Share Capital, Reserves and Surpluses**

1.4.1 **The Company's share capital as of a date close to the Date of the Prospectus:**

Registered capital	Issued and outstanding share capital (without dilution)	Issued and outstanding share capital (on a fully diluted basis)
70,000,000 shares	29,743,767 shares	31,502,418 shares¹

¹ Regarding the fully diluted share capital, it is clarified that it is based on the assumption of exercise in accordance with the cashless exercise mechanism of 3,905,952 the existing options (of the employees and officers) at the ceiling share price (as defined in the Immediate Report convening a shareholders meeting published on November 21, 2018 (ISA ref. no. 2018-01-112131 and the Immediate Report on November 21, 2018 regarding a private placement (ISA ref no.2018-01-112131, which takes into account the maximum dilution. In actuality, the amount of exercised shares may be lower insofar as the exercise is at an exercise price lower than the said ceiling price.

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1.4.2 The Company's equity components (\$ in 000) as of September 30, 2018²:

Item	Dollar in thousands
Share Capital	9,753
Premium	190,753
Capital reserves	5,468
Loss balance	(122,653)
Equity attributed to the Company's shareholders	83,141
Share attributed to non-controlling interests	36,094
Total equity	119,235

For further details, see the Quarterly Report for September 30, 2018.

1.5 **Company's Debentures**

As of the publication date of this Prospectus, the Company has no publicly issued debentures.

² The financial figures in this Prospectus are from the Company's financial statements for September 30, 2018 which are presented according to IFRS.

Chapter 2 – Securities Offering under a Shelf Prospectus

By virtue of this Shelf Prospectus, the Company may offer securities: shares, non-convertible debentures (including through the expansion of existing debentures series, as may be from time to time), debentures convertible into shares (including through the expansion of existing debentures series which are convertible into the shares, as may be from time to time), warrants exercisable into shares, warrants exercisable into non-convertible debentures, warrants exercisable into convertible shares, and commercial securities (hereinafter, jointly, in this Section: the "**Securities**"), pursuant to the provisions of Section 23A of the Securities Law, through shelf offering reports in which all the details which are required by Chapter C of the Securities Regulations (Details, Structure and Form of Prospectus), 5729-1969, and are specific to such offering, will be completed, including the details and terms of the securities and the composition of the offered units, according to the provisions of any law, including the rules and guidelines of the Tel Aviv Stock Exchange Ltd. and the positions of the Israel Securities Authority staff, as they shall be at that time, and according to the class of securities to be offered under the shelf offering report as aforesaid. In addition, the Company may offer the said Securities under the Shelf Prospectus during trading on the TASE (ATM mechanism).

Chapter 3: The Company's Capital and the Holders thereof

3.1. The Company's Share Capital - General

The Company's share capital comprises Ordinary Shares par value NIS 0.003 each ("Shares" or "Ordinary Shares").

3.2. Total Share Capital shortly prior to the Prospectus Publication Date³

3.2.1. Registered share capital – 70,000,000 shares.

3.2.2. Issued and outstanding share capital – 29,743,767 shares.

3.2.3. Issued and outstanding share capital on a fully diluted basis – 31,502,418 shares.

3.3. Developments in the Company's Share Capital over the past three years

No changes have occurred in the Company's registered share capital, and in its issued share capital, in the past three years except as detailed as follows:

On November 21, 2018 and December 26, 2018, the Board of Directors and the shareholders of the Company, respectively, approved the increase of the Company's registered share capital and the amendment of the Company's Articles of Association accordingly by 35,000,000 Ordinary Shares, par value NIS0,003 each such that the registered share capital of the Company will consist of 70,000,000 shares, par value NIS0.003 each.

3.4. Holdings of Interested Parties in the Company's securities

Below are details, to the best knowledge of the Company and its directors, regarding the holdings of the Company's interested parties and senior officers in the securities of the Company or a subsidiary or an affiliate, as of a date close to the Date of the Prospectus, and as of a date twelve (12) months earlier⁴:

⁴ Figures for the said date are as of February 20, 2019 and February 20, 2018, and apply to the interested parties and senior officers in the Company on the relevant of the said dates.

