



DISCLAIMER

The Company's share offering within the framework of the shelf offering report as described below ("**Shelf Offering Report**") will be made in Israel only, to Israeli residents only, in accordance with Israeli law and customary documentation and practices, and will not be made in the United States and/or to U.S. Persons, as defined in Regulation S pursuant to the United States Securities Act of 1933 (hereinafter: "**U.S. Person**", "**Securities Act**" and "**Offered Securities**", respectively) and/or to a person situated outside of Israel.

Any purchaser of the Offered Securities will be deemed to have declared that (1) he is a resident of Israel and that he is not a U.S. Person; (2) is not acquiring the Offered Securities for a U.S. Person or a person situated outside of Israel; (3) he was not in the United States when he submitted a request to acquire or when he acquired the Offered Securities; and (4) he is not acquiring the Offered Securities with the intention to execute a "distribution" (as defined in the regulations promulgated under the Securities Act) of the Offered Securities in the United States.

With respect to the shelf prospectus of the Company dated 25 February 2019 ("**Shelf Prospectus**"), and the Shelf Offering Report and the offer of securities made thereby and the purchase of the Offered Securities in accordance therewith and all that derives from and/or is related to the Shelf Prospectus and the Shelf Offering Report, only the laws of the State of Israel will apply and no other laws shall apply and the exclusive jurisdiction with respect to any matter relating to the aforementioned matters is granted solely to the competent courts in Israel and to them alone, and the offerees, by agreeing to acquire the Offered Securities in accordance with the



Shelf Prospectus and the Shelf Offering Report, accept upon themselves this exclusive jurisdiction and choice of law.

The Shelf Prospectus and the Shelf Offering Report are not intended for publication and/or distribution and/or allocation in the United States and/or to U.S. Persons and no person is authorized to act to sell the Offered Securities according to the Shelf Prospectus and the Shelf Offering Report in the United States.

The Shelf Prospectus and the Shelf Offering Report were not submitted to the U.S. Securities Authority. The Offered Securities according to the Shelf Prospectus and the Shelf Offering Report were not registered and will not be registered in accordance with the Securities Act in the United States and it is prohibited for the holders of the Offered Securities in accordance with the Shelf Prospectus and the Shelf Offering Report to sell or offer them for sale in the United States or to U.S Persons.

The Shelf Prospectus and the Shelf Offering Report do not constitute an offer of securities in any other country except for the State of Israel.



Elron Electronic Industries Ltd.

(the "Company")

June 5, 2019

Shelf Offering Report

According to the Company's shelf prospectus dated February 25, 2019¹ (the "**Shelf Prospectus**" or the "**Prospectus**") and in accordance with the provisions of the Israeli Securities Regulations (Shelf Offering of Securities), 5766-2005, the Company hereby respectfully releases a shelf offering report for the issuance and listing on the Tel Aviv Stock Exchange Ltd. ("**TASE**") of ordinary registered shares of the Company of par value NIS 0.003 each, as specified in this shelf offering report below (the "**Shelf Offering Report**" or the "**Report**"). In this Report, the terms presented herein shall have the meaning afforded thereto in the Shelf Prospectus, unless stated otherwise.

The securities offered according to this Shelf Offering Report are offered by way of a uniform public offering pursuant to the Israeli Securities Regulations (Manner of Offering Securities to the Public), 5767-2007 (the "**Offering Regulations**"), and as specified below.

For details regarding any material change or update that occurred on any matter that is required to be described in the Shelf Prospectus, which occurred from the date of release of the Shelf Prospectus until the release of the Shelf Offering Report, see immediate and periodic reports that the Company filed subsequent to the release of the Shelf Prospectus, which are incorporated in the Shelf Offering Report by way of reference pursuant to the provisions of Section 4(a) of the Offering Regulations and Section 13 below.

1. The Offered Securities (Tender No. 7490261)

The Company is offering the following securities to the public in a uniform offering:

- 1.1. Up to 15,104,800 ordinary registered shares of par value NIS 0.003 each, which shall be offered to the public in a uniform offering. For further details regarding the main rights that are attached to the Company's shares, see Section 6 below.
- 1.2. **Notwithstanding the aforesaid in Section 1.1 above, insofar as the number of bids that are accepted (the "Accepted Quantity") in the Tender (as defined under Section 3.1 below) will exceed 13,321,700 shares (the "Maximum Issued Quantity"), then the following shall apply: (a) the Company will specify, in the report on the results of the tender, the Accepted Quantity and the surplus above the Maximum Issued Quantity**

¹ The Shelf Prospectus was released on February 24, 2019, ISA reference no.: 2019-01-015985.



(the “Surplus Quantity”); (b) there shall be no allotment to the public of the Surplus Quantity (solely), and no funds shall be collected for the Surplus Quantity (solely); (c) the allotment to bidders whose bids were accepted in the public tender in accordance with the provisions of Section 3.5 below, will be made according to the ratio (pro-rata) between the Maximum Issued Quantity and the Accepted Quantity.

For example, if bids for 15,104,800 shares will be accepted in the public tender, then based on the Maximum Issued Quantity, which is 13,321,700 shares, each bidder whose bid was accepted according to the results of the tender conducted in accordance with the provisions of Section 3.5 below, shall be allotted 88.19% of the shares in respect of which his bid was accepted, which equals: the Maximum Issued Quantity divided by the Accepted Quantity.

The shares offered pursuant to this Shelf Offering Report shall hereinafter be referred to as: the “Shares” or the “Securities” or the “Offered Securities”.

2. Details Regarding the Company’s Share Capital

2.1. Set forth below are data regarding the Company’s registered share capital and the Company’s issued and outstanding share capital, pre-offering and post-offering on the assumption that the full Maximum Issued Quantity (as defined in Section 1.2 above) will be acquired.

	Registered Share Capital	Issued and Outstanding Share Capital	Issued and Outstanding Share Capital on a Fully Diluted Basis ²
Pre-offering	70,000,000	29,743,767	31,502,418
Post-offering, assuming all of the Offered Securities are offered according to the Shelf Offering Report	70,000,000	43,065,467	44,824,118

2.2. The Maximum Issued Quantity (as defined in Section 1.2 above) shall constitute, immediately after the issuances of the Offered Securities, approximately 30.93% of the issued and outstanding share capital of the Company and of the voting rights thereof.

