Elron Ventures Ltd.
(formerly Elron Electronic Industries Ltd.)

English Translation of the Periodic

Report for 2021

Elron Ventures Ltd.

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Elron Ventures Ltd.
(formerly Elron Electronic Industries Ltd.)

Periodic Report for 2021

Part I

English Translation of Description of Corporation's Business

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Chapter II: Description of Group Companies

1. Introduction

1.1. The operations and developments in the business of Elron Ventures Ltd. (formerly Elron Electronic Industries Ltd.) ("**Elron**" or the "**Company**") as of December 31, 2021 are described below. This description was prepared pursuant to the Israeli Securities Regulations (Periodic and Immediate Reports), 5730-1970.

1.2. Glossary

For convenience, the following definitions shall be ascribed the meanings set opposite them:

Elron or **the Company-**	Elron Ventures Ltd.;
Alcide-	Alcide IO Ltd.;
Allero-	Allero Development Ltd.
Aqwise-	Aqwise – Wise Water Technologies Ltd.;
associates-	companies over which the Company has significant influence and which are not subsidiaries;
Atlantium-	Atlantium Technologies Ltd.;
Audioburst-	Audioburst Ltd.;
Board of Directors Report-	Elron's Board of Directors Report, included in Part II of this Annual Report;
BrainsGate-	BrainsGate Ltd.;
CartiHeal-	CartiHeal (2009) Ltd.;
Cloudyn-	Cloudyn Software Ltd.;
Coramaze-	Coramaze Technologies Ltd.;
cyber-	Cybersecurity technologies;

Cynerio-	Cynerio Israel Ltd.;
DEP-	DEP Technology Holdings Ltd.;
DIC-	Discount Investment Corporation Ltd.;
dollar or **USD or $-**	U.S. dollar;
FDA-	U.S. Food and Drug Administration;
filing date-	signature date of this report;
Financial Statements-	Elron's Consolidated Financial Statements for 2021, included in Part III of this Annual Report;
group companies-	subsidiaries, associates, and other companies held by the Company;
IronScales-	IronScales Ltd.;
IDB Development	IDB Development Corporation Ltd.;
Imvision	Imvision Software Technologies Ltd.;
Jordan Valley-	Jordan Valley Semiconductors Ltd.;
Canonic-	Canonic Technologies Security Ltd. (Formerly Sighted Technologies Ltd.);
Keepy-	Keepy Artificial Intelligence Ltd.;
Kyma-	Zoll Medical Israel Ltd. (formerly: Kyma Medical Technologies Ltd.);
Medingo-	Medingo Ltd;
NASDAQ-	Nasdaq Global Select Market;
Nitinotes-	Nitinotes Ltd.;
Notal Vision-	Notal Vision Inc.;
One-View-	One-View. Space Ltd.;

Open Legacy-	Open Legacy Technologies Ltd.;
other companies held by the Company-	companies held by the company which are neither subsidiaries nor associates;
PLYmedia-	Plymedia Israel (2006) Ltd.;
Pocared-	Pocared Diagnostics Ltd.;
Rafael-	Rafael Advanced Defense Systems Ltd.;
RDC-	RDC Rafael Development Corporation Ltd.;
RDSeed-	RDSeed Ltd.;
Red Access-	RA Red Access Security Ltd.;
reporting date-	December 31, 2021;
Sayata-	Sayata Labs Ltd.;
Scribe-	Scribe Security Ltd.
Secdo-	Cyber Secdo Ltd.;
SecuredTouch-	SecuredTouch Inc.;
Sixgill-	SixGill Ltd.;
subsidiaries-	companies under the Company's control pursuant to IFRS 10, and whose financial statements are consolidated with the Company's Financial Statements;
TASE-	Tel Aviv Stock Exchange Ltd.;
Wonder Robotics-	Wonder Robotics Ltd.
Zengo-	Zengo Ltd. (formerly Kzen Networks Ltd.)

1.3. The financial data included in this Part I are presented in U.S. dollars, unless stated otherwise. The data in this report are as of December 31, 2021, unless stated otherwise.

1.4. The materiality of the information included in this Part I, and in general of the transactions and/or main companies described herein, was examined from Elron's perspective, while in certain cases descriptions were elaborated for the sake of providing a complete account of a subject matter.

1.5. Elron is an operational holding company that focuses on building technology companies. Elron's primary goal is to create value for its shareholders by enhancing and realizing its holdings (whether through exit transactions or public offerings), while seeking new investment opportunities in technology companies. Currently, Elron has significant holdings in medical device, cyber and enterprise software companies, and is examining investment opportunities mainly in cyber and enterprise software companies. This Part I presents details, among others, on main group companies. From Elron's perspective, a main company is a company that meets either the quantitative criterion or one of the qualitative criteria adopted by the Board of Directors as specified below:

(I) Quantitative criterion – a company in which the total investment in Elron's Statement of Financial Position exceeds 15% of Elron's total assets, as reflected in its most recent financial statements.

(II) Qualitative criteria – significant investment commitments by Elron, significant risks and exposure in connection with Elron's investment, the inherent potential in the investment from management's perspective, or significant value (current or potential) of Elron's investment, etc.

Out of the group companies, as of the filing date, RDC meets the quantitative and qualitative criteria, and CartiHeal and BrainsGate meet the qualitative criterion only, and are therefore deemed as main group companies. The composition of main companies may change from time to time due to, among others, changes arising from the sale of a company, investments in companies, or decreases in their value and change in value of the investment in Elron's financial statements.

1.6. In respect of ownership interest in shares of companies mentioned in this report, Elron's ownership interests in a group company through wholly owned corporations or companies are presented as direct ownership interests in the group company, unless stated otherwise.

1.7. Elron's ownership interests are rounded to the nearest whole percentage and are presented as of the reporting date, unless stated otherwise. Elron's ownership interests in a group company reflect its share in its outstanding share capital, and do not take into account dilution due to the exercise of options or other convertible instruments issued by it, unless stated otherwise. Elron's fully diluted holdings take into account all options and convertible instruments, unless the amount of shares to be received upon their exercise or conversion, as applicable, is not known in advance. Accordingly, Elron's ownership interests are subject to change, among others, as a result of the exercise or conversion of such options or loans by other shareholders or parties.

1.8. It should be noted that some of the data included in this Part I was obtained from studies, market surveys and the like. In the same places, there is a reference to the source from which the data was taken. Elron is not responsible for the content of said studies and surveys, and they were not independently checked by Elron.

Part I: Overview of Elron's Operations

2. Description of Elron's Operations and Description of Developments in Its Business

2.1. Description of Elron's Operations

2.1.1. Elron was incorporated in Israel in 1961 as a private company in accordance with Israeli laws. Elron is a public company whose shares are listed for trading on the TASE since 1975. In 1981 Elron listed its shares for trading on the NASDAQ. Over the years, Elron conducted additional offerings on the TASE and NASDAQ. In 2010, Elron voluntarily delisted from the NASDAQ, and from that point on its shares are traded over the counter in the United States. In August 2017, Elron deregistered its shares in the U.S., and since November 2017 its reporting obligations to the public under U.S. securities law were discontinued. For the benefit of its shareholders in the United States, the Company publishes certain financial information and other material information in English on the Company's website. In January 2022, Elron changed its name from Elron Electronic Industries Ltd. to Elron Ventures Ltd.

2.1.2. Elron is an operational holding company that focuses on building technology companies. Elron's current group companies include companies at different stages of development, mainly in the fields of cyber, enterprise software and medical devices.

2.1.3. Elron's primary goal is to create value for its shareholders by enhancing and realizing its holdings (whether through exit transactions or public offerings), while seeking new investment opportunities with significant exit potential. For this purpose, Elron strives for significant holdings in companies and acts to enhance their value through active involvement in their management and direction.

2.1.4. Elron is involved in the management of its group companies by means of active membership on their boards of directors and board committees and active assistance to management. Elron is directly involved in matters of policy guidance, strategic planning, marketing, selecting and manning senior management positions, determining the business plan, approving investments and budgets, funding, development and operational guidance, assistance in creating strategic partnerships, and the overall ongoing monitoring of its group companies' performance.

2.1.5. As part of its business strategy, Elron examines a broad range of proposals for investment and strategic cooperation in a broad range of technology fields, including through its subsidiary, RDC. Elron holds 50.1% of the issued and outstanding shares and voting rights of RDC and Rafael holds the remaining 49.9%. RDC establishes ventures and invests in early stage technology companies, including ventures utilizing Rafael's technologies, for the purpose of developing products for the civilian market, and ventures which have synergy potential and are based on the know-how of Rafael's experts or on Rafael's technologies. RDC also has first rights to commercialize military technologies developed by Rafael in civilian markets. For details about the agreement with Rafael see Section 19.1 below, and for details about RDC see Section 25 below.

2.1.6. <u>The Capital Deployment policy</u>

2.1.6.1. One of the salient features of Elron's operations is its involvement in the group companies, by supporting them in the early stages of product definition, in conducting proof of concept pilots, and in bringing products to market. Elron looks for talented entrepreneurs that have the ability to build innovative products for a large market and the ability to build successful companies, and strives to provide entrepreneurs with the support and guidance they need on their path to success, based on their specific needs, from establishing a diverse and talented management team, developing a product and making it suitable for the market, to developing a market penetration strategy (go-to-market- "GTM"), creating strategic partnerships, and securing financing.

2.1.6.2. The investment platform has been built and optimized over the past years to obtain several main objectives: sourcing and validation of potential investments in cyber and software for organizations (B2B software); increasing the potential return on investment by investment in early stage ventures (generally before reaching product/market fit ("PMF")); providing various tools and services for research and development, accelerating market penetration, and back office for entrepreneurs, based on their unique needs.

2.1.6.3. The investment platform is based on four circles of value: a management team that includes both tech and business experts and experienced investors as described above, strategic partners, an advisory board of experts and a circle of entrepreneurs in Elron's investment activity ("Elronists").This platform has proven itself and has been successful in building value for companies held by Elron, from seed early stage of investment to growth and realization, and in creating value for its shareholders.

2.1.6.4. The first value circle is Elron’s core team comprised of technology and business experts and leading investors with extensive experience cybersecurity and enterprise software for enterprises. These are growing and dynamic sectors driving continuous innovation in which strategic players struggle to remain competitive and seek opportunities to expand their offering. This opportunity creates a double challenge for early-stage investors of separating the wheat from the chaff among complex technological solutions for highly specific environments, and of achieving PMF in rapidly evolving markets. Early-stage investors therefore require domain specialization to remove these inherent risks.

2.1.6.5. The second circle of value is Elron’s strategic partnerships with senior executives in leading enterprises to better support the group companies in the process of finding the product market fit - PMF and GTM strategies for the product, as well as to help them develop their first product with data from their target market, in active production environments, and with potential customers. The model is based on the success of the "Rafael incubator" model, by partnering with other enterprises from diverse verticals such as Insurance, Tech, Finance and Telecom.

2.1.6.6. The third circle of value is a growing advisory board of senior executives and content experts from leading global enterprises who provide the entrepreneurs with their unique experience and network and are actively engaged in all that pertains to PMF, connection with potential customers and connection to the United States market. The advisory model includes due diligence of investment opportunities, including validation with peers; taking part in advisory meetings with group company entrepreneurs in order to provide feedback and advice at critical decision points; periodic participation in strategic discussions on Elron’s key challenges, etc.

2.1.6.7. The fourth circle of value comprises entrepreneurs and investors, with whom Elron nurtures long-term connections and who support the group companies while using their diverse and successful experience and which assist Elron in identifying talented entrepreneur teams at early stages.

2.1.7. For details about developments in Elron and its group companies during the period of this report and subsequently, see Section 1.2 of the Board of Directors Report.

2.1.8. For details about all of Elron's investments (direct and indirect through RDC) in 2021, see Section 1.4 of the Board of Directors Report, Notes 3 and 7 in the Financial Statements, and Sections 3-4 of Part IV of this Annual Report.

2.1.9. For details regarding CartiHeal's investment and sale option transaction, see Section 23.15 below.

2.1.10. For details regarding exit transactions that the Company completed during 2021, see Section 1.2.1 of the Board of Directors Report.

2.2. Elron's Shareholders

2.2.1. DIC is Elron's controlling shareholder and as of the filing date holds 60.08% of its outstanding share capital and voting rights (54.90% fully diluted). DIC is a public company and a reporting company. For details regarding share purchase transactions by DIC of shares of Elron during the last two years, see Section 4 below.

2.2.2. The following in this section is to the Company’s best knowledge:

On September 25, 2020, a judgment was granted by the Tel Aviv-Yaffo District Court (the “**Judgment**” and the “**Court**”, respectively), in which an order was issued for initiation of legal proceedings against IDB Development and for its liquidation, subsequent to an application by the bond holders (series N) of IDB Development and calling for IDB development’s immediate repayment to such series. According to the judgment, Adv. Ofir Naor was appointed trustee of IDB Development (“**IDB Development Trustee**”), and on October 12, 2020, the Court appointed the IDB Development Trustee as a temporary receiver of the DIC shares that were pledged in favor of ’ IDB Development and some of its creditors (approximately 17.2 million shares of DIC which constituted about 12% of DIC’s issued and paid-up capital (the “**Additional Shares**”). The Court also appointed Adv. Raanan Klir and Adv. Alon Binyamini as temporary receivers of the DIC shares that were pledged in favor of the bond (series N) holders of IDB Development (about 99.3 million DIC shares, which constituted about 70.2% of

DIC's issued and paid-up capital (the "**Controlling Shares**"). On October 13, 2020, the Court appointed the temporary receivers as permanent receivers (the "**Receivers**").

Further to the Court's approval, on October 14, 2020, the Receivers and the IDB Development Trustee (together: the "**Officers**") issued a request for proposals for the purchase of the Controlling Shares and the Additional Shares (at the discretion of the bidder) (the "**RFP Process**"). During the relevant period, the Trustee and the Receivers received, among other offers, a proposal from Mega Or and an investor group headed by Mega Or for the purchase of the Controlling Shares and Additional Shares. On November 10, 2020, a resolution was passed at the IDB Development bond holders' meeting to accept Mega Or's offer.

On November 20, 2020, the Court approved the sale of the Controlling Shares and the Additional Shares according to Mega Or's offer, the principal terms of which are as follows:

2.2.2.1. Mega Or will purchase the Controlling Shares for a sum of NIS 950 million. The Controlling Shares will be sold free and clear of any debt, lien, foreclosure and any other right ("**Free and Clear**").

2.2.2.2. Mega Or will purchase the Additional Shares in exchange for approximately NIS 164.5 million. The additional shares will be sold Free and Clear. It is noted that the offer to purchase the Additional Shares was conditional on the purchase of the Controlling Shares;

2.2.2.3. Completion of the purchase of these DIC shares will be subject to obtaining the approval of the Ministry of Communications that the execution of the transaction will not result in Cellcom breaching the licenses under which Cellcom or corporations it holds operate (the "**Ministry of Communications' Approval**");

2.2.2.4. It was further noted in Mega Or's offer for the purchase of the Controlling Shares, that to the extent this offer is accepted, Mega Or intends to use DIC's cash on hand to reduce DIC's leverage level while focusing DIC on the real estate field and selling activities outside this field of activity. It was further clarified in the offer that there is no certainty about when this would be implemented and that they depend, among other things, on decisions of DIC's authorized organs, obtaining the approvals required by law, and the business feasibility to realize these holdings.

Completion of the transaction for the transfer of the Controlling Shares and the Additional Shares:

On March 15, 2021, the Ministry of Communications' Approval was granted, such that Mega Or will hold up to 29.9% of DIC's means of control.

On March 16, 2021, DIC received the Commissioner's conditional approval for the merger between Mega Or and DIC (the "**Conditional Approval**") and on April 13, 2021, DIC received the Commissioner of Competition's notice that the conditions for the merger between DIC and Mega Or, as stated in the Conditional Approval, were withdrawn.

On March 25, 2021, the first completion date took place, in which about 35.2 million DIC shares, constituting about 24.9% of its issued capital, were transferred to Mega Or, and an additional 31.9 million DIC shares, constituting about 22.5% of DIC's issued capital, were transferred to other buyers. On April 20, 2021, approximately 7.0 million additional DIC shares, constituting about 5.0% of DIC’s issued capital, were transferred to Mega Or, such that Mega Or’s holding of DIC’s issued capital after the transfer, as of the report date and near the publication date of the report is approximately 29.9%.

In February 2021, the Board of Directors of Elco Ltd (“**Elco**”) approved the submission of an offer to acquire between 27% and 29.8% of DIC's share capital. On April 21, 2021, Elco received the Commissioner of Competition’s decision, approving the merger of Elco and DIC. In June 2021, Elco received the Ministry of Communications' approval to acquire DIC shares, and on June 3, 2021, Elco completed the acquisition of DIC shares that constitute approximately 29.8% of DIC’s issued capital.

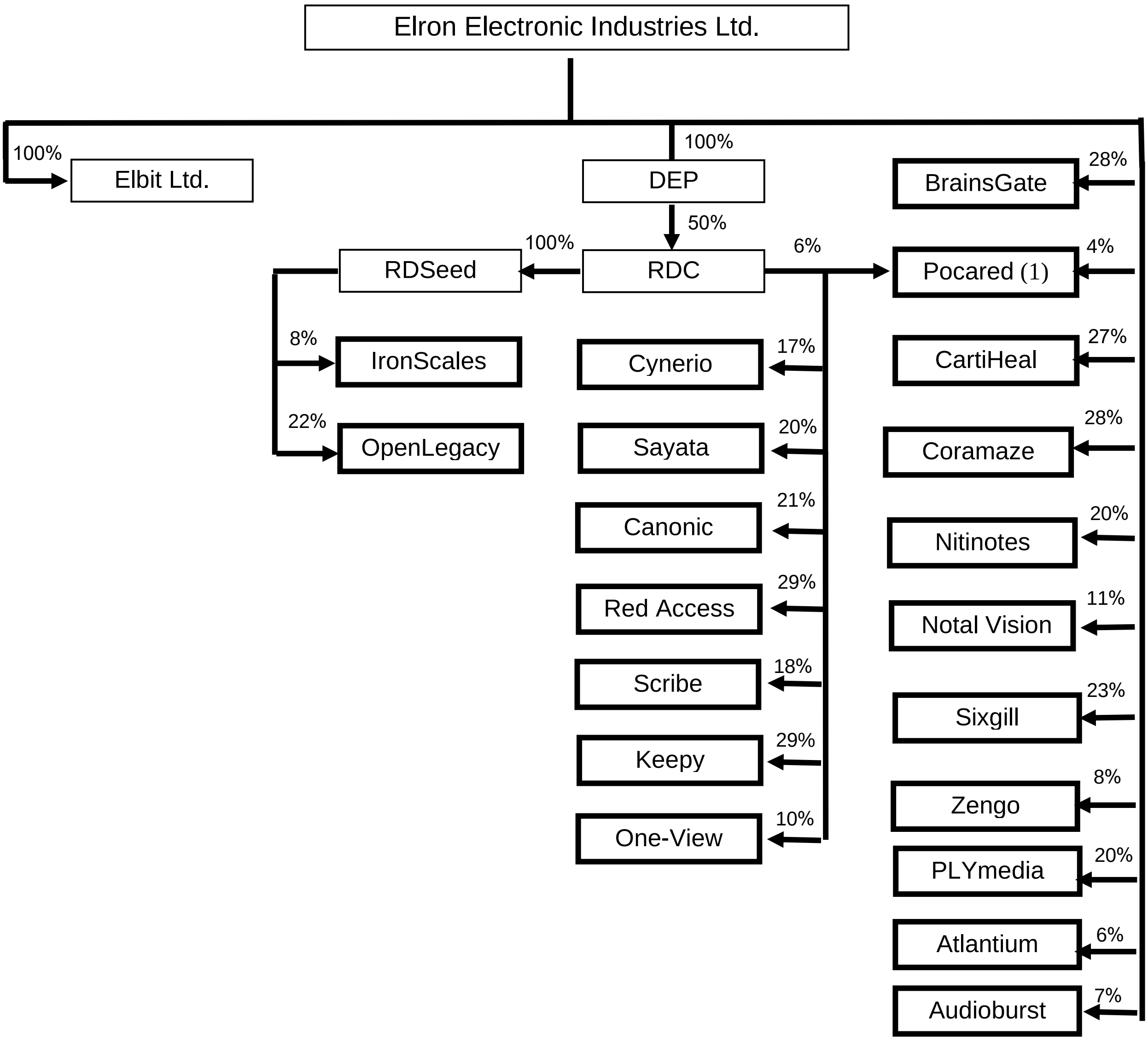
With completion of the aforesaid transfer of DIC shares to Mega Or, DIC became a company without a Controlling Shareholder (as the term "Control" is defined in the Securities Law), and is no longer a "Tier Company" (as defined in the Concentration Law). Accordingly, the companies controlled by it, which are Reporting Corporations under the Securities Law, are no longer subject to restrictions under the Centralization Law pertaining to the ability of these companies to directly hold other tier companies.

2.2.3. For further details about the holders of 5% or more of Elron's outstanding share capital as of the filing date (based on reports provided to Elron until shortly before the filing date) see Section 9 of Part IV of this Annual Report.

2.3. <u>Group Companies Holdings Diagram and Details on Company’s Holdings</u>

The structure of Elron’s holdings and details regarding its holdings are presented in the following diagram and table and include the active group companies held by Elron (including those held through its subsidiaries – DEP, RDC and RDSeed), in which its holdings are not insignificant in its view.

The diagram presents Elron's ownership interests in the outstanding share capital of its group companies (reflecting Elron's holding in ordinary shares and preferred shares on an as converted basis) and not on a fully diluted basis. In the table, the full holdings, rights and investments of RDC are attributed to Elron. To the extent that there were changes to the holdings after the reporting date, they are specified in the footnotes to the table. For information regarding exit transactions that the Company completed during 2021, see Section 1.2.1 of the Board of Directors Report.



(1) In addition to the direct shareholding rights in Pocared, Elron and RDC hold approximately 21% and 17%, respectively, of the economic rights in Pocared.

Group company name[1]	Year of Incorporation	Year of First Elron Investment	Business	Basis of presentation in the Financial Statements	Rights to appoint directors[2]	Percentage of shareholdings and voting rights	Fully diluted percentage of shareholding and voting rights	Amount invested by Elron and in total (in USD millions)
RDC	1993	Not relevant	Incubation and development of companies based on or reliant on Rafael technology	Consolidated	Five directors (out of nine directors)	50.10%	50.10%	NA
BrainsGate	2000	2005	Development of a device to treat ischemic stroke based on electrical stimulation	Equity method	One director (out of six directors)	28.51%	24.93%	Elron: 30.5 Total: 110.9
CartiHeal	2009	2012	Development of an implant for repair of cartilage and bone defects in joints	Equity method	Three directors (out of twelve directors)	27.07%	24.98%	Elron: 18.4 Total: 70.5

[1] Subsequent to reporting date, RDC invested for the first time in Wonder Robotics and Allero, see Section 26 below.

[2] In some of the companies, Elron and RDC did not in practice appoint all of the directors they are entitled to appoint.

Group company name[1]	Year of Incorporation	Year of First Elron Investment	Business	Basis of presentation in the Financial Statements	Rights to appoint directors[2]	Percentage of shareholdings and voting rights	Fully diluted percentage of shareholding and voting rights	Amount invested by Elron and in total (in USD millions)
Audioburst[3]	2015	2015	Development and marketing of a search engine that enables finding and hearing audio content on any topic worldwide	Fair value	No right of representation on the Board of Directors	7.03%	5.89%	Elron: 0.2 Total: 29.0
Open Legacy	2013	2014	Development and marketing of an automated API integration platform that speeds up digital transformation of information systems	Equity method	Three directors (out of nine directors)	22.41% (held by RDC only)	18.28% (held by RDC only)	RDC: 8.2 Total: 67.9
Atlantium	2002	2006	Development, manufacturing and marketing of ultraviolet based water disinfection solutions	Fair value	One director (out of seven directors)	6.16%	5.22%	Elron: 13.7 Total: 68.7

[3] In March 2022, subsequent to the reporting date, a financing round in Audioburst was completed. For details, see Note 7.F of the Financial Statements.

Group company name[1]	Year of Incorporation	Year of First Elron Investment	Business	Basis of presentation in the Financial Statements	Rights to appoint directors[2]	Percentage of shareholdings and voting rights	Fully diluted percentage of shareholding and voting rights	Amount invested by Elron and in total (in USD millions)
IronScales	2014	2015	Development and marketing of a solution against spear phishing attacks	Fair Value	No right of representation on the Board of Directors	8.33% (held by RDC only)	7.47% (held by RDC only)	RDC: 1.1 Total: 57.4
One-View[4]	2019	2020	Development of an automated platform for analyzing and obtaining insights from satellite imagery from multiple sources based on artificial intelligence (AI) algorithms.	Equity method	One director (out of six directors)	9.79% (held by RDC only)	8.82% (held by RDC only)	RDC: 0.8 Total: 3.5
Zengo	2018	2018	Secured crypto wallet without compromising between security and user experience	Fair value	No right of representation on Board of Directors	8.19%	7.34%	Elron:2.9 Total: 27.8

[4] In March 2022, subsequent to the reporting date, there was an additional investment in One-view. For details, see Note 3.B.4.n) to the Financial Statements.

