



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")

April 19, 2021

Shelf Offering Report

According to the Company's shelf prospectus dated February 25, 2019¹ as extended until February 24, 2022² (the "**Shelf Prospectus**" or the "**Prospectus**") and in accordance with the provisions of the Israeli Securities Regulations (Shelf Offering of Securities), 5766-2005 (the "**Shelf Offer Regulations**"), 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 (the "**Ordinary Shares**"), 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 with a range of quantities as stated in Regulation 4A of 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 12 below.

1. **The Offered Securities as part of a uniform offering with a range of quantities³** **(Tender No. 7490279)**

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

- 1.1. The securities are offered to the public according to this Shelf Offering Report between 2,744,100 and 8,232,400 ordinary shares in Units as detailed below, by way of a uniform offering with a range of quantities, as stated in Regulation 4A of the Offering Regulations, in a quantity between 27,441 Units and 82,324

¹ The shelf prospectus was published on February 24, 2019 (ISA reference number: 2019-01-015985).

² See immediate report published by the Company on February 18, 2021 (ISA reference no.: 2021-01-019872).

³ Pursuant to the provisions of Section 1 of the Offering Regulations, a uniform offer with a range of quantities "means a uniform offer in which no prior commitment has been received, and in which the bidder has indicated in the prospectus a minimum quantity and maximum quantity of the securities to be sold or issued, as applicable."



Units, by way of tender for the Unit price, with the composition of each Unit and its price being as follows:

100 Ordinary Shares at a price of 11.90 NIS per share	NIS1,190
	=====
Total minimum price per Unit	NIS1,190

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

- 1.2. In the event of an over-allotment, as defined in the Offering Regulations, the Company will be entitled to allocate to all Bidders who submitted offers at the uniform selling price per Unit (as defined below) or a higher price, as applicable, an additional quantity of Units not exceeding 15% of the maximum amount offered under the Shelf Offering Report, namely, an additional amount of up to 12,348 Units, including up to 1,234,800 Ordinary Shares (the “**Additional Allotment**”).⁴

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 all the Offered Securities will be acquired.

⁴ Pursuant to Regulation 9 of the Offering Regulations, for this purpose, the maximum quantity specified in the Offering with a range of quantities will be considered as the quantity offered according to the Shelf Offering Report.

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



	Registered Share Capital	Issued and Outstanding Share Capital	Issued and Outstanding Share Capital on a Fully Diluted Basis ⁵
Pre-offering	70,000,000	43,065,467	46,624,354
Post-offering, assuming all of the Offered Securities are offered according to the Shelf Offering Report⁶	70,000,000	51,297,867	54,856,754
Post-offering, assuming all of the Offered Securities are offered according to the Shelf Offering Report including the Additional Allotment	70,000,000	52,532,667	56,091,554

- 2.2. The amount of Offered Shares in accordance with the Minimum Amount and the Maximum Amount (as defined below), shall constitute, immediately after the issuances of the Offered Securities, between approximately 5.99% and approximately 16.05% of the issued and outstanding share capital of the Company and of the voting rights thereof.
- 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 2019, 2020 and in the period from January 1, 2021 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, 2019 – Dec. 31, 2019	1,070	February 4, 2019	470.9	Aug. 6, 2019
Jan. 1, 2020 – Dec. 31, 2020	1,246	Oct. 19, 2020	448.4	Mar. 18, 2020
Jan. 1, 2021 – and until proximity to the date of this Report	1,299	February 21, 2021	1,055	Jan. 18, 2021

⁵ 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 5,023,582 existing options (of employees and officers) at the ceiling share price with respect to options for which such ceiling price was determined (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**”).

⁶ Without taking the Additional Allotment into account.



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 with a range of quantities, as stated in the Offering Regulations, as follows:

Amount between 27,441 Units (the “**Minimum Amount**”) and 82,324 Units (respectively, the “**Maximum Amount**”⁷ and “**Quantities Range**”), by way of a tender for the Unit price (the “**Tender**”), with the composition and price of each Unit being as follows:

Composition of each Unit	Price per Unit
100 Ordinary Shares at a price of NIS11.90 per share	NIS 1,190
The total minimum price per Unit	NIS 1,190

The price per Unit that shall be determined in the Tender shall be no less than NIS 1,190 per Unit (the “**Minimum Price**”).