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Shortly Prior to the Prospectus Publication Date

Interested party / Senior officer	As of February 20, 2019			
	Ordinary shar/es	Ordinary Share Options	% of holding in capital and voting	% of holding in capital and voting assuming full dilution⁵
Discount Investment Corporation Ltd.	17,691,582		59.48	56.16
Epsilon Mutual Funds Management (1991) Ltd.	3,960		0.01	0.01
Ari Bronshtein	-	1,241,664	-	1.77
Zvi Slovin	-	950,004	-	1.36
Yaron Elad	-	635,712	-	0.91
Zohar Rozenberg	-	628,572	-	0.90
Niv Levy	-	450,000	-	0.64

As of 12 months prior to the Date of the Prospectus

Interested party / Senior officer	As of February 20, 2018		
	Ordinary shares	% of holding in capital and voting	% of holding in capital and voting assuming full dilution
Discount Investment Corporation Ltd.	14,966,339	50.32	50.32
Yelin Lapidot Investment House (Mutual Fund Management Ltd.)	3,181,849	10.69	10.69
Yelin Lapidot Investment House (Provident Fund Management Ltd.)	115,800	0.38	0.38
Migdal Insurance and Financial Holdings Ltd. (participating)	1,067,034	3.58	3.58
Migdal Insurance and Financial Holdings Ltd. (Pension and Provident)	535,626	1.80	1.80
Migdal Insurance and Financial Holdings Ltd. (Mutual Funds)	88,141	0.29	0.29

⁵ See Note 1 above regarding fully diluted holdings.

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3.5. Undertakings to Purchase/Sell securities of the Company

To the best knowledge of the Company and its directors, there is no interested party and/or senior officer that has undertaken to purchase from the Company, or to whom the Company has undertaken to sell, securities of the Company.

3.6. Undertakings in respect of issuance or receipt of loans

The Company has not undertaken to issue securities or to refrain from the issuance or offering thereof, in general or under specific terms, or to refrain from receipt of loans.

3.7. Details, to the best knowledge of the Company, regarding the Company's Controlling Parties

For details, to the best knowledge of the Company, based on information that was provided thereto by the controlling shareholders, who may be deemed as controlling parties of the Company, as the meaning assigned to the term "controlling" in the Securities Law (including the description of any material shareholders, if they are corporations), see Note 1 in the Report on Holdings of Interested Parties, which was published by the Company in January 2019 (ISA Ref.: 2019-01-003057) as well as the note at the bottom of the said report regarding the identity of the Company's controlling shareholder.

3.8. The share price on TASE

The following are the data on the closing price (adjusted to dividends and bonus shares), the high and low share prices on the TASE in the years 2017, 2018 and 2019 (until February 20, 2019, which is a date shortly prior to the filing of the Prospectus) (in Agurot):

Year	High Price	Date	Low Price	Date
2017	2,207	May 14, 2017	1,650	September 17, 2017
2018	1,955	January 23, 2018	774.4	December 30, 2018
2019 (until February 20, 2019)	1,070	February 5, 2019	820.0	January 3, 2019

Chapter 4: The Rights Attached to the Company's Shares

4.1. Provisions of the Company's Articles of Association

The provisions of the Company's Articles of Association (in respect of the rights attached to the Company's shares) are incorporated herein by reference to the Company's Articles of Association, as published in the Company's immediate report dated December 26, 2018 (ref.: 2018-01-7371) (the "**Articles of Association**" or the "**Company's Articles of Association**").

Below are arrangements as specified in Section 26(d) of the Prospectus Details Regulations, which were determined in the Company's Articles of Association and modify the default set forth by the Companies Law.

4.2. Arrangements pursuant to Sections 20 and 22 of the Companies Law regarding modification of the Articles of Association

Pursuant to Section 8 of the Articles of Association, the Company may modify the provisions of the Articles of Association by a resolution adopted at a shareholders meeting by a special majority of no less than 67% of the votes of shareholders who are present at the general meeting, or class meeting, as the case may be, who are entitled to vote and voted at such meeting, without taking abstentions into account.

4.3. Arrangements pursuant to Section 81 of the Companies Law regarding legal quorum at the general meeting

Pursuant to Section 59 of the Articles of Association, the legal quorum for the opening of deliberations at the shareholders meeting shall be constituted by the presence of two shareholders holding at least 33.3% of the voting rights.

Pursuant to Section 61 of the Articles of Association, the legal quorum for the opening of deliberations at an adjourned shareholders meeting shall be constituted by the presence of two shareholders holding no less than 33.3% of the voting rights. If no such legal quorum is present, the meeting will be held if at least one shareholder is present, holding at least 25% of the Company's voting rights.

4.4. Arrangements pursuant to Section 81 of the Companies Law regarding the appointment of a chairman for a shareholder meeting

Pursuant to the provisions of Section 62 of the Articles of Association, the Chairman of the Board of Directors or, in his absence, any director appointed for that purpose by the Chairman of the Board of Directors, shall take the chair at every shareholder meeting of the Company. If there shall be no chairman as aforesaid, or if at any particular meeting, no such person is present within 15 minutes from the time set for the commencement of the meeting, or if they shall have refused to serve as chairman of the meeting, the directors present, by a majority of votes, may elect one of them or one of the other officers of the Company who are present at the meeting, to chair the meeting, and if they fail to do so, the shareholders who are present, in person or by proxy, will elect

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one of the directors or other officers who are present at the meeting to be the Chairman thereof. If no directors and other officers are present, or if all those who are present shall refuse to chair the meeting, one of the shareholders or his proxy shall be selected to chair the meeting.