Group company name[1]	Year of Incorporation	Year of First Elron Investment	Business	Basis of presentation in the Financial Statements	Rights to appoint directors[2]	Percentage of shareholdings and voting rights	Fully diluted percentage of shareholding and voting rights	Amount invested by Elron and in total (in USD millions)
Notal Vision[5]	2000	2002	Ophthalmic diagnostic services for home monitoring of macular retinal degeneration (AMD) patients and improving their vision	Fair value	One director (out of nine directors)	10.66%	7.88%	Elron: 14.5 Total: 137.1
Nitinotes	2014	2016	Development of an automated bariatric endoscopy device for easier, safer volume restriction and motility impairment procedures for treatment of obesity	Equity method	One director (out of six directors)	20.00%	18.20%	Elron: 3.0 Total: 13.5

[5] In March 2022, subsequent to the reporting date, there was an additional investment in Notal Vision. For details, see Note 7.D. to the Financial Statements.

Group company name[1]	Year of Incorporation	Year of First Elron Investment	Business	Basis of presentation in the Financial Statements	Rights to appoint directors[2]	Percentage of shareholdings and voting rights	Fully diluted percentage of shareholding and voting rights	Amount invested by Elron and in total (in USD millions)
Scribe	2021	2021	Development of a supply chain assurance solution that secures the software supplier's digital assets throughout the different stages of software development.	Equity method	One director (out of five directors)	18.49%	16.73%	RDC: 3.5 Total: 7.0
Cynerio	2017	2018	Development of a security platform that protects connected medical devices in health care systems against cyber threats	Equity method	One director (out of seven directors)	17.21% (held by RDC only)	14.81% (held by RDC only)	RDC: 5.3 Total: 35.4

Group company name[1]	Year of Incorporation	Year of First Elron Investment	Business	Basis of presentation in the Financial Statements	Rights to appoint directors[2]	Percentage of shareholdings and voting rights	Fully diluted percentage of shareholding and voting rights	Amount invested by Elron and in total (in USD millions)
Sayata	2016	2019	Develops and markets software that combines the expertise of cyber security researchers, insurance professionals, IT developers and data scientists in order to help insurance companies contract cyber insurance policies, assess the risk inherent in their customers' cyber policies and accordingly to provide appropriate pricing.	Equity method	One director (out of seven directors)	20.49% (held by RDC only)	17.69% (held by RDC only)	RDC: 14.1 Total: 62.2
Sixgill[6]	2014	2016	Development and marketing of an automated system that detects and eliminates cyber threats on the "dark web"	Equity method	One director (out of seven directors)	23.30%	19.72%	Elron: 6.0 Total: 20.1

[6] In March 2022, subsequent to the reporting date, there was an additional investment in Sixgill. For details, see Note 3.B.4.g) to the Financial Statements.

Group company name[1]	Year of Incorporation	Year of First Elron Investment	Business	Basis of presentation in the Financial Statements	Rights to appoint directors[2]	Percentage of shareholdings and voting rights	Fully diluted percentage of shareholding and voting rights	Amount invested by Elron and in total (in USD millions)
Pocared[7]	2004	2007	Development of a real-time and automated microbiology lab system for infectious diseases diagnosis using optical technology	Equity Method	One director (out of five directors)	9.84% held by Elron and RDC (RDC holds 5.90%)	8.73% held by Elron and RDC (RDC holds 5.24%)	Elron & RDC: 87.4 Total: 139.6
PLYmedia	2006	2008	Development and marketing of advertising exchange services	Equity method	One director (out of five directors)	20.28%	13.70%	Elron: 2.5 Total: 11.5
Coramaze[8]	2013	2015	Development of a minimally invasive device to repair heart valves	Equity method	Two directors (out of six directors)	28.44%	25.75%	Elron: EUR 5.3 million Total: EUR 14.8 million

[7] In addition to the direct holding in Pocared, Elron and RDC hold approximately 21% and 17%, respectively, of the economic rights in Pocared. See Note 3.B.4.c) of the Financial Statements for additional investments in Pocared's capital subsequent to the reporting date.

[8] Including through an indirect holding in Coramaze Technologies GmbH. Coramaze Technologies Ltd. was established in 2017.

Group company name[1]	Year of Incorporation	Year of First Elron Investment	Business	Basis of presentation in the Financial Statements	Rights to appoint directors[2]	Percentage of shareholdings and voting rights	Fully diluted percentage of shareholding and voting rights	Amount invested by Elron and in total (in USD millions)
Keepy	2021	2021	Development of a solution in the space of HRTech & People Analytics focusing on employee engagement & retention.	Equity method	One director (out of three directors)	28.99%	26.09%	RDC: 3.0 Total: 3.0
Canonic	2020	2020	Field of securing cloud software services (SAAS). Development of a product for detection and prevention of cyber-attacks against cloud software services.	Equity method	One director (out of four directors)	21.33% (held by RDC only)	19.45% (held by RDC only)	RDC: 3.2 Total: 5.8
Red Access	2021	2021	Development of advanced protection for enterprises from the dangers of working on the internet.	Equity method	One director (out of three directors)	29.20%	26.03%	RDC: 3.0 Total: 3.0

3. Field of Activity

Elron operates in one field of activity (considered one reportable segment, in accordance with IFRS 8, Operating Segments), namely investing in and enhancing the value of companies engaged in various technology fields and realizing such investments through exit transactions or public offerings.

4. Investments in Elron's Capital and Transactions in Its Shares

4.1. In February 2021, the Company obtained a permit to extend the February 2019 shelf prospectus period for an additional 12 months, i.e. until February 2022. For additional details, see the Company's Immediate report dated February 18, 2021 (ISA ref.: 2021-01-019872). The Company intends to file a new draft shelf prospectus with the Israel Securities Authority and Tel Aviv Stock Exchange soon after the publication of these reports, in order to preserve, for the Company, the possibility to raise capital on an ongoing basis.

4.2. In April 2021, Elron completed an offering of 8,855,400 shares to the public on the Tel Aviv Stock Exchange. The price determined in the offering pricing was ILS 12.60 per share (approximately USD 3.90 per share). In the offering, Elron raised approximately ILS 111.6 million (approximately USD 34.3 million), and approximately ILS 109.5 million (approximately USD 33.6 Million) after the offering expenses. It is noted that DIC acquired shares in the offering for approximately ILS 61.7 million (approximately USD19 million). For more information, see the Company's immediate reports dated April 21, 2021 and April 22 2021 (ISA ref no.: 2021-01-067926, 2021-01-067947, 2021-01-069156).

4.3. In May and July 2020, 971,138 non–tradeable options to purchase ordinary shares of the Company par value NIS 0.003 (hereinunder the “Options”) were issued to the CEO, and 1,388,156 Options were issued to two other officers who were not directors or the CEO of the Company. For additional details regarding the issuance terms, the vesting acceleration and Options exercisability, see Note 12.C to the Financial Statements as well as immediate reports of the Company dated June 29, 2020 (ISA ref: 2020-01-068481 and 2020-01-068502), and July 2, 2020 (ISA ref: 2020-01-070749).

4.4. In July 2021, 84,981 options were granted to an officer who does not serve as a director or CEO of the Company. For further details regarding the terms of the issuance, see an immediate report of the Company dated June 30, 2021 (ref no. 2021-01-046066).

4.5. In January 2022, subsequent to the reporting date, the Company's Board of Directors approved the grant of 1,261,164 options to officers who are not directors, other employees of the Company and the subsidiary, RDC, and to permanent service providers of the Company. Concurrently, the Company's Board of Directors also approved the grant of 467,508 options to the Company's CEO as part of his terms of office and employment and in accordance with the compensation policy. The option grant to the CEO of the Company was brought to the approval of the Company shareholders' meeting, which is scheduled for March 13, 2022, subsequent to the reporting date. The said grant to the CEO is subject to approvals according to law, including the approval of the Tel Aviv stock exchange. For additional details, see Note 12.C to the Financial Statements, and immediate reports of the Company from January 30, 2022 (ref no. 2022-01-011439), February 4, 2022 (ref no. 2022-01-013551 and 2022-01-013554) and March 6, 2022 (ref no. 2022-01-022359).

4.6. On March 10, 2022, subsequent to the reporting date, the Board of Directors of the Company, following the approval and recommendation of the Compensation Committee, approved the terms of tenure of Mr. Dan Hoz as active Chairman of the Board of Directors. Within this framework and pursuant to the compensation policy, the Board of Directors approved the grant of 646,100 options to Mr. Hoz. The terms of tenure of the Chairman of the Board are subject to the approval of the General Meeting and the Company intends to publish a meeting summoning report accordingly in the coming days. In addition, the allocation of such options is subject to approvals according to law, including the approval of the Tel Aviv Stock Exchange. For further details, see Note 12.C to the Company's Financial Statements.

5. Dividend Distribution

5.1. Elron did not distribute dividends in the past two years.

5.2. The Company has not adopted a dividend distribution policy.

5.3. As of December 31, 2021, the balance of the Company's profits as defined in Section 302 of the Israel Companies Law, 5759-1999 amounts to $0.

6. Financial Information on Elron's Field of Activity

6.1. As mentioned in Section 3 above, Elron operates in one segment. This segment includes investments in group companies and the sale of group companies.

6.2. See the Board of Directors Report regarding Developments in the Company's financial data.

7. General Environment and Impact of External Factors on Elron's Operations

7.1. The State of the Venture Capital Industry

Global View:

Global venture investment in 2021 totaled $643 billion, compared to $335 billion in 2020—marking 92% percent year over year[9]. Q4 2021 closed the year with $176 billion in funding, which was lower than Q3 2021 in the amount of just over $180 billion. Also, the last quarter of 2021 saw a decrease in number of investments across all investment stages[10].

[9] https://news.crunchbase.com/news/global-vc-funding-unicorns-2021-monthly-recap/
[10] https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/01/venture-pulse-q4-2021.pdf

The US was the leading region for total dollars, followed by Asia, Europe, and LatAm. It is worth mentioning that the median and average pre-money valuations for late-stage funding in Q3 2021 decreased slightly to $115 million and $736 million, respectively.

The global unicorn count hit 959 in 2021 — up 69% from 2020, adding to its count 517 new unicorns (valuations of $1 billion and up). The increase was driven primarily by rapidly rising valuations of late-stage deals during the first half of 2021. Today, there are 44 startups with decacorn ($10 billion and up) valuations[11]. Nonetheless, Q3 2021 and Q4 2021 witnessed a decline in exit value, to just below $189 and $183 billion respectively, compared to the $267 billion gained in Q2 2021[12]

The number of global mergers and acquisitions reached the 10,000 mark in 2021 – an increase of 58% compared to 2020. M&As have gone up in the last 6 straight quarters to 2,938 in Q4 2021[3]. There were 1035 IPOs on the US stock market in 2021, 120.4% higher than the 480 IPOs in 2020[13]. Nearly all of this year's largest US tech IPOs are in a bear market, with stocks plunging between 11% and up to 74% from their peak[14]. In Q4 2021, publicly listed SaaS companies saw a significant correction downward in multiples as investors shifted away from riskier high growth companies[15]. Should this trend continue, it may affect valuations in the private capital raising markets in 2022 across all geographies.

Israel:

Israeli tech companies, with a distinct majority of Enterprise Software focused players, raised $25.4 billion in 2021, representing 136% growth in equity investments over 2020, surpassing the average global increase

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[11] CB Insights 2021 State of Venture Report
[12] https://files.pitchbook.com/website/files/pdf/Q4_2021_PitchBook_NVCA_Venture_Monitor.pdf#page=1
[13] https://stockanalysis.com/ipos/2021/
[14] https://www.cnbc.com/2021/12/07/tech-ipos-a-bad-bet-in-2021-all-but-one-in-bear-market-territory.html
[15] https://softwareequity.com/wp-content/uploads/2022/01/SEG%20Research%20-%202022%20Annual%20SaaS%20Report.pdf

(71%) and that of the US (78%). The number of mega-rounds ($100 million and above) climbed from 22 in 2020 to 74 in 2021, hitting $14.77 billion — 310% more than last year — and making up more than half of the funding total. 33 privately held technology companies join the billion-dollar club, reaching a total of 53 Israeli unicorns.

7.2. Cyber Security General Overview

Organizations of all sizes are faced with a more sophisticated and motivated set of cyber attackers. Coupled with an increasingly complex IT environment and expanding attack surface, driven by ubiquitous connectivity, globalization, mobility and expansion to cloud computing. Business changes, such as expanding the software supply chain used by the organization and API-based business partnerships are also expanding the cyber attack surfaces of organizations. These trends lead to security and IT teams of organizations are struggling to maintain adequate levels of cyber security, provide visibility to their management teams, and meet increasing regulatory requirements. At the same time, they must navigate a shortage of capable cyber security professionals.

Today's cybersecurity threat landscape is more dangerous than ever. Breaches are complex and often executed over multiple steps known in the industry as the threat lifecycle. The typical threat lifecycle starts with an initial exploit to enter a system, historically using malware, but increasingly using malware-free or fileless methods, to penetrate endpoints and establish a beachhead inside the corporate perimeter. Once inside, adversaries move laterally across the corporate environment where they collect credentials and escalate privileges enabling the typical adversary to download a larger, more destructive malware program or connect with an external control source. At this stage in the threat lifecycle, the adversary is able to encrypt, destroy, or collect sensitive data.

Out of these challenges there is a growing need for cyber security. IT and OT and development and engineering teams are required to be better aligned and work together to identify, manage and reduce risk and more nimbly adapt to emerging threats.

The constant changes in the threat outline create new needs and thirst for new solutions all the time. This reality is fertile ground for the growth of new ventures alongside new developments in existing companies.

<u>The lifecycle of a software/cyber company:</u>

Most ventures raise their first investment round, known as the 'seed' round, at a very early stage, before the venture has even reached a mature product. Companies usually raise initial capital in a 'seed' round based on a preliminary prototype, and sometimes even based on an idea for a solution, with market indications of the severity of the problem the product is designed to address. The first period in a venture's life (one-two years) is dedicated to the most accurate identification possible of the product-market fit, i.e., building a product that will be in demand and be tailored as best as possible to the requirements of the potential customers in the market. This stage is critical to the life of the venture, and is a fundamental criterion for its success and in some cases the venture even chooses to make substantial changes to the product in order to adapt it to market requirements. For such ventures, which generally aim to sell their products to organizations (B2B), it is commonly said that a company has reached this unique point of product-market fit when it manages to recruit its first 5-10 paying customers, although the exact definition of PMF varies between different markets and in different products.

The stages of development in software companies in general, and in cyber companies in particular, continue also after the company has already reached a product that is sold in the market. Ongoing R&D is required to both develop new products and to make adjustments, expansions of the product to meet additional needs of the of the client, and upgrades to keep up with the changing world and the customers' frequently changing needs. This characteristic also frequently enables ventures to charge customers a higher price for using their products. Usually, the business model of software/cyber companies which sell solutions to organizations is based on annual subscription fees. For many companies, new customers may be reached both by direct sales efforts and through various collaborations with sub-distributors or OEM (Original Equipment Manufacturer) technology partnerships.

The next financing round usually takes place after the company has initial revenues, although now, in the current venture capital-saturated environment, there are more and more cases in which even companies without significant revenues are able to raise, with increasingly larger amounts and valuations, post-seed funding, depending on a large range of factors.

In the next stages the venture usually focuses, alongside continued development, on efforts to increase sales, also by increasing the resources dedicated to marketing & sales and global expansion. Later on, companies continue to make financing rounds as they manage to make business progress, mainly in terms of growing their sales volume or proving other business parameters which indicate the effectiveness of their sales and marketing systems.

In the highly competitive cyber market, and in view of the constant changes in the threat landscape, there is great diversity in the amounts and stages of investment on the one hand, and the timing and amount of exits on the other hand. It is possible to see companies raising very large amounts (equivalent to the second round of an average company) already in the first round, as well as companies raising a seed round that is larger than most first rounds of most companies. Sometimes, a company may be sold before it has even recruited a single paying customer. There are no rules or laws as to the timing of an exit, or its size. Some exits are in fact an acquisition of a technological core, which is an optimal fit for a larger solution of another company. Other exits can be founded on customer base or market leadership, and sometimes an exit mainly concerns acquiring development teams with unique skills.

A reasonable lifetime of a cyber and software company to maturity and exit is around 7[16] years, but recent years have seen two opposite trends emerging at the same time. On the one hand, some companies reach an exit earlier, sometimes even within two years of establishment. On the other hand, there is the trend of aspiration to build up large companies, which are not looking for a quick exit, but are built to become market leading public companies.

7.3. For details on possible repercussions of the spread of the coronavirus, see Section 21.1 below.

7.4. For details on the factors impacting Elron's results of operations and financing sources, see Section 1.1.6 of the Board of Directors Report. For details on the restrictions and regulation on Elron's operations see Section 18 below. Also see Section 21 below regarding the risk factors affecting Elron's and the group companies' operations.

8. Critical Success Factors in the Field of Activity

8.1. As previously mentioned, Elron is an operational holding company that focuses on building technology companies, and its current group companies include companies at different stages of development, mainly in the fields of cyber, enterprise software and medical device companies.

8.2. Technology fields in which the group companies operate are characterized by the high degree of risk inherent in their products, their continuous technological innovation and their penetration into global markets, which

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16 https://momentumcyber.com/docs/Yearly/2022_Cybersecurity_Almanac_Public_Edition.pdf

require investment of considerable resources and continuous development efforts. The future success of the group companies is dependent upon, among others, technological quality, intellectual property, prices and nature of their products in comparison to their competitors, and ability to introduce new products to the markets at the right time, while offering cost effective solutions suitable to their customers' needs. In addition, the group companies' future success depends on their ability to raise financing and the condition of the global capital markets.

8.3. Some of the group companies engage in the development of medical devices. This industry is characterized by significant investments, prolonged research and development, and extensive regulation. The development of medical devices involves many elements of uncertainty, as there is no assurance that the group companies' efforts to demonstrate the efficacy, safety, and cost effectiveness of the devices they are developing will succeed. At times, such failure becomes apparent at relatively late stages, after Elron has invested significant resources in the group company.

8.4. The future success of Elron and its group companies is affected by, among others, the following factors:

8.4.1. Elron's access to investment opportunities with significant exit potential (deal flow), and ability to recognize such opportunities.

8.4.2. Elron's ability to recruit managers and employees with the necessary qualifications and experience for guiding the group companies and enhancing their value, who will also be able to effectively serve as board members at the group companies.

8.4.3. Elron's ability to effect exit transactions (public offerings or trade sales) which is affected by external factors (the state of the economy, hi-tech industry, venture capital industry, capital markets, and various regulatory and contractual constraints), and by management's ability to successfully lead exit transactions.

8.4.4. Elron's ability to obtain sufficient financing to support the group companies over time and provide them with follow-on investments, which is affected, inter alia, by the state of the economy, capital markets, and venture capital industry.

8.4.5. The group companies' ability to develop products that are technologically superior to those of their competitors, and maintain these advantages over time.

8.4.6. The group companies' ability to complete the development of their products and prove their efficacy, including in clinical trials in the case of the medical device group companies, and through conducting pilots by cyber and software companies .

8.4.7. The group companies' ability to obtain the necessary regulatory approvals to continue developing their products and market them in various countries around the world, especially in the case of the medical device group companies.

8.4.8. The group companies' success in raising sufficient capital to finance their operations until they manage to break even, which is affected, inter alia, by the state of the economy, capital markets, and venture capital industry.

8.4.9. The group companies' ability to transition from development stage to marketing and manufacturing stage operations, including establishing commercial manufacturing capabilities, establishing sales and marketing infrastructure, and penetrating competitive markets.

8.4.10. The group companies' ability to develop additional products and/or new applications based on the platforms they developed, and expand their pipeline of products.

8.4.11. The group companies' ability to market and sell their future products in significant quantities directly or through strategic partnerships or license agreements.

8.4.12. The group companies' ability to protect their intellectual property, including through patents.

8.4.13. Elron's ability to identify, as early as possible, companies and ventures operating in areas that are not yet saturated with cyber and software solutions.

8.4.14. Elron's ability to assist its cyber and software group companies reach customers and strategic partners, and its ability to build a network of relevant connections with the world's leading cyber companies.

9. Main Entry Barriers in the Field of Activity

9.1. Knowledge and expertise in the field of activity: Identifying worthy investment opportunities, being able to guide the group companies and enhance their value, and being able to successfully exit mature companies hinge on the ability to retain top-tier managers with suitable knowledge, experience and qualifications, who have access to investment opportunities with significant exit potential (deal flow). Therefore, any potential competitor will need to invest considerable effort in building such knowledge and expertise or in recruiting managers with these skills.

9.2. Sufficient resources: Investing in and supporting hi-tech companies over the long-term requires significant capital, due to the considerable costs involved in their ongoing research and development activities.

9.3. Intellectual property: The group companies' protection of their intellectual property is an entry barrier for competitors that seek to use technologies and develop products similar to those developed by the group companies.

9.4. Lengthy and expensive development and regulation stages: The research and development and market approval regulatory processes (mainly in the U.S.) of the group companies which develop medical devices are usually prolonged and require significant capital. Therefore, any potential competitor will have to invest significant time and money.

10. Competition Structure in the Field of Activity

10.1. As an operational holding company that seeks new investment opportunities, Elron competes with other entities that seek to invest in companies, such as venture capital funds, strategic investors (large technology companies which invest in their field of activity or tangential fields), private equity firms and other investors. For details on the state of the venture capital industry, see Section 7.1 above.

10.2. In addition, the group companies operate in industries that are rapidly evolving and extremely competitive. Many of these companies compete with companies that are more established and have an advantage in terms of resources, and technical and marketing capabilities. As such, these competitors are able to respond more quickly to new or emerging technologies or changes in clients' requirements and needs, and offer more attractive prices for their products and services.

10.3. Elron has competition in the content worlds in which it invests. There are a number of venture capital funds that fully or significantly specialize in the cyber field, which in recent years have built value-bearing mechanisms specific for this field - broad networks of contacts with information security and cyber managers in leading US companies, partake in follow-on investments from the leading funds in the US market and a prominent presence for their brand within the Israeli cyber entrepreneurs market. The competitive environment is slightly more distributed in the world of software for corporations - and there are a large number of funds in the country that invest in the field or as generalist funds (which invest in all areas of software), sometimes with a specific focus/specialization (such as artificial intelligence

(AI) as a market disruption tool, or specialization in deep technology such as quantum computing).

11. Research and Development

11.1. The group companies engage in research and development of products in their technology fields. For a description of the research and development activities of each of the main companies (as applicable) see Chapter II: Description of Group Companies.

11.2. For an analysis of the group companies' research and development expenses in 2021, and their anticipated research and development investments in 2022, see Section 1.3.6 of the Board of Directors Report.

12. A Medical Device – The Process from Idea to Commercialization

Based on the Company's knowledge and the data in its possession as of the filing date, generally and in principle, companies seeking approval for the marketing of medical devices are required to undergo various stages of development and regulatory approval before marketing the product, including a series of clinical trials, as specified below; It being noted that there may be changes in the steps and/or additional steps in accordance with the specific circumstances of each company and its products:

12.1. Proof of technological feasibility – at this stage, preliminary tests are performed, the purpose of which is to prove the feasibility of the technological concept.

12.2. Prototype design – at this stage, ex-vivo experiments and other experiments are usually performed for the purpose of developing the device and determining its effectiveness.

12.3. Preclinical studies – at this stage, testing is usually performed on animals, the purpose of which is to examine the safety and effectiveness of the device before testing it on humans.

Clinical trials – at this stage, trials are performed on humans. For every clinical trial, a detailed protocol is determined in advance including complete details relating to the clinical trial. The clinical trial stage includes several sub-stages: first-in-human trials, trials for proving safety and efficiency of the device and test for proof of economic efficiency.

12.4. The filing of an application for approval to market the device – after receiving positive results in the clinical trials proving the safety and effectiveness of the device (in accordance with the regulatory requirements), the company, at this stage, applies to the relevant regulatory body for approval to market the device, such as the FDA or the European Union (as described in Section 18.4 below).

12.5. Commercialization of the device – in the event that the regulatory body in a particular country approves the device for marketing, the company will be entitled to market it in such country. The extent of the reimbursement for the cost of the device or its use by governmental bodies and/or insurance companies may, in some cases, affect the sales potential of the device.

13. <u>Intangible Assets</u>

13.1. See Section 19.1 below for details on the agreement for commercializing Rafael's technologies in the civilian market.

13.2. Most of the group companies depend significantly on their proprietary technology for their success. Most of the group companies, and more particularly those operating in the field of medical devices, rely on a combination of patent, copyright and trademark legislation together with confidentiality agreements and technical measures to protect their proprietary rights in their products.

To the best of the Company's knowledge, the term of a patent is usually 20 years from the filing date of the patent application. During the term of protection, the patent owner is required, in certain countries, to pay maintenance fees to keep the patent in force. In some countries, there are special arrangements with respect to patents allowing a patent owner, subject to the conditions set forth in the relevant legislation, to apply for an extension of the patent term from the original expiration date of the patent. An extension application usually entails fees and additional costs. There is no certainty that in the countries that permit an extension, it will indeed be granted at the end of the proceedings defined in the laws of such countries.

In addition, there is no certainty that patent applications filed by the group companies shall result in the grant of a patent and/or that there will be no attempts by third parties to challenge those patents, and even sue for the revocation thereof. In addition, having an issued patent does not prevent competitors of the group companies from manufacturing products that are substantially equivalent to the group companies' products, in a way that will impair their ability to compete in the market, but only leaves the patent owner with the option to assert infringement claims against the infringing competitors for infringement of the registered patents. In addition, competitors of the group companies may be issued a patent that will prevent the group companies from using a certain technology.