² 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 all 3,905,952 existing options (of 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 published 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 (“Fully Diluted”).



- 2.3. The Shares offered according to this Shelf Offering Report shall be recorded in the securities registers of the Company, in the name of the transfer agent of Israel Discount Bank Ltd. or any transfer agent of the Company, as shall be at such time (the “**Transfer Agent**”) and provided that all the Company’s securities are registered in its name.
- 2.4. Below are details regarding the highest and lowest closing prices on TASE of the Company’s shares in 2017, 2018 and in the period from January 1, 2019 until shortly prior to the date of release of this Report (in Agorot):

Period	Highest closing price		Lowest closing price	
	Price	Date	Price	Date
Jan. 1, 2017 – Dec. 31, 2017	2,207	May 14, 2017	1,650	Sep. 17, 2017
Jan. 1, 2018 – Dec. 31, 2018	1,955	Jan. 23, 2018	774.4	Dec. 30, 2018
Jan. 1, 2019 – June 4, 2019	1,070	February 4, 2019 and February 5, 2019	565.5	June 4, 2019

3. Manner of Offering of the Securities

- 3.1. The Securities offered under this Report are offered to the public by way of a uniform offering, as stated in the Offering Regulations, as follows:

Up to 15,104,800 ordinary shares which are offered to the public in 151,408 units (“**Unit**” or “**Units**”), which shall be offered to the public in a uniform offering by way of a tender for the unit price (the “**Tender**”), with the composition and minimum price of each Unit being as follows:

Composition of each Unit	Price per Unit
100 ordinary shares at a price of NIS 5.75 per share, and in total	NIS 575
The minimum price per Unit	NIS 575

The price per Unit that shall be determined in the Tender shall be no less than NIS 575 per Unit (the “**Minimum Price**”).

- 3.2. The period for submitting bids

The period for submitting bids to purchase the Units shall begin on Thursday, June 6, 2019 (the “**Tender Date**” or the “**Bid Submission Date**”), at **09:30** (the “**Subscription List Opening Time**”) and shall end on the same day at **17:00** (the “**Subscription List Closing Time**”), provided that the Subscription List Closing Time will not take place before seven (7) hours have passed since



publication of the Shelf Offering Report, which shall include five (5) trading hours since the publication of the Shelf Offering Report.

3.3. Manner of submitting bids to purchase Units

3.3.1. For purposes of this Section 3.3, the term “**Bidder**” is collectively with a member of the Bidder's family who resides with him.

3.3.2. The Bids to purchase the Units must be submitted to the Company on the standard forms for such purpose, via the depository agent, Poalim I.B.I.- Underwriting and Issuing Ltd., whose address is: 28 Haarba Street, Tel Aviv (North Tower), Tel. 03-5193414 (the “**Bids**” and the “**Depository Agent**”, respectively), directly or through banks or through other TASE members (the “**Entities Authorized to Receive Bids**”), no later than the Subscription List Closing Time.

3.3.3. Any Bid that is submitted to an Entity Authorized to Receive Bids on the Tender Date shall be considered to have been submitted on the same day if received by the Entity Authorized to Receive Bids by the Subscription List Closing Time, and provided that it is delivered by the Entity Authorized to Receive Bids to the Depository Agent, and is received by the Depository Agent, by the end of one half hour from the Subscription List Closing Time, i.e. by **17:30** on the Tender Date (the “**Deadline for Submission to the Agent**”). A bid that is received by the Entities Authorized to Receive Bids after the Subscription List Closing Time or is received by the Depository Agent after the Deadline for Submission to the Agent shall not be accepted by the Company.

3.3.4. Each Bidder may submit up to three Bids at different prices and at increments of NIS 1 between the prices entered in the Bids, such that the first increment at which Units may be subscribed for above the Minimum Price per Unit is NIS 575, after which Units may be subscribed for at a price of NIS 576, NIS 577 and so forth. A bid that enters a price per Unit that is not at an increment determined herein shall be rounded down to the price of the nearest increment.

3.3.5. Each Bidder shall enter in his Bid the number of Units that he wishes to purchase and the price per Unit he is offering, which shall be no less than the Minimum Price per Unit. A Bid in which a price lower than the Minimum Price per Unit is offered shall be null and void and considered as never having been submitted.

3.3.6. A Bidder who submitted a Bid may retract his Bid up until the Subscription List Closing Time. After the Subscription List Closing Time and subject to any law, the Bids to purchase the Units are



irrevocable, and any such Bid shall be deemed as an irrevocable commitment on the part of the Bidder to accept the Securities that shall be allotted to him as a result of the full or partial acceptance of his Bid, and to pay, through the Depository Agent, the full price of the Securities that shall be allotted to him due to acceptance of his Bid according to the terms of the Shelf Offering Report.

3.3.7. Bids may be submitted to purchase whole Units only. A Bid that is submitted for a fraction of a Unit shall be considered a Bid submitted for the number of whole Units entered therein only, and the fraction of the Unit that is included in the Bid shall be considered to have not been included therein from the outset. A Bid in which less than one Unit has been entered shall not be accepted.

3.3.8. Any Bid in which the number of Units entered exceeds the number offered under the Shelf Offering Report will be considered a Bid for the number of Units offered under the Shelf Offering Report (i.e. the number specified in Section 1.1 above).

3.3.9. Without derogating from the aforesaid, the Entities Authorized to Receive Bids will be responsible and liable vis-à-vis the Company and vis-à-vis the Depository Agent for payment of the full consideration that is due to the Company in respect of Bids that were submitted through them and which were accepted in whole or in part.

3.4. Process of opening the Bids

3.4.1. The Bids shall be delivered by the Entities Authorized to Receive Bids to the Depository Agent, on the Tender Date, by no later than the Deadline for Submission to the Agent, either in sealed envelopes or via digital transmission of the Bids to the Depository Agent, via a virtual safe, or by any other digital means, and shall remain therein until the lapse of the Deadline for Submission to the Agent.

3.4.2. On the Tender Date, after the Deadline for Submission to the Agent, the Bids box / virtual safe shall be opened in the presence of the Company's representative and its auditor, who shall oversee the proper conduct of the Tender proceedings, and the Tender results shall be summarized and processed.