4.5. Arrangements pursuant to Section 85 of the Companies Law regarding the majority required for the adoption of resolutions at a shareholders' meeting

See Section 4.2 above in respect of the majority required for modification of the provisions of the Articles of Association.

Furthermore, pursuant to the provisions of Section 174 of the Articles of Association, subject to the provisions of any law, the liquidator, whether in a voluntary or other dissolution, may, in accordance with a resolution adopted at the shareholders meeting by a special majority, distribute in specie among the shareholders the surplus assets, in whole or in part, and the liquidator may further, pursuant to such resolution, deposit any part of the surplus assets with the trustees who will hold them in trust for the benefit of the shareholders, as the liquidator may deem fit. For the purpose of distributing in specie the surplus assets, the liquidator may determine the appropriate value of the assets available for distribution and decide how to carry out the distribution amongst the shareholders, taking into consideration, the rights attached to the various classes of shares in the Company owned by them.

4.6. Arrangements pursuant to Section 107 of the Companies Law regarding a casting vote of the Chairman of the Board of Directors

Pursuant to the provisions of Section 116 of the Articles of Association: voting at the Board of Directors, each director shall have one vote. The Chairman of the Board of Directors shall have no additional or casting vote. In case of equality of votes, a proposed resolution voted on by the Board Members shall be deemed to be rejected.

4.7. Arrangements pursuant to Section 222 of the Companies Law regarding the termination of office of directors appointed by the shareholders meeting

Pursuant to the provisions of Section 82 of the Articles of Association, Directors shall be appointed by the annual meeting (or by the Board of Directors pursuant to the provisions of the Articles of Association), and their term of office, with the exclusion of external directors, shall be until the end of the annual meeting first held after the date of appointment, unless earlier terminated by law or pursuant to the provisions of the Articles of Association. The aforesaid notwithstanding, if no directors are appointed at the annual meeting, the incumbent directors shall continue to hold office until the end of the annual meeting to be held thereafter.

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The description of the provisions of the Articles of Association on the aforesaid issues is a summary description of the provisions of the Articles of Association in respect thereto, and does not substitute a review of the full language of the Company's Articles of Association.

Chapter 5 – The Use of Proceeds

This shelf prospectus includes no actual offering of any securities, as of the date of publication thereof, and therefore there will be no immediate proceeds following the publication of the Prospectus.

Accordingly, no specific use was determined for the offering proceeds. If securities are offered in the future pursuant to shelf offering reports that will be published under this Shelf Prospectus, the proceeds to be received shall be used to finance the Company's business operations and investments and/or as the Company's Board of Directors shall decide from time to time.

If a specific use, or use other than the aforesaid, is determined for the offering proceeds under the shelf offering report that will be published by the Company as aforesaid, the same will be specified in the shelf offering report.

Chapter 6 – Description of the Company's Business

6.1. **Changes or Developments in the Corporation's business**

Pursuant to Regulation 44(a1) and Regulation 6B of the Prospectus Details Regulations, the chapter "Description of the Company's Business" is incorporated herein by reference to Part A (Description of the Corporation's Business) of the Periodic Report for 2017.

6.2. **Changes and Updates in respect of the information included in the Description of Company's Business chapter of the Periodic Report for 2017, which occurred after the quarterly report for the third quarter of 2018.**

Below are details regarding material changes or developments which occurred in the Company's business or in respect of any other matter that should be described in the periodic report from the date of publication of the Quarterly Report for September 30, 2018. The said changes and developments are summarized in brief by reference, for further details in respect of any event, see the respective immediate report (as specified in the table below).

Date of Publication	ISA Ref. No.	Subject matter of the Report
November 21, 2018	2018-01-112083	Clinical Trial Timetable - Pocared
November 21, 2018	2018-01-112131	Grant of Options to Officers
December 26, 2018	2018-01-127365	Results of shareholders meeting
December 26, 2018	2018-01-127371	Updated Version of Articles of Association
January 2, 2019	2019-01-000852	Supplementary Report to the Grant of Options to Officers

6.3. **Board of Directors' Report as of December 31, 2017 and as of September 30, 2018**

Pursuant to Regulation 44A(a) and Regulation 6B of the Prospectus Details Regulations, the explanations of the Board of Directors' as to the state of Company's affairs as of December 31, 2017 and as of September 30, 2018 is hereby submitted by reference to the said Board of Directors' report which was annexed to the Periodic Report for 2017 and to the Quarterly Report for September 30, 2018, respectively.

