

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

May 27, 2020

Israel Securities Authority  
[www.isa.co.il](http://www.isa.co.il)

Tel Aviv Stock Exchange Ltd.  
[www.tase.co.il](http://www.tase.co.il)

(Via Magna)

Translation of Immediate Report Filed by the Company on May 27, 2020 with the  
Israeli Securities Authority

**Re: Immediate Report on a Private Offering which is not extraordinary and not  
material in accordance with the Securities Regulations (Private Offer of Stock of  
a Registered Company), 5760-2000 (the “Private Offering Regulations”)**

**1. General**

- 1.1. The Company hereby announces that on May 26, 2020, the Board of Directors approved, following the recommendation and approval of the Compensation Committee, the grant of non-tradeable options to two officers of the Company who are not directors or the CEO of the Company (in this Report, the “Offerees”) exercisable into ordinary shares of the Company, nominal value NIS0.003 each, at a value and in the amount stated in Section 2 below (“**Option Awards**” or “**Options**”)
- 1.2. It should be pointed out that in parallel with the resolution of the Board of Directors regarding the allotment of Options to the Offerees, the Board of Directors approved the allotment of Options to the CEO, subject to the approval of the general meeting of the shareholders of the Company. For additional details in this regard, see the notice convening the general meeting of shareholders including in accordance with the Private Offering Regulations that the Company published in parallel to this Immediate Report (ISA Ref:2020-01-047680) (the “**Report Convening the Meeting**”).
- 1.3. The Options will be granted to the Offerees within the framework and in accordance with the provisions of the Company’s employees and officers’ option plan approved by the Company’s Board of Directors on November 21, 2018 (the “**Option Plan**” or the “**Plan**”) and in accordance with the provisions of the Company’s compensation policy approved by the general meeting of the Company’s shareholders on March 12, 2020, following the approval of the Company’s Board of Directors and the Compensation

Committee (hereinafter: the "**Compensation Policy**")<sup>1</sup> under the capital gains route with a trustee as defined under Section 102(b)(2) of the Income Tax Ordinance (new version), 5721-1961 (the "**Ordinance**" and the "**Tax Route**"), and subject to the ITA Rules (Tax Relief When Allocating Options To Employees), 5763-2003 as updated from time to time (hereinafter: the "**Income Tax Rules**"). For further details regarding the trust arrangement and the tax of the Offerees, see Section 18.9.12 of the Report Convening the Meeting, incorporated herein by reference.

- 1.4. In accordance with the current Compensation Policy, during the term of the Compensation Policy, the Company is entitled to approve or act in accordance with plans to grant capital compensation to officers, whereby if no equity compensation is granted, the officer may be granted a bonus on the basis of the share yield index<sup>2</sup>. The financial value of the Options to be allocated to the Offerees in respect of the bonus years of 2020 ad 2021 (on a linear and not an accounting basis) shall be equal to nine (9) times the officer's gross monthly salary, which is the maximum value available for these years in respect of the equity variable component, for each of the Company's officers in accordance with the current Compensation Policy.
- 1.5. The grant of the Options is a private offering which is neither extraordinary nor material pursuant to the Private Offering Regulations.
- 1.6. The offerees are not an "interested party", do not qualify as a "significant shareholder" and will not qualify as a "significant shareholder" after the allotment of the Options, as such terms are defined in the Companies Law, 5759-1999.
- 1.7. In accordance with the Bylaws of the Tel Aviv Stock Exchange ("**TASE**") and the guidelines based thereon, the underlying shares will be registered in the name of the Registration Company of Discount Bank of Israel Ltd., subject to the approval of the TASE.
- 1.8. The underlying shares of any options exercised under the Option Plan (hereinafter: the "**Underlying Shares**") shall have rights equal to the rights of Company's shares for all intents and purposes and shall be entitled to any dividend or other benefit, where the date determining the right to receive such rights shall apply on the date of allotment of the Underlying Shares or subsequent thereto.
- 1.9. The grant of the options shall be subject to the receipt of the approvals determined for the grant, including the receipt of the TASE required approvals for the registration of all of the Underlying Shares.