3.5. Determination of the Unit price in the Tender and Allotment of the Units to the offerees

3.5.1. All the Units in Bids that were accepted, shall be issued at a uniform price per Unit (in this section: the "**Purchase Price to be**



Determined” or the **“Uniform Price”** or the **“Uniform Price per Unit”**), which shall be the highest price at which the number of Bids to purchase them at such price or higher will allow for the allotment of all of the Units offered under this Shelf Offering Report.

3.5.2. Determination of the Uniform Price per Unit and the allotment of the Units shall be carried out as follows:

3.5.2.1. If the total number of Units included in the Bids that are received (including Units included in Bids that are received from Qualified Investors that entered into an early engagement with the Company, as stated in Section 4 below) is less than the total number of the Units offered to the public, all of the Bids will be accepted in full, subject to fulfillment of the requirements of the relevant TASE Rules, in which case, the Uniform Price per Unit will be the Minimum Price per Unit. The remaining Units in respect of which Bids were not received will not be issued.

3.5.2.2. If the total number of Units included in the Bids that are received (including Units included in Bids that are received from Qualified Investors that entered into an early engagement with the Company, as stated in Section 4 below) is equal to or exceeds the number of Units offered to the public, then the Units will be allotted as follows:

- (a) Bids made at a price higher than the Uniform Price per Unit – will be accepted in full.
- (b) Bids made at a price lower than the Uniform Price per Unit – will not be accepted.
- (c) Bids (excluding Units included in Bids that are received from Qualified Investors that entered into an early engagement with the Company, as stated in Section 4 below) made at the Uniform Price per Unit – will be accepted proportionately, such that each Bidder will receive, out of the total Units offered remaining for distribution (after accepting Bids made at a price higher than the Uniform Price per Unit and after the allotment to Qualified Investors that made Bids at the Uniform Price per Unit through an early engagement with the Company as stated in Section 4 below) a portion equal to the ratio between the number of Units it subscribed for in the Bid at the Uniform Price per Unit and the total number of Units included in all of the Bids made at the



Uniform Price per Unit (excluding Bids made by Qualified Investors at the Uniform Price per Unit through an early engagement with the Company as stated in Section 4 below).

- 3.5.2.3. If, in the allotment of the Securities as aforesaid, fractions of Units are created, they will be rounded off, to the extent possible, to the nearest whole Unit. Unit surpluses that derive from such rounding off shall be purchased by the Depository Agent at the Uniform Price per Unit.
- 3.5.2.4. Each Bidder shall be considered to have undertaken, in his Bid, to purchase all of the Units that shall be allotted to him as a result of the full or partial acceptance of his Bid, according to the rules specified above.

It is clarified that the provisions set forth in this Section 3.5 are subject to the aforesaid in Section 1.2 above regarding the Maximum Issued Quantity (as defined therein).

3.6. Notice of the results of the offering

- 3.6.1. On the first trading day after the Tender Date, no later than 10:00, notice shall be delivered by the Depository Agent to the Bidders whose Bids were accepted in whole or in part, through the Entities Authorized to Receive Bids. The notice shall specify the price per Unit that was determined in the Tender, the number of Units that shall be allotted to each Bidder, and the consideration that is due from them therefor. Upon receipt of the notice, and on the same day by 12:30 p.m., the Bidders shall remit, through the Entities Authorized to Receive Bidders, to the Depository Agent, into the special account as stated in Section 3.7 below, the full consideration that is due from them for the Units in respect of which their Bid was accepted as stated in the said notice.
- 3.6.2. By the end of the first trading day after the Tender Date, the Company shall submit an immediate report to TASE and to the Israel Securities Authority (the "ISA") in accordance with the Israeli Securities Law, 5728-1968 (the "**Securities Law**") on the results of the offering.
- 3.6.3. The Company shall consider receipt of the issue proceeds by the Depository Agent, as having been received by the Company, on which basis the Company shall apply to TASE to list the Offered Securities on TASE.



3.7. The special account and allotment of the Units

- 3.7.1. Shortly prior to the Tender Date, the Depository Agent shall open a special escrow account in the Company's name at a banking corporation (the "**Special Account**") and shall deliver the details of the Special Account to the Entities Authorized to Receive Bids. The Special Account shall be managed exclusively by the Depository Agent on behalf of and for the Company pursuant to the provisions of the Securities Law.
- 3.7.2. Money that accrues in the Special Account shall be invested by the Depository Agent in liquid non-linked deposits bearing daily interest.
- 3.7.3. The Entities Authorized to Receive Bids shall deposit in the Special Account, any and all funds that shall have been paid for the Securities whose Bids for their purchase shall have been accepted according to the terms of this Shelf Offering Report, by 12:30 p.m. on the first trading day after the Tender Date, and the Depository Agent shall handle them according to the terms of this Shelf Offering Report.
- 3.7.4. The Depository Agent shall transfer to the Company, by no later than 12:30 p.m. on the second trading day after the Bid Submission Date, the balance of the money in the Special Account, plus the yield accrued thereon, net of distribution and depository fees, against the transfer of the certificates in respect of the Shares offered under this Shelf Offering Report to the Transfer Agent.

3.8. Approval to list the Offered Securities on TASE

- 3.8.1. For details regarding TASE's approval to list the offered Shares thereon, see Section 10 below.
- 3.8.2. Trading in the Shares will begin shortly after the listing thereof.
- 3.9. The offering of the Offered Securities according to the Shelf Offering Report is not secured by underwriting.
- 3.10. **The Company may cancel the offering under this Report at any time before receipt of the issue proceeds, without the offerees having any claim in connection therewith. In the event of cancellation of the offering as aforesaid, the Offered Securities will not be issued, will not be listed on TASE and no money will be collected from the Bidders in connection with those Units for which they subscribed.**



4. **Qualified Investors**

4.1. The Company entered into an early engagement with Qualified Investors, as defined in Section 1 of the Offering Regulations (above and below: “**Qualified Investors**”), according to which the Qualified Investors will submit Bids in the Tender for the purchase of 120,838 Units, as specified below, which constitute approx. 80% of the total number of Units offered through the Tender.