6.4. Details regarding Subsidiaries and Related Companies

6.4.1. General description of Subsidiaries and Related Companies

For details regarding the main activities of the Company's (active) subsidiaries and related companies, as of December 31, 2017, see Section 1.1.5 of the Board of Directors' report (Chapter B) of the Periodic Report for 2017 as well as Sections 23 to 28 of the description of the Company's business (Chapter A) of the Periodic Report for 2017.

For details on investments made by the Company in subsidiaries and associates as well as loans to subsidiaries and related companies and regarding changes to investments and loans to subsidiaries and related companies, as of December 31, 2017, see Sections 3A to 4B of Part D of the Periodic Report for 2017.

6.4.2. Profit and loss, dividend, interest and management fees from subsidiaries and related companies for the year ended on December 31, 2016

For details with respect to the profit and loss of subsidiaries and related companies before and after provision for tax, noting any dividend, interest and management fees which the Company received from each such company, for the year ended December 31, 2016, see the details provided in Section 5A (Regulation 13) in Chapter D (Additional Details regarding the Corporation) of the Periodic Report for 2016.

6.4.3. Profit & Loss, dividend, interest and management fees from subsidiaries and related companies for the year ended on December 31, 2017

For details with respect to the profit and loss of subsidiaries and related companies, before and after provision for tax, noting any dividend, interest and management fees which the Company received from each such company, for the year ended December 31, 2017, see the details provided in Section 5A (Regulation 13) in Chapter D (Additional Details regarding the Corporation) of the Periodic Report for 2017.

6.4.4 Holdings in securities of subsidiaries and main related companies (as of the Date of the Prospectus).

Detailed below, to the best knowledge of the Company and its directors, are the holdings of holders of more than 25% of the outstanding share capital or voting power or authority to appoint directors in subsidiaries or main related companies of the Company.

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Name of held company and names of its interested parties	Security name	No. of held securities	As of September 30, 2018			
			Percentage Holding *		Percentage holding (fully diluted)	
			% of capital	% of voting	% of capital	% of voting
RDC Rafael Development Corporation Ltd. (holding via Rafael Advanced Defense Systems Ltd)	Ordinary Shares	49,900	49.9%	49.9%	49.9%	49.9%

Chapter 7 –The Company's Board of Directors

7.1. The Company's Board of Directors

As of the Date of the Prospectus, the members of the Company's Board of Directors are Messrs.: Eduardo Elsztain (Chairman of the Board), Saul Zang (Vice-Chairman of the Board), Amiram Erel, Gerardo Ariel Tyszberowicz, Sholem Lapidot (alternate director for Saul Zang), Lee-Bath Nelson (external director), Yehuda Freidenberg (external director), Ehud Rassabi (external director), and Benjamin Gantz (external director).

For details on the Company's directors (including alternate directors) see Regulation 26 of Part D of the Periodic Report for 2017 which is incorporated herein by reference within Chapter 6 above.

7.2. Other Senior Officers

For details on the Company's senior officers (who are not directors) see Regulation 26A of Part D of the Periodic Report for 2017 which is incorporated herein by reference within Chapter 6 above.

7.3. Independent Signatories

The Company has no independent signatories.

7.4. Insurance, Exemption and Indemnification Arrangements

For details on the insurance, exemption and indemnification arrangements applying to the Company's officers and directors see Regulation 29A of Part D of the Company's Periodic Report for 2017 which is incorporated herein by reference.

7.5. Provisions of the Company's Articles of Association which pertain to members of the Board

Provisions of the Company's Articles of Association regarding the maximum and minimum number of directors in the Company, the manner of their appointment or election, term of office, substitution, termination of office, salary and the appointment of Board committees and the powers that may be vested therein (Sections 81-91, 92.1, 94-98 of the Company's Articles of Association) are included in this Prospectus through the incorporation of the Articles of Association by reference thereto, as published in the Company's immediate report dated December 26, 2018 (ISA ref.: 2018-01-127371), as specified in Chapter 4 above.

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Regarding arrangements in the Articles of Association which pertain to the Company's Board of Directors that differ from the default in the Companies Law, see Chapter 4 above.

7.6. **Further Details**

The Company's Attorneys for purposes of this Shelf Prospectus:

Gross, Kleinhendler, Hodak, Halevy, Greenberg, Shenhav & Co., Law Offices

1 Azrieli Center, Tel Aviv

The Company's Accountants:

Kesselman & Kesselman., C.P.A.s

Trade Tower, 25 Hamered Street, Tel-Aviv

The Company's Registered Office:

3 Azrieli Center, Triangular Tower, 42nd fl., Tel Aviv

Chapter 8 – Interested Parties of the Company

8.1 **Compensation of Interested Parties and Senior Officers**

Details on the compensation: (a) to each one of the five highest paid senior officers of the Company⁶ or of an entity under its control, in connection with their office in the Company or an entity under its control, whether such compensation is paid by the Company or another entity; (b) to each one of the three highest paid senior officers of the Company⁷, which compensation is paid to them in connection with their office in the Company (and who is not listed among the five highest paid persons mentioned in Subsection (a) above); and (c) to each one of the interested parties of the Company⁸ (not listed among the highest paid persons mentioned in Subsections (a) and (b) above), excluding a subsidiary of the Company, if the compensation was paid to them by the Company or an entity under its control, in connection with services they rendered as office holders in the Company or an entity under its control, regardless of whether or not employment relations exist and even if the interested parties are not senior officers, are incorporated herein by reference to:

2016: Regulation 21 – Payments to Interested Parties and Senior Officers in Part D of the Periodic Report for 2016.