In Elron's cyber and enterprise software companies, the intellectual property is usually not protected by patent but mainly by copyright, which intellectual property protection by its nature provides lesser protection against competing products with similar technology.

The group companies routinely enter into non-disclosure agreements with third parties exposed to confidential information about them or their assets.

13.3. For details about the main companies' intangible assets see Chapter II: Description of Group Companies.

14. Human Capital

14.1. As of the filing date, 12 persons are employed at the Company, some of whom engage in sourcing and executing investments including managing and monitoring the group companies, some of whom engage in finance and internal control, and the rest of whom perform administrative services. All Elron’s employees are employed under personal employment agreements.

14.2. In July 2021, Mr. Elik Etzion was appointed as an officer and VP in the Company, responsible for cyber security and enterprise software solutions investments. In parallel, Mr. Zohar Rosenberg ceased to serve as Chief Strategy Officer, but is continuing to function as an active investment partner in the cyber field (Venture Partner) in the Company, including serving as a director on its behalf at portfolio companies, assisting in supporting existing cyber companies, and continuing to be part of the Company's investment team in new companies.

14.3. In November 2021, Mr. Zahi Nachmias notified the Company of terminating his term as Chairman of the Board of Directors and as a director of the Company. Also, at that time, Mr. Dan Hoz, who until that time, served as an alternate director, was appointed as Chairman of the Board of Directors of the Company.

14.4. During the period of this report, there were no material structural changes.

14.5. The Company's employees regularly participate in external seminars, professional conferences, and lectures.

14.6. For details on the human capital of the main companies, see Chapter II: Description of Group Companies.

14.7. Compensation Policy

14.7.1. For information about the compensation policy, see the Company’s immediate reports dated January 26, 2021 (ISA ref no. 2021-01-010717), March 2, 2021 (ISA ref no. 2021-01-025522), November 22, 2021 (ISA ref no.: 2021-01-100414) and December 27, 2021 (ISA ref no.: 2021-01-114616), as well as Section 6 in Part IV of this Periodic Report.

14.7.2. For details concerning the terms of tenure of the Chairman of the Board, the CEO and other officers of the Company, and with regard to the annual bonus granted to them for 2021 in accordance with the compensation policy, see Sections 6 and 9 of Part IV of this Report.

14.7.3. For details regarding the grant of options to the Chairman of the Board, the CEO, other officers of the Company who are not directors or the CEO of the Company, other employees of the Company and the subsidiary, RDC and permanent service providers of the Company, see Sections 4.3, 4.4, 4.5 and 4.6 above and Section 9 in Part IV of this Report.

15. Investments

Elron's (direct and indirect through RDC) investments and loans to the group companies during 2021 amounted to approximately USD 27.5 million. For further details see Section 1.4 of the Board of Directors Report, Notes 3 and 7 in the Financial Statements, and Sections 3-4 of Part IV of this Report.

16. Financing

16.1. Restrictions on the Company's Ability to Qualify for Credit

The Company and certain of the group companies are affected by the 'Proper Conduct of Banking Business Directives' issued by Israel's Supervisor of Banks, which among other things, set limitations on the total indebtedness of a "borrower", of a "group of borrowers" and of the largest borrowers and “groups of borrowers” to a banking corporation (as these terms are defined in these directives). The Company, its controlling shareholders and several of their group companies are considered a "group of borrowers" under these directives. These limitations may result in difficulties for the Company and group companies in obtaining or increasing bank financing from Israeli banks, and may affect their ability to make investments for which bank credit is required or to invest in companies that received large credit facilities from certain Israeli banks as well as their ability to conduct certain business activities in cooperation with parties that received such credit facilities. However, in recent years, there was a decrease in the amount of credit in the Israeli banking system utilized by the group of borrowers which includes the controlling shareholder. It should be noted that as of the reporting date, the Company is not reliant on bank financing to fund its operations.

16.2. The Corporation's Estimation of Its Financing Needs

16.2.1. The Company believes that its and RDC's existing capital sources will be sufficient to fund its and the group companies' operations, and to fund any investments it may carry out in existing and new companies, for at least the next twelve months.

16.2.2. This section includes forward-looking information. Forward-looking information is uncertain information about the future, based on information existing in the Company as of the filing date, and includes the Company's estimations or intentions as of the filing date. Its actual investments may materially deviate from the above statements due, among others, to unanticipated financing needs on part of the group companies, investments in new companies, any other unanticipated expenses, or if any of the risks detailed in Section 21 materialize.

17. Taxation

17.1. See Note 16 to the Financial Statements regarding taxation matters.

17.2. Elron believes that, it was characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for the years 2014-2021. In Elron's opinion, nothing in the said characterization should affect the Company's operations, however it may have an adverse effect on the taxation of United States tax payers and cause a change in their tax liability or require them to perform various actions with respect to the United States tax authorities. Elron recommends its shareholders who are U.S. taxpayers to contact their tax advisors regarding the tax implications for each of the years 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021 as a result of characterization of Elron as PFIC, including different elections available to them.

18. Restrictions and Regulation on Elron's Operations

18.1. Group of Borrowers

Elron and other companies in its controlling shareholders' group are considered a "group of borrowers" under the Bank of Israel's directives that set limits on the credit that groups of borrowers can receive from bank corporations. For further details see Section 16.1 above.

18.2. Investment Company

Regarding the consequences if the Company is characterized as an "Investment Company" according to U.S. securities law, see Section 21.26 below.

18.3. Concentration Law

In December 2013, the Promotion of Competition and Reduction of Centralization Law, 5774-2013 ("**Concentration Law**") was published, which determines, inter alia, that "reporting corporations" (generally speaking, corporations whose securities are held by the public structured as pyramids) are restricted to two tiers of reporting corporations (while a company lacking a controlling shareholder will not count as a first-tier company). Commencing from November 22, 2017 and until March 25, 2021 (the completion date of the transfer of the DIC shares , as described in Section 2.2.2 above), Elron was considered a second-tier company as such terms are defined in the Concentration Law, due to the fact DIC is a controlling shareholder of Elron. As a second-tier company, Elron was not allowed to control reporting corporations in Israel pursuant to the Israeli Securities Law. The above may have affected the Company, among others, considering the limitations on the structure of its holdings; on its ability to acquire control or obtain control over publicly traded companies in Israel; and its ability to bring private companies under its control to offering their shares to the public in Israel. In addition, due to DIC's control, Elron constitutes a significant real corporation, as such term is defined in the Concentration Law.

Upon the completion of the Mega Or transaction described in Section 2.2.2 above, DIC is a company without a controlling shareholder (the term "control" as defined in the Securities Law) and is no longer a "tier company", and accordingly, restrictions pursuant to the Concentration Law pertaining to said companies' ability to control other tier companies, shall not apply to the companies held by DIC, which securities are traded in a stock exchange.

18.4. Regulatory Approvals to Market Medical Devices

18.4.1. Marketing and distribution of products by the medical device group companies is subject to stringent standardization and review and various regulatory approvals by relevant authorities in each country, both as a prerequisite to marketing products and also in order to keep them in effect. Any failure to meet the various regulatory requirements may adversely affect the development of these companies' products and/or the ability to market and distribute them.

18.4.2. The regulatory procedures for obtaining the necessary approvals comprise various stages; the developing company being required, at every stage, to meet the conditions and criteria of the relevant health authorities such as the Ministry of Health in Israel, the FDA, or the European Union. Approval granted by a regulator in one country does not ensure that approval will be granted by a regulator in another country. However, approval that is granted by a regulator considered more stringent (the U.S. or Western Europe) will usually facilitate receipt of approvals elsewhere in the world. The process of receiving the necessary regulatory approvals in each of the countries involves significant expenses, including the appointment of a local representative and investment in skilled and professional personnel, and lasts for a relatively long period of time, and may take years, mainly in countries with stringent standards. However, in countries with less stringent requirements, the process may take a significantly shorter period of time. The following is a brief overview of laws and regulations to which the medical device group companies are subject.

18.4.3. <u>CE Certification ("CE Mark")</u> – Commercialization of medical devices in member countries of the European Union is regulated by directives adopted by the European Union. The European Union requires that all medical products bear the CE mark, an international symbol of adherence to quality management system and demonstrated clinical safety and effectiveness. A manufacturer who has complied with the requirement of the relevant directive for medical devices may affix the CE mark on its product.

18.4.4. <u>Procedure for obtaining FDA clearance to market a medical device in the United States</u> – The FDA is a federal agency in the United States whose role is to protect the American public's health by establishing and enforcing a high product standard and by imposing various regulatory requirements, which will ensure the safety and effectiveness of products such as drugs which are intended for human and veterinary use, biological products, and medical devices. FDA requirements include, inter alia, manufacturing the medical devices in accordance with quality system regulation (QSR), receiving a scientifically based submission file on the medical device, appointing an American agent, and, if required, allowing FDA representatives to inspect the manufacturing processes at the facility.

18.4.4.1. Type of approval required according to class

The FDA classifies medical devices into three categories in accordance with the level of risk involved in their use. The classification level determines the extent of checks and reviews which the company is required to conduct in order to obtain approval to market the medical device. As a principle, the higher the risk, the more tests and regulations are added:

Class I – devices which do not pose any risk or pose a low risk to the health of the public, and therefore, there is no requirement to submit an application to obtain a formal approval, but rather it is sufficient to follow the FDA's instructions (e.g. toothbrushes, band-aids).

Class II – devices which present a risk to the health of the public, but are not life-threatening (such as an electronic thermometer or contact lenses). This category requires that an application be filed under a Premarket Notification 510(k) process, or 510(k), which is a relatively short proceeding during which it is demonstrated to the FDA that the medical device for which the clearance is sought is substantially equivalent, with respect to intended use, safety and treatment effectiveness, to an existing product or "predicate device" – a device that has already been through the approval process and which is not subject to a Premarket Approval, or PMA, process.

Class III – devices which are meant to support or sustain human life, are of substantial importance in preventing impairment of human health, which present a potential, unreasonable risk of illness or injury, or which are not equivalent to a predicate device. Requests for FDA approval of these sorts of devices are filed in a PMA process which is lengthier than the 510(k) process and includes a lengthy scientific review, significantly broader clinical trials and a compulsory examination of the manufacturing site. In the case that a device is classified as Class III due to the absence of a predicate device and not due to a high level of risk, an application may be made to the FDA to classify the device as Class II through a de novo process and thereby avoid a PMA process.

18.4.4.2. Stages of Application for Marketing Approval

510(k) submission process - Within 15 days of receipt of the 510(k) submission, the FDA notifies the submitter either that the submission met the minimum threshold of acceptability and was accepted for "substantive review", or that the submission was considered refused to accept (or RTA) and was placed on RTA Hold. The submitter has 180 days to address the deficiencies addressed in the RTA Hold. During Substantive Review, the Lead Reviewer conducts a comprehensive review of the 510(k) submission. After it conducts the Substantive Review (within 60 days of receipt of the 510(k) submission), the FDA either notifies the submitter that the submission will proceed to an "interactive review" or sends the submitter an Additional Information (AI) request which places the submission on hold. The submitter has 180 days to send a response to the AI Request. During the Interactive Review, the Lead Reviewer may request additional information from the submitter. After it conducts the Interactive Review (within 90 days of receipt of the 510(k) submission), the FDA issues a decision letter for the 510(k) to the submitter.

PMA submission process - Within 45 days of receipt of the PMA submission, the FDA notifies the applicant whether the application met the minimum threshold of acceptability and was filed, and if so, the date of filing. The 180-day period for review of a PMA starts on the date of filing. The applicant may request to meet with FDA during the review period. The review of a PMA consists of 2 stages: In the first stage an 'in-depth review' takes place, during which the FDA may notify the applicant of any information needed to complete the review. If the applicant submits a PMA amendment which contains new data, updated data, new analyses, or required information previously omitted, the review period may be extended up to 180 days. After it conducts the In-Depth Review, the FDA may refer the PMA to an outside panel of experts, which holds a public meeting to review the PMA. In general, all PMAs for a first-of-a-kind device are taken before a panel.

During the 'panel review' stage, presentations are given both by FDA representatives and by the applicant, and an open public hearing session takes place during which interested persons may present relevant information or views orally or in writing. The panel then takes a vote, following which it submits a final report to the FDA that includes the panel's recommendation. In reaching a final decision on the PMA, the FDA takes into consideration the transcript of the meeting, the panel's recommendation, and other information.

Modular PMA – subject to FDA's approval, a modular PMA method may be used to submit a PMA application. In a Modular PMA the complete contents of a PMA are broken down into components (or modules) and each component is submitted to FDA as soon as the applicant has completed the module. FDA reviews each module separately as soon as it is received, which thus may expedite the review process of the PMA application.

Pre-sub meeting – Prior to the submission of a PMA application, the applicant may request a meeting with the FDA in order to obtain feedback and to reach agreements prior to the submission, including the regulatory pathway selected, planning of clinical and pre-clinical trials (including statistical analysis plan), the application format, etc. The FDA has to provide the requested feedback 70 days or 5 days prior to a scheduled meeting, whichever comes sooner.

18.4.5. Breakthrough Devices Program – In 2019, the FDA’s Breakthrough Devices Program came into effect, a voluntary program designed to allow faster access to devices that provide effective treatment or diagnosis for life-threatening illnesses or illnesses that cause severe and irreversible disability, in the absence of alternative effective treatment. In the event that a device qualifies as a “Breakthrough Designation”, it is possible, among other things, to speed up the examination process of the marketing approval application.

18.4.6. Procedure for obtaining the approval of the Ministry of Health to market a medical device in Israel – A medical device company requires the approval of Israel's Ministry of Health's Unit for Medical Means and Devices, or MOH Medical Devices Unit, to market its medical device in Israel. Medical devices are defined as a device, instrument, chemical substance, biological or technological product, which is used in medical treatment, or which is required for the action of a device or instrument which is used for treatment and which is not intended, in essence, to act as a medicinal measure. The MOH Medical Devices Unit is responsible for granting import permits of various types for medical devices and monitoring the marketing of medical devices in Israel.

18.5. Regulatory Approval to Conduct Human Clinical Trials

18.5.1. A condition for conducting human clinical trials in any country which signed the Helsinki Declaration is the receipt of pre-approval from the bodies authorized to approve human clinical trials and compliance with the principles set forth in the Helsinki Declaration. In order to conduct human clinical trials in these countries, approval is required from the Helsinki Committee, an independent institutional committee at the medical center where the trial is conducted, which supervises and approves the trial. The doctor, who is the principal investigator who performs the study for the company at the medical center, submits the trial protocol to the committee. After discussion, during which the committee examines, inter alia, whether the trial protocol complies with the ethics requirements, the protocol is approved (often subject to changes determined by the committee) and thereafter the trial can commence. Any change in the protocol requires an update and re-filing for approval by the committee.

18.5.2. To the best of the Company's knowledge, in order to conduct clinical trials in Israel, approval of the Helsinki Committee is required by virtue of the Israel Public Health Regulations (Clinical Trials on Human Subjects) - 1980, as is notification or approval by the Israeli Ministry of Health.

18.5.3. Furthermore, to the best of the Company's knowledge, in order to conduct human trials in the United States, one is required to obtain equivalent approval from an independent institutional committee at the medical center at which the trial is conducted, namely the institutional review board, or IRB, acting by virtue of U.S. Federal law.

18.5.4. In addition, use of a medical device for clinical trials in the United States which has not been approved for marketing is conditional upon the receipt of a special exemption from marketing approval from the FDA, namely, an Investigational Device Exemption, or IDE. Conditions for receipt of an IDE include approval of the trial protocol by the FDA and the IRB of each institution participating in the trial, as well as compliance with stringent requirements in the conduct of the clinical trial and many other conditions, including receipt of informed consent from all participants in the trial, labeling stating that the device is for investigational use only, monitoring of the study, and submission of required records and reports. More often than not, the process of obtaining an IDE involves a number of review cycles and requests for additional information by FDA representatives, including in meetings held with them.

18.6. Innovation Law

Certain of the group companies receive grants from the National Innovation Authority (the "**Innovation Authority**"), under the Encouragement of Research, Development and Technological Innovation in the Industry Law, 5744-1984 (the "**Innovation Law**"), for the financing of their research and development activities.

According to Amendment no. 7 to the Innovation Law from 2015 (the "**Amendment** ") the Innovation Authoirty which is in charge of the activity which was under the authority of the office of Chief Scientist in the Ministry of Economy, was established on January 1, 2016. The Innovation Authority is authorized to change and manage the range of benefits it provides for R&D activity through new grant tracks. Accordingly, the Innovation Authority published various instructions, among others, the Grant Track No. 1 – R&D Fund, which adopted most of the arrangements and limitations stipulated under the Innovation Law prior to the Amendment (including, the restrictions regarding the transfer of financed knowledge abroad, the transfer of financed knowledge within Israel, the transfer of production rights abroad and the obligation to pay royalties (the "**Provisions**). These Provisions also apply to companies that have received grants from the Chief Scientist and the Innovation Authority on the eve of their publication.

Companies that receive such grants are subject to various obligations and restrictions pursuant to the Innovation Law and the Provisions, such as: (a) except in relation to various support routes, an obligation to pay the Innovation Authority royalties from the revenues generated from the sale of products and/or services related to the products, based (in all or in part) on knowledge developed from the use of grants received from the Innovation Authority ("**Sponsored Knowledge**"), up to the aggregate amount of the total grants, plus interest (as such term is defined in the Provisions); (b) subject to the exceptions set forth in the Provisions, restrictions on the transfer of Sponsored Knowledge and manufacturing rights for products that are developed using funding from the Innovation Authority, outside of Israel (receipt of prior approval from the Innovation Authority for such transfers; in case of transferring manufacturing rights outside of Israel, increased royalty payments to the Innovation Authority per the rates set forth in the Provisions and increase of the royalty repayment rate; in the case of transferring Sponsored Knowledge outside of Israel, a redemption fee to the State calculated according to formulas set forth in the Provisions); (c) limitations on granting authorization to use Sponsored Knowledge to a foreign entity which does not totally take away from the sponsored company, the possibility of using the transferred knowledge (receipt of prior approval from the Innovation Authority and payment for the granting of such authorization in accordance with the formulae set forth in the Provisions); and (d) providing reports to the Innovation Authority, for instance, in the event of a change in the company's control. It is noted, that the restrictions set forth in the Provisions (including with respect to transfer of Sponsored Knowledge and manufacturing rights) will continue to apply with respect to a sponsored company even after it completes paying the Innovation Authority the entire sum of royalties. Failure to comply with the requirements of the Innovation Law and the Provisions may impose various sanctions on the group companies, including financial sanctions and criminal sanctions.

In 2020 the Innovation Authority launched a new program for investment protection – "Incentivizing Institutional investors in the Israeli Capital market - Incentive Program 43". The program is intended to encourage and protect the investments of institutional investors (insurance companies, banking corporations and their investment branches and pension funds) in Israeli high-tech companies (as defined in the benefit track provisions). Within the framework of the program, downside protection of a rate of up to 40% of the approved investment framework (as defined in the benefit track provisions). In the event of a certain positive yield on the portfolio of investments at the end of the program, the approved institutional investor will transfer a sum at certain rate of the positive yield as specified in the benefit track provisions . The Innovation Authority is in the opinion that the protection's objective is to encourage the Israeli high-tech R&D in both the short term and long term; In the short term, the Israeli high-high-tech companies will be able to obtain funding for their operations which include R&D. In the long term, the institutional investors will specialize in consummating investments in the Israeli high-tech industry and will become a relevant and influencing factor with expertise in alike investments.

18.7. <u>Competition Aspects</u>

Israeli and international competition and economic laws may adversely affect and even prevent the Company's ability to effect exit transactions of its investments in group companies, as certain of these transactions may be subject to the approval of economic competition authorities in Israel or in other countries (such as the U.S. or in Europe) in cases where one of the parties to the transaction, including the purchaser or potential investor (in the group company) has to attain the competition authority approvals as aforesaid, in a manner that may prevent such transactions from taking place or impose limitations which will adversely affect their financial viability.

19. Material Agreements and Collaboration Agreements

The highlights of material agreements outside the ordinary course of business to which the Company is a party, including collaboration agreements, are described below:

19.1. Agreement for Commercializing Rafael's Technologies in the Civilian Market

19.1.1. Pursuant to the agreement from 1993 as amended from time to time, RDC has first exclusive rights to commercialize Rafael technologies without time restrictions. RDC is not entitled to use Rafael's technologies in the military or security market inasmuch as the customer is a government entity.

19.1.2. In the event that Rafael is approached by a third-party financial partner with a proposal for a new project, RDC will be entitled to cooperate with Rafael instead of such third party and will pay Rafael the consideration offered by such third party. If such third party is not a financial partner, RDC will be entitled to cooperate with such third party instead of Rafael and Rafael will be entitled to receive 3% of the shares of the company established.

19.1.3. Rafael undertook not to establish an entity similar to or competitive with RDC and Elron undertook not to establish a similar or competing entity to RDC inasmuch as such entity is an Israeli entity engaged in the military-security field and is a competitor of Rafael.

19.1.4. Pursuant to the addendum agreement from 2008: Elron (together with DEP, a wholly owned subsidiary) is committed to invest $750 thousand in RDC for each company that will be established by RDC based on Rafael's technologies; RDC granted Rafael an option to receive from RDC 3% of the shares of each new company that would be established by RDC based on Raphael's technologies (except as described in Section

19.1.2 above); Elron will be entitled to receive certain management fees from RDC in respect of each new company that shall be established by RDC, insofar as it shall be sold, merged or its securities offered to the public, and upon the fulfillment of certain conditions; DEP is entitled to assign its rights and obligations in the agreement to any company, which controls, is controlled by or is under common control with DEP as long as Elron remains liable for its obligations thereunder.

19.1.5. Raphael may cooperate with a third party for the purpose of commercialization of military products with an operating partner (which is not a financial entity) and for the purpose of commercialization of "mature" products, as defined in the agreement, outside of the military segment, a significant part of the development of which has been completed by Rafael. Insofar as Rafael shall seek to cooperate with a financial entity with respect to "mature" products, it is required to also approach Elron at the same time. In cases in which Rafael shall cooperate with a third party in connection with the sale or marketing of products in the fields of business of RDC and in respect of which RDC has no rights, Elron will be able, and alternatively RDC will be able, to participate in approximately 10% of the said cooperation (subject to the third party's consent).

19.2. Investment Transaction and Option to acquire CartiHeal – see section 23.15 below

20. Business Objectives and Strategy

20.1. Elron's main goal is to build and realize value for its shareholders through the sale of a portion or all of its holdings in, or the issuance of shares by any of its group companies to third parties, while simultaneously pursuing the acquisition of, or investment in, new and existing technology companies at different stages of development, mainly in the fields of cyber, and enterprise software, mainly at the seed stages. In recent years, there have been no new investments in medical device companies and in parallel, the majority of the new investments by Elron and RDC were made in cyber and enterprise software companies.

20.2. Elron's investment strategy is based among other things on identifying and exploiting investment opportunities with significant exit potential, and striving to actively enhance their value. The Company believes that this strategy provides the ability to increase shareholder value as well as to create capital to support the growth of the group companies and to invest, as appropriate, in new opportunities.

20.3. Elron's strategy regarding investments in new and existing companies is based on the following principles:

20.3.1. Identifying and exploiting investment opportunities in companies with innovative technology and significant exit potential.

20.3.2. Investing over the long term in order to maximize the potential for enhancing the group companies' value.

20.3.3. Striving for significant holdings and focusing on investments which provide Elron influence and active involvement in their management.

20.3.4. Actively enhancing the group companies' value through active involvement in their management, by means of the following: active membership on their boards of directors; hands-on assistance to their management; assistance in the advancement of their technology; forming strategic relationships, providing access to capital; providing development and operational guidance; business plan preparation; strategic planning; marketing; investment and budget planning; finance; manning senior management positions; and overall ongoing monitoring of the group companies' performance.

20.3.5. Exploiting opportunities to exit group companies.

20.4. Within the framework of these principles and with the intention of continuing to invest in new companies, Elron examines a broad range of proposals for investment and strategic cooperation in various technology fields, including through RDC, in order to rely on the technology and/or knowhow and expertise of Rafael. Within this framework, in January 2022, subsequent to the reporting date, a new initial investment in the field of drones was completed (investment in Wonder Robotics. See Section 26.20 below).

20.5. In addition, the Company is examining the establishment of a dedicated investment fund, which will operate mainly in the fields of cyber and enterprise software, in which Elron and RDC will be the general partner. As part of such examination, Elron and RDC have reached initial (non-binding) understandings with an anchor investor for an investment in the fund, insofar as it is established.

As part of the possibility of establishing such a fund, Elron carried out preparatory actions for its establishment, if and to the extent that the fund is established. For example, the Company's compensation policy was adjusted to the possibility of a fund structure and the new policy, which was approved by the Company's shareholders' meeting on December 27, 2021, includes the possibility of compensation within the framework of such a designated fund.

In addition, during the past year, Elron completed investments in four new group companies in the fund’s designated field (Red Access, Keepy, Scribe, and Allero - for additional details see section 26 below), which may constitute an initial portfolio of the fund, if it is established.

Elron continues to examine the possibility of establishing such fund. As of the date of this report there is no assurance that it will in fact decide to do so, and insofar as it will be decided to do so, there is no certainty assurance that the said fund will be established.

20.6. It should be noted that Elron's strategy allows it to take actions which deviate from the above principles in circumstances where management believes that the specific circumstances justify such deviation.