Name of Investor	Unit Price (in NIS)	No. of Units
Orcom Strategies Ltd*	600	1,420
Ayalon Mutual Funds Ltd.	600	1,491
Altshuler Shaham Netz, Limited Partnership	600	1,500
Altshuler Shaham Netz, Limited Partnership	575	1,500
Epsilon Underwriting & Issuing Ltd.* **	580	1,725
Blue Swan 1 Investments Fund	600	1,411
Dolphin 1 Investments Ltd.	600	3,166
The Phoenix Insurance Company Ltd.	604	2,650
Var Optimum	580	1,700
Vardan Investment House Ltd.	650	1,630
Discount Investment Co. Ltd **	600	87,000
Klirmark Opportunity Fund, LP	601	1,700
Klirmark Opportunity Fund, LP	591	1,700
M.Arkin (1999) Ltd.	625	1,500
M.Arkin (1999) Ltd.	590	2,500
M.Arkin (1999) Ltd.	580	3,000
Fidelity Venture Capital Ltd.	588	1,425
Shekef Investments in Maof Ltd.	621	1,720
Shekef Investments in Maof Ltd.	579	2,100
Total		120,838



* A distributor in the offering or a Qualified Investor affiliated with a distributor in the offering.

** A Qualified Investor that is an interested party of the Company.

In this section:

“Oversubscription” – the ratio between the number of Securities for which Bids were submitted at the Uniform Price per Unit that was determined, and the Quantity Remaining for Distribution, provided that it is more than one.

“Quantity Remaining for Distribution” – the number of Securities that was offered in the Shelf Offering Report, after deducting therefrom the number of Securities for which Bids were submitted at a price per Unit higher than the Uniform Price that was determined.

According to the Offering Regulations, in the event of Oversubscription, the allotment to Qualified Investors will be as follows:

- (a) If the Oversubscription does not exceed five (5), each Qualified Investor shall be allotted one hundred percent (100%) of the quantity that it undertook to purchase;
 - (b) If the Oversubscription exceeds five (5), each Qualified Investor shall be allotted fifty percent (50%) of the quantity that it undertook to purchase;
 - (c) If the quantity of Securities remaining for distribution is insufficient for the allotment as stated in Subsection (a) above, the Quantity Remaining for Distribution shall be allotted to the Qualified Investors according to the proportionate share of each early commitment out of the total early commitments that were submitted at such price per Unit.
- 4.2. The Qualified Investors’ Bids will be submitted through the Tender and shall be considered Bids that were submitted by the public for the purpose of determining the Uniform Price per Unit, subject to the provisions of Section 4.1 above with respect to the distribution of the Units in the case of Oversubscription. In the absence of Oversubscription, the Qualified Investors’ Bids shall be considered Bids of the public for purposes of the allotment of the Units.

The allotment to the Qualified Investors will be made at the Uniform Price that shall be determined in the Tender.

- 4.3. Receipt of early commitments from the Qualified Investors and the acceptance thereof according to this Section 4 above (immediately prior to the release of



this Shelf Offering Report) were made according to the principles set forth in the Offering Regulations.

- 4.4. The Qualified Investors will be able to subscribe for and purchase Units in a quantity exceeding that specified in their early commitment, however, surplus Units subscribed for as aforesaid and purchased shall not be considered Bids of Qualified Investors for purposes of the Shelf Offering Report, but rather as Bids that were submitted by the public for all intents and purposes.
- 4.5. The Qualified Investors will be entitled to an early commitment fee at a rate of 2% of the gross total immediate proceeds actually received by the Company for the Units in respect of which the Qualified Investors undertook to submit Bids (and subject to fulfilment of their undertaking to subscribe as aforesaid, and subject to the actual acceptance of their Bids), calculated according to the Minimum Price per Unit (and not according to the price per Unit that is determined in the Tender).
- 4.6. The consideration that shall be paid by the Qualified Investors will be remitted to the Depository Agent through the Entities Authorized to Receive Bids on the trading day after the Tender Date, by 12:30 p.m., and will be deposited thereby in the Special Account as stated in Section 3.7 above.
- 4.7. A Qualified Investor will be entitled, on the Tender Date, to raise the price per Unit that he stated in the early commitment as aforesaid (by increments of NIS 1) by delivering written notice to the Depository Agent, which shall be received by the Depository Agent by the Subscription List Closing Time.

5. **The Intention of Interested Parties to Purchase Units in the Offering**

- 5.1. The Company's existing interested parties may submit Bids to purchase Units that are offered according to this Shelf Offering Report.
- 5.2. The Company's controlling shareholder – Discount Investment Co. Ltd.³ (which holds, in proximity to the date of release of this Shelf Offering Report, approx. 59.48% of the issued and outstanding capital of the Company, approx. 56.16% on a fully diluted basis) (“**DIC**”) participated in the Tender for Qualified Investors and submitted an early commitment (which was accepted) as detailed under Section 4 above. In addition, DIC notified the Company it will consider participating in the public Tender.
- 5.3. In addition, the Company has received notice from each of its five officers who are not directors of each of their intention to participate in the public Tender. The cumulative investment amount of the officers' aforesaid notices

³ It is noted that the controlling shareholder of Discount Investment Co. Ltd (Mr. Eduardo Elsztein) serves as chairman of the Company's board.



indicate that they intend to subscribe for Units amounting to approximately NIS 1 million.

It is clarified (regarding Sections 5.2 and 5.3 above) that these are notices of intent, and not a legal obligation to subscribe for the Units as aforesaid, i.e. the said intention may not actually materialize or may materialize under conditions different to the aforesaid, including at a different Unit price and/or in a different amount of Units.

6. **Terms and Conditions of the Shares Offered According to This Report**

6.1. The Shares offered according to the Shelf Offering Report will bear equal rights in all respects to the shares of par value NIS 0.003 each of the Company, and shall be recorded in the Company's shareholders' register in the name of the Transfer Agent.

6.2. For details regarding the rights attached to the Company's shares, see the Company's Articles of Association, as released in the Company's immediate report of December 26, 2018 (ISA ref. no.: 2018-01-127371), which is incorporated herein by way of reference.

7. **No Dilution of Capital**

During the period from the date of release of this Report until allotment of the Securities offered according to this Report, the Company will refrain from any equity diluting act within the meaning thereof in the Israeli Securities Regulations (Prospectus and Draft Prospectus Details - Structure and Form), 5729-1969 (the "**Prospectus Details Regulations**") in relation to the Securities offered herein.