2017: Regulation 21 – Payments to Interested Parties and Senior Officers in Part D of the Periodic Report for 2017.

⁶ In relation to Interested Parties and senior officers of the Company at each date as relevant.

⁷ In relation to Interested Parties and senior officers of the Company at each date as relevant.

⁸ In relation to Interested Parties and senior officers of the Company at each date as relevant.

English Translation, for Convenience Purposes Only, of the Hebrew Shelf Prospectus submitted to the Israeli Securities Authority and Tel Aviv Stock Exchange Ltd.

For the nine-month period ended on September 30, 2018:

(US\$ in 000)								
Details of compensation recipients				Compensation for services				Total cost
Name	Position	Position Percentage	Rate of holding of Company's equity	Salary/Director Fees	Bonus	Share-based payment ⁹	Other	
Regulation 21(a)(1) - the five highest paid senior officers of the Company or entities under its control and details on compensation granted to Interested Parties of the Company or an entity under its control								
Ari Bronshtein	CEO	100%	-	396	-	-	-	396
Zvika Slovin	Vice-President	100%	-	361	-	-	-	361
Yaron Elad	Vice-President	100%	-	232	-	-	-	232
Zohar Rozenberg	Vice-President	100%	-	217	-	-	-	217
Jonathan Gurfinkel	CEO of Pocared	100%	-	197	-	-	-	197
Regulation 21(a)(3) – any other Interested Party of the Company								
Directors				296	-	-	-	296

⁹ For the sake of completeness, it is noted that: (a) on November 21, 2018, the Board of Directors of the Company approved the grant of options to four officers of the Company. For further details, see the Immediate Report of the Company dated November 21, 2018 (ISA ref. no. 2018-01-112131); (b) on December 26, 2018, the shareholders of the Company approved the grant of options to the CEO of the Company. For additional details, see the report convening the shareholders meeting of the Company dated November 21, 2018 (ref: 2018-01-112128)

8.2 Transactions with Controlling Parties

For details, to the Company's best knowledge, on transactions with controlling parties, or in the approval of which controlling parties have a personal interest, in which the Company engaged in the years 2016-2017, and in the course of the period beginning on January 1, 2018 and ending shortly prior to the Date of the Prospectus, or on an earlier date, and which are still in effect on the Date of the Prospectus (with the exclusion of negligible transactions), are incorporated herein by reference to¹⁰:

8.2.1 Regulation 22 of Part D of the Periodic Report for 2016.

8.2.2 Regulation 22 of Part D of the Periodic Report for 2017.

8.2.3 Approval of the Company's engagement in its current D&O insurance policy beginning on July 1, 2018 (the date on which the Company's previous insurance policy expired) through Clal Insurance Company Ltd. ("**Clal**", the "**Commencement of the First Insurance Period**") for a period of 18 months (the "**First Insurance Period**") with a liability cap of \$30 million and against payment of premium in the amount of \$120,000 (for 18 months, i.e. premium of \$80,000 for a period of 12 months) and prior approval of the Company's engagement in an insurance policy as stated in this section after the end of the First Insurance Period, all including by way of extending the current policy and/or through the purchase of new policies, and which will apply to the directors and officers as they shall serve in the Company and the group from time to time, including officers who are controlling shareholders or their relatives and/or in respect of whom officers of the Company have a personal interest. This resolution shall be in effect for a period of three years from the Commencement of the First Insurance Period; and to further enable the expansion of the policy, whether during the First Insurance Period or thereafter, if a need will arise, as a result of changes to the Company's activities and/or to stock exchanges in which it is traded, to expand the events and/or scopes covered by the policy. For further details, see the report regarding convening the Company's shareholders meeting, dated May 29, 2018 (ISA ref.: 2018-01-044517).

¹⁰ In relation to controlling shareholders of the Company at each date as relevant.