3.2. The period for submitting bids

The period for submitting bids to purchase the Units shall begin on Tuesday, April 20, 2021 (the “**Tender Date**” or the “**Bid Submission Date**”), at **09:30** (the “**Subscription List Opening Time**”) and shall end on the same day at **17:30** (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 IBI Underwriting and Issuances Ltd., whose address is: 4 Haarbaa Street, Tel Aviv (North Tower, 20th Floor) 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

⁷ Without taking the Additional Allotment into account.



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 **18:00** 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 NIS1,191, after which Units may be subscribed for at a price of NIS1,192, NIS1,193 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.

3.3.10. **The public offering according to this Offering Report is made by way of a uniform offering with a range of quantities, and accordingly, after the deadline for submission to the Depository Agent, the Company will decide on the amount of securities to be allotted within the range of quantities, at its discretion (and subject to the right to execute an Additional Allotment, in which event the maximum amount specified in the uniform offering with a range of quantities, as the amount offered according to the Shelf Offering Report).**

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 "**Uniform Price**" or the "**Uniform Price per Unit**"). The uniform selling price shall be the highest price at which orders for the purchase of Units specified as the Unit price together with orders which specified higher Unit prices, will satisfy the conditions necessary for allotting the Units offered to the public in an amount not derogating from the Quantities Range and which the Company has decided to allot, 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 orders that are received is less than the Minimum Amount, all of the orders will be accepted in full, in which case, the Uniform Price per Unit will be the Minimum Price stated in the Offering Report. 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 is equal to or exceeds the Minimum Amount, the Uniform Price per Unit will be equal to the highest price per Unit (and/or higher prices) at which orders were made to purchase all of the Units that the Company decided to allot in accordance with this Offering Report. In such case, the offered Units will be allotted as follows:
- (a) Bids made at a price per Unit higher than the Uniform Price per Unit – will be accepted in full.
 - (b) Bids made at a price per Unit lower than the Uniform Price per Unit – will not be accepted.
 - (c) Bids 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) 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.
- 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.



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.

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

4.1. The Company's existing interested parties may submit Bids to purchase Units that are offered according to this Shelf Offering Report.

4.2. The Company's controlling shareholder – Discount Investment Co. Ltd. (“DIC”) (which holds, in proximity to the date of release of this Shelf Offering Report, approx. 61.06% of the issued and outstanding capital of the Company (approx. 56.4% on a fully diluted basis)) notified the Company that it intends to participate in the Offering, in such a manner that will allow it, at the very least, to maintain its percentage holdings in the Company.

4.3. **It is clarified 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.**

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



- 5.1. 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.
- 5.2. 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.

6. **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 in relation to the Securities offered herein.

7. **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 of the Ordinance 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 2021 exceeded NIS 647,640 (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 during the 2021 tax year exceeds NIS 4,754,280 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 provisions 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 provisions 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:

7.1. 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 control⁸ 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.

⁸ As defined under Section 88 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 2021 exceeding ILS 647,640 (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 2021, 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 thereof⁹, or the beneficiaries, or are entitled to 25% or more of the revenues or profits of the foreign-resident body corporate, directly or indirectly, in accordance with Section 68A of the Ordinance. In addition, 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

⁹ “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%.



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 2021, 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.

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

As a rule, in accordance with the provisions of 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 2021, 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.

7.3. 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 2021 exceeds NIS 647,640, 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 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.

7.4. 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 fully 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.

8. **Refrainment from engaging in Arrangements**

- 8.1. 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.
- 8.2. 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 8.1 above.
- 8.3. 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 8.1 above.
- 8.4. 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.

9. **Permits and Authorizations**

- 9.1. The Company has received all permits, authorizations and licenses required by any law for the release of the Shelf Offering Report.
- 9.2. 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.
- 9.3. **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.**

10. **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.



11. **Issue Proceeds and Use of Proceeds**

11.1. The issue proceeds expected for the Company (assuming that all the Offered Shares will be purchased at the Minimum Price per Unit, and without the amount of the Additional Allotment), are as follows:

Item	Sum
Expected proceeds (gross)	Approx. NIS97,965 thousand
Net of depository, consultancy, management and distribution fees ¹⁰¹¹	Approx. NIS2,964 thousand
Net of other expenses (estimate only) ¹²	Approx. NIS250 thousand
Expected proceeds (net)	Approx. NIS94,751 thousand

11.2. 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.