8. **Taxation**

As is customary upon the making of decisions regarding the investment of money, investors must consider the tax implications relating to investment in the Securities offered in this Shelf Offering Report. The provisions included in the Shelf Offering Report with respect to the taxation of the Securities offered herein do not purport to constitute an authoritative interpretation of the provisions of the law which are mentioned in this offering report, nor are they a substitute for professional advice, according to the specific details and circumstances of each investor.

On August 13, 2012, the Law for Reduction of the Deficit and for Modification of the Tax Burden (Legislative Amendments), 5772-2012, was published in the Official Gazette, which included Amendment 195 to the Income Tax Ordinance [New Version], 5721-1961 (the "**Ordinance**" and "**Amendment 195**", respectively). In the framework of Amendment 195, Section 121B was added. This section was updated in context of the Law for Economic Streamlining (Legislative Amendments for the Implementation of the Economic Policy for the budget years 2017 and 2018), 2016



(the “**Law of Arrangements for 2017 and 2018**”), published in the Official Gazette on December 29, 2016.

The updated Section 121B prescribes that an individual whose taxable income in the tax year of 2019 exceeded NIS 649,560 (the “**Tax Threshold**”) will be liable for additional tax on the portion of his taxable income that exceeds the amount as aforesaid at a rate of 3% in addition to the aforesaid (“**Surtax**”). Taxable income includes all types of income, including income from capital gain and land appreciation (taxable income from the sale of a right in land in a residential apartment shall only be included if the value of its sale exceeds NIS 4 million and the sale is not exempt from tax pursuant to any law), with the exception of an inflationary amount as defined in Section 88 of the Ordinance and an inflationary amount as defined in Section 47 of the Land Taxation Law.

It is clarified that the foregoing refers to the manner of taxation of investors who are Israeli residents. It is noted that different tax implications than those described below may apply to “an individual who becomes a resident of Israel for the first time” and a “longstanding returning resident”, as defined in the Ordinance, and it is suggested that such residents seek individual advice for the purpose of examining their entitlement to tax benefits in Israel. It is further noted that additional tax implications to those described below may apply to investors who are deemed “controlling shareholders” or “substantial shareholders”, as defined in the Ordinance.

Moreover, the following reference to the issue of taxation of a body corporate which is a foreign resident, is qualified in the event that Israeli residents are the controlling shareholders thereof, or the beneficiaries or are entitled to 25% or more of the revenues or profits of the foreign residents, directly or indirectly, in accordance with the provisions of Section 68A of the Ordinance.

According to the existing law at present, after the aforesaid amendments take effect, the Securities offered to the public under this Shelf Offering Report will be subject to the tax arrangements concisely described below:

8.1. Capital gain from the sale of the Offered Securities

In accordance with Section 91 of the Ordinance, real capital gain (within the definition of this term in Section 88 of the Ordinance) from the sale of the Securities offered in this Shelf Offering Report, by an individual who is an Israeli resident, is liable for tax at the rate of the individual’s marginal tax under Section 121 of the Ordinance, but such rate shall not exceed 25%, and the capital gain shall be deemed the highest bracket of his taxable income; provided, however, that the sale of the Securities does not constitute income from a “business” or from an “occupation” by the individual and that he has not claimed a deduction of real interest and linkage differences. With respect to the sale of securities by an individual who is a “substantial shareholder” of a company within the meaning thereof in Section 88 of the Ordinance – i.e., the



holder, directly or indirectly, alone or together with another (within the meaning thereof in Section 88 of the Ordinance), of at least 10% of one or more of any type of means of control⁴ of the company on the date of sale of the securities or at any time during the 12 months that preceded such sale, the tax rate for real capital gain for him shall not exceed 30% (“**Substantial Shareholder**”). Furthermore, for an individual who claimed a deduction of expenses of real interest and linkage differentials in respect of the securities, the capital gain from the sale of the securities shall be liable for tax at a rate of 30% until instructions and conditions for the deduction of real interest expenses are determined according to Sections 101A(a)(9) and 101A(b) of the Ordinance. Such reduced tax rate shall not apply to an individual, for whom the income from the sale of the securities constitutes income from a “business” or from an “occupation”, according to the provisions of Section 2(1) of the Ordinance. In such a case, the individual will be charged a marginal tax rate in accordance with the provisions of Section 121 of the Ordinance. In addition to all of the foregoing with respect to an individual, Surtax will be imposed at the rate of additional 3% of the amount of taxable income for 2019 exceeding ILS 649,560 (this amount is updated every year according to the increase of the Consumer Price Index).

A body corporate will be liable for tax on real capital gain from the sale of securities at the rate of the corporate tax under Section 126(a) of the Ordinance (in 2018 and thereafter – 23%).

In accordance with the provisions under Section 94B of the Ordinance, in sale of a stock exchange tradable share by a share seller who is a Substantial Shareholder at the date of sale or at any time during the 12 months that preceded such sale, the real capital gain due from the sale shall be decreased by an amount equal to the distributable profits accrued as of 01.01.2006 and thereafter in the company which shares are sold, in a proportional manner to the seller’s share in the rights to such company’s profits, and this amount shall be deemed as a dividend.

Foreign residents (individuals and bodies corporate), as defined in the Ordinance, are exempt from tax on capital gain from the sale of securities traded on an exchange in Israel, insofar as the profit is not attributed to a permanent enterprise of the foreign residents in Israel, subject to the provisions, conditions and restrictions prescribed by Section 97(b2) of the Ordinance.

The foregoing shall not apply to a body corporate which is a foreign resident if Israeli residents are the controlling shareholders thereof⁵, or the beneficiaries, or are entitled to 25% or more of the revenues or profits of the foreign-resident

⁴ As defined under Section 88 of the Ordinance.

⁵ “Controlling shareholder” – Shareholders holding, directly or indirectly, alone, together with another, or together with another Israeli resident, one or more of the means of control at a rate exceeding 25%.



body corporate, directly or indirectly, in accordance with Section 68A of the Ordinance. In the event that such exemption does not apply, the provisions of a tax convention (if any) between Israel and the country of residency of the foreign resident may apply, subject to the delivery in advance of an appropriate certificate from the Tax Authority.