Chapter 9 – Financial Statements

9.1. Financial statements which are incorporated herein by reference

Pursuant to the provisions of Sections 60B and 60D of the Prospectus Details Regulations, this Prospectus incorporates by reference the following financial statements:

- 9.1.1. The Company's consolidated annual financial statements for 2017, incorporated herein by reference to the said financial statements which were annexed to the Periodic Report for 2017.
- 9.1.2. The report on financial data and financial information from the Company's consolidated financial statements as of 2017 attributed to the Company, pursuant to Regulation 9C of the Israel Securities Regulations (Periodic and Immediate Reports) 5730-1970 (the "**Reports Regulations**"), incorporated herein by reference to the said report which was annexed to the Periodic Report for 2017.
- 9.1.3. The Company's consolidated financial statements as of September 30, 2018, incorporated herein by reference to the Quarterly Report for September 30, 2018.
- 9.1.4. The report on financial data and financial information from the Company's consolidated financial statements as of September 30, 2018, attributed to the Company, pursuant to Regulation 9C of the Israel Securities Regulations (Periodic and Immediate Reports) 5730-1970 (the "**Reports Regulations**"), incorporated herein by reference to the Quarterly report for September 30, 2018.

9.2. Declarations with respect to the Effectiveness of Internal Control

- 9.2.1. Pursuant to Regulations 60E and 6B of the Prospectus Details Regulations, this Prospectus incorporates by reference the annual report regarding the Board of Directors' and the management's evaluation of the effectiveness of internal controls in the Company for 2017, pursuant to Regulation 9B of the Reports Regulations, including the declarations of the Company's CEO and CFO, as annexed to the Periodic Report for 2017.
- 9.2.2. Pursuant to Regulations 60E and 6B of the Prospectus Details Regulations, this Prospectus incorporates by reference the report regarding the Board of Directors' and the management's estimation of the effectiveness of internal control as of September 30, 2018, pursuant to Regulation 38C of the Reports Regulations, including the declarations of the Company's CEO and CFO, as annexed to the Quarterly Report for September 30, 2018.

9.3. Report on the Status of Liabilities by Maturity Dates

Pursuant to Regulations 60A1 and 6B of the Prospectus Details Regulations, this Prospectus incorporates by reference the following:

9.3.1. The Company's report on the status of its liabilities according to maturity dates for December 31, 2017, pursuant to Section 9D of the Reports Regulations, which was published concurrently with the publication of the Periodic Report for 2017.

9.3.2. The Company's report on the status of its liabilities according to maturity dates as of September 30, 2018 pursuant to Section 38E of the Reports Regulations which was published concurrently with the publication of the Quarterly Report for September 30, 2018.

9.4. Auditors' letters of consent attached to this Prospectus

Pursuant to Regulation 62(a1) of the Prospectus Details Regulations, the Company was issued a letter of consent by its auditors, to include in the Prospectus the auditors' report that was annexed to the financial statements which are incorporated herein by reference as specified in Section 9.1 above. The said letter of consent is attached as **Annex A** to this Chapter 9.

9.5. Valuators' letters attached to this Prospectus

9.5.1. Pursuant to Regulations 62B and 6B of the Prospectus Details Regulations, the following is incorporated herein by reference:

Review of impairment of an in-process R&D asset (intangible asset) attributed to Pocared, included in the Quarterly Report for September 30, 2018.

Review of periodic impairment of an in-process R&D asset (intangible asset) attributed to Pocared, included in the quarterly report as of September 30, 2017.

9.5.2. Pursuant to Regulation 62A of the Prospectus Details Regulations, the Company was issued a letter of consent by the valuers, regarding the inclusion in the Prospectus of the valuations mentioned in Section 9.5.1 above. The said letter of consent is attached as **Annex B** to this Chapter 9.

9.6. **Events Report**

Pursuant to Regulation 60B(b) of the Prospectus Details Regulations, below is an "**Events Report**", as defined in Regulation 56A of the Prospectus Details Regulations, in respect of material events (as defined in the said Regulation) that occurred after the date of signing of the Company's consolidated financial statements for the third quarter of 2018, as published on November 21, 2018 (ISA ref.: 2018-01-112041) until the granting of ISA's permit for this Prospectus.

Events Report

During the period following the date of signature of the quarterly report as of September 30, 2018, (which was signed and published on November 21, 2018, ISA ref.: 2018-01-112041) and until the date of this Shelf Prospectus, there were no material events, as this term is defined in Regulation 56A(c) of the Prospectus Details Regulations, which require disclosure in the format determined by GAAP with respect to events which do not require adjustments after the reporting period, as defined in GAAP, with the following exceptions:

Pocared:

Further to Note 3.B of the quarterly report as of September 30, 2018, in January 2019, an investment agreement was completed in Pocared Diagnostics Ltd. ("**Pocared**") by RDC Rafael Development Corporation Ltd. ("**RDC**") and additional shareholders of Pocared, in an aggregate amount of approximately \$5,200 thousands in consideration for Preferred B1 Shares and options to purchase Preferred B1 Shares (RDC's share was \$5,000 thousands). As a result of the aforementioned investment, Elron's consolidated shareholding of Pocared's outstanding share capital increased to approximately 72%.

