

Elron Electronic Industries Ltd.
(the “Company”)

May 23, 2021

Israel Securities Authority
www.isa.co.il

Tel Aviv Stock Exchange Ltd.
www.tase.co.il

(Via Magna)

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 20, 2021, the Board of Directors approved, following the recommendation and approval of the Compensation Committee, the future grant of non-tradeable options to an officer of the Company who is not a director or the CEO of the Company (in this Report, the “**Offeree**”) 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 Award**” or “**Options**”). The Offeree is expected to be an employee of the Company at the time of grant.

1.2. The Options will be granted to the Offeree 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, as amended from time to time (hereinafter: the “**Compensation Policy**”)¹ 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**”),

¹ For additional details regarding the current Compensation Policy, see Company’s Immediate Report regarding the convening of a meeting published on February 3, 2020 (Ref. No. 2020-01-010882), incorporated herein by reference, including Section 7 to the current Compensation Policy pertaining to the equity variable component. For details regarding the decision of the general meeting to amend the Compensation Policy, see immediate report regarding the convening of a meeting published by the Company on January 26, 2021 (Ref. No.: 2021-01-010717).

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 Offeree, see Section 18.9.12 of the Immediate Report Convening of a general meeting including in accordance with the Private Offering Regulations that the Company published on May 27, 2020 (Ref. No.: 2020-01-047860) (hereinafter: the "**May 2020 Meeting Report**"), incorporated herein by reference.

- 1.3. 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 index². The financial value of the Options to be allocated to the Offeree in respect of the bonus year of 2021 (the relative portion from the commencement date of his employment, which is expected to be July 1, 2021, on a linear and not an accounting basis) shall be equal to 50% of nine (9) times the officer's gross monthly salary. Accordingly, the fair value of the options that will be granted to the Offeree is estimated at NIS 270,000.
- 1.4. The grant of the Options is a private offering which is neither extraordinary nor material pursuant to the Private Offering Regulations.
- 1.5. The Offeree is not an "interested party", does 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.
- 1.6. The Option Award according to this report will not be listed for trading on any stock exchange. The underlying shares, which will be issued upon exercise of the Option Award, will be listed on the stock exchange as of the date of their issuance. 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.
- 1.7. 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.
- 1.8. 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 and subject to the commencement of Offeree's employment in the Company.

² See section 7.3 of the current Compensation Policy, incorporated herein by reference.

1.9. Subject to the Offeree 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 Company³ 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))⁴, 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 May 2020 Meeting Report, incorporated herein by reference.

1.10. 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 Offeree. The exercise price of each tranche as aforesaid in Section 1.7, will be NIS 13.27 which is the share price at the end of the last trading day before May 18, 2021 (the date of the approval of the Compensation Committee), plus a 10% premium of the share price as above (the "**Exercise Price**"). For details regarding the manner of exercising the Option Award by way of net exercise mechanism, see section 18.9.9 of the May 2020 Meeting Report, incorporated herein by reference.

1.11. 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

³ "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.

⁴ "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.

circumstances justify the extension of the Option Period, in relation to the Offeree, and subject to the Compensation Policy.

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 51,920,867 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 Offeree will be about NIS 270,000 (the “**Fair Value**”) whereas the number of Options is derived from the Fair Value according to “Black & Scholes” model.

2.3. Based on the Fair Value, the amount of Options to be allocated to the Offeree is 84,981 exercisable into up to 84,981 ordinary shares of the Company, representing 0.16% of the voting rights and of the issued and paid-up share capital of the Company following the issuance (0.15% on a fully-diluted basis)⁵.

3. The Terms of the Offered Securities

As set forth under Section 1.5 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 Offeree as a shareholder and the adjustments due to the grant of Options, see Sections 18.9.3 and 18.9.4 to the May 2020 Meeting Report, 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 20, 2021 (the last trading day prior to publication of this Report) is NIS 12.23 (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 Offeree for no consideration.

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

⁵ 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.~~4~~10 above.

To the best of the Company's knowledge, there is no agreement between the Offeree 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 Offeree will be subject to restrictions on the resale of the shares that will derive from the exercise of the offered Options pursuant to the provisions of Section 15C of the Law and the said Securities Regulations, 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 the Offeree, except in accordance with instructions received from the Administrator.
- 7.3. The Options and all the other rights of the Offeree 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