An exempt mutual fund as well as provident funds and entities exempt from tax under Section 9(2) of the Ordinance, are exempt from capital gain tax in respect of the sale of securities as aforesaid, in accordance with and subject to the provisions of the section.

A liable mutual fund's revenues from the sale of securities shall be subject to the tax rate imposed on the income of an individual for whom the income is not income from a "business" or from an "occupation", unless otherwise expressly determined. If no special tax rate is determined for the income, the income will be liable for tax at the maximum rate prescribed by Section 121 of the Ordinance.

As pertains to the withholding of tax from the real capital gain in the sale of the Offered Securities, in accordance with the Income Tax Regulations (Withholding from Consideration, Payment or Capital Gain in the Sale of Security, in the Sale of a Unit in a Mutual Fund or in a Future Transaction), 5763-2002 (the "**Withholding from Consideration Regulations**"), an obligor (as this term is defined in the Withholding from Consideration Regulations) who pays a seller consideration in the sale of securities, shall withhold tax at a rate of twenty five percent (25%) of the real capital gain, when the seller is an individual, and at the corporate tax rate prescribed by Section 126(a) of the Ordinance (in 2018 and thereafter – 23%) from the capital gain or from the consideration, as the case may be, when the seller is a body corporate. The foregoing is subject to an exemption of tax withholding at source (or a reduced rate) certificate furnished by the Tax Authorities and subject to losses offset which the withholder at source is entitled to do.

The provisions of the Withholding from Consideration Regulations shall not apply to an obligor which is a financial institution that pays a seller who is a foreign resident consideration or a different payment in respect of exempt capital gain, if the foreign resident submits to the financial institution within 14 days of the date of opening of the account and once every three years, if he is in Israel, he or a representative, a statement on Form 2402 of his being a foreign resident and of his entitlement to exemption.

The aforesaid withholding rates may be reduced where valid tax withholding certificates (exemption or reduced rate), issued by the Israel Tax Authority, are furnished.



Furthermore, no tax will be withheld from payment to provident funds, mutual funds and additional entities exempt from tax withholding under the law, after delivery of the appropriate certificates by them.

It is noted that if the full tax is not withheld on the date of the sale as specified above, from the real capital gain, the provisions of Section 91(d) of the Ordinance shall apply and the instructions thereunder with respect to advance payment and report by the seller in respect of such sale, on July 31 and on January 31 of each tax year, from sale of securities during the six months' period preceding the month on which the date of reporting occurred.

As a rule, if the Offered Securities pursuant to this prospectus will be delisted, the tax rate to be withheld at source at their sale (following the delisting), will be 30% of the consideration, provided no certificate determining a different tax withholding rate (including a tax withholding exemption) was furnished by the assessing officer.

8.2. Set-off of losses from the sale of the Offered Securities

As a rule, in accordance with Section 92 of the Ordinance, capital losses in the tax year, which originate in the sale of the Offered Securities and which would be taxable if they were capital gains, will be offset against real capital gain and real land appreciation to derive from the sale of any asset in Israel or abroad (with the exception of taxable inflationary sum that will be offset at a ratio of 1 to 3.5), and all in accordance with the principles set out in the section.

A capital loss in the tax year from such sale of securities in the tax year, may be offset in the tax year in which it was created also against income from interest or from dividend paid in respect of the same security or in respect of other securities (provided that the tax rate imposed on such interest revenues or dividend does not exceed the corporate tax rate set forth in Section 126(a) of the Ordinance (in 2018 and thereafter – 23 %) where a company is concerned, and does not exceed the rate set forth in Section 125B(1) or 125C(b) (which is 25%) where an individual is concerned.

A loss that may not be so offset, in whole or in part, in a certain tax year, may be offset against real capital gain and real land appreciation only as set forth in Section 92(b) of the Ordinance in the next consecutive tax years, following the year in which the loss was created, provided that a report on the tax year in which the loss occurred shall have been submitted to the Assessing Officer.

In accordance with the provisions of Section 94C of the Ordinance, in the sale of a security by a body corporate, from the sum of the capital loss created from the sale of the share, a sum of dividend received in respect of the share during the 24 months that preceded the sale shall be deducted but no more than the sum of the loss, except for dividend on which tax shall have been paid (other than tax paid outside of Israel), at a rate of 15% or more.



In accordance with the Withholding from Consideration Regulations, for calculation of the capital gain for the purpose of withholding tax from the sale of marketable securities, mutual fund units and future transactions (“**Marketable Securities**”), the withholding obligor (as this term is defined in the Withholding from Consideration Regulations) shall offset capital loss created from the sale of Marketable Securities in accordance with the provisions of Section 92 of the Ordinance, provided that all of the following are fulfilled: The loss was created from the sale of Marketable Securities that were managed by the obligor, and the profit was created in the same tax year in which the loss was created, whether before or after the date of creation of the loss.

8.3. Tax rate applicable to income from dividend in respect of the Company’s shares

In accordance with Section 125B of the Ordinance, a dividend originating in the Company’s shares will, as a rule, be taxable when received by a shareholder who is an individual and a resident of Israel at the rate of twenty five percent (25%), unless the shareholder is a “substantial shareholder” (as defined in Section 88 of the Ordinance), at the date the dividend received or at other date during the preceding 12 months, in which case the tax rate shall be 30%.

Moreover, according to the provisions of Section 121B(a) of the Ordinance, an individual whose taxable income for the tax year 2019 exceeds NIS 649,560, will be subject to Surtax at the rate of 3% on the portion of his taxable income exceeding the aforementioned amount.

Section 126(B) of the Ordinance determines that revenues from distribution of profits or from dividend originating from revenues generated in Israel and which were received, directly or indirectly, from another corporate tax obligor’s body corporate, shall not be included in the calculation of a body corporate’s taxable income,

A foreign resident will be liable for tax on dividends at the rate of 25%, except for a foreign resident who is a substantial shareholder (as defined in Section 88 of the Ordinance), at the date the dividend received or at other date during the preceding 12 months in which case the tax rate shall be thirty percent (30%), subject to the provisions of a convention for the avoidance of double taxation (if any) between the State of Israel and the country of residency of the foreign resident, and also subject to the delivery in advance of a certificate of exemption (or reduced rate) from tax withholding from the Tax Authority.