Open Legacy:

Further to Note 3.I of the quarterly report as of September 30, 2018, in November 2018, the investment agreement of October 2018 (the "**Agreement**") was increased by an additional \$6,100 thousands from new investors in consideration for Preferred B-2 Shares. Accordingly, RDC's holdings in the outstanding shares of Open Legacy Technologies Ltd. decreased from approximately 32% to approximately 29%.

New investment in Sayata:

Sayata Labs Ltd. ("**Sayata**") is a company that develops and markets technological solutions for insurance agencies and companies to assess the risk in cyber insurance policies for small and medium businesses.

**English Translation, for Convenience Purposes Only, of the Hebrew Shelf Prospectus
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In January 2019, RDC invested for the first time in Sayata, along with other shareholders, as part of an investment round of approximately \$4,100 thousands in consideration for the issuance of Preferred A shares (RDC's share was \$2,500 thousands). As a result, RDC holds approximately 21% of Sayata's outstanding share capital and the investment in Sayata is accounted for under the equity method of accounting.

Share Capital of the Company:

In November 2018, the Company's Board of Directors approved an employee options plan (the "**Option Plan**"), according to which it will be possible to grant to employees of the Company, non-tradable options to purchase Ordinary Shares of the Company, par value NIS0.003 each (the "**Options**"). The Ordinary Shares that will be issued further to the exercise of the Options will be identical in all their rights to the Company's Ordinary Shares, immediately upon their issuance.

At the time of approval of the Option Plan, and following the approval of the Compensation Committee, the Company's Board of Directors approved the grant of options to the Company's CEO and four additional officers who are not directors. In December, 2018, the General Meeting of shareholders of the Company approved the aforementioned grant of options to the Company's CEO.

In accordance with the Company's compensation policy, the grant of Options to the CEO of the Company and the additional officers was made in lieu of the annual bonus component in respect of the share return index for 2019 as determined in the compensation policy. The amount of Options granted was done as a derivative of the fair value of approximately NIS1,043 thousands for the CEO and approximately NIS2,238 thousands for the other four officers who are not the CEO, reflecting the maximum limit of the annual bonus component in respect of the share return index.

Accordingly, in January 2019, 1,241,664 Options were granted to the Company's CEO, and 2,664,288 Options were granted to the other four officers who are not the CEO. The exercised shares that may be derived from all the aforementioned Options are at the maximum shareholding percentage of 5.58% of the Company's fully diluted share capital, this in light of the cashless exercise mechanism, and under the assumption of the exercise at the Ceiling Price (as defined below). In practice, the percentage shareholding may be lower insofar as the exercise is at an exercise price lower than the Ceiling Price. The vesting period of the Options is as follows: 1/3 at the end of one year from the date of grant, an additional 1/3 during the second year from the date of the grant in equal amounts that will vest at the end of each quarter during the said second year and an additional 1/3 during the third year from the date of the grant in equal amounts that will vest at the end of each quarter during the said third year.

**English Translation, for Convenience Purposes Only, of the Hebrew Shelf Prospectus
submitted to the Israeli Securities Authority and Tel Aviv Stock Exchange Ltd.**

The Options are exercisable up to a period of 5 years from the date of grant. Any Option not exercised by such date shall expire. The exercise price of each Option (calculated as the average of the Company's share price on the TASE in the 30 trading days of trading preceding January 1, 2019, together with a premium of 10%) is NIS11.05. The exercise of the Options will be according to the net exercise mechanism (cashless) according to which the number of shares which will be issued to the employee will be calculated. For the purpose of calculating the number of shares under the net exercise mechanism, the maximum closing price was set at NIS20.10 which includes a maximum increase of 100% of the average share price during the 30 trading days prior to January 1, 2019 ("**Ceiling Price**").

In order to calculate the amount of Options derived from the fair value on the date of the grant, the Company relied on an economic opinion from an external appraiser and the calculation was performed according to the Black and Scholes model, using the assumptions listed below: (1) the Company's share price on the calculation date (January 1, 2019, prior to the opening of the trading) in the amount of NIS8.32; (2) the exercise price of the Options in the amount of NIS11.05; (3) expected duration of the average period between the vesting date and the expiry date of the Options; (4) an expected dividend at a rate of 0%; (5) expected standard deviation of approximately 28%; (6) risk-free interest rate of approximately 1.03% - 1.29%; (7) a Ceiling Price of NIS20.10. The degree of volatility is based on the historical volatility of the Company's share price, for periods parallel to the expected duration of the Option until the exercise date.

According to the Option Plan, the grant of the Options to the CEO and the four other Officers who are not the CEO is subject to the rules stipulated in Section 102 of the Israel Income Tax Act. According to the track selected by the Company and according to these rules, the Company is not entitled to claim as a tax expense the amounts reflected as a benefit to the employees, including sums that are registered as a salary benefit in the Company's accounts, for the Options that the employees received in the framework of the Option Plan.