20.7. This section includes forward-looking information, as defined in the Israel Securities Law. Forward-looking information is uncertain information about the future, based on information existing in the Company as of the filing date, and includes the Company's estimations or intentions as of the filing date. Elron's actual implementation of its strategy may materially deviate from the above statements due to, among others, failure to meet goals, modifications in technologies, modifications in the business plan, goals and/or strategy, or if any of the risks detailed in Section 21 materialize.

21. <u>Discussion of Risk Factors</u>

The following are the main risk factors that affect the operations of Elron and the group companies:

<u>Macro Risks</u>

21.1. <u>Global economic conditions</u>

Developments in the global markets and particularly in the Euro zone and in the United States, including the rising inflation worldwide and in Israel, raising interest rates, volatility in securities' prices and currency exchange rates, as well as domestic developments, in the past have affected and in the future may affect the Company and the group companies' results of operations, liquidity, value of equity, value and exit potential of assets, business (including the demand for the group companies' products), financial covenants, ability to distribute dividends, ability to raise financing as required for day-to-day, long-term and R&D operations, allocation of resources, and availability and terms of financing from financial institutions and banks.

It is noted that the Company continues to monitor and examine possible impacts of the spread of the coronavirus (COVID-19) on its activities as a whole, and the focal points of risk in particular. The main focal points of risk that have been identified so far are: the impact of disruptions to the activities of the group companies' existing and potential suppliers and business partners at the focal points of the virus; budget cuts among potential customers and subsequent decisions to increase product life-cycles rather than adopt new technology solutions; potential difficulties for group companies in closing commercial transactions or generating leads and managing lengthy and complex sale-cycles, among other things, due to mobility constraints between countries; operational constraints amassing raw material inventories; difficulties or delays in performing clinical trials or in recruiting patients for clinical trials.

21.2. Consequences of the Concentration Law

The Concentration Law may impose restrictions on the Company’s holdings in and /or control of other reporting corporations as well as its ability to bring companies under its control to a public listing. For a description of the Concentration Law and the possible implications for the Company, see section 18.3 above.

21.3. Limits on the Company's and group companies' ability to borrow from Israeli banks

The Company, its controlling shareholders and some of their group companies are considered to be a single "group of borrowers" with respect to restrictions prescribed by the Supervisor of Banks in Israel on the amount of loans that a banking corporation in Israel can provide to a single "group of borrowers" (see section 16.1 above). These regulations may result in difficulties for the Company and its group companies in obtaining or increasing bank financing, if required, from Israeli banks, and may affect the Company and its ability to make investments for which bank credit is required or to invest in companies that received large credit facilities from certain Israeli banks as well as their ability to conduct certain business activities in cooperation with parties who received such credit facilities.

21.4. Downturn in the capital markets

Securities markets in general are volatile, even more so with negative economic developments, and are particularly volatile for publicly traded high-technology companies, including companies that have a significant presence in Israel. Although the volatility of these companies' securities is not necessarily related to their operating performance, such volatility could result in these companies experiencing difficulties in raising additional financing required to effectively operate and grow their businesses as well as difficulties in executing exit transactions in these companies. These difficulties and the volatility of the securities markets in general, and specifically during economic slowdowns, have affected and may continue to affect the Company and its group companies' ability to realize the Company's investments or to raise financing, which in turn may result in the Company having to record impairment charges.

21.5. International operations

The products of most of the group companies are designated for sale to customers outside of Israel. As a result, negative changes in international, political, health, economic or geographic events could result in significant shortfalls in orders or revenues. These shortfalls could cause the business, financial condition and results of operations of these companies to be harmed and as a result negatively impact on Elron's financial condition and results of operations. Some of the risks of doing business internationally include unexpected changes in regulatory requirements, international geographical events, fluctuation of the New Israeli Shekel / U.S. dollar representative rate of exchange, inability of the group companies and their subcontractors to obtain export licenses, imposition of tariffs and other barriers and restrictions, burdens of complying with a variety of foreign laws, political and economic instability, changes in diplomatic and trade relationships, acts of terror, the inability to move freely between countries as part of the spread of the coronavirus (COVID-19), and others.

21.6. Financial risks

Elron and the group companies are exposed to changes in interest rates and inflation, and to fluctuations in the price of tradable securities and exchange rates, which directly or indirectly affect them, inter alia due to bank liabilities and investments in interest-bearing deposits and debentures, indexed linked agreements and various shekel based expenses (the currency of the operations of Elron and most of the group companies is the U.S. Dollar). In addition, the R&D activity of most of the group companies is located in Israel and accordingly these companies are exposed to changes in the USD-NIS exchange rate which has significantly decreased recently. For additional details, see Note 19 to the Financial Statements.

Sector Risks

21.7. Regulatory and contractual limitations on disposal of holdings

Elron and some of its group companies are subject to regulatory as well as contractual limitations which may limit the possibilities for disposing of its holdings in its group companies at a time and in a manner deemed suitable to Elron. These regulatory limitations may include, inter alia, economic competition laws (see Section 18.7 above), and lock up periods according to applicable securities laws. Contractual limitations and limitations in the articles of association, include rights of first refusal, tag-along rights of other shareholders in group companies in a sale by Elron, or the right of other shareholders to bring-along Elron in a sale by such other party, veto rights and similar rights which may restrict transfer of shares or may limit the Company's ability to dispose of its shares in its group companies.

21.8. Effecting exit transactions at significant values

Elron's results of operations and its cash resources are impacted by its ability to conclude "exit" transactions at significant values. Elron's ability to conclude "exit" transactions at significant values is impacted, inter alia, by economic conditions, market conditions in the high technology, medical device and/or cyber security industries, the status of the venture capital industry and capital markets and various regulatory and contractual limitations. Furthermore, the possibility of concluding "exit" transactions at significant values is dependent on the circumstances and characteristics of the group company whose sale is being considered (the demand for its solutions, uniqueness, size of the problem it is trying to solve, etc.) as well as the ability of Elron's management and the management of companies in its group to lead successful exit transaction processes. To the extent that Elron is not able to conclude these types of transactions, its results of operations and cash resources will be adversely affected.

21.9. The impact of the group companies' operating results on Elron

Elron's results of operations are directly impacted by the results of operations of its group companies which are consolidated in its financial statements or are accounted for on an equity or fair value basis. To the extent any of these companies have poor financial results or encounter difficulties in their operations, the Company's financial results will be negatively impacted. Many of these companies are in the development stage and have not yet generated significant revenues, if at all, have incurred losses, and have invested heavily in research and development and marketing of their products. The Company anticipates that the majority of these companies will continue to record losses in the future.

21.10. Retaining key employees

The success of the group companies depends, in large part, on a limited number of key personnel in the management, scientific, technological and technical fields. In addition, future success will depend, in part, on attracting and retaining highly qualified personnel. The demand for highly qualified personnel in the high-tech industry is increasing which makes it more difficult to recruit and preserve highly qualified personnel. There can be no assurance that the group companies will be able either to retain present personnel or to acquire additional qualified personnel as and when needed. The loss of key personnel, the increase in key personnel's salaries, and the failure to attract highly qualified personnel may materially adversely affect the group companies' financial condition and results of operation and as a result, Elron's financial condition and results of operation may be materially adversely affected.

The Company is also dependent on skilled personnel. There can be no assurance that such personnel will be available to Elron at all times and this may adversely affect Elron's business.

21.11. Uncertainty and risk in the Company's and the group companies' technology fields

The penetration into the technological fields within which the group companies operate involves a high level of risk and uncertainty and requires the investment of considerable sums of money and time. There is no assurance that Elron's group companies will succeed in the development of their products, manufacturing of products, or obtaining the necessary approvals for commercializing products. The research and development of Elron's group companies, particularly companies in the medical device field, takes many years and requires the employment of high-quality development personnel. For Elron's group companies engaged in the development of cyber security technology, the development periods are shorter, and completion of initial product development typically takes about two years. Since the field today is populated with solutions and ventures, any delay in development can give an advantage to competitors and may risk the market penetration. Every product development project of the group companies entails many scientific and engineering complexities and extensive technological know-how is required for the development of the product. The absence of technological and business know-how and suitable technological infrastructure may lead to a delay or failure in the product development. In addition, there is also the risk that after completion of the development and approval processes, a competitor may have developed superior technology, which gives it a competitive advantage. There is no assurance that the group companies will be able to transition from development stage to marketing and manufacturing stage operations, including establishing commercial manufacturing capabilities and establishing sales and marketing infrastructure. The ability to penetrate markets in circumstances where there is no competing product is also dependent on the ability of our group companies to educate their potential customers of the possibilities for the use of the product and its advantages. Delays, difficulties or failures associated with developing, manufacturing, or marketing products, or associated with new product introductions or product enhancements, could materially adversely affect the financial condition and results of operations of these companies and on their ability to raise the financing required for their operations, and as a result, the Company’s financial condition and results of operation.

21.12. Competition in the markets in which the group companies operate

Many of the group companies experience competition from companies with significantly greater financial, technical and marketing resources, who have easier market access, better operational infrastructure, longer operating histories, larger installed client bases, greater name recognition, more established relationships and alliances in their industries and offer a broader range of products and services. As a result, these competitors may be able to respond more quickly to new or emerging technologies or changes in clients' requirements, or devote greater resources to the promotion of their products and services and more. The acceleration of the development capabilities of these competitors as a result of increased competition in the market could materially adversely affect the relative positioning of the products of the group companies and as a result, on their ability to sell their products and on Elron's ability to realize its holdings in these companies.

In addition, the competition in the venture capital investment field is increasing due to larger investment amounts by venture capital investors in general, and in the cyber and software field specifically. This might influence locating and executing new investments and Elron's access to investment opportunities with potential for a significant return (deal flow), on one hand, and the increasing transaction prices, on the other hand.

21.13. Difficulty faced by the group companies in obtaining future financing

Many of the group companies are in the development stage and have extensive research and development and marketing costs and limited revenues, if any. In order to succeed, these companies may require additional capital to fund these costs. Their ability to obtain financing is impacted by general economic conditions, the condition of the capital markets and the condition of the venture capital industry. If these companies have difficulties obtaining financing from their current shareholders or from external financing sources, their continued operations may be at risk and such difficulties may materially adversely affect their results of operations and financial performance. This would also adversely affect Elron's financial performance and results of operations.

21.14. Intellectual property

As stated in Section 13.2 above, most of the group companies depend significantly on their proprietary technology for their success. Like many other technology companies, most of the group companies, and more particularly those operating in the field of medical devices, rely on a combination of protection laws within the field of patents, copyrights and trademarks together with non-disclosure agreements, confidentiality clauses in their agreements, including employment agreements, and technical measures to establish and protect proprietary rights in their products. However, these legal means may not adequately protect the group companies' rights or permit them to acquire or maintain any competitive advantage. For instance, the companies do not always succeed in protecting their proprietary rights in foreign countries, among other things since some foreign countries do not provide patent protection. In addition, the process of issuing a patent may sometimes be lengthy and may not always result in patents issued in a form that will be advantageous to the group companies, or at all, and patents and applications for patents may be challenged, invalidated or circumvented by third parties. Competitors of the group companies may be issued patents that will prevent the group companies from using certain technologies. Enforcing their rights may be time consuming and costly, thereby diverting management’s attention and company resources. Unauthorized parties (such as customers and suppliers) may attempt to copy aspects of the group companies' products and develop similar products or to obtain and use information that they regard as proprietary. Competitors may independently develop products that are substantially equivalent or superior to our group companies' products or that do not adversely affect the intellectual property rights of the group companies. In Elron’s cyber and enterprise software companies, the main asset is generally not protected by patent but mainly by copyright, which intellectual property protection by its nature, provides lesser protection against competing products with similar technology. The success of certain of the group companies, particularly Elron's cyber security and enterprise software companies rely to a lesser extent on intellectual property in order to protect the proprietary rights of their products, and therefore there is an increased risk that similar products will be developed by others, and the pace of market penetration has an increased importance. In addition, others may assert infringement claims against group companies, which could have a material adverse impact on the group companies. In these circumstances, the cost of managing legal process claims could be significant. If the group companies do not adequately protect their intellectual property, their competitors or other parties could make similar products and compete with the group companies. All of the aforesaid could materially adversely affect the group companies’ business, financial condition and results of operations and as a result, this could materially adversely affect Elron’s financial position and results of operations.

21.15. Exposure to intellectual property lawsuits in the medical device field

There is a substantial amount of litigation over patent and other intellectual property rights in the medical device industry. Sometimes, whether or not a product infringes a patent involves complex legal and factual issues, the determination of which is uncertain and involves complex legal and factual issues. The group companies that engage in medical device development may be exposed to intellectual property lawsuits that can be expensive and time-consuming to litigate and can divert management's attention from the concerned company’s core business as well as result in the payment of damages or even prevent the concerned company from selling its products and accordingly could materially adversely affect the group companies' financial condition and results of operation and as a result this could also materially adversely affect the Company’s financial condition and results of operations.

21.16. Innovation Authority and Investment Center programs

Certain of the group companies have received grants and benefits through programs of the Innovation Authority or the Investment Center. There is no certainty that these benefits will continue to apply and survive in full or in part in the future. In addition, the terms and conditions of the said grants and benefits impose various restrictions on companies to manufacture products and/or to transfer knowledge and technology outside of Israel. The restrictions could limit the ability of the group companies to execute transactions with international companies as well as the Company’s execution of exit transactions with respect to their holdings in the group companies. Also, if the group companies do not continue to meet the conditions relating to grant of the benefits, they may be required to pay taxes and other payments and benefits may be denied to them in future. There is no certainty as to the availability or amount of the benefits which may be granted to companies in the future. In addition, if the group companies do not comply with the conditions imposed by the Innovation Authority, they may be required to repay the grant immediately plus interest and in some cases, pay financial sanctions. For details regarding the Innovation Law, see Section 18.6 above. All the above may materially adversely affect the financial condition and results of operations of the group companies and consequently also the financial condition and the results of operations of Elron.

21.17. Product liability claims

The group companies are exposed to product liability claims especially those operating in the medical device industry. A product liability claim, regardless of its merit or eventual outcome, could result in substantial costs to a group company and a substantial diversion of management attention. A product liability claim or any product recalls could also harm a group company's reputation and result in a decline in revenues. A future product liability claim or series of claims brought against the group companies could have a material adverse effect on their financial condition or the results of operations, or there is no assurance that that coverage limits of product liability insurance would be adequate. This in turn could have a material adverse effect on the financial condition and results of operations of Elron.

21.18. The uncertainty facing research and development stage medical device companies

Most of the medical device group companies are in the research and development stage. In light of the uncertainty that they will succeed in developing their various products, in demonstrating their products' efficiency, safety, and cost-benefit, and/or in penetrating relevant markets, in the event of the failure in the technological development of products of the group companies and/or the failure to obtain the required approvals from the authorized regulatory authorities in order to market their products and/or successfully penetrate into the relevant market, Elron’s investment in these companies may ultimately be lost.

21.19. <u>The impact of regulations on medical device product development, manufacturing and marketing</u>

The activities of the medical device group companies are subject to strict governmental supervision including with regard to limitations on financial arrangements and kickbacks to financial institutions and healthcare officials and with regard to obtaining and maintaining regulatory approval to market their products in any country as stated in Section 18.4 above. Compliance with regulatory requirements involves significant time and money resources. In addition, noncompliance with applicable regulatory requirements can require the investment of more time and resources in the development of products, stop product development and result in enforcement action which may include recalling products, ceasing product marketing, paying significant fines and penalties, and similar regulatory actions which could limit product sales, delay or halt product shipments and/or delay new product clearances or approvals, any of which may thereby materially adversely affect such group companies' businesses. All of the aforesaid could have a material adverse effect on the financial condition and results of operations of the group companies and consequently on the financial condition and results of operations of Elron.

21.20. <u>Reimbursement</u>

If physicians, hospitals and other healthcare providers are unable to obtain sufficient coverage and reimbursement from third-party payers to cover the costs of purchasing the medical device group companies' products, or if coverage does not adequately compensate physicians and health care providers as compared with competitors, the sales of these companies may be adversely affected. In addition, the group companies could be adversely affected by changes in reimbursement policies of governmental or private healthcare payers to the extent any such changes affect reimbursement amounts or availability for procedures in which their products are used. Accordingly, this could materially adversely affect the group companies' financial condition and results of operations and as a result could also materially adversely affect Elron’s financial condition and results of operations.

21.21. Conducting clinical trials

The continued development of many of the products being developed by the group companies engaged in the medical device field is dependent upon the performance of clinical trials and subject to, and contingent upon, the success of such trials at each one of the regulatory stages. The performance of clinical trials is dependent upon a variety of factors, including the ability to recruit appropriate candidates for such trials (see Section 21.22 below), the need to obtain consent from various clinical research bodies for the performance of the trials, receipt of regulatory approvals for performance of the trials and the structure of the trials (trial protocol, manner of analysis of results etc.), regulatory changes, as well as the possibility of unexpected side effects of the group companies’ products. In addition, the spread of the coronavirus (COVID-19) worldwide may lead to delays in recruiting patients for clinical trials or initiating trial sites. All these factors may all constitute obstacles in the path to successful completion of the clinical trials, and may delay or even stop the continued performance of the clinical trials and lead to postponement of receipt of the approvals and permits as aforesaid. Therefore, it is impossible to know when clinical trials will be completed, if at all. Accordingly, this could materially adversely affect the group companies' financial condition and results of operation and as a result could also materially adversely affect the Company’s financial condition and results of operations.

21.22. Difficulty and delays recruiting clinical trial candidates

The performance of clinical trials is dependent upon a variety of factors, including the ability to recruit appropriate candidates for such trials. A slower than expected pace of recruiting and/or a delay in recruiting candidates for the trials may derive from various factors, such as low incidence of patients meeting the trial’s criteria, competition between companies over the participation of trial candidates, a change in candidates’ readiness to volunteer for the trial and lack of funds. In addition, see Section 21.1 above regarding the potential repercussions of the spread of the coronavirus (COVID-19). This may delay or disrupt the conduct of the clinical trials and obtaining regulatory approvals for medical devices and could materially adversely affect the companies' businesses and as a result, Elron.

Specific Risks

21.23. Compliance with regulatory requirements and restrictions in several countries

Elron and its group companies' operations are subject to regulation in Israel and additional countries in which Elron and its group companies operate or wish to operate. These regulatory requirements may impact, inter alia, on Elron's reporting obligations and as a result, may affect its business and its ability to invest in new companies. In addition, the regulatory requirements and restrictions in Israel to which Elron and its group companies are subject may be different and even in conflict with the regulatory requirements and restrictions applicable to Elron and its group companies in other countries. If this occurs, it will adversely affect Elron's business.

21.24. Financing sources

The Company's financial resources are dependent upon proceeds from the realization of its holdings in its group companies, from capital raising from the public or dividends from group companies. In the past, the Company's financial resources included loans and credit facilities from banking institutions as well as loans from the controlling shareholder. In the absence of sufficient financial resources, there is no assurance that the Company will be successful in raising additional capital for its activities and the continued support of and investment in the group companies and new companies.

21.25. Control by DIC

DIC holds 60.08% of the Company's ordinary shares and voting rights and is the Company's controlling shareholder. As of the filing date, DIC has the power to appoint a majority of the members of the Company's board of directors and accordingly, DIC has the ability to direct the Company’s business and affairs. DIC's control over the Company may impose various regulatory limitations on the Company (see Sections 16.1, 18.3 and 21.7 above). In certain shareholders’ view, having a controlling shareholder is a limitation on the influence shares held by the Company's public shareholders may have. DIC has the ability to act in order to change the control of the Company or the composition of the Company’s Board of Directors.

21.26. <u>Classification as an "Investment Company" according to U.S. securities law</u>

Generally, for so long as a company has more than 100 US investors (as is the case with respect to the Company as of the reporting date), a company must register under the Investment Company Act of 1940 as amended, or the 1940 Act, and comply with significant restrictions on operations and transactions with affiliates if it is engaged in the business of investing, owning, holding or trading securities and owns investment securities (as defined in the 1940 Act) exceeding 40% of the company's total assets, or if it holds itself out as being engaged primarily in the business of investing in, reinvesting or trading securities. The 1940 Act provides for various exemptions from the obligation to register thereunder, and in 1980 the Company received an order from the SEC, declaring that it is not an investment company under the 1940 Act. If certain of the Company’s activities and/or investments were to adversely affect its status under the 1940 Act or if the Company were to cease to comply with the conditions of the order from 1980, the Company might be deemed an investment company and/or need to dispose of or acquire other investments to avoid the requirement to register as an investment company on terms that may not be favorable to it. In addition, if the Company were deemed to be an investment company and therefore required to register as such under the 1940 Act, it would be unable to continue operating as it currently does, as a result of which its performance and market value could be severely harmed.

21.27. Changes in the value of the Company's holdings

The Company is exposed to the volatility of the value of its holdings in group companies. If the group companies experience difficulties in the future, or if there are adverse changes in their fair value, the Company may need to write-down or write-off the carrying value of its holdings, raise capital at a lower market value than expected, and its business and financial results and/or the value of its assets will be adversely affected. In addition, changes in the value of the Company’s holdings in the group companies may have an adverse effect on the Company’s market value. The Company regards the changes described herein as being in the ordinary course of our business.

21.28. Consummation of the exercise of the Put Option or the Call Option in CartiHeal's Transaction

In accordance with CartiHeal's transaction detailed in Section 23.15 below and its terms, the exercise of CartiHeal's Put Option is conditional upon CartiHeal meeting the certain conditions set forth in the agreement (see Section 23.15.2 below). Failure to meet these conditions will not enable the exercise of the Put Option and the receipt of the consideration therefor.

In addition, the exercise of the Put Option shall obligate Bioventus (as defined in Section 23.15 below) to pay the immediate consideration in the total amount of $350 million to all shareholders. The inability of Bioventus’ to attain the said amount may prevent or delay the closing of the Transaction, even if CartiHeal will meet the trial goals determined in the Transaction.

21.29. Realizing the potential of the agreement with Rafael

If RDC is unable to realize the full potential of its agreement with Rafael (see section 19.1 above), the Company's ability to develop new companies within the framework of RDC may be adversely affected and as a result the results of the Company's operations and its financial position may be adversely affected. The failure to realize such potential may occur if Rafael does not cooperate with RDC in realizing RDC's rights under the agreement, if Rafael or RDC fails to identify existing technology, or Rafael does not develop new technology that could be exploited for civilian purposes or if RDC will not reach an agreement with Rafael on the terms of use of technologies for commercial purposes.

21.30. Risk of a cyber attack

The Company and its main group companies are assisted by various technologies and databases for their business activities, including development. As a result, the Company and its main group companies are exposed to the risk of theft of business and technological data, and to the disruption of the main group companies' ongoing activities and the developments on which they are working.

21.31. Exposure to liability for representations and escrow deposits in exit transactions

In exit transactions executed or which may be executed by the Company in the future, the Company and/or its group companies are often required to make representations and warranties to the acquirer about the relevant group company and to, under certain circumstances, indemnify the acquirer for damages should such representations or warranties prove to be inaccurate. In addition, a portion of the sale proceeds is often held in escrow as security for the indemnification obligations, which may expose the Company to the risk of ultimately not receiving all or part of such portion of the proceeds should the representations and warranties prove to be inaccurate. Also, certain proceeds may be contingent upon future performance of such companies following the exit transaction and over which the Company has no control and accordingly, there is no assurance that such proceeds will be ultimately paid to the Company in full or at all. In this regard, the Company has indemnification obligations regarding representations given, inter alia, within the framework of transactions for the sale of Medingo, Kyma, Jordan Valley, Cloudyn, Secdo, Alcide, Imvision and SecuredTouch, which could be material if realized. In addition, there are representations given by previously held group companies and by the Company in the framework of transactions for the sale of companies previously held by it.

21.32. Below is a summary of the risk factors according to their type and their impact on Elron’s business, based on management's assessment:

	Degree of Impact of Risk Factor on Elron		
	Major Impact	**Medium Impact**	**Minor Impact**
<u>Macro Risks</u>			
Global economic conditions	✓		
Consequences of Concentration Law			✓
Limits on the Company's and group companies' ability to borrow from Israeli banks			✓
Downturn in the capital markets	✓		
International operations	✓		
Financial risks		✓	
<u>Sector Risks</u>			
Regulatory and contractual limitations on disposal of holdings	✓		

	Degree of Impact of Risk Factor on Elron		
	Major Impact	Medium Impact	Minor Impact
Effecting exit transactions at significant values	✓		
The impact of the group companies' operating results on Elron	✓		
Retaining key employees	✓		
Uncertainty and risk in the group companies' technology fields	✓		
Competition in the markets in which the group companies operate	✓		
Difficulty faced by the group companies in obtaining future financing	✓		
Intellectual property		✓	
Exposure to intellectual property lawsuits in the medical device field	✓		
Innovation Authority and Investment Center programs			✓

	Degree of Impact of Risk Factor on Elron		
	Major Impact	**Medium Impact**	**Minor Impact**
Product liability claims			✓
The uncertainty facing research and development stage medical device companies	✓		
The impact of regulations on medical device product development, manufacturing and marketing	✓		
Reimbursement		✓	
Conducting clinical trials	✓		
Difficulty and delays recruiting clinical trial candidates		✓	
Specific Risks			
Compliance with regulatory requirements and restrictions in several countries		✓	
Financing sources	✓		
Control by DIC		✓	

	Degree of Impact of Risk Factor on Elron		
	Major Impact	**Medium Impact**	**Minor Impact**
Classification as an "Investment Company" according to U.S. securities law			✓
Volatility in the value of the Company's holdings	✓		
Consummation of the exercise of the Call Option or the Put Option in CartiHeal's Transaction	✓		
Risk of a cyber attack			✓
Realizing the potential of the agreement with Rafael			✓
Exposure to liability for representations and escrow deposits in exit transactions			✓

Chapter II: Description of Group Companies

22. Introduction

Below is a description and details regarding the main companies, in accordance with Section 1.5 above, and a brief description of additional companies held by Elron during 2021 and still held by Elron on the filing date of the report (none of these companies, in and of itself, comprises a separate activities segment).