A dividend originating in the Company’s shares and received by an exempt mutual fund and provident funds and other entities exempt from tax in accordance with Section 9(2) of the Ordinance, will be exempt from tax, in accordance with the provisions and conditions of the section.



A dividend received by a liable mutual fund will be subject to the tax rate applicable to the income of an individual for whom the income is not income from a “business” or from an “occupation”, unless otherwise expressly determined. If no special tax rate is determined for the income, the income will be liable for tax at the maximum rate prescribed by Section 121 of the Ordinance.

In accordance with the Income Tax Regulations (Withholding from Interest, Dividend and Certain Profits), 5766-2005 (the “**Withholding from Dividend and Interest Regulations**”), the tax rate that should be withheld in a dividend distribution in respect of the Company’s shares, for an individual who is an Israeli resident or for a foreign resident (individual/body corporate), including in distribution to a shareholder who is a substantial shareholder at the date the dividend received or at other date during the preceding 12 months, and whose shares are registered and held by the Transfer Agent, will be twenty five percent (25%).

According to these Regulations, if a dividend is paid to an individual who is a resident of Israel with respect to whom a limited tax rate under any law, tax will be withheld according to the rate determined. For a foreign resident, the rate of withholding shall be subject to the provisions of a convention for avoidance of double taxation (if any) executed between the State of Israel and the country of residency of the recipient, and also subject to the delivery in advance of a valid certificate of exemption from/reduction of tax withholding from the Tax Authority.

No tax will be withheld from payments to provident funds, mutual funds and other entities that are exempt from tax withholding by law, provided proper approvals are submitted by them in advance.

8.4. US Tax Payers’ Shareholders

The Company recommends to its shareholders who are tax payers in the US, to consult tax advisors on their behalf, with respect to the tax implications for them as a result of Elron’s possible classification as PFIC (Passive foreign investment company), including their available alternatives.

Due to the material changes that have taken place in the taxation of the capital market following the income tax reform, the appropriate practice for implementation of its provisions have not yet been formed, and there may possibly also be several interpretations as to the manner of implementation thereof. Moreover, legislative changes to the provisions of the reform are possible. Naturally, the content and effect of such changes, including with respect to the tax arrangements obtained by the Company, cannot be foreseen.



As is customary with investment decisions, the tax implications related to investment in the Offered Securities should be considered. The general description above does not purport to be an authoritative interpretation of the aforementioned provisions of the law or an exhaustive description of the tax provisions pertaining to the Offered Securities, nor does it constitute or substitute individual advice by experts, taking into consideration the specific circumstances of every investor. Therefore, it is recommended that anyone who wishes to purchase securities under this Shelf Offering Report seek professional advice to clarify the tax consequences that will apply to them, taking into consideration the implications of domestic law and also with respect to the implications of foreign tax in respect of the purchase, holding and sale of the Offered Securities (insofar as relevant), including the implications of any proposed change in the said laws, in accordance with the specific details of each and every buyer.

It is clarified that the foregoing is based on the tax laws, correct as of the date of the Shelf Offering Report and as known to the Company, and that changes in the tax laws may apply retroactively and/or lead to different consequences, and the Company will not publish updates following such changes.

9. **Refrainment from engaging in Arrangements**

- 9.1. By signing this Shelf Offering Report, the Company and the Company's directors undertake to refrain from engaging in arrangements that are not set forth herein in relation to the offering of the Offered Securities under the Shelf Prospectus and the Shelf Offering Report, their distribution and dispersion within the public, and undertake to refrain from granting the buyers of the Securities offered under the Shelf Offering Report the right to sell the Securities purchased thereby other than as specified in the Shelf Offering Report.
- 9.2. By signing this Shelf Offering Report, the Company and the Company's directors undertake to notify the ISA of any arrangement with a third party of which they are aware that contradicts the undertaking set forth in Section 9.1 above.
- 9.3. By signing this Shelf Offering Report, the Company and the Company's directors undertake to refrain from engaging with any third party, which, to the best of their knowledge, made arrangements in contrast with the provisions of Section 9.1 above.
- 9.4. The directors' undertaking as set forth in this section above shall be effective for as long as the directors continue to serve in their office as directors of the Company.



10. **Permits and Authorizations**

- 10.1. The Company has received all permits, authorizations and licenses required by any law for the release of the Shelf Offering Report.
- 10.2. The Company has applied to TASE with a request to list the Securities offered under the Shelf Offering Report and TASE has given its approval therefor.
- 10.3. **The said approval by TASE may not be deemed confirmation of the details presented herein, their reliability and their completeness, and does not express any opinion on the Company or on the quality of the Securities offered in the Report or on the price at which they are offered.**

11. **Payment of Fee**

In accordance with the provisions of Section 4A of the Israeli Securities Regulations (Fee for Application for Permit to Release a Prospectus), 5755-1995, the Company will pay the ISA the fee for the Securities offered in the Shelf Offering Report.

12. **Issue Proceeds and Use of Proceeds**

- 12.1. The issue proceeds expected for the Company (assuming that the Maximum Issued Quantity (as defined in Section 1.2 above) will be purchased at the Minimum Price per Unit), are as follows:

Item	Sum
Expected proceeds (gross)	Approx. NIS 76,000 thousand
Net of depository, consultancy, management and distribution fees including early commitment fee ⁶	Approx. NIS 1,350 thousand

⁶ For the services of the distributors, Epsilon Underwriting and Issuing Ltd. (“**Epsilon**”), Poalim I.B.I – Underwriting and Issuing Ltd., Alpha Beta Issuing Ltd. and Egoz Issuing and Finances Ltd and Y.A.Z Investments and Assets Ltd. (collectively: the “**Distributors**”), the Company shall pay the Distributors the following amounts: (a) In consideration for the Distributors’ services, the Company shall pay a distribution fee in a sum equal to 1.75% of the total immediate proceeds (gross) to be received for all of the Securities issued under the Shelf Offering Report (except for securities that will be purchased by the Company’s controlling shareholders or by any other interested party in the Company as hereinafter specified), plus V.A.T.; (b) An additional performance fee in relation to the distribution of the Securities, as an incentive component to be paid according to the Company’s sole discretion, up to a total amount of 1.25% of the said gross proceeds (except for securities that will be purchased by the Company’s controlling shareholder or by any other interested party in the Company as hereinafter specified), plus V.A.T.