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<sup>1</sup> For additional details regarding the current Compensation Policy, see Company's Immediate Report published on February 3, 2020 (ISA Ref. No. 2020-01-010882), incorporated herein by reference, including Section 7 to the current Compensation Policy pertaining to the equity variable component.

<sup>2</sup> See section 7.3 of the current Compensation Policy, incorporated herein by reference.

1.10. Subject to each of the Offerees being an employee or a service provider who is serving as an office holder in the capacity of a service provider in the Company or in a Related Company<sup>3</sup> on the vesting date (unless the termination of employment in the Company or Related Company was the result of death or Disability (as defined in the Option Plan))<sup>4</sup>, the following vesting schedule will apply:

A. 1/3 of the Options will vest after one year of the date of their allotment (hereinafter: the "**First Tranche**");

B. 1/3 of the Options (hereinafter: the "**Second Tranche**") will vest after two years of their allotment (hereinafter: the "**Second Tranche**");

C. 1/3 of the Options (hereinafter: "**Third Tranche**") will vest after three years of their allotment (hereinafter: "**Third Tranche**").

For details regarding rounding up of fractional options and circumstances enabling acceleration of the vesting period, see Sections 18.9.7.2 and 18.9.8 of the Report Convening the Meeting.

1.11. Options will be exercised by way of net exercise (i.e. by the value of the benefit inherent in them "cashless"), so that the exercise price will be theoretical, only for the purpose of calculating the value of the benefit in accordance with the provisions of the Option Plan and not actually paid by the Offerees. The exercise price of each tranche as aforesaid in Section 1.10, will be NIS 6.8409 which is the share price at the end of the trading day on May 26, 2020 (the date of the decision of the Board of Directors), plus a 10% premium of the above price (the "**Exercise Price**").

1.12. Unless earlier expired in accordance with the provisions of the Plan, each Option granted but not exercised under the Plan, including a vested Option, will expire at the lapse of five (5) years from the allotment date (the "**Option Period**"). Subject to obtaining all approvals under applicable laws, the Administrator may determine, in its sole discretion that certain circumstances justify the extension of the Option Period, in relation to all or part of the Optionees, and subject to the Compensation Policy.

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<sup>3</sup> "Related Company" defined under the current Compensation Policy as a company and/or a subsidiary and/or related companies and/or held companies and/or controlling shareholder in the Company. "Control" is defined under the Compensation Policy as defined under the Companies Law, unless otherwise determined.

<sup>4</sup> "Disability" – 100% disability recognized by the National Insurance Institute, as a result of which the Offeree cannot work. According to the provisions of the Plan, each term in which the Offeree is on unpaid leave (except in cases of maternity leave, sickness or absence due to duly reserve), will be added to the vesting period aforementioned, and the vesting date will be postponed accordingly. For additional details regarding provisions pertaining to termination of Offerees' engagement with the Company, see section 18.9.11 to the Report Convening the Meeting.

## **2. Amount of Options and the Percentage Holding of the Underlying Shares in the Company's issued and paid up share capital**

- 2.1. The issued share capital of the Company prior to the allotment specified in this Immediate Report is 43,065,467 ordinary shares of the Company of NIS 0.003 par value each.
- 2.2. The aggregate fair value of the Options to be granted to the Optionees will be NIS 2,187,000, calculated based on the Black & Scholes formula (the "**Fair Value**"). For the purpose of calculating the number of options deriving from the Fair Value, the Company relied on an economic opinion prepared by an external advisor specializing in senior officers' compensation (hereinafter: the "**Appraiser**"). For details regarding the assumptions used by the Appraiser to determine the Fair Value, see Section 18.9.13 to the Report Convening the Meeting, incorporated herein by reference.
- 2.3. Based on the Fair Value, the amount of Options to be allocated to the Offerees is 1,388,156 exercisable into up to 1,388,156 ordinary shares of the Company, representing 3.12% of the voting rights and of the issued and paid-up share capital of the Company following the issuance (2.96% on a fully-diluted basis)<sup>5</sup>.

## **3. The Terms of the Offered Securities**

As set forth under Section 1.8 above, the Underlying Shares shall have rights equal to the rights of the Company's shares for all intents and purposes and shall be entitled to any dividend or other benefit, where the date determining the right to receive such rights applies on the date of allotment of the Underlying Shares or subsequent thereto. For additional details regarding the rights of the Optionees as shareholders and the adjustments due to the grant of Options, see Sections 18.9.3 and 18.9.4 to the Report Convening the Meeting, incorporated herein by reference.