23. CartiHeal

23.1. CartiHeal is a private company, which was established according to the laws of Israel and commenced its activities in 2009. Elron completed its initial investment in CartiHeal in 2012.

23.2. As of the publication date of this report, Elron holds approximately 27% of CartiHeal's issued and outstanding share capital, and approximately 25% on a fully diluted basis.Other principal shareholders of CartiHeal include Accelmed, the investment arm of Johnson & Johnson (Johnson & Johnson Innovation – JJDC), Peregrine Ventures, Access Medical, Pertec, aMoon and Bioventus (Bioventus LLC).

23.3. CartiHeal specializes in the regenerative medicine field and works to develop and manufacture implants to treat cartilage and bone lesions caused by trauma or degenerative changes in loadbearing joints, such as the knee. CartiHeal's flagship product, the Agili-C, an aragonite-based biodegradable scaffold, is designed to restore cartilage and underlying subchondral bone through a natural process, without adding cells or growth factors.

23.4. Cartilage injuries impact millions of patients worldwide, and may cause chronic pain and severe disability. Once injured, hyaline cartilage (cartilage found in joints) has limited healing capacity, because it does not have a blood supply. Existing treatments have not succeeded in regenerating hyaline cartilage. Cartilage lesions left untreated may lead to joint remodeling and progress to osteoarthritis (a degenerative joint disease). There are no treatments that halt the progression of osteoarthritis. Between 2004 and 2011 approximately 2 million people in the United States underwent a surgical procedure addressing a cartilage lesion in the knee,[17] and approximately 11 million adults in the United States live with symptomatic knee osteoarthritis.[18] For information regarding CartiHeal's potential target market, see Section 23.21 below. The need for a simple, fast, and off the shelf solution to restore cartilage is an unmet challenge facing medicine today.

23.5. Cartilage is connective tissue that serves as a natural "shock absorber" in joints. It is found in many of the body's organs aside from joints, such as the nose, ear, and in between vertebrae. Cartilage provides the foundation for bone growth and provides a smooth and stable surface that prevents friction between bones during motion. Cartilage lesions are damage to the cartilage's structure, caused by a contusion or injury, or by a process of wear and tear with age or of cartilage disease. Diagnosis of cartilage lesions is first done based on the mechanism of the injury, patient complaints, and a physical examination by an expert physician. In the event a joint cartilage lesion is suspected, the imaging technique that best evaluates the status of the cartilage is MRI.

23.6. Treatment of cartilage defects is determined based on the extent of the lesion, the size of the lesion site, and the lesion's characteristics. Debridement, a surgical procedure to remove loose cartilage and bone fragments, may be performed to provide pain relief and restore some function. Another treatment is microdebridement, a cartilage stimulation procedure that involves drilling fractures in the bone, in order to induce migration of marrow elements that may result in the formation of fibrocartilage over the joint. Fibrocartilage is

[17] McCormick et al (2014) Trends in the surgical treatment of articular cartilage lesions in the United States: An analysis of a large private-payer database over a period of 8 years, *Arthroscopy*, *30*(2). See Section 1.8 above.

[18] Weinstein et al (2013) Estimating the burden of total knee replacement in the Unites States, *The Journal of Bone and Joint Surgery, 95*. See Section 1.8 above

inferior to hyaline cartilage, and wears away quickly. For the most part neither debridement nor microfracture prevent osteoarthritis. Larger lesions may be treated by autologous chondrocyte implantation, whereby a cartilage specimen is taken from the patient and harvested in the lab over 2-3 weeks. The cultured cells are seeded onto a scaffold to create a patch, and once it reaches the desired size, it is implanted back into the lesion site. This treatment is complex and expensive, and not widely used. For more information regarding CartiHeal’s potential competitors, see Section 23.22 below.

23.7. CartiHeal's implant is based on attracting cells from the bone and cartilage. The cells migrate into the implant, undergo differentiation, multiply and cause the implant to biodegrade while restoring the injured tissue.

23.8. To date the Agili-C was implanted, in a series of clinical trials in Europe, in over 500 patients with cartilage lesions in the knee, ankle and big toe, of which over 200 patients have accumulated follow-up of more than two years. In these trials, the implant was used to treat a broad spectrum of cartilage lesions. Results of these trials demonstrated the Agili-C's potential for cartilage regeneration and remodeling of the underlying subchondral bone, along with pain and symptom relief.

23.9. In April 2011, CartiHeal received the CE mark, for marketing the Agili-C in European Union countries. The development and approval for marketing of the Agili-C in the United States is subject to the requirements and regulatory approval processes described in Section 18.4 above. For more information regarding the development and marketing of Agili-C, see Section 23.21 below.

23.10. In September 2017, CartiHeal commenced a pivotal clinical trial for FDA marketing approval. The trial is controlled, randomized, and open-label, and is designed to compare patients treated with CartiHeal's implant with patients treated with the surgical standard of care, i.e. microfracture or debridement. The trial design allows for enrollment of between 250 and 500 patients with traumatic and osteoarthritic defects in the knee, with a follow-up period of two years. The trial is being conducted in 36 medical centers in the United States, Europe and Israel.

23.11. In November 2019, CartiHeal completed an interim analysis of the trial results of 250 patients and thereafter stopped enrollment of patients due to anticipated success. The purpose of the interim analysis was to re-estimate the sample size. The trial protocol specified that a recommendation to stop enrollment due to anticipated success would be given by the trial's Endpoint Adjudication Committee ("EAC") if the interim analysis reveals that there is an over 95% chance to show superiority of over 98% in the trial group over the current standard of care at the final analysis. Following the interim analysis of the results of the trial, and a review of the interim analysis by the EAC, the EAC recommended as follows: (i) To stop patient accrual due to anticipated success (ii) To continue follow-up of all currently enrolled patients, as per the trial protocol and (iii) To perform a final analysis of the results upon completion of the follow-up period. Accordingly, CartiHeal stopped enrollment of patients for the trial after the interim analysis. In October 2020, CartiHeal's Agili-C implant was granted "Breakthrough Device" designation by the FDA. (For information about the FDA's Breakthrough Designation program and the implications on receiving insurance coverage in the USA, see section 18.4.5 above). In January 2021, CartiHeal submitted to the FDA the first module out of three modules comprising the Agili-C implant's PMA application, in the framework of a modular PMA (for information regarding the modular PMA, see section 18.4.4.2 above). In September 2021, CartiHeal completed the filing of the clinical, and last, chapter in the marketing application, thus completed the filing of the approval application with the FDA (see below).

23.12. In August 2021, CartiHeal received the statistical report made by an external advisory entity, which summarizes the final results of the pivotal clinical trial of the Agili-C implant:

23.12.1. The statistical report shows compliance with the primary endpoint as well as with the four confirmatory secondary endpoints. This means that the report indicates the success of the trial as defined in the investment agreements and in the CartiHeal put option to Bioventus (the "**Transaction**"). For details about the Transaction, including its contingent conditions, see Section 23.15 below. There is no certainty as to the completion of the Transaction and its timing.

23.12.2. A summary of the results of the trial as reported by CartiHeal:

23.12.3. The main endpoint of the trial was defined as achieving significant clinical superiority (higher than 98%) of the Agili-C implant over currently accepted procedures, in measuring the change after 24 months in the KOOS index (patients reporting of pain indices, non-pain symptoms, quality of life and daily physical and sporting activity, ranging from 0 to 100, where the higher the index the better the clinical condition).

23.12.4. The results of the trial indicate attainment of trial's endpoints, including:

23.12.5. Meeting the main endpoint of the trial at 100% statistical significance (1.000): The KOOS index at baseline was similar between the trial group treated using the Agili-C implant ("**Implant Group**") and the control group, 41.2 and 41.7, respectively. Among the Implant Group, the KOOS index improved by 42.7 points on average, compared with an improvement of 21.4 points on average among the control group.

23.12.6. Meeting the secondary endpoints of the trial among the sub-population of patients with mild or moderate osteoarthritis (Kellgren-Lawrence 2-3) and the sub-population of patients with lesions with a total size of 3 sq.cm. or greater: the extent of improvement among these two sub-populations in the Implant Group compared to the control group was similar to the results of the entire trial population in the main endpoint.

23.12.7. Meeting the confirmatory secondary endpoints with a statistical significance level of 100% (1.000): improvement in the KOOS index with its separate components: pain, daily physical activity and quality of life, and the rate of those responding to treatment.

23.12.8. The responder rate, which was defined as an improvement of 30 points or more in the KOOS index measured after 24 months, compared to the baseline level, was 77.8% in the Implant Group compared to 33.6% in the control group.

23.13. In September 2021, as stated, CartiHeal completed filing the clinical, and last, chapter, thus completing the approval application filing to the FDA. Receiving the marketing approval from the FDA, if received, is a process that is expected to last one year from the date of filing the application. This process may be completed sooner due to the modular filing and the recognition of the implant as a breakthrough development by the FDA.

23.14. The above estimates and the statements in Section 23.21 are forward-looking in nature, as defined in the Israel Securities Law, and are based on CartiHeal's estimations and information existing in CartiHeal as of the filing date. These estimates, in whole or in part, may not materialize, or may materialize in a manner materially different than expected. The principal factors that may affect this are developments in CartiHeal's field of operation, feedback from the FDA, responses from the medical and scientific community, guidance and decisions from regulatory authorities, unforeseen regulatory difficulties, regulatory changes and restrictions on supply of raw material for implant manufacture, inability to realize technologies, modifications in technologies, modifications in the work plan, goals and/or strategy, or if any risk described in Section 21 above is realized.

23.15. <u>Transaction for investment and option to sell CartiHeal</u>

23.15.1. In July 2020, CartiHeal and shareholders of CartiHeal, including Elron, have entered into definitive agreements with Bioventus LLC (an international medical device manufacturing company, "Bioventus"), an existing shareholder of CartiHeal, as follows:

23.15.1.1. An equity investment by Bioventus in CartiHeal of $15-20 million at a pre-money valuation of $180 million. Out of this sum, $15 million was invested immediately (in this section, the "Investment"), and CartiHeal has the right to call for an additional $5 million.

23.15.1.2. An exclusive option for Bioventus to acquire 100% of CartiHeal's share capital (in this section, the "Call Option").

23.15.1.3. A put option for CartiHeal to require that Bioventus purchases 100% of CartiHeal's share capital (in this section, the "Put Option").

23.15.2. The Call Option is exercisable from the closing of the Investment. The Put Option shall be exercisable subject to pivotal clinical trial success, including on certain secondary endpoints (as stated in Section 23.12 above, the trial’s results indicated the success required under the agreement), and subject to the FDA approving the Agili-C device with a label consistent in all respects with pivotal clinical trial success. The Call Option and Put Option shall terminate 45 days following obtainment of FDA approval and fulfillment of customary closing conditions, see Section 23.15.6 below.

23.15.3. In the event of exercise of the Call Option or the Put Option, CartiHeal's shareholders will receive a total consideration of up to $500 million, comprised of immediate consideration of $350 million and earn out in the amount of $150 million as detailed below. Elron's expected share in the total consideration for the acquisition of CartiHeal amounts to $126-129 million in the aggregate, and is comprised of (i) $90-92 million (subject to customary financial adjustments) payable at the acquisition closing (including $12 million to be deposited in escrow for 24 months, primarily to secure certain indemnification obligations of the selling shareholders to Bioventus), and (ii) $36-37 million payable at such time when the sales of the Agili-C and certain other revenues resulting from the commercializing of other CartiHeal technology shall generate at least $100 million in revenues during a consecutive 12-month period (in this section, the "Sales Milestone").

23.15.4. In August 2021, after receiving the results of the trial and in accordance with the agreement, Bioventus announced that it had decided to continue the Investment transaction and CartiHeal’s Put Option to the seller, and subsequently deposited USD 50 million in escrow to ensure the exercise of the Call Option and the Put Option. Bioventus also announced that its decision was made after examining the statistical report summarizing the final results of the pivotal clinical trial of the Agili-C implant, an indemnity code analysis and a comprehensive market examination that included interviews with surgeons about commercialization options of the Agili-C implant, and an examination of the market potential.

23.15.5. If Bioventus fails to acquire CartiHeal following suitable marketing and exercising the Call Option or Put Option, CartiHeal will be entitled to the USD 50 million that were deposited in escrow, in addition to forfeiture of all shares held by Bioventus in CartiHeal.

23.15.6. In addition to the terms outlined above, the completion of the exercise of the Call Option or the Put Option and resulting acquisition of CartiHeal are subject, among other things, to customary closing conditions as well as obtaining certain regulatory, corporate and other third-party approvals.

23.15.7. There is no assurance as to the consummation of the exercise of the Call Option or the Put Option, or the timing thereof.

23.15.8. The above projected data and estimates are forward-looking information, as defined in the Israel Securities Law, and are based on Elron's and CartiHeal's current assessments of information relating to future events whose occurrence is not certain and which is not within the exclusive control of Elron and CartiHeal, primarily the conditions precedents, whose occurrence is dependent upon the parties to the transactions, and other factors which may cause a materially different result or may result in the transactions pursuant to the Call Option or Put Option not taking place.

23.16. In January 2020, CartiHeal raised $5 million from several of its existing shareholders, including Elron. Elron's share was $1.5 million. In accordance with the investment agreement (SAFE – Simple Agreement for Future Equity) the investment amount will be converted to shares of CartiHeal subject to certain conditions set forth in the agreement. In July 2020, as described above, Bioventus invested approximately $15 million in CartiHeal, as part of the agreement for investment and Call Option. For further details see Section 25.13 above and Note 3.B.4.a to the Financial Statements. In parallel, the aforementioned SAFE balance was converted into shares of CartiHeal. Since its inception and as of the filing date, approximately $70.5 million has been invested in CartiHeal, of which Elron invested approximately $18.4 million.

23.17. CartiHeal's operating results are presented in Section 5 on Part IV of this Annual Report and in Section 1.3.3 of the Board of Directors Report. CartiHeal's cash flows details are presented in Section 1.4 of the Board of Directors Report.

23.18. As of the filing date, CartiHeal has 5 registered patents in the United States, and 38 registered patents in other countries around the world. In addition, CartiHeal has 10 pending patent applications in the United States, and 38 pending patent applications in other countries around the world. These patents protect the implant's structure, its use for different indications, its designated implantation systems, and manufacturing processes. For more information regarding CartiHeal's material patents and patent applications, see Section 23.23 below.

23.19. CartiHeal's headquarters are located in Atir Yeda in Kfar Saba, Israel and in the United States and as of December 31, 2021, CartiHeal employs 26 employees.

23.20. CartiHeal is currently in development and clinical trials stages and has not commenced sales. As a result, CartiHeal's operations were and are funded mainly by its shareholders' investments.

23.21. Below is a table detailing the material products developed by CartiHeal. The table includes forward-looking information as detailed under Section 23.14:

Name of Product	Intended Use	Development stage as at the filing date	Expected milestones within next 12 months	The next milestone and CartiHeal's estimation as to the expected date of its attainment	CartiHeal's assessment of the estimated resources required to reach the next milestone	CartiHeal's estimation regarding the size and the annual monetary volume of the potential target market	CartiHeal's estimation regarding the commencement date of product marketing
Agili-C	An implant for repair of cartilage and bone defects	CartiHeal completed the trial and completed the submission of the clinical, and final, chapter thus completing the application for FDA approval.	Receiving the FDA's marketing approval, as the case may be, and completing the sale transaction to Bioventus.	Obtaining marketing approval from the FDA, if received, is expected to take one year from submission, that is during the third quarter of 2022. The process may be completed sooner due to the modular submission and recognition of CartiHeal's implant as a	CartiHeal has the required resources for financing the next milestone. For a description of CartiHeal's cash balances, see Section 1.4 of the Directors' Report	Estimated size of the potential target market in USA: approximately 270,000 knee cartilage repair procedures and 50,000 toe cartilage repair procedures. As of the reporting date, CartiHeal has no estimate regarding the annual monetary volume of the potential target market	CartiHeal estimates at this stage that FDA marketing approval in the USA will be obtained in 2022. CartiHeal has no intention of commencing marketing in Europe at this stage, nor is there an estimate as to the timing of commencement of marketing in the USA.

				breakthrough by the FDA.			

23.22. Below is a table including details, to CartiHeal's best knowledge, regarding the Agili-C's features in comparison with competing medical products for the treatment of cartilage and bone defects, whether marketed in countries or territories where CartiHeal intends to operate and there is publicly available information about them or whether they are in the development stage and publicly available information exists regarding the level of their safety and efficacy.

	Agili-C	**Debridement**	**Micro-facture**	**Allograft implant**	**NSAIDS**	**Hyaluronic Acid**	**Steroids**	**Platelet-rich Plasma**	**Partial Knee Replacement**
The manner of use of the product	Implantation in open surgery	Arthroscopy	Arthroscopy	Implantation via arthroscopy or open surgery	Oral medication	Injection directly into the joint	Injection directly into the injured area	Injection directly into the injured area generally under ultrasound	Artificial implant in open knee surgery
Side effects	Pain, infection, swelling, deformation	Pain, infection, swelling, deformation	Pain, infection, swelling, deformation	Pain, infection, swelling, deformation	Various side-effects including allergy, pain, swelling	Various side-effects including allergy, pain, swelling	Various side-effects including allergy, pain, swelling	Various side-effects including allergy, pain, swelling	Pain, infection, swelling, deformation

	Agili-C	Debridement	Micro-facture	Allograft implant	NSAIDS	Hyaluronic Acid	Steroids	Platelet-rich Plasma	Partial Knee Replacement
The cost of the treatment in the U.S.	Not yet determined	Several thousands of dollars	Several thousands of dollars	Tens of thousands of dollars	Tens up to thousands of dollars	Hundreds up to thousands of dollars	Hundreds up to thousands of dollars	Hundreds up to few thousands of dollars	Tens of thousands of dollars
Description of the Product	Implant for regeneration of cartilage and subcutaneous bone	Surgical procedure for the relief of pain from the erosion of the cartilage of the joint by removing loose cartilage fragments and smoothing fibrillated surfaces	Surgical procedure for stimulating growth of fibrotic cartilage in the injured area by drilling fractures in the bone	Implantation of cartilage previously cultured from biopsy tissue taken from the patient	Medicine for reducing pain, fever and inflammatory processes	Treatment for lubricating the joint and reducing pain	Treatment for anti-inflammation and pain reduction	Injection of extract produced from the patient's blood for pain reduction	Artificial implant that replaces only one side of the knee
The possibility of receiving insurance reimbursement in the U.S.	Not yet determined	Exists	Exists	Exists	Exists	Exists	Exists	Exists	Exists
Market share, to the best of CartiHeal's knowledge	Not yet in the market	Unknown	Unknown	Unknown	Unknown	Unknown	Unknown	Unknown	Unknown

	Agili-C	Debridement	Micro-facture	Allograft implant	NSAIDS	Hyaluronic Acid	Steroids	Platelet-rich Plasma	Partial Knee Replacement
Other material features of the product	Treatment for cartilage repair / joint resurfacing (heals the disease), off-the-shelf, cell-free, no growth factors, significant relief in side effects compared to competing treatments.	Treatment of mechanical symptoms to improve functioning (to relieve pain)	Cartilage restoration (to relieve pain)	Cartilage restoration, low availability, complex and expensive treatment	Treatment of mechanical symptoms to improve functioning (to relieve pain)	Treatment of mechanical symptoms to improve functioning (to relieve pain)	Treatment of mechanical symptoms to improve functioning (to relieve pain)	Treatment of mechanical symptoms to improve functioning (to relieve pain)	A radical procedure in which the patient's knee is replaced with a metal knee

23.23. The following are details about the issued patents and the patent applications that CartiHeal considers material.

Material issued patents:

Patent name and Number	Patent description	Assignee	Expected expiry date of Patent	Countries in which Patent has been issued
Solid Forms for Tissue Repair US 8,808,725, JP 5536793, EP 2367556, CA 743,461, IL 212963	aragonite implants including a hollow region flanked by extended regions of aragonite with optional polymer combination, methods of use thereof and kits	CartiHeal	29 Nov-2029	USA, Japan, Europe, Australia, Canada, Israel
Solid Forms for Tissue Repair US 8,790,681 JP 5795577 EP2442750 CA 2,764,881 CN 201080037022.5	coral implants with a cartilage phase including hollow regions linked by extended regions of aragonite that combines polymer with biocombatibility and a bone phase including solid aragonite	CartiHeal	23 May-2030	USA, Japan, Europe, Australia, Canada, China

Material pending patent applications submitted by CartiHeal which have been published:

Patent name and number	Patent description	Assignee	Priority Date	Date of Filing of Application	Countries in which Patent has been issued
Solid Substrates for Promoting Cell and Tissue Growth	A process for selection of an optimized marine organism skeletal derivative -based solid substrate	CartiHeal	13 Feb-2013	10-Feb-2014	Australia, Brazil, Canada, China, Europe, Hong Kong, India, Israel, Japan, Korea, South Africa, USA
Optimized solid substrates, tools for their use and to promote cell or tissue growth	Optimized solid substrates, tools for their use and to promote cell or tissue growth or restored function	CartiHeal	May 6 ,2015	4-May-2016	Australia, Canada, China, Europe, Hong Kong, Israel, Japan, Korea, South Africa, USA

24. <u>BrainsGate</u>

24.1. BrainsGate, a private company incorporated in Israel, was established and commenced its activities in 2000. Elron completed its initial investment in BrainsGate in 2005.

24.2. Elron holds approximately 28% of BrainsGate's outstanding share capital as of the filing date, and approximately 25% on a fully diluted basis. The other principal shareholders of BrainsGate include Pitango, Medtronic, Infinity Group, Cipio Partners, Boston Scientific, Johnson & Johnson, Agate Medical Investments and BNP Joint Capital LP.

24.3. BrainsGate is developing a minimally invasive platform for the treatment of patients suffering from Central Nervous System (CNS) diseases. BrainsGate's platform technology involves electrical stimulation of the spheno-palatine ganglion (SPG), a nerve center located behind the nasal cavity, to augment cerebral blood flow, without affecting the body's other systems, such as the blood pressure system. This treatment could be acute (short term, for hours or several days) or chronic (long term, from several months to years). BrainsGate's main product under development ("**ISS**") is designed to treat ischemic stroke. BrainsGate is in the development stage and has not commenced sales.

24.4. In the United States only, each year approximately 795,000 people experience a new or recurrent stroke. Projections show that by 2030, the prevalence of stroke will increase by 20.5% from 2012.[19] However, to the best of BrainsGate's knowledge, the current treatment for stroke patients is very limited, with only an estimated 10%-15% of ischemic stroke patients receiving tPA or mechanical thrombectomy treatment:

[19] American Heart Association. (2019). Heart disease and stroke statistics – 2019 update. *Circulation,* e282. See Section 1.8 above.

24.4.1. tPA: Treatment with tPA, a clot dissolving medicine, is approved for use during a very short time frame following the stroke. This time frame which was only 3 hours was extended to 4.5 hours in 2009,[20] but it still represents a narrow time frame. Treating a patient outside such time frame increases the risk of brain hemorrhage by ten,[21] and accordingly is not approved. In practice, most patients arrive at hospitals after the approved time frame.

24.4.2. Mechanical Thrombectomy: In 2015, a series of several multi-center studies assessing mechanical thrombectomy treatment of ischemic stroke (removal or aspiration of the blood clot with a stent retriever) began to be published, and showed that mechanical thrombectomy significantly improves the condition of certain stroke victims[22]. According to ischemic stroke management guidelines, the recommendation is to initiate the procedure within 6 hours of stroke onset. In the beginning of 2018, this time frame was expanded to 16 to 24 hours in certain subgroups of these stroke victims, who meet determined criteria[23] and since then, studies have also been published that show the efficacy of mechanical thrombectomy among patients

[20] del Zoppo, G.J., Saver, J.L., Jauch, E.C., Adams, H.P.; on behalf of the American Heart Association Stroke Council. (2009). Expansion of the time window for treatment of acute ischemic stroke with intravenous tissue plasminogen activator. *Stroke, 40*, 2945-2948. See Section 1.8 above.

[21] Adams, H.P. et al. (2003). Guidelines for the early management of patients with ischemic stroke. *Stroke, 34*, 1056-1083. See Section 1.8 above.

[22] American Heart Association. (2019). Heart disease and stroke statistics – 2019 update. *Circulation,* e303. See Section 1.8 above.

[23] AHA/ASA Guideline. (2018). 2018 Guidelines for the Early Management of Patients With Acute Ischemic Stroke: A Guideline for Healthcare Professionals From the American Heart Association/American Stroke Association. *Stroke.* See Section 1.8 above.

not included in existing guidelines[24]. That said, mechanical thrombectomy requires the patient to be at an experienced stroke center with rapid access to cerebral angiography, qualified neurointerventionalists, and a comprehensive periprocedural care team[25].