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

11.4. 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

¹⁰ In consideration for the services of the distributors, Epsilon Underwriting and Issuing Ltd. ("Epsilon", the "Distributors"), the Company shall pay the Distributors the following amounts: In consideration for the Distributors' services, the Company shall pay a distribution fee in a sum equal to 3% 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 shareholder or by corporations controlled by the controlling shareholder), plus V.A.T.; The amount presented in the table is the maximum estimated amount assuming the payment of the distribution fee on the full amount which will be raised. The Distributors will be entitled, at their sole discretion, to pay commission to third parties that are qualified to act as distributors in accordance with the provisions of the Securities (Underwriting), 5767-2007 Regulation, for consulting on the offering and assistance in marketing securities of the offering, out of the fees they are entitled to under this section, provided that such sums will not be paid to an end purchaser of a security in the Offering. All the above-mentioned fees will be allocated at the sole discretion of Epsilon. The Depository Agent will be entitled to an issuance depository fee of NIS25,000 plus V.A.T. To entities that are an "authorized dealer" within the meaning thereof in the Value Added Tax Law, the Company will pay the fees and amount stated above plus value added tax against lawful receipt of a tax invoice.

¹¹ Epsilon is a company that is indirectly controlled by DIC, which controls the Company. Therefore, the Company's engagement with Epsilon was approved by the Company's audit committee, after finding that the engagement is in the interests of the Company and does not constitute an "extraordinary transaction" as defined in the Companies Law, 5769-1999.

¹² 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.



that the Company may, from time to time, in its sole discretion, change the designation of the issue proceeds.

11.5. 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.

12. **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(a) of the Shelf Offering Regulations.

For the sake of caution, it is noted that Mr. Zohar Rozenberg who serves as Vice-President of the Company responsible for the Cyber field since 2016, notified the Company that he is considering engaging in other business activities not within the framework of the Company. If and to the extent that Mr. Rozenberg will so choose, he is expected to cease to serve as Vice-President, but to continue to operate in the Company as an active partner in investments in the Cyber world (Venture Partner) including serving as a director on behalf of the Company in its group companies, to assist supporting the existing cyber companies and to continue to be part of the Company's investment team in new companies.

13. **Letter of Consent by Auditor**

13.1. A letter of consent by the Company's auditors stating their consent to incorporate their opinion on the Company's financial statements dated December 31, 2020 and 2019 and for each of the three years of the period ended on December 31, 2020, by way of reference, in this Shelf Offering Report, are attached to the Company's annual report dated December 31, 2020 published in a report dated March 15, 2021 (ISA reference no.2021-01-035361).

13.2. Furthermore, in accordance with Section 62A of the Prospectus Details Regulations, the Company has been given a letter of consent by the appraiser for the periodical examination whether there is a need to amortize a research and development asset (intangible asset) in progress that was attributed to Pocared Diagnostic Ltd. ("Pocared"), and the valuation of the Company's rights in Pocared as of the date that Pocared ceased to be consolidated, which



were included in the Company's financial statements. Such letter of consent is attached hereto as **Annex A**.

14. **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 114 Yigal Alon, TOHA Tower, 27th 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>.



15. **Legal Opinion**

The Company has received the following legal opinion:



April 19, 2021

To
Elron Electronic Industries Ltd.
TOHA Tower, Floor 27
Tel Aviv 6744320
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 as extended to February 24, 2022 (the “**Shelf Prospectus**”) and the Shelf Offering Report to be released thereunder on April 20, 2021, 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. In our opinion, 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. In our opinion, the Company’s directors were duly appointed and their names are included in the Shelf Offering Report.
4. We agree to the inclusion of our opinion herein in the Shelf Offering Report

Sincerely,

Ofer Hanoch, Adv.

Tamir Lazarov, Adv.

Gross & Co.

ELRON



April 19, 2021

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:

1. Impairment Test of Intangible Asset, as of December 31, 2019, a valuation which was attached to the Company’s December 31, 2019 periodic report, on March 18, 2020.
2. Valuation of Elron’s Rights in Pocared Diagnostics., as of August 6, 2020, a valuation which was attached to the quarterly report of the Company as of September 30, 2020 published on November 25, 2020.

to the Company’s shelf offering to be published in April 2021, 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

Zahi Nahmias (Chairman)

Doron Haim Cohen

Amiram Erel

Omer Serviansky

Osnat Hilel-Fine

Lee-Bath Nelson

Shalom Tourgeman

Barak Mashraki