## **4. Prices of the Company's shares on the Stock Exchange and its ratio to the exercise price**

The closing price of the Company's share on the stock exchange on May 26, 2020 (one day prior to publication of this Report) is NIS 6.2190 (hereinafter: the "**Closing Price**"). The ratio between the Closing Price and the Exercise Price is approximately 1:1.1.

## **5. Consideration**

The Options shall be allotted to the Offerees for no consideration at the time of allotment and the exercise of the Options into shares.

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<sup>5</sup> It is hereby clarified that this is the maximum number of Underlying Shares and the maximum holding percentage in Company's share capital and voting rights deriving from the Underlying Shares, in light of the net exercise mechanism. The actual holdings are expected to be lower due to the net exercise mechanism as set forth in section 1.11 above.

## **6. Details on Agreements pertaining to Rights in the Company's Securities**

To the best of the Company's knowledge, there is no agreement between the Optionees and other shareholders of the Company, written or oral, regarding the purchase or sale of the Company's securities or voting rights therein.

## **7. Prevention or restriction in carrying out transactions with the securities offered**

- 7.1. In accordance with the provisions of the Securities Law, 5728-1968 (the "Law") and the Securities Regulations (Details regarding Sections 15A to 15C of the Law), 5760-2000, the Offerees will be subject to restrictions on the resale of the shares that will derive from the exercise of the offered Options pursuant to the provisions of Section 15C of the Law and the said Securities Regulations, as shall be from time to time, when the allotment to the Offeree shall be deemed an allotment under Section 15A(a)(1) of the Law.
- 7.2. Subject to the provisions of the Option Plan, the trustee shall not perform any transaction or action with the Options and/or the Underlying Shares, shall not transfer, assign, withdraw, foreclose or pledge them voluntarily and shall not issue a power of attorney or a deed of transfer for them, whether with immediate or future effect, other than a transfer by virtue of a probate will or by law, except following payment of the applicable tax due from their allotment or after securing such tax payment; If the shares are transferred by virtue of a probate will or by law, the provisions of Section 102 and the 102 rules shall apply to the offeree's heirs or transferees, as the case may be. The trustee shall not transfer the Options to any third party, including any of the Offerees, except in accordance with instructions received from the Administrator.
- 7.3. The Options and all the other rights of the offerees under the Option Plan, and during the lock-up period - the Underlying Shares and any rights deriving therefrom - may not be transferred, assigned, sold, pledged or foreclosed, and no right may be granted to any third party other than to transfer to heirs by law subject to the terms of the Plan and the Options and subject to the lock-up period and the provisions of Section 102 and the 102 rules.
- 7.4. Prior to the payment of the applicable tax as stated in Section 7 to the 102 rules, Options or Underlying Shares may not be transferred, assigned, pledged, foreclosed or otherwise voluntarily encumbered, and no power of attorney or transfer deed, whether immediate or of future effect, may be issued, except by virtue of a probate will or by law; If the Options or the Underlying Shares are transferred by virtue of a probate will or by law as aforesaid, the provisions of Section 102 and the provisions of the 102 rules shall apply to the Offeree's heirs or transferees.
- 7.5. Transfer of rights to Options or to Exercised Shares pursuant to a probate will or in accordance with the Law shall be valid and binding on the Company only after the Company has been furnished with the following notarized documents:

- A. Written request for transfer and a copy of a legal document that creates or confirms the right of such person to act in relation to said Offeree's estate and which creates or approves the right of the transferee;
- B. Written consent by the transferee to pay any amount in respect of the Options or the Underlying Shares and consent to pay any payment required in accordance with the provisions of the Plan and consent to comply with all the provisions of the Plan and the Options award letter;
- C. Any other evidence required by the Administrator in order to establish the right to transfer the Options or the Underlying Shares granted under the Plan and/or any right deriving therefrom, and the validity of the transfer.

**Sincerely,**

**Elron Electronic Industries Ltd.**

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

**Yaron Elad, CEO**

**Niv Levy, CFO**