For additional information of potential competition to BrainsGate, see Section 24.22 below.

24.5. In fact, stroke is a leading cause of long term disability, and the leading preventable cause of disability.[26] In practice, between 15% to 30% of stroke survivors are left permanently disabled.[27] The average annual direct and indirect cost of stroke in the United States in 2014 to 2015 was $45.5 billion.[28] The lifetime cost per person of a stroke is $140,048 and includes hospitalization, rehabilitation, and follow up treatment.[29]

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[24]Zaidat OO, Castonguay AC, Noguiera RG etr al. TREVO stent-retriever mechanical, thrombectomy for acute ischemic stroke secondary to large vessel occlusion registry. Journal of NeuroInterventional Surgery 2018; 10,516-524. See Section 1.8 above

[25] AHA/ASA Guideline. (2018). 2018 Guidelines for the Early Management of Patients With Acute Ischemic Stroke: A Guideline for Healthcare Professionals From the American Heart Association/American Stroke Association. *Stroke.* See Section 1.8 above.

[26] AHA/ASA. Impact of Stroke (Stroke statistics). Jun 6, 2016. http://www.strokeassociation.org/STROKEORG/AboutStroke/Impact-of-Stroke-Stroke-statistics_UCM_310728_Article.jsp; See Section 1.8 above.

[27] American Heart Association. (2010). Heart Disease and Stroke Statistics – 2010 Update. *Circulation, e104*. See Section 1.8 above.

[28] American Heart Association. (2019). Heart Disease and Stroke Statistics – 2019 Update. *Circulation,* e303. (Direct costs refer to health expenditures such as the cost of physicians and other professionals, hospital services, prescribed medications, home health care, and other medical durables, while indirect costs refer to lost productivity that results from morbidity and premature mortality.) See Section 1.8 above.

[29] American Heart Association. (2014). Heart Disease and Stroke Statistics – 2014 Update. *Circulation, 258*. See Section 1.8 above.

24.6. 87% of strokes are ischemic.[30] Ischemic stroke occurs when blood supply to the brain is blocked, usually as a result of a blood clot. Symptoms occur suddenly and lead to death of brain tissue in the blocked area. The dead cells in this area release toxic materials causing death of additional brain tissue in the surrounding area, known as the ischemic penumbra. Death of brain tissue in the blocked area occurs within minutes and is inevitable, however, damage in the ischemic penumbra occurs only a few hours thereafter, and thus can be prevented.[31] In spite of this, due to the restrictions on the therapeutic time window and the criteria for receiving effective treatment as previously mentioned, to the best of BrainsGate's knowledge, damage in the ischemic penumbra is not prevented in most cases. Preventing damage in the ischemic penumbra and the protection of the blood brain barrier (BBB) is the goal of the ISS system being developed by BrainsGate.

24.7. BrainsGate's ISS system is designated for use for 8 to 24 hours after onset of stroke, among stroke victims with cortical involvement in the anterior part of the brain (Confirmed Cortical Involvement, "CCI"). This group is characterized, inter alia, by the more severe strokes in relation to general stroke victims. BrainsGate estimates that about 25% of ischemic stroke events are CCI. For information about the potential target market of BrainsGate, see Section 24.21 below.

24.8. Stimulating the SPG using the ISS widens the blood vessels in the brain thus increasing blood flow to the brain while preserving the blood brain barrier that prevents the development of edema, and as a result, improves the patient’s prognosis. The treatment includes activation of the electrode for several hours a day for a few days after the stroke occurs as long as implantation and

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[30] The remaining cases of stroke are hemorrhagic. Hemorrhagic stroke occurs when blood supply to the brain tissue is interrupted, usually as a result of a burst blood vessel: American Heart Association. (2018). Heart Disease and Stroke Statistics – 2019 Update. *Circulation,* e282. See Section 1.8 above.

[31] From the Internet Stroke Center's website: http://www.strokecenter.org/education/ais_pathogenesis/22_ischemic_penumbra.htm . See Section 1.8 above.

initial activation take place in a 24 hour post-stroke time frame. As such, the ISS system is supposed to significantly expand the current treatment window compared to tPA. In addition, unlike endovascular therapy, the ISS system can be operated by the neurologist rather than a neurointerventionist and a comprehensive periprocedural care team, and does not require the patient to be at an experienced stroke center.

Between 2011-2018, BrainsGate conducted the ImpACT-24B trial, a controlled, randomized, double-blinded, sham control clinical trial on 1000 patients in 73 medical centers in 18 countries, to prove the ISS's safety and efficacy. The procedure was conducted by doctors (not surgeons), mostly neurologists. On average, patients were treated over a period of 19 hours after the stroke event. The primary efficacy endpoint was final global disability level better than expectation at 3 months after stroke.

24.9. Within the framework of the trial, the primary efficacy endpoint was assessed in two populations: 1) the Confirmed Cortical Involvement (CCI) population, which was a subset of the mITT population (n=520) and 2) the modified Intent to Treat (mITT) population (n=1,000).

24.10. This group of CCI patients encompassed about 50% of all patients in the trial and is characterized, among other things, by more severe stroke events compared to all the stroke patients. The net effect measured in the trial among the CCI population was 9.7% (p=0.0258), a marginal deviation from the statistical significance threshold required for this group, of 0.025, while the trial did not meet the efficacy target among the mITT population (net effect of 3.2%, p=0.31).

In May 2019, the results of the ImpACT-24B clinical trial were published in the scientific journal *The Lancet*[32], where it was noted that the cumulative

[32] Bornstein NM, Saver JL, Diener HC, Gorelick PB, Shuaib A, Solberg Y, et al. An injectable implant to stimulate the sphenopalatine ganglion for treatment of acute ischaemic stroke up to 24 h from onset (ImpACT-24B): an international, randomised,

evidence indicates that, for patients with confirmed cortical ischemia 8-24 hours after onset, SPG stimulation reduces post-stroke disability over the entire outcome range and increases the proportion of patients alive and independent 3 months after stroke.[33]

24.11. The development and approval of BrainsGate's product is subject to the regulatory approval requirements and procedures as described in Section 18.4 above. In July 2019, BrainsGate filed an application for marketing approval in Europe (CE marking) of its ISS product, based upon the results of the ImpACT-24B trial. In May 2020, BrainsGate received marketing approval in Europe (CE marking) of its ISS product for treatment of ischemic stroke in patients with confirmed cortical involvement (CCI), started within 24 hours of symptom onset.

24.12. In February 2020, BrainsGate submitted its PMA marketing approval application to the FDA based upon the results of the ImpACT-24B trial. In December 2021, after BrainsGate completed the tests and items to completed required by the FDA, BrainsGate's marketing approval was reviewed by an external panel of experts. The panel held a public discussion at which various and varied opinions were presented, and at the end of which it gave its opinion on BrainsGate's ISS system intended for the treatment of cortical obstructive stroke ("**ISS**"), voting as follows:

24.12.1. On the question of whether the ISS system is safe for use among the patients for whom the treatment is intended, all 13 panel members voted in favor, 0 against, and 0 abstained.

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double-blind, sham-controlled, pivotal trial. Lancet. 2019 Oct, https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(19)31192-4/fulltext.

[33] The cumulative evidence indicates that, for patients with confirmed cortical ischemia 8-24h after onset, SPG stimulation reduces post-stroke disability over the entire outcome range and increases the proportion of patients alive and independent 3 months after stroke.

24.12.2. On the question of whether there is reasonable assurance that the ISS system is efficacious for use among the patients for whom the treatment is intended, 3 panel members voted in favor, 7 against, and 3 abstained.

24.12.3. On the question of whether the benefits of using the ISS system among patients for whom treatment is intended outweigh the risks, 3 panel members voted in favor, 7 against, and 3 abstained.

24.12.4. In February 2022, subsequent to the reporting date, an FDA reply was received stating that BrainsGate's marketing approval application was not approvable and that in order to be approvable, further clinical information and substantiation was required. BrainsGate intends to hold a dialogue with the FDA regarding the required information and substantiation. Depending on this dialogue and its results, BrainsGate will decide on its next steps and the length of time and resources that will be required to establish the additional clinical information required by the FDA. In light of the developments and in accordance with the decisions that will be made at BrainsGate and the Company in this regard, the Company is expected to examine BrainsGate's compliance with the qualitative criterion as stated in Section 1.5 above for the purpose of classification as a main group company. For more information about the development and marketing status of the ISS system, see section 24.21 below.

24.13. BrainsGate’s above estimates and in Section 24.21 are forward-looking in nature, as defined in Israel Securities Law, 57281968, and are based on information existing in BrainsGate as of the filing date. These estimates, in whole or in part, may not materialize, or may materialize in a manner materially different than expected. The principal factors that may cause material differences are: the results of the dialogue of BrainsGate with the FDA as to the additional clinical information required; directives and determinations by regulatory authorities; unforeseen regulatory difficulties; regulatory developments and changes in fields of operation; developments in BrainsGate's field of operation; feedback from the medical and scientific community; available financing; or if any risk described in Section 21 above is realized.

24.14. In addition to the activities described above, BrainsGate is working to reduce the ISS's manufacturing costs. BrainsGate's strategy for commencing sales relies on the FDA approval which will be the basis for acceptance of the innovative treatment by physicians in the US and Europe, and will enable steps to be taken to obtain reimbursement.

BrainsGate’s above estimates are forward-looking in nature, as defined in Israel Securities Law, and are based on information existing in BrainsGate as of the filing date. These estimates, in whole or in part, may not materialize, or may materialize in a manner materially different than expected. The principal factors that may cause material differences are: developments in BrainsGate's field of operation; available financing; or if any risk described in Section 21 above is realized.

24.15. To the best knowledge of BrainsGate, there are other companies currently engaged in its field that compete or may compete with BrainsGate.

24.16. In December 2020, BrainsGate completed a $14 million financing round led by a new investor, BNP Joint Capital L.P. The financing round included an equity investment by new investors in the amount of approximately $6 million, at a pre-money valuation of USD 147 million, and conversion of the Simple Agreement for Future Equity (SAFE) from March 2020 in the amount of USD 8 million (Elron’s share amounted to USD 2 million). For more details, see Note 3.B.4.b) to the Financial Statements. Since its inception and until the filing date, approximately USD 111 million has been invested in BrainsGate, out of which Elron invested approximately USD 31 million.

24.17. BrainsGate's operating results are presented in Section 5 of Part IV of this Annual Report and Section 1.3.3 of the Board of Directors Report. BrainsGate's cash flows are presented in Section 1.4 of the Board of Directors Report.

24.18. BrainsGate has 35 patents and several pending patent applications. The patents protect the technology developed by BrainsGate, the potential medical applications of its technology, and the medical technique for placing the electrode and use of the medical technology. For further details regarding the material patents and patent applications of BrainsGate, see Section 24.23 below.

24.19. BrainsGate is headquartered in Caesarea, Israel. As of December 31, 2021, BrainsGate had 14 employees.

24.20. As previously mentioned, BrainsGate is in the development stages and has not commenced sales. As a result, BrainsGate will require additional funding to finance its operations.

24.21. The following table details the material products being developed by BrainsGate. The table includes forward-looking information as detailed in Section 24.12:

Name of Product	Intended Use	Development stage as at the filing date	Expected milestones within next 12 months	The next milestone and BrainsGate's estimation as to the expected date of its attainment	BrainsGate's assessment of the estimated resources required to reach the next milestone	BrainsGate's estimation regarding the size and the annual monetary volume of the potential target market	BrainsGate's estimation regarding the commencement date of product marketing
ISS	Treatment of ischemic stroke	Received marketing approval in Europe (CE); FDA reply was received stating that BrainsGate's marketing authorization application was not approvable and that in order to be approvable to be approved, additional information and clinical substantiation was required. Brainsgate intends to hold a dialogue with the FDA about the required information and substantiation. Depending on this dialogue and its consequences, BrainsGate will decide on its next steps	Decision on an outline that will be agreed by the FDA to provide the additional clinical information required and enrolling patients for the trial according to the outline to be determined.	Decision on an outline that will be agreed by the FDA to provide the additional clinical information required, during 2Q2022	BrainsGate has the required resources to finance the next milestone. For a description of BrainsGate's cash balance, see Section 1.4 of the Directors Report.	The annual number of ischemic strokes in the USA is approximately 700,000. BrainsGate estimates that 25% of them are CCI strokes. As of the reporting date, BrainsGate does not have an estimation of the monetary volume of the target market	BrainsGate is unable at this stage to estimate the timing of the FDA approval (see 18.4.4.2 above) at this stage.

24.22. The following table includes details, to the best knowledge of BrainsGate, regarding the ISS system's features in comparison with other medical products competing in the field of ischemic stroke, whether marketed in countries or territories where BrainsGate intends to operate and there is publicly available information about them or whether they are in the development stage and publicly available information exists regarding the level of their safety and efficacy:

	ISS	**TPA IV Thrombolysis Drugs**	**Mechanical Thrombectomy**
Manner of use of the product	Minimally invasive, by a doctor, procedure performed in the treatment room within 24 hours to treat CCI strokes	Medication administered intravenously according to the doctor's instructions within 4.5 hours of stroke onset	Interventionist, in the intervention theatre, only for large blood vessel occlusion strokes, within 6-8 hours, and in special cases (2-3% of cases) up to 24 hrs
Side effects	No serious side effects were revealed during clinical trials	Cerebral hemorrhage in approximately 7% of patients	Cerebral hemorrhage in a small percentage of cases
Cost of the treatment in the US	Not yet determined	Approximately $12,000 for the entire procedure (Approximately $8300 for the material itself)	Approximately $23,000-$35,000 for the entire procedure (Approximately $6000 - $7000 for the intervention)
Description of the Product	Implantation and 4-hour daily treatments for 5 days	Approximately one hour, intravenously	Approximately one hour in the interventionist theatre
Possibility of receiving reimbursement in the US	Not yet checked	Exists	Exists

	ISS	TPA IV Thrombolysis Drugs	Mechanical Thrombectomy
Market share to best knowledge of BrainsGate[34]	Not yet approved for marketing	Approximately 10% of patients (estimate)	Approximately 7% of patients (estimate)
Additional material features of the Product	Quick and simple procedure, without serious side effects, not limited for use in designated stroke centers, can be performed by neurologist (does not require interventionist and comprehensive periprocedural care team)	Effective mainly in the treatment of small vessel occlusions, for use within a limited time period	Effective mainly in the treatment of large vessel occlusions, limited number of interventionists capable of performing the procedure and limited number of stroke centers at which the procedure can be performed

[34] To the best knowledge of BrainsGate, a portion of patients receive both currently available treatments.

24.23. The following are details about the issued patents and the patent applications that BrainsGate considers material.

Material issued patents:

Patent name and number	Patent description	Assignee	Estimated expiry date of the patent[35]	Countries in which the patent has been issued
7729759: Method and apparatus for stimulating the sphenopalatine ganglion to modify properties of the BBB and cerebral blood flow	Apparatus for modifying a property of a brain of a patient is provided, including one or more electrodes stimulate the sphenopalatine ganglion (SPG). The apparatus can increase the permeability of the blood-brain barrier (BBB) or change the cerebral blood flow of the patient, and/or inhibit the parasympathetic activity of the SPG.	BrainsGate	19-Dec-2023	USA

[35] Some of the patents listed in the table are scheduled to expire in the next few years. However, the central patent in the stroke field (US8055347) will expire in 2030. BrainsGate's intellectual property strategy deals with aging patents by adding new intellectual property that protects other aspects of the device, such as adding methods of stimulation, and adding relevant applications to the treatment. These patents will continue to be in force beyond 2030, and there are also patent applications in process. In addition, BrainsGate's PMA trial, assuming BrainsGate will obtain FDA approval, adds another significant layer of protection to BrainsGate's intellectual property portfolio, because any competitor seeking to offer a stroke treatment based on SPG stimulation would have to undergo the same process of clinical trials as BrainsGate to obtain regulatory approval.

Patent name and number	Patent description	Assignee	Estimated expiry date of the patent[35]	Countries in which the patent has been issued
7877147: Stimulation of the sphenopalatine ganglion for treating depression	Apparatus to modify the brain's properties as above, to treat depression.	BrainsGate	29-August -2023	USA
7640062: Methods and systems for management of Alzheimer's disease	Apparatus to treat Alzheimer's disease. The apparatus includes the stimulation of the SPG, which causes a change in concentration of the brain matter.	BrainsGate	11-Sep-2022	USA
7636597: Surgical tools and techniques for stimulation	Apparatus for treating a subject that includes a customized stimulation system for implantation in the vicinity of the SPG	BrainsGate	26-Nov-2024	USA
8229571: Greater palatine canal stylet	Tools for the treatment of the greater palatine canal	BrainsGate	24-Aug-2024	USA
EP1585430 B1: Surgical tools and techniques for stimulation	Apparatus for treating a subject that includes a stimulator adapted for implantation in the vicinity of the SPG	BrainsGate	13-Nov-2023	Europe (regional phase)

Patent name and number	Patent description	Assignee	Estimated expiry date of the patent[35]	Countries in which the patent has been issued
7117033: Stimulation for acute conditions	Method for treatment of a patient including positioning of an electrode in the patient and stimulation that causes an increase of the cerebral blood flow. The positioning of the elecetrode is in one of several sites including the SPG.	BrainsGate	5-Jan-2022	USA
6853858: Administration of anti-inflammatory drugs into the central nervous system	Apparatus is provided for delivering a Non Steroidal Anti-Inflammatory Drug (NSAID) to the central nervous system (CNS)	BrainsGate	23 May-2023	USA
8055347: Stimulation for treating brain events and other conditions	A therapeutic system consisting of one or more electrodes adapted for the treatment of cerebrovascular conditions	BrainsGate	12-Aug-2030	USA
8406869: Post-acute electrical stimulation treatment of adverse cerebrovascular events	Treatment after adverse cerebrovascular events except for Alzheimer's and Parkinson's disease. Stimulation causes nerve tissue to be activated at least sufficiently to increase cerebral blood flow and / or release one or more neuroprotective substances	BrainsGate	17-Aug-2026	USA

Patent name and number	Patent description	Assignee	Estimated expiry date of the patent[35]	Countries in which the patent has been issued
8958881: Neuroprotective electrical stimulation	A system that contains at least one electrode and is suitable for the activation of the SPG or other sites and whose stimulation triggers at least one of the following events: increased cerebral blood flow, one or more neuroprotective substances, but no increased permeability of the BBB.	BrainsGate	17-Aug-2026	USA
9233245: SPG stimulation	A system that contains at least one electrode and is suitable for the activation of the SPG or other sites and whose stimulation triggers at least one of the following events: increased cerebral blood flow, one or more neuroprotective substances, but no increased permeability of the BBB.	BrainsGate	20-Feb-2024	USA
7561919: SPG stimulation via the greater palatine canal	Electrode for treatment of a patient adapted to stimulate the SPG	BrainsGate	28 Dec-2024	USA
8010189: SPG stimulation for treating complications of subarachnoid hemorrhage	A method for identifying a subject who has suffered a subarachnoid hemorrhage and complications deriving therefrom	BrainsGate	4-Apr-2026	USA

Patent name and number	Patent description	Assignee	Estimated expiry date of the patent[35]	Countries in which the patent has been issued
7908000: Transmucosal electrical stimulation	Apparatus for modifying a property of a brain including at least one electrode capable of increasing the cerebral blood flow	BrainsGate	10-October2025	USA
8954149: External stimulation of the SPG	An apparatus that allows stimulation from a number of sites including the SPG.	BrainsGate	17 October-2026	USA
7684859: Stimulation of the otic ganglion for treating medical conditions	An apparatus including one or more electrodes, adapted to be applied to an otic-ganglion site. This stimulation causes at least one of the following symptoms: increased cerebral blood flow and a change in the degree of permeability of the BBB	BrainsGate	29-Mar-2024	USA
7860569: Long-term SPG stimulation therapy for prevention of vascular dementia	Chronic treatment of dementia through SPG stimulation.	BrainsGate	18-Nov-2027	USA
9675796: Implant and delivery system for neural stimulator	Adapted implant and implantation apparatus including adapted oral surgical guide	BrainsGate	1-Feb-2035	USA

Patent name and number	Patent description	Assignee	Estimated expiry date of the patent[35]	Countries in which the patent has been issued
EP 2878335 B1: Implant and delivery system for neural stimulator	Adapted implant and implantation apparatus including adapted oral surgical guide	BrainsGate	10-Nov-2034	France, England and Germany
EP 3093043B1: Implant and delivery system for neural stimulator	Electrode implantation system which includes the use of an optical fiber shape-sensing system	BrainsGate	13-May-2036	France, England and Germany
10512771: Implant and delivery system for neural stimulator	Electrode implantation system which includes the use of thermoplastic material and steerable electrode (application no. 15/604,829)	BrainsGate	29 April 2035	USA
10271907: Implant and delivery system for neural stimulator	Electrode implantation system which includes the use of an optical fiber shape-sensing system (application no. 15/153,878)	BrainsGate	11 October 2036	USA
EP 3329962B1: Implant and delivery system for neural stimulator	System including implanted electrode designated for SPG and including impedance measurement capability while implanting the electrode.	BrainsGate	15 November 2037	Europe

25. RDC

25.1. RDC, a private company incorporated in Israel, was established and commenced its activities in 1993.

25.2. Elron holds 50.1% of RDC's share capital (through DEP), and Rafael holds the remaining 49.9%.

25.3. RDC seeks to identify technological projects and invest in companies in diverse fields that will either commercialize Rafael's military technologies in the civilian market or will be benefited by Rafael's technologies and know-how, and also invests in other companies in similar fields to Elron’s group companies. Following identification of such projects, RDC develops the relevant technologies, and in the case of military technologies, adapts them for commercial use, initially by utilizing its own management and funding resources, thereafter by spinning off activities into independent companies and at later stages from external funding. Rafael also grants RDC companies that utilize its technologies licenses to use such technologies in the civilian market. See Section 19.1 above for details on the agreement for commercializing Rafael's technologies in the civilian market.

25.4. The group companies held by RDC as of the filing date are: OpenLegacy, IronScales, Sayata, Cynerio, Canonic, Scribe, Keepy, Red Access, Wonder Robotics, Allero, One-View and Pocared. For a description of these companies, see Section 26.

25.5. In March 2021, subsequent to the reporting date, Elron and Rafael provided a loan to RDC totaling $ 16 million (in equal parts) in order to make new investments and continue to support the investee companies.

25.6. For details regarding directors’ compensation paid by RDC to Elron and Rafael during 2021, see Note 18.B to the Financial Statements

25.7. RDC's operating results are presented in Section 5 of Part IV of this Annual Report. Details on RDC's investments are presented in Section 1.4 of the

Board of Directors Report and Section 3-4 of Part IV of this Annual Report. RDC's cash flows are presented in Note 3.A.2 to the Financial Statements.

25.8. As of December 31, 2021, RDC had 4 employees.

26. Additional Companies

The Mature Group Companies

26.1. OpenLegacy – is developing and marketing a software solution that enables digital integration of old legacy systems with mobile, web, and cloud applications, which is fast-paced compared to existing solutions, of high-quality and secure. Open Legacy's technology automates API integration (Application Programming Interface), thereby accelerating the digital conversion of legacy systems. Therefore, OpenLegacy enables organizations that rely on legacy systems to perform a digital upgrade effectively and at low risk with significant time saving (projects which would normally take many months will take a few weeks and even days), and at significantly lower costs. OpenLegacy sells all over the world, including Israel, the USA, Central America, Europe and the Far East. Recently, OpenLegacy began to develop its activities in East Asia. Among OpenLegacy's customers are Global 2000 and Fortune 500 companies such as CitiGroup, Liberty Mutual, FIS, BNP Paribas Cardif, MUFG, alongside various customers in Israel in all market sectors. In February 2020, OpenLegacy raised approximately $20.5 million from SBI Holdings, a large Japanese financial services company. This is a strategic partnership, as SBI Holdings views OpenLegacy and its platform as an important factor that will support the future integration process of banking institutions controlled by SBI Holdings. For additional information regarding the financing round, see Note 3.B.4.f) of the Financial Statements. Currently, OpenLegacy has 113 employees, about half of whom are employed in corporate headquarters and the development department in Israel, and about half of whom are employed in sales and technical teams in the USA, Hong Kong, Switzerland and Mexico. RDC holds approximately 22% of OpenLegacy’s outstanding share capital and approximately 18% of OpenLegacy’s fully diluted share capital.

26.2. IronScales – is developing and marketing a software solution against spear phishing attacks. IronScales’ solution combines human and artificial intelligence (AI) to automatically prevent, detect and respond to phishing attacks before and after they land in the email inbox. Its main customers are large and medium size enterprises, mainly in the United States and the United Kingdom, who engage in diverse areas of activity. IronScales currently employs approximately 90 employees, half of whom are in Israel, and the other half in the United States and the United Kingdom.

In December 2021, IronScales completed a financing round with a new investor and existing investors for a total of approximately $64 million. Part of the transaction amount is intended for investment in IronScales (RDC did not participate in this investment) and part was used to purchase shares from existing shareholders (RDC's share in the proceeds of this sale was approximately $7.3 million). For more information about the financing round, see Note 7.A in the Financial Statements.

RDC holds approximately 8% of the issued and paid-up capital of IronScales and approximately 7% on a fully diluted basis.