The Distributors may, according to their sole discretion, pay fees to third parties qualified to serve as distributors according to the provisions of the Underwriting Regulations, for consultation on the offering and assistance in the marketing of securities in the offering, out of the fees to which they are entitled according to this section, provided that such sums are not paid to an end-buyer of a security in the offering. All of the aforesaid fees shall be distributed at Epsilon’s sole discretion.

The Depository Agent will be entitled to a depository fee in the sum of NIS 25,000 plus V.A.T.



Item	Sum
Net of other expenses (estimate only) ⁷	Approx. NIS 200 thousand
Expected proceeds (net)	Approx. NIS 75,050 thousand

12.2. Since the offering on the basis of this Shelf Offering Report is not underwritten, there is no assurance that all the Units offered will be acquired. Accordingly, the proceeds and also the expenses related to the offering may differ from those forecasted above.

12.3. A minimum amount to be attained in this offering has not been set.

12.4. The issue proceeds shall be used for various purposes, according to the needs of the Company's activities, as shall be from time to time, including the investment in the Company's held companies and/or in new companies in which the Company will invest, and all in accordance with the decisions of the Company's Board of Directors, as they shall be from time to time. It is clarified that the Company may, from time to time, in its sole discretion, change the designation of the issue proceeds.

12.5. After the issue proceeds are remitted from the Depository Agent to the Company and until used in the manner described above, the Company will invest the issue proceeds in conservative instruments as shall be determined by the Company's Board of Directors from time to time.

13. **Material Developments and Changes from the Date of Release of the Shelf Prospectus to the Date of this Report**

For details of the material developments and changes that occurred on any matter required to be described in the Shelf Prospectus, which took place from the date of publication of the Shelf Prospectus to the date of publication of this Shelf Offering Report, see the Company's periodic and immediate reports released between the date of publication of the Shelf Prospectus and the date of publication of this Shelf Offering Report, as posted on the ISA website at: www.magna.isa.gov.il and on the TASE website at <http://maya.tase.co.il>, the information included in which is incorporated herein by reference, in accordance with the provisions of Section 4 of the Israeli Securities Regulations (Shelf Offering of Securities), 5766-2005.

14. **Letters of Consent by Auditors and Valuators**

14.1. A letter of consent by the Company's auditors stating their consent to incorporate their opinion and review reports on the Company's financial

To entities which are "licensed dealers" within the meaning thereof in Value Added Tax law, the Company will pay the aforesaid sums and fees with the addition of V.A.T. against the receipt of a lawful tax invoice. For details regarding early commitment fee to qualified investors, see Section 4.5 above.

⁷ Which include, *inter alia*, the fees of professional consultants, advertising in newspapers, a fee to the ISA for the Offered Securities, TASE listing fees, and so forth.



statements dated December 31, 2018 and March 31, 2019, by way of reference, in this Shelf Offering Report, is attached to the Company's quarterly report dated March 31, 2019 published in an amended supplementary report dated June 3, 2019 (ISA reference no.2019-01-055411).

- 14.2. Furthermore, in accordance with Section 62A of the Prospectus Details Regulations, the Company has been given a letter of consent by the appraiser who periodically examines whether there is a need to amortize a research and development asset (intangible asset) in progress attributed to Pocared Diagnostic Ltd., to include the valuation concerning the periodic examination that was included in its financial statements, in the Shelf Offering Report. Such letter of consent is attached hereto as **Annex A**.

15. **Inspection of Documents**

Copies of any opinion or approval mentioned in this Shelf Offering Report are available for public inspection during normal business hours after prior coordination, at the Company's offices at 3 Azrieli Center, Triangular Tower, 42nd Floor, Tel Aviv, Israel. Furthermore, copies of this Shelf Offering Report and of the Company's Articles of Association are available for public inspection on the ISA website at: www.magna.isa.gov.il and on the TASE website at <http://maya.tase.co.il>.

16. **Legal Opinion**

The Company has received the following legal opinion:



June 5, 2019

To
Elron Electronic Industries Ltd.
3 Azrieli Center, Triangular Tower, Floor 42
Tel Aviv 6702301
Dear Sir/Madam,

Re: Shelf Offering Report of Elron Electronic Industries Ltd. (the "Company")

In reference to the Company's shelf prospectus of February 25, 2019 (the "**Shelf Prospectus**") and the Shelf Offering Report to be released thereunder, whereby ordinary shares of NIS 0.003 of the Company are being offered (the "**Offered Securities**" and the "**Shelf Offering Report**", respectively), we hereby opine as follows:

1. The rights attached to the Offered Securities were correctly described in the Shelf Offering Report.
2. In our opinion, the Company is authorized to issue the securities offered thereby according to the Shelf Offering Report in the manner described in the Shelf Prospectus and in the Shelf Offering Report.
3. The Company's directors were duly appointed and their names are included in the Shelf Offering Report.

We agree to the inclusion of our opinion herein in the Shelf Offering Report.

Sincerely,

Ofer Hanoh, Adv. Ben Lipetz, Adv. Meni Kogan, Adv.
Gross, Kleinhendler, Hodak, Halevy, Greenberg, Shenhav & Co.



Annex A – Letter of Consent by Valuers



June 5, 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 valuation prepared by us for Elron Electronic Industries Ltd. (the “**Company**”) in the matter of:

Impairment Test of Intangible Asset, as of December 31, 2018, a valuation which was attached to the Company’s December 31, 2018 periodic report, on March 18, 2019.

to the Company’s shelf offering to be published in June 2019, insofar published, pursuant to the shelf prospectus dated February, 2019 (the “**Shelf Offering**”). In addition, we hereby consent to incorporate by reference and/or to attach this letter of ours to the Shelf Offering.

Sincerely,

Fair Value Ltd.



Signatures

The Company

Elron Electronic Industries Ltd.

The Directors

Eduardo Elsztain

Saul Zang

Amiram Erel

Gerardo Ariel Tyszberowicz

Lee-Bath Nelson

Yehuda Freidenberg

Ehud Rassabi