Sincerely,

Yaron Elad
CFO and Senior
Financial Officer

Ari Bronshtein
CEO

Eduardo Elsztain
Chairman of the
Board

Date: February 24, 2019



Annex A –Auditors' Letter of Consent

24 February, 2019

To: Elron Electronic Industries Ltd ("The Company") Board of Directors

Tel Aviv, Israel

Subject: Shelf prospectus of Elron Electronic Industries Ltd, which will be published
in February 2019

We hereby to consent to the inclusion (including by reference) in the shelf prospectus mentioned above of our reports as follows:

1. Auditor's report dated March 22, 2018 regarding the consolidated financial statements of the Company as of December 31, 2017 and 2016, and for the years then ended.
2. Auditor's report dated March 22, 2018 regarding the separate financial information of the Company presented in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 as of December 31, 2017 and 2016, and for the years then ended.
3. Auditor's report dated March 22, 2018 regarding the components of internal control over financial reporting of the Company as of December 31, 2017.
4. Auditors' review report dated November 21, 2018 regarding the condensed consolidated financial information as of September 30, 2018 and for the nine and three months periods then ended.
5. Auditor's report dated November 21, 2018 regarding the separate condensed financial information disclosed in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 as of September 30, 2018 and for the nine and three months periods then ended.

Kind Regards,

Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International
Limited

Annex B –Valuators' Letter of Consent



February 24, 2019

To

Elron Electronic Industries Ltd.

Re: Authorization in Writing to Publish Valuation

Dear Madam/Sir,

Per your request, we hereby consent to attach the valuations prepared by us for Elron Electronic Industries Ltd. (the “**Company**”) in the matter of:

1. Impairment Test of Intangible Asset, as of September 30, 2018, a valuation which was attached to the Company’s September 30, 2018 quarterly report, on November 21, 2018.
2. Impairment Test of Intangible Asset, as of December 31, 2017, a valuation which was attached to the Company’s December 31, 2017 periodic report, on March 22, 2018.

to the Company’s shelf prospectus to be submitted to the Securities Authority and to the Tel-Aviv Stock Exchange in February 2019 (the “**Shelf Prospectus**”) and any shelf offering report to be published thereunder. In addition, we hereby consent to incorporate by reference and/or to attach this letter of ours to the Shelf Prospectus.

Sincerely,

Fair Value Ltd.

Chapter 10 – Additional Details

10.1. **Legal Opinion**

The Company received the following legal opinion:



Tel Aviv, 24th February, 2019

Elron Electronic Industries Ltd.

3 Azrieli Center, Triangular Tower, 40th fl.

Tel Aviv, 6702301

Dear Sir/Madam,

Re: Elron Electronic Industries Ltd. (the "Company") –Shelf Prospectus of the Company (the "Prospectus")

At your request, in respect of the above referenced Prospectus, we hereby opine as follows:

1. The Company's directors were appointed according to law and their names are incorporated in this Shelf Prospectus.
2. We agree that this opinion of ours be included in this Shelf Prospectus.

Sincerely,

Ben Lipetz, Adv.

Gross, Kleinhendler, Hodak, Halevy, Greenberg, Shenhav & Co.

10.2. **Application fees for a permit to publish a prospectus**

Pursuant to the provisions of Section 4A of the Israel Securities Regulations (Application Fees for Permit to Publish a Prospectus) 5755-1995, the Company paid the ISA application fees for a permit to publish a prospectus, however the supplemental fees shall be paid for the Offered Securities on the date of publication of a shelf offering report whereunder the Offered Securities shall be issued, in such amounts and on such dates as stipulated by the said Regulations.

10.3. **Allotment of securities, during the two years preceding the Date of the Prospectus, other than for full cash consideration**

During the two years preceding this Prospectus, no allotment was made of securities other than for full cash consideration, nor was any commitment made to allot securities of the Company other than for full cash consideration.

10.4. **Inspection of documents**

A copy of any opinion or approval mentioned in this Prospectus, is available for public review during normal business hours and upon prior coordination, at the Company's offices at 3 Azrieli Center, Triangular Tower, 42nd fl., Tel Aviv. Furthermore, copies of this Prospectus and of the Company's Articles of Association are available for public review on the ISA distribution website at www.magna.isa.gov.il and on the TASE website at www.maya.tase.co.il.

Chapter 11 – Signatures

The Company

Elron Electronic Industries Ltd. _____

Directors

Eduardo Elsztain _____

Saul Zang _____

Amiram Erel _____

Gerardo Ariel Tyszberowicz _____

Lee-Bath Nelson _____

Yehuda Freidenberg _____

Ehud Rassabi _____

Benjamin Gantz _____