26.3. Sixgill – develops and provides an automated system that crawls the Deep, Dark and Surface Web and extracts information to provide its customers with relevant intelligence and alerts regarding possible or ongoing cyber-attacks against the enterprise. Unlike competing solutions that perform manual analytics, Sixgill's solution is based on artificial intelligence (AI) and machine learning analysis to analyze the activities of suspected offenders and actors and create relevant intelligence. Sixgill's main clients are Fortune 500 companies, security, technology and MSSP companies, governments and law enforcement agencies. In addition, Sixgill has a number of OEM transactions, inter alia, with Crowdstrike (which also invested in the company as part of the recent financing rounds, IBM, DXC and others).

In February 2022, subsequent to the reporting date, Sixgill completed a financing round of approximately $35 million, led by a new investor and with the participation of its existing investors, including Elron. Part of the investment amount will be used to purchase shares from Sixgill's shareholders. Elron's share in the investment round and in the purchase of shares from other shareholders amounted to approximately $6 million. For more information about the financing round, see Note 3.B.4.g) to the Financial Statements.

Sixgill currently employs approximately 100 people, mainly at the company’s headquarters in Israel as well as in the United States, the United Kingdom and Asia-Pacific. Elron holds approximately 23% of Sixgill's issued and paid-up capital and approximately 20% on a fully diluted basis.

26.4. For information about CartiHeal and BrainsGate, see Sections 23 and 24 above, respectively.

26.5. Atlantium – develops, manufactures and provides ultraviolet-based water disinfection solutions. Elron holds approximately 6% of Atlantium's issued and paid-up capital and approximately 5% on a fully diluted basis

26.6. Notal Vision – develops, manufactures and provides ophthalmic diagnostic services for home monitoring of macular retinal degeneration (AMD) patients and improving their vision. Elron holds approximately 10% of Notal Vision's outstanding share capital and approximately 8% of Notal Vision's fully diluted share capital.

26.7. PLYmedia – develops and provides online advertising exchange solutions and services. Elron holds approximately 20% of PLYmedia's issued and paid-up capital and approximately 14% on a fully diluted basis

The Next Generation Companies

26.8. Zengo – Zengo develops and markets a solution for the storage, conversion, and trading of various types of cryptocurrencies. The solution is intended for end users and the company markets it directly to them through a variety of marketing channels and also works through collaborations with companies and other parties in the world of cryptocurrencies in order to reach additional audiences. The company's technological infrastructure is based on a set of mathematical algorithms from the world of MPC (multi party computation) and this infrastructure enables the company to produce a product with the most significant advantages over the variety of solutions available in the market. Among the values that the company provides its customers: highest level of security, simple and convenient usability, support for a very wide range of currencies and protocols and easy conversion between them.

In April 2021, an investment round of $20 million was completed, led by a new investor in exchange for preferred shares (Elron's share was $1.3 million). As part of the investment agreement, the SAFE balance in the amount of $3.75 million was converted (Elron's share was $0.35 million). In addition, some of Zengo's shareholders, including Elron, completed the acquisition of ordinary shares from other Zengo shareholders for a total of approximately $1.5 million (Elron's portion was approximately $0.35 million).

Elron holds about 8% of Zengo's issued and paid-up capital and about 7% on a fully diluted basis.

26.9. <u>Cynerio</u> – is developing a security platform that protects connected medical devices in health care systems against cyber threats. Cynerio's platform combines medical equipment behavior learning and work processes analysis, so as ensure the patients' safety and the database protection. Cynerio cooperates with market-leading technological companies in order to secure solution for cyber-attacks of hospitals worldwide, such as Cisco, Palo alto, Check Point, etc. Cynerio commenced its sale activity in 2020 and most of its clients are hospitals and medical institutions, mainly in the United States and in Europe. Currently, Cynerio employs approximately 62 employees, about half of whom in Israel and half in the United States. RDC holds approximately 17% of Cynerio’s issued and paid up capital, and approximately 15% on a fully diluted basis.

26.10. Sayata – is developing and marketing software that combines the expertise of cyber security researchers, insurance professionals, IT developers and data scientists in order to help insurance companies contract cyber insurance policies, assess the risk inherent in their clients' cyber policies and provide appropriate pricing. The company caters to insurance companies, on the one hand, and to brokers who specialize in cyber insurance for small and medium-sized businesses, on the other hand, enabling them to manage a sophisticated trading arena on its platform, so that the insurers benefit from additional access to brokers (and consequently, to their insured clients) and the brokers benefit from a technological platform that enables policy comparison and economy of scale offered by the company. In addition to the company being a link in the underwriting chain of the policy, access is enabled to all policies and subsequently to claims and indemnities for them, which allows the company to be exposed a large volume of information which it uses to improve the platform, and in the future, to even engage in big-data risk assessment and machine learning.

In June 2021, Sayata completed a financing round with the participation of existing investors, and led by new investors, in the amount of approximately $17 million in exchange for A-1 preference shares (RDC's share of the total investment was approximately $3.1 million).

In December 2021, Sayata completed an additional financing round with the participation of existing and new investors in the amount of approximately $35 million in exchange for A-3 preference shares (RCD share was $6 million). In addition, some of Sayata's shareholders, including RDC, completed the purchase of shares from other shareholders in consideration for approximately $7 million (RDC's share in this amount was approximately $1.2 million).

For more information about the financing rounds described above, see Note 3.B.4.i) in the Financial Statements.

Currently, Sayata employs about 40 employees. RDC holds approximately 20% of Sayata's issued and paid-up capital, and approximately 18% on a fully diluted basis.

26.11. Nitinotes – develops an endoscopy robot that enables the execution of volume restriction and motility impairment procedures for treatment of obesity. The endozip system (endozip™), which Nitinotes develops, allows the procedure to be performed in a minimally-invasive, simple and efficient manner. The endosip is inserted into the patient's stomach through the pharynx and sutures the walls of the stomach safely and automatically, so that the patient's stomach volume is reduced, all with minimal surgical intervention, without any incision.

In 2019, Nitinotes successfully conducted a first human trial among 11 patients, which showed the safety and efficacy of the treatment over a 12-month follow-up period. Nitinotes is in the midst of an experiment among dozens of people that began in 2021 at a number of medical centers in Europe and Israel. The company has completed the recruitment and handling of the entire sample and is in the follow-up period. Nitnotes intends to expand the experiment also to the US during 2022. Elron holds approximately 20% of Nitinotes's issued and paid-up capital, and approximately 18% on a fully diluted basis.

26.12. Coramaze – is developing a device to repair heart valves in patients with valve insufficiency using a minimally invasive tubular procedure. The Tripair™ system developed by Coramaze allows the use of the patient's natural valve by simple insertion and anchoring, in a minimally invasive and non-traumatic technique, and in a short process. In addition, the transplant process is reversible during the procedure and does not damage leaves, strings and more. Elron holds approximately 28% of Coramaze's issued and paid-up share capital, approximately 26% on a fully diluted basis.

26.13. AudioBurst - is developing and providing a search engine that allows you to find and hear audio content on any topic from around the world. Elron holds approximately 9% of AudioBurst's issued and paid-up capital and approximately 8% on a fully diluted basis.

26.14. Pocared –is developing a real-time and automated laboratory system for infectious diseases diagnosis (“P-1000™”). Pocared's diagnostic system uses optical technology and an algorithm for data analysis. The system is designed for use by clinical microbiology laboratories and hospitals as an alternative to the current infectious disease diagnostic method of pathogen cultures, which is mostly manual, lengthy, and expensive. The system is designed to diagnose pathogens in body fluids such as urine, swabs (throat, nasal, and others), blood, sputum, and cerebrospinal fluid, and is supposed to enable automatic and rapid diagnosis, and to perform a large number of tests simultaneously. Thus, insofar as the system is developed according to Pocared's plan, it is supposed to reduce the average diagnostic time in comparison with current practice. In August 2020, Pocared and certain of its shareholders signed an agreement under which Elron transferred control of Pocared to Naftali Investments Ltd., owned by the Udi Recanati family. In the agreement, Elron and RDC transferred to the buyers most of their holdings in Pocared shares, and also most of the balance of the loans they had provided to Pocared, such that Elron’s consolidated holdings in Pocared shares decreased to approximately 10% of Pocared’s issued capital. In addition to the rights by virtue of the direct holding, Elron and RDC will be entitled to approximately 65% of any future consideration received by the buyers (whether from Pocared or third parties) resulting from the holding of the transferred securities. For details, see Note 3.B.4.c) to the Financial Statements.

In February 2021, an investment agreement was signed between Pocared and a new investor, for an investment in the amount of up to $5 million, by way of convertible loan. A sum of $3.1 million was invested in 2021. As part of the financing round, the shares, warrants (convertible at that time) and the loans, were all converted into ordinary shares.

In December 2021, Pocared signed an investment agreement with new and existing investors in the amount of approximately $5 million in exchange for ordinary shares and warrants for ordinary shares.

In addition, in December 2021, Pocared signed a financing agreement with the European Investment Bank (EIB) for a cumulative amount of up to approximately 22 million euros. The financing is through a long-term loan that the EIB will provide to finance Pocared's activities, in parallel with supplementary financing that Pocared must raise.

Elron and RDC hold approximately 9% of Pocared's outstanding share capital and approximately 8% on a fully diluted basis (in addition, Elron and RDC hold approximately 38% of the economic rights in Pocared. See Note 3.B.4.c) in the Financial Statements).

Seed-Stage Companies

26.15. Canonic - operates in the field of protection of cloud software services (SAAS) and develops a product for detection and prevention of cyber attacks against cloud software services. RDC holds approximately 21% of Canonic's issued and paid-up capital, and approximately 19% on a fully diluted basis.

26.16. Scribe - is developing a software supply chain security solution that secures the digital assets of the software vendor throughout the various stages of software development. RDC holds approximately 18% of Scribe's issued and paid-up capital, and approximately 17% on a fully diluted basis.

26.17. Keepy - is developing a solution in the field of HRTech & People Analytics that focuses on employee retention and connectedness. RDC holds approximately 29% of Keepy's issued and paid-up capital, and approximately 26% on a fully diluted basis.

26.18. Red Access - is developing advanced protection for enterprises from the dangers of working on the Internet. RDC holds approximately 29% of Red

Access's issued and paid-up capital, and approximately 26% on a fully diluted basis.

26.19. <u>One-View</u> - is developing an automated platform for analysis and insights from satellite imagery from multiple sources using artificial intelligence (AI)-based algorithms. RDC holds approximately 10% of One-View's issued and paid-up capital, and approximately 9% on a fully diluted basis.

26.20. <u>Wonder Robotics</u> - is developing an autonomous landing system for drones. In January 2022, after the reporting date, RDC completed an initial investment of approximately $1.5 million in Wonder Robotics. RDC holds approximately 24% of Wonder Robotics' issued and paid-up capital and approximately 18% on a fully diluted basis.

26.21. <u>Allero</u> - is developing a platform for developers that provides control and transparency for the management of multiple CI/CD platforms. In February 2022, subsequent to the reporting date, an agreement was signed for a first investment in Allero with an aggregate amount of approximately $4 million. Of this amount, RDC has invested a total of $2.5 million and the balance will be invested by Elron. As a result, subsequent to the reporting date, Elron will hold approximately 30% of Allero's issued and paid-up capital (11% directly and approximately 19% through RDC) and approximately 27% on a fully diluted basis (10% directly and approximately 17% through RDC).

ELRON VENTURES LTD.
(FOREMELY - ELRON ELECTRONIC INDUSTRIES LTD.)

Periodic report for 2021

Part II

Board of Directors Report

Elron Ventures Ltd.
Part II
English Translation of Board of Directors Report
for the Year ended on December 31, 2021

1. Board of Directors' Analysis of the Company's Business

1.1. Company Description

1.1.1. General

Elron Ventures Ltd. (previously – Elron Electronic Industries Ltd.) ("Elron", the "Company") is an operational holding company that focuses on building technology companies. Currently, Elron has significant holdings in cybersecurity, enterprise software and medical device companies, and is examining investment opportunities mainly in cybersecurity and enterprise software companies. Elron's principal shareholder is Discount Investment Corporation Ltd. ("DIC") (60.08%).

Elron operates through consolidated companies (companies controlled by Elron and whose financial statements are consolidated with Elron's financial statements), associates (companies over which Elron has significant influence and which are included in its financial statements using the equity method), and other companies over which the Company does not have significant influence (included in the financial statements based on fair value) (the "Group Companies").

For details on the accounting method applied to the Group Companies in Elron's financial statements, Elron's holding percentage in the Group Companies, and their carrying value, see the annex to the Company's consolidated financial statements as of December 31, 2021 (the "Financial Statements").

The Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS").

1.1.2. Main goal

Elron's main goal is to build value for its shareholders by enhancing and exiting its Group Company holdings (whether through their sale or through the public listing of their shares), while simultaneously seeking new investment opportunities in technology companies.

1.1.3. Strategy

In order to achieve this goal, Elron operates according to the following business strategy:

- Identifying and exploiting investment opportunities in companies with innovative technology and significant exit potential.
- Investing over the long term in order to maximize the possibility of enhancing the Group Companies' value.
- Focusing on investments which afford Elron influence and active involvement in their management.
- Actively enhancing the Group Companies' value by providing hands-on assistance to their management.
- Exploiting opportunities to exit Group Companies.

1.1.4. RDC

As part of its business strategy, Elron examines a broad range of cooperation and investment proposals, including through RDC – Rafael Development Corporation Ltd. ("RDC"), an Elron subsidiary.

RDC is engaged in the establishment of ventures and investment in early stage technology companies, mostly ventures that utilize technologies developed by Rafael – Advanced Defense Systems Ltd.

("Rafael") to develop products that meet the needs of the civilian market, and ventures that have synergy potential and are either based on Rafael's know-how and expertise or on Raphael's technologies. RDC has first rights to adapt military technologies developed by Rafael for civilian markets .

For further details regarding the agreement of commercialization of Rafael’s technologies in civilian markets and about RDC, see sections 19.1 and 25 of Part I of this periodic report.

1.1.5. Group companies

Elron's main Group Companies and its holding percentage of outstanding shares in them as of the date of filing this report are as follows:

- **RDC (50.1%)** - See description in section 1.1.4 above.
- **CartiHeal (2009) Ltd. (27%) ("CartiHeal")** - CartiHeal is developing an implant for repair of articular cartilage and osteochondral defects in loadbearing joints, such as the knee. The implant biodegrades in the implantation site, and promotes the regeneration of cartilage and subchondral bone.
- **BrainsGate Ltd. (28%) ("BrainsGate")** - BrainsGate is developing a system for treating ischemic stroke. The system operates by electrically stimulating a nerve center located behind the nasal cavity using a miniature implantable electrode, in order to increase blood flow to the brain. The system is intended to enable treatment up to 24 hours post-symptom onset.

See section 1.5 of Part I of this periodic report for details on the criteria for classifying a Group Company as a main company.

Additional Group Companies and Elron's holding percentage of outstanding shares in them as of the date of filing this report are, among others, as follows:

- **Open Legacy Technologies Ltd. (22% by RDC) ("Open Legacy") -** Open Legacy develops and markets a software solution for digital integration of information systems in organizations, based on API (Application Programming Interface).
- **IronScales Ltd. (8% by RDC) ("IronScales")** - IronScales develops and provides a cloud-based (SaaS) solution, which aims to protect the organization from targeted email attacks (spear-phishing) by using an automated and multi-layered solution combining machine learning and active identification by employees of the organization.
- **SixGill Ltd. (23%) ("SixGill")** - SixGill develops and provides an automated system that crawls the Dark Web and extracts information to provide its customers with relevant intelligence and alerts regarding possible or ongoing cyber-attacks against the enterprise.
- **Notal Vision Inc. (10%) ("Notal Vision")** - Notal Vision develops and provides ophthalmic diagnostic services for managing age-related macular degeneration (AMD) from home and improving vision outcomes.
- **PlyMedia Israel (2006) Ltd. (20%) ("PlyMedia")** - PlyMedia has developed and markets a digital advertising platform for ad networks.
- **ZenGo Ltd. (8%) (previously Kzen Networks Ltd., “ZenGo”)** – ZenGo develops and provides a secure crypto wallet that doesn't compromise between security and user experience.
- **Cynerio Israel Ltd. (17% by RDC) ("Cynerio")** - Cynerio develops and provides a platform that enables healthcare providers to secure patient data and connected medical devices against cyber threats.
- **Sayata Labs Ltd. (20% by RDC) ("Sayata")** – Sayata is developing software that combines the expertise of cybersecurity researchers, insurance professionals, IT developers and data scientists to help insurance companies address their clients' cyber risk and accordingly provide the right insurance quotes.

- **Nitinotes Ltd. (20%) ("Nitinotes") -** Nitinotes is developing a minimally invasive endoscopic procedure for treatment of obesity.
- **Coramaze Technologies Ltd. (28%) ("Coramaze")** - Coramaze is developing a minimally invasive device to repair of the Tricuspid heart valve.
- **AudioBurst Ltd. (7%) ("AudioBurst") -** AudioBurst is developing and supplying a search engine that enables users to find and to hear audio content on any subject from anywhere in the world.
- **Pocared Diagnostics Ltd. (4% by Elron, 6% by RDC)[1] ("Pocared")** - Pocared is developing a real-time and automated system for infectious diseases diagnosis using optical technology, intended for use by major microbiological laboratories and hospitals, as an alternative to current microbiological practice of bacteria culturing.
- **Canonic Security Technologies Ltd. (21% by RDC) (Previously Sighted Technologies Ltd., "Canonic") -** Canonic is developing a security platform to detect and defeat SaaS-native threats.
- **Scribe Security Ltd. (18% by RDC) ("Scribe") -** Scribe is developing a software supply chain assurance solution, that secures the software supplier's digital assets throughout the different stages of software development.
- **Keepy AI Ltd. (29% by RDC) ("Keepy") -** Keepy is developing a solution in the space of HRTech & People Analytics focusing on employee engagement & retention.
- **RA Red Access Security Ltd. (29% by RDC) ("Red Access") –** Red Access is developing advanced protection for enterprises from the dangers of working on the Internet.
- **One-View. Space Ltd. (10% by RDC) ("One-View")** – One-View develops an automated platform for analyzing and extracting insights from satellite imagery from multiple sources using artificial intelligence (AI) based algorithms.
- **Wonder Robotics Ltd. (24% by RDC) ("Wonder Robotics ") -** is developing an autonomous landing system for drones.
- **Allero Development Ltd. (19% by RDC) ("Allero") -** is developing a platform for developers that provides governance and visibility to manage multiple CI/CD platforms.

For further details regarding the Group Companies see Chapter II in Part I of this periodic report.

1.1.6. Factors affecting the results of operations and capital resources

As a holding company, Elron's operating results mainly derive from:

- its share in the net losses of Group Companies;
- gains or losses from exit transactions or changes in holdings, and revaluation of investments recorded based on fair value;
- its corporate activities.

Elron's capital resources in any given period are primarily affected by:

- the extent of its investments;
- proceeds from exit transactions;
- dividends distributed to shareholders or received from Group Companies.

For details regarding the public offering Elron completed, see Note 12.A to the Financial Statements.

[1] For additional economic rights, see Note 3.B.4.c) to the Financial Statements.

Elron Ventures Ltd.
Part II
English Translation of Board of Directors Report
for the Year ended on December 31, 2021

Most of the Group Companies are technology companies which have not yet generated significant revenues, if at all, and which invest considerable resources in development and record losses. As a result, Elron has recorded and is expected to continue to record losses in respect of their ongoing operations, based on the accounting method applied to them in the Financial Statements.

The technology field in which the Group Companies operate is characterized by a high degree of risk. The Group Companies' success is dependent, among other things, upon: their intellectual property and ability to protect it; their ability to raise financing; their ability to successfully complete their products' development and receive regulatory clearance to market them, including through clinical trials; their ability to make the transition from development to manufacturing stages; their ability to market their products on a significant commercial scale; their ability to develop additional products; their ability to recruit and retain quality personnel and their ability to successfully compete in the markets in which they operate.

Elron's ability to effect exit transactions at significant values is affected, among other things, by economic conditions, market conditions in the hi-tech industry, the status of the venture capital industry, the status of the capital markets, various contractual and regulatory restrictions, and is also dependent on management's ability to successfully lead exit transactions, and the circumstances and characteristics of the group company whose sale is being considered.

In addition, Elron's and the Group Companies' ability to obtain external financing is affected by economic conditions, the status of the capital markets, and the status of the venture capital industry. The Company is continuously monitoring and examining the impact of the spread of the coronavirus (COVID-19) on its activities as a whole, and the focal points of risk in particular. For further details, see Section 22.1 in Part I of this Periodic Report.

1.2. Description of Operations in the Year of 2021 and Subsequently

1.2.1. Exit Transactions

- **Alcide.IO Ltd. ("Alcide")** - In January 2021, Alcide and its shareholders (including Elron) signed a definitive agreement with Rapid7 Inc (in this section: the "Acquirer") for the sale of the entire outstanding share capital of Alcide (in this section: the "Transaction"). Simultaneously with the signing, the transaction was simultaneously completed. Pursuant to the Transaction, in February 2021, Elron received a total of approximately $11.8 million from the proceeds of the Transaction (of which an amount of approximately $1.3 million was deposited in escrow for a period of 18 months, mainly in order to secure certain indemnification obligations of the selling security holders to the Acquirer). As a result, Elron recognized income before tax of approximately $11.3 million during the first quarter of 2021. (For further details see Note 3.B.4.d) to the Financial Statements).

- **SecuredTouch Inc. ("SecuredTouch") -** In June 2021, an agreement was signed and completed for the sale of the entire share capital of SecuredTouch (in this section: the "Transaction"). Pursuant to the Transaction, RDC received, in July 2021, out of the consideration in the Transaction, a total of approximately $10.5 million (of which approximately $0.5 million was deposited in escrow for a period of 12 months, mainly in order to secure certain indemnification obligations of the selling security holders to the acquirer). As a result of the Transaction, Elron recorded in the second quarter of 2021, a net gain attributable to its shareholders in the amount of approximately $5.2 million (consolidated net gain in the amount of approximately $10.5 million (for further details, see Note 3.B.4.e) to the Financial Statements).

- **Imvision Software Technologies Ltd. (“Imvision”) -** In December 2021, an agreement was signed and completed for the sale of the entire share capital of Imvision to Intuit (in this section: the "Transaction"). Pursuant to the Transaction, RDC received, out of the consideration in the Transaction, a total of approximately $7.9 million (of which approximately $0.7 million was deposited in escrow for a period of 12 months, mainly in order to secure certain indemnification obligations of the selling security holders to the acquirer). As a result of the Transaction, Elron recorded a net gain attributable to its shareholders in the amount of approximately $2.5 million (consolidated net gain in the amount of approximately $4.9 million (for further details, see Note 7.B to the Financial Statements).

- **IronScales -** In December 2021, in conjunction with an IronScales round of financing, RDC sold part of its shares of IronScales for approximately $7.3 million. Pursuant to the financing round, Elron recorded in the fourth quarter of 2021 a net gain attributable to its shareholders in the amount of approximately $3.0 million (consolidated net gain in the amount of approximately $6.0 million (for further details, see section 1.2.2 below and Note 7.A to the Financial Statements).

- **Kindite Ltd. ("Kindite")** - In March 2021, Kindite sold its assets in consideration for approximately $8.2 million. RDC's expected share in the sale consideration was estimated at approximately $3.7 million (an amount of approximately $2.5 million was already received as of the date of filing of this report), and as a result, in the first quarter of 2021, Elron recorded net gain attributable to its shareholders in the amount of approximately $1.9 million (consolidated net income in the amount of approximately $3.7 million) (for further details, see Note 3.B.4.l) to the Financial Statements).

- **Oz Code Ltd. ("OzCode") -** In October 2021, OzCode sold its assets in consideration for approximately $3.6 million (of which approximately $0.4 million was deposited in escrow for a period of 18 months, mainly in order to secure certain indemnification obligations of the sellers in the transaction to the acquirer). RDC's expected share in the sale consideration was estimated at approximately $1.4 million (an amount of approximately $0.9 million was already received as of the date of filing of this report). As a result, Elron recorded in the fourth quarter of 2021, net gain attributable to its shareholders in the amount of approximately $0.7 million (consolidated net gain in the amount of approximately $1.4 million) (for further details, see Note 3.B.4.m) to the Financial Statements).

1.2.2. Investments

- During 2021, Elron (directly and by RDC) invested approximately $27.5 million in the Group Companies. For further details see section 1.4 below, Notes 3 and 7 to the Financial Statements and sections 4A and 4B in Part IV of this periodic report.
- **New investment in Keepy** - In July 2021, RDC first invested in **Keepy** a total amount of $3 million (for further details, see Note 3.B.4.q) to the Financial Statements).
- **New investment in Scribe** - In October 2021, an investment in **Scribe** in the amount of approximately $7 million (including the conversion of the SAFE balance from May 2021) was completed, with the participation of new and existing investors. RDC's share in the total investment amounts to approximately $3.5 million (for further details, see Note 3.B.4.p) to the Financial Statements).
- **New investment in Red Access** - In December 2021, RDC first invested in **Red Access** in a total amount of $3.0 million (for further details, see Note 3.B.4.r) to the Financial Statements).
- **New investment in Wonder Robotics** - As part of Elron's business strategy, and with the intention of continuing to invest in new companies, Elron decided to examine investments in drone technologies. In this context, in January 2022, subsequent to the reporting date, a new investment by RDC in the amount of $1.5 million was completed, in **Wonder Robotics**, which is the first investment in the field of drones (for further details, see Note 3.B.4.s) to the Financial Statements).
- **New investment in Allero** - In February 2022, subsequent to the reporting date, an initial investment agreement of approximately $4.0 million was signed in **Allero**. A total amount of approximately $2.5 million was invested by RDC and the remaining balance will be invested by

Elron. Following the completion of the investment, Elron and RDC are expected to hold 30% of Allero's outstanding shares (for further details, see Note 3.b.4.t) to the Financial Statements).

- **External financing round in IronScales, led by a new investor** - During the fourth quarter of 2021, an investment agreement was signed in IronScales in the amount of approximately $64 million, led by PSG and with the participation of its existing shareholders (in this section the "Transaction"). Part of the Transaction amount is intended to be invested directly in IronScales in consideration for preferred shares (RDC did not participate in this investment) and the remaining balance will be used to purchase shares from existing IronScales shareholders (RDC's share in the proceeds from this sale is approximately $7.3 million) (for further details, see Note 7.A to the Financial Statements).
- **External financing round in ZenGo, led by a new investor** - In April 2021, an investment in ZenGo, led by a new investor, in an amount of $20 million was completed (Elron's share was approximately $1.7 million and included purchase of shares in a secondary transaction) (for further details, see Note 7.C to the Financial Statements).
- **External financing round in Cynerio, led by a new investor** - In April 2021, an investment agreement in Cynerio was signed in a total amount of approximately $26 million led by a new investor and with the participation of its existing investors. An amount of $13.3 million was invested immediately and an additional amount of approximately $12.6 million was invested during the third quarter of 2021 (RDC's share in the total investment amount was $2.25 million and included purchase of shares in a secondary transaction). In addition, the SAFE balance in the amount of $3 million was converted (RDC's share in the SAFE balance was $0.75 million) (For further details, see Note 3.B.4.h) to the Financial Statements).
- **External financing rounds in Sayata, led by new investors** - In June 2021, an investment agreement in Sayata was signed in a total amount of $17 million led by new investors and with the participation of its existing shareholders. An amount of approximately $13.5 million was invested immediately and in August 2021, the remaining amount of approximately $3.5 million was invested (RDC's share in the total investment was $3.1 million). In addition, the SAFE balance in the amount of $1.35 million was converted (RDC's share in the SAFE balance was $1 million). In December 2021, an additional investment round in Sayata was completed in a total amount of approximately $35 million with the participation of new and existing investors (RDC's share in the investment was $7.2 million and also included purchase of shares in a secondary transaction). (For further details, see Note 3.B.4.i) to the Financial Statements).
- **External financing round in SixGill, led by a new investor** - In March 2022, subsequent to the reporting date, an investment agreement was completed in SixGill in the amount of approximately $35 million led by a new investor and with the participation of existing SixGill shareholders (including Elron). Part of the investment amount is intended for investment in SixGill and part was used to acquire shares from existing SixGill shareholders. Elron's share in the investment was $6 million and also included purchase of shares from existing SixGill shareholders (For further details, see Note 3.B.4.g) to the Financial Statements).

1.2.3. Developments in Group Companies

- **Success in CartiHeal's pivotal clinical trial**- Further to section 23.12 in Part I of this periodic report , in August 2021, CartiHeal updated that it received the statistical report prepared by a third party, summarizing the final results of the pivotal clinical trial of the Agili-C implant.

  The statistical report demonstrated that the primary endpoint and all four secondary confirmatory endpoints were met.

  This includes demonstrating pivotal clinical trial success as defined in the investment and option agreements for the sale of CartiHeal to Bioventus (in this section: the "Transaction"). For details regarding the Transaction, see section 23.15 in Part I of this periodic report . There is no assurance as to the Transaction's consummation or the timing thereof.

  The following is a summary of the trial's results as reported by CartiHeal:

  The primary endpoint for the trial was posterior probability of superiority of the Agili-C to the current surgical standard of care (SSOC) exceeding the prespecified threshold of 98%, as measured by the change from baseline to 24 months in average of the 5 subscales of the Knee injury and Osteoarthritis Outcome Score (KOOS Overall): Pain, Other Symptoms, Quality of Life - QOL, Activities of Daily Living - ADL and Sports. The KOOS Overall Score ranges from 0 to 100, where higher values represent better outcomes.

  The results of the trial indicate attainment of trial's endpoints, including:

  1. The posterior probability of superiority of Agili-C to SSOC was 100%(1.000 in the primary endpoint: The baseline KOOS Overall score was similar in both groups: 41.2 in the Agili-C arm and 41.7 in the SSOC arm. At Month 24, the posterior mean for the treatment group improvement from baseline in the Agili-C arm was 42.7 compared to 21.4 for the SSOC arm.
  2. In the secondary endpoints of the subgroup of patients with mild-moderate osteoarthritis (Kellgren-Lawrence grade 2-3) and the subgroup of patients with total lesion(s) size >3cm2, the degree of improvement for Agili-C compared to SSOC was similar to the Full Analysis Set population in the primary endpoint.
  3. The posterior probability of superiority of Agili-C relative to SSOC was also 1.000 for all 4 Secondary Confirmatory Endpoints: KOOS Pain, KOOS ADL and KOOS QOL and Responder Rate.
  4. The responder rate, which was a-priori defined as improvement of at least 30 points in Overall KOOS at 24 months compared to baseline, was 77.8% in the Agili-C arm compared to 33.6% in the SSOC arm.

  As mentioned in section 23.11 in Part I of this periodic report, in January 2021, CartiHeal submitted to the FDA the first module out of three modules comprising the Agili-C implant's PMA application, in the framework of a modular PMA (for information regarding the modular PMA, see section 18.4.4.2 in Part I of this periodic report). In September 2021, CartiHeal completed the submission of the clinical and final chapter (which includes the final results of the pivotal clinical trial as detailed above) and thus completed the application for approval to the FDA.

  In addition, further to section 23.15 in Part I of this periodic report, regarding the Transaction for investment and option to sell CartiHeal, in August 2021, after receiving the results of the experiment and in accordance with the terms of the Transaction, Bioventus has announced that it decided to proceed with the transaction, and subsequently deposited an escrow payment of $50 million to ensure the exercise of the call option and put option.

Bioventus further announced that the above decision came following its review of a statistical analysis report of the pivotal clinical trial of the Agili-C implant, reimbursement coding analysis and significant market diligence including surgeon interviews with respect to Agili-C's commercialization opportunity and ultimate market potential.

- **Submission of PMA marketing approval application by BrainsGate** - Further to section 24.12 in Part I of this periodic report, regarding BrainsGate's application for PMA marketing approval to the FDA, in December, 2021, after BrainsGate completed the tests and completions required by the FDA, BrainsGate's premarket approval application was reviewed by an external advisory panel. The panel held a public discussion in which various and varied opinions were presented, at the end of which it gave its opinion on BrainsGate's ISS system designed for the treatment of cortical ischemic stroke and voted as follows:

  1. On the question whether there is reasonable assurance that BrainsGate's ISS system is safe for use in patients who meet the criteria specified in the proposed indication, all 13 panel members voted in favor, 0 voted against, and 0 abstained.
  2. On the question whether there is reasonable assurance that BrainsGate's ISS system is effective for use in the patients who meet the criteria specified in the proposed indication, 3 panel members voted in favor, 7 voted against, and 3 abstained.
  3. On the question whether the benefits of BrainsGate's ISS system outweigh the risk for use in the patients who meet the criteria specified in the proposed indication, 3 panel members voted in favor, 7 voted against, and 3 abstained.

  In February, 2022, subsequent to the reporting date, the response of the FDA was received, according to which BrainsGate's PMA is not approvable and in order to be approvable, additional clinical data and support is required. Brainsgate will maintain a dialogue with the FDA regarding the data and support required. Depending on this dialogue and its results, BrainsGate will decide on its next steps and the length of time and resources that will be required to establish the additional clinical information required by the FDA.

- **The impact of the spread of the coronavirus** - The Company is continuously monitoring the impact of the spread of the coronavirus (COVID-19) on its activities as a whole, and the focal points of risk in particular. The main potential focal points of risk that have been identified so far are: the impact of disruptions to the activities of the group companies' existing and potential suppliers and business partners at the focal points of the virus; budget cuts among potential customers and subsequent decisions to increase product life-cycles rather than adopt new technology solutions; potential difficulties for group companies in closing commercial transactions or generating leads and managing lengthy and complex sale-cycles, among other things, due to mobility constraints between countries; operational constraints amassing raw material inventories; difficulties or delays in performing clinical trials or in recruiting patients for clinical trials. The aforesaid factors had no material effect on the Company's results during the year 2021.

1.2.4. Financing

- On April 20, 2021, Elron issued 8,855,400 ordinary shares on the Tel Aviv Stock Exchange, in consideration for (net, after issuance expenses) approximately NIS 109.5 million (approximately $33.7 million). For further details, see Note 12.A to the Financial Statements.

- As of the date of filing this report, Elron's and RDC's non-consolidated liquid resources amounted to approximately $46 million and $28 million, respectively. These amounts include Elron's and RDC's bank deposits in the amount of approximately $25 million and $8.5 million, respectively, and other short term investments in securities of Elron in the amount of approximately $8 million. As of the date of filing this report, Elron has no external debt.

- In March 2021, Elron and Rafael granted a loan to RDC in an amount of $16 million (in equal parts) to make new investments and continue to support the Group Companies.

1.2.5. Personnel

- **Changes in human capital in the company**
  In July 2021, Mr. Elik Etzion was appointed as an officer and VP in the Company, responsible for cyber security and enterprise software solutions investments. In parallel, Mr. Zohar Rosenberg ceased to serve as Chief Strategy Officer, but is continuing to function as an active investment partner in the cyber field (Venture Partner) in the Company, including serving as a director on its behalf at portfolio companies, assisting in supporting existing cyber companies, and continuing to be part of the Company's investment team in new companies.

- **Appointment of a Chairman of the Board**
  In November 2021, Mr. Dan Hoz was appointed Chairman of the Company's Board of Directors of the Company. On March 10, 2022, subsequent to the reporting date, the Board of Directors of the Company approved, following receipt of the approval and recommendation of the Compensation Committee, and subject to the approval of the general meeting, the terms of tenure of Mr. Dan Hoz as an active Chairman of the Company's Board of Directors. According to the Compensation Policy, the Board of Directors of the Company approved that in return for its services as a service provider without employee-employer relations, with a position scope of 35%, Mr. Hoz will be entitled to monthly management fees of NIS 40 thousand. To this sum VAT will be duly added. In addition, and in accordance with the Compensation Policy, Mr. Hoz will be granted 646,100 non-tradable options which are exercisable for ordinary shares of the Company of NIS 0.003 par value each. The aforementioned terms of tenure is still subject to the approval of the general meeting of the shareholders of the Company. In addition, the issuance of options is still subject to the approval of the Tel Aviv Stock Exchange. For further details, see Note 12.C to the Financial Statements.

- **Options for Employees and regular service providers**
  In accordance with the Company's Option Plan, (A) In May 2021, 84,981 options were granted to an officer who does not serve as a director or CEO of the company; (B) In January 2022, subsequent to the reporting date, 1,261,164 options were granted to its officers, other employees of the Company and its subsidiary RDC and consultants of the Company. The vesting period of the Options, that were granted as described in this section is as follows: 1/3 at the end of one year from the date of grant, an additional 1/3 at the end of the second year from the date of the grant and an additional 1/3 at the end of the third year from the date of the grant.

  Simultaneously with the aforesaid approval, the Company's Board of Directors also approved the grant of 467,508 options to the Company's CEO under the terms of his tenure and employment and in accordance with the Company's compensation policy. As of the date of publication of this report, the options grant to the Company's CEO has not yet been completed and is subject to the approval of the General Meeting of the shareholders of the Company, which is scheduled for March 13, 2022.

  For further details regarding the terms of the allotment and the exercise of the options, see Note 12.C to the Financial Statements.

1.3. Results of Operations

1.3.1. Elron's main annual operating results

	For the year ended December 31,		
	2021	2020	2019
	Audited		
	$ thousands		
Gain (loss) attributable to Elron's shareholders	5,484	(17,723)	(22,376)
Basic gain (loss) per share attributable to Elron's shareholders (in $)	0.11	(0.41)	(0.62)
Diluted gain (loss) per share attributable to Elron's shareholders (in $)	0.10	(0.41)	(0.62)

The loss attributable to Elron's shareholders mainly comprised of: I) Elron's share in the losses of Group Companies, II) gains and losses from disposal and revaluation of investee companies and changes in holdings, III) corporate operating expenses, IV) tax benefit (taxes on income):*

	For the year ended December 31,		
	2021	2020	2019
	$ thousands		
Losses in respect of Group Companies:			
Elron's share in net losses of Group Companies, net	(8,093)	(12,281)	(17,219)
Excess cost amortization	(75)	(116)	(16)
Total	(8,168)	(12,397)	(17,235)
Gain from disposal and revaluation of investee companies and changes in holdings, net	22,159	765	719
Corporate operating expenses	(4,573)	(4,252)	(4,724)
Tax benefit (Taxes on income), net	(2,754)	1,339	84
Other**	(1,180)	(3,178)	(1,220)
Gain (loss) attributable to shareholders	5,484	(17,723)	(22,376)

*)The results summarized in the table are presented net of non-controlling interests.

**) During 2021, 2020 and 2019, the other expenses include a non-cash accounting expense related to a share based payment in the amount of approximately $30, $1,300 and $560 thousand, respectively.

I) Losses in respect of Group Companies

Elron's share in the net losses of Group Companies:

As previously mentioned, most of the Group Companies are technology companies which have not yet generated significant revenues, if at all, and which invest considerable resources in research and development and in marketing activities. According to accounting principles, these companies' investments in the development of their products are recorded as they occur in their statement of income as research and development expenses (insofar as these expenses are not capitalized as intangible assets as is permitted, according to accounting principles). Therefore, as the Group Companies increase their investments in order to develop their products and advance their business, they cause Elron to record greater losses in respect of its share in their losses.

The loss Elron recorded during 2021 in respect of its share in the losses of Group Companies (net of non-controlling interests) resulted mainly from the losses of Pocared, CartiHeal, SixGill and Sayata.

The loss Elron recorded during 2020 in respect of its share in the losses of Group Companies (net of non-controlling interests) resulted mainly from the losses of Pocared, BrainsGate, CartiHeal and Alcide.

The loss Elron recorded during 2019 in respect of its share in the losses of Group Companies (net of non-controlling interests) resulted mainly from Pocared, CartiHeal and Alcide.

II) <u>Gain (loss) from sale, revaluation, realization of operation and changes in holdings, net:</u>

Gain and loss from disposal, revaluation, realization of operation of group companies, and changes in holdings during 2021 resulted mainly from:

- An approximately $11.3 million gain (before tax) recorded as a result of the sale of Alcide (for further details see section 1.2.1 above).
- An approximately $6.5 million gain (before tax) following the partial sale of IronScales's shares which resulted in initial fair value measurement of the investment in IronScales in lieu of the equity method of accounting as a result of the decrease in RDC's holding in IronScales's share capital and the loss of significant influence over IronScales (for further details see sections 1.2.1 and 1.2.2 above);
- An approximately $5.2 million gain (net of non-controlling interests) recorded as a result of the sale of SecuredTouch (for further details see section 1.2.1 above).
- An approximately $2.8 million gain recorded as a result of increase in the fair value of the investment in ZenGo.
- An approximately $2.5 million gain (net of non-controlling interests) recorded as a result of the sale of Imvision (for further details see section 1.2.1 above).
- An approximately $1.9 million gain (net of non-controlling interests) recorded as a result of the sale of Kindite's operation (for further details see section 1.2.1 above).
- An approximately $0.7 million gain (net of non-controlling interests) recorded as a result of the sale of OzCode's operation (for further details see section 1.2.1 above).
- An approximately $2.5 million loss due to a decrease in the fair value of the investment in Aqwise – Wise Water Technologies Ltd. ("Aqwise") and the expected consideration from its sale (see Note 7.E to the Financial Statements).
- An approximately $1.7 million loss recorded due to a decrease in the fair value of the investment in Notal Vision.
- An approximately $1.9 million loss (net of non-controlling interests) which was recorded due to a decrease in Elron's participating share in profit or loss of Pocared in light of the recapitalization in Pocared's capital structure in the first quarter (see Note 3.B.4.c) to the Financial Statements).
- An approximately $2.3 million loss recorded due to a decrease in the fair value of the investment in AudioBurst (see Note 7.F to the Financial Statements).

Gain and loss from disposal and revaluation of group companies, and changes in holdings during 2020 resulted mainly from:

- An approximately $1.9 million net gain (net of non-controlling interests) due to the sale of a part of the shares of IronScales (approximately $2.3 million before tax).

- An approximately $1.7 million gain (net of non-controlling interests) following the transfer of part of the holdings of Elron and RDC in Pocared and as a result of the fair value measurement of Elron and RDC's holdings in Pocared subsequent to the loss of control over Pocared (for further details see Note 3.B.4.c) to the Financial Statements).
- An approximately $2.0 million loss recorded due to a decrease in the fair value of the investment in Aqwise.
- An approximately $1.5 million loss recorded due to change in the fair value of warrants to invest in BrainsGate.

Gains and losses from disposal and revaluation of group companies, and changes in holdings during 2019 resulted mainly from:

- An approximately $2.7 million loss due to a decrease in the fair value of the investment in Notal Vision;
- An approximately $2.6 million gain due to the initial fair value measurement of the investment in AudioBurst in lieu of the equity method of accounting as a result of the decrease in Elron's holding in AudioBurst's share capital and the loss of significant influence over AudioBurst;
- An approximately $0.5 million gain as a result of increase in the fair value of the investment in ZenGo.

III) Corporate operating expenses

Corporate operating expenses mainly include general and administrative expenses. The increase in corporate operating expenses in 2021 as compared with 2020 resulted mainly due to USD-NIS exchange rate fluctuations.

The decrease in corporate operating expenses in 2020 as compared with 2019 resulted primarily from a series of cost saving and efficiency measures that the Company has taken since July 2019. These measures included, among other things, updating agreements with suppliers and service providers.

IV) Taxes on Income (Tax Benefit)

Tax expenses in 2021 resulted mainly from the reversal of the tax asset recorded in 2020 due to the sale of Alcide (as described below), Elron's share of the tax expenses recorded by RDC following a partial sale of IronScales shares and a deferred tax liability attributed to a temporary difference in IronScales which is measured at fair value through profit and loss.

Tax benefits in 2020 resulted mainly due to the recognition of a deferred tax asset of approximately $1.5 million which was recorded in respect of the temporary difference relating to Elron's investment in Alcide and in respect of losses carried forward for tax purposes that are expected to be utilized in 2021, due to income expected from sale of Alcide .

1.3.2. Analysis of the consolidated statements of profit and loss

	2021	2020	2019	
	Audited			
	$ thousands			**Explanation**
Gain from disposal and revaluation of group companies, and changes in holdings, net	37,403	3,789	529	In 2021, this item mainly included: An approximately $13,000 thousand gain as a result of the sale of part of the shares of IronScales and the initial measurement of the remaining balance of the investment in IronScales at fair value in lieu of the equity method of accounting (see Note 7.A to the Financial Statements), a $11,300 thousand gain due to the sale of Alcide, a $10,470 thousand gain due to sale of SecuredTouch, a $4,900 thousand gain due to sale of Imvision, a $3,700 thousand gain as a result of the sale of Kindite's operations, an approximately $2,800 thousand gain due to an increase in the fair value of the investment in ZenGo and a $1,400 thousand gain as a result of the sale of OzCode's operations. The gain was partially offset by a $2,500 thousand loss due to the decrease in the fair value of the investment in Aqwise and the expected consideration from its sale, a $3,300 thousand loss due to the decrease in the participating share in profit or loss of Pocared, a $1,750 thousand loss due to a decrease in the fair value of the investment in Notal Vision and a $2,300 thousand loss due to a decrease in the fair value of the investment in AudioBurst. In 2020, this item mainly included an approximately $4,600 thousand consolidated gain due to the sale of part of the shares of IronScales. In addition, a gain of approximately $2,700 thousand as a result of loss of control over Pocared. The gain was partially offset mainly by a $2,050 thousand loss due to a decrease in the fair value of the investment in Aqwise; a $1,460 thousand loss due to the change in the fair value of warrants to invest in BrainsGate and a $560 thousand loss recorded as a result of a decrease in the value of a contingent consideration asset that was recorded following the sale of Kyma Medical Technologies Ltd. ("Kyma", was sold in September 2015. After the sale, the name was changed to Zoll Medical Israel Ltd). In 2019, this item mainly included: a $2,600 thousand consolidated gain recorded as a result of the decrease in Elron's holding in AudioBurst's share capital and the loss of significant influence over AudioBurst, and therefore, the initial fair value measurement of the investment in AudioBurst in lieu of the equity method of accounting; an approximately $550 thousand gain

	2021	2020	2019	
		Audited		
		$ thousands		**Explanation**
				recorded as a result of an increase in the fair value of the investment in ZenGo, and; an approximately $400 thousand gain recorded as a result of the revaluation of warrants to invest in BrainsGate. The gain was partially offset by a $2,700 thousand loss due to a decrease in the fair value of the investment in Notal Vision, and by a $550 thousand decrease in the value of a contingent consideration asset that was recorded following the sale of Kyma.
Financial income	419	611	2,649	Financial income in 2021 resulted mainly from interest income on deposits and debentures. Financial income in 2020 resulted mainly from interest income on deposits and debentures and from USD-NIS exchange rate fluctuations. Financial income in 2019 resulted mainly from interest income on deposits and debentures and revaluation of financial liabilities measured at fair value to non-controlling interests due to warrants to invest in Pocared (who was a consolidated company during 2019.
Total income	37,822	4,400	3,178	
Research and development expenses	-	2,150	7,018	See analysis of consolidated companies' operating expenses below.
General and administrative expenses	6,897	8,569	9,371	
Equity in losses of associates	12,342	14,520	15,804	Elron's share in the net losses of its associates results from its holdings in certain investments that are accounted for under the equity method. As most of the Group Companies are companies whose operations have not yet generated significant revenues, if at all, and invest considerable resources in research and development and in marketing activities, Elron expects to continue to record losses in respect of these companies' ongoing operations in accordance with the accounting method applied to them in Elron's financial statements. In addition, see the analysis of the results of operations of main associates below.

	2021	2020	2019	
		Audited		
		$ thousands		**Explanation**
				The decrease in 2021 as compared with 2020 resulted mainly from a decrease in Elron's share in the losses of Alcide, SecuredTouch, Kindite and OzCode that were all sold during 2021 (See section 1.2.1 above). The decrease was partially offset by the Company's share in Pocared's losses that since August 2020 was classified under the equity method of accounting (after the loss of control over Pocared) (for further details see Note 3.B.4.c) to the Financial Statements). The decrease in 2020 as compared with 2019 was mainly due to a decrease in the loss attributed to CartiHeal following the completion of patient enrollment for its clinical trial during November 2019 and a decrease in Elron's share in CartiHeal's results after the July 2020 funding, a decrease in RDC's share in the loss attributed to Open Legacy after the company's investment was fully deducted during 2020. This decrease was partially offset by recognition of BrainsGate's past losses that was not recorded in 2019 as the investment was fully deducted and were recognized during 2020 after an investment in BrainsGate was completed.
Financial expenses	686	1,177	750	Financial expenses in 2021 resulted mainly from interest expenses in respect of the loan granted to RDC by Rafael (see section 1.2.4 above) and from a decrease in the fair value of debentures measured at fair value. Financial expenses in 2020 resulted mainly from a decrease in the fair value of debentures measured at fair value. Financial expenses in 2019 resulted mainly from USD-NIS exchange rate fluctuations.
Other expenses, net	-	354	371	
Total expenses	19,925	26,770	33,314	
Gain (loss) before taxes on income	17,897	(22,370)	(30,136)	
Tax benefit (Taxes on income)	(3,954)	1,120	146	Taxes on income in 2021 resulted mainly from tax expenses from the reversal of the tax asset which was recorded in 2020 following the sale of Alcide (see section 1.2.1 above), tax expenses recorded following a partial sale of IronScales shares and a deferred tax liability attributed to a temporary difference in a company which is measured at fair value through profit and loss.

	2021	2020	2019	
		Audited		
		$ thousands		**Explanation**
				Tax benefits in 2020 resulted mainly from the recognition of a deferred tax asset of approximately $ 1,550 thousand recorded in respect of the temporary difference relating to Elron's investment in Alcide and in respect of losses carried forward for tax purposes which were expected to be utilized in 2021 due to the gain expected following the sale of the investment in Alcide (see section 1.2.1 above). This income was offset in part mainly by the tax expenses recorded by RDC due to the sale of a portion of the shares of IronScales.
Gain (loss)	13,943	(21,250)	(29,990)	
Gain (loss) attributable to the Company's shareholders	5,484	(17,723)	(22,376)	
Net income (loss) attributable to non-controlling interests	8,459	(3,527)	(7,614)	The income or loss attributable to non-controlling interests results from the share of the non-controlling interests in the income or loss recorded by RDC. The gain attributable to non-controlling interests In 2021, resulted mainly from the share of non-controlling interests in the gain recorded by RDC from the partial sale of IronScales, the sale of Imvision, SecuredTouch, Kindite and OzCode (see section 1.2.1 above) and from the gain recorder due to the initial measurement of the balance of the investment in IronScales at fair value in lieu of the equity method of accounting. This gain was partially offset mainly by the share of non-controlling interests in the loss recorded by RDC in respect of the losses of its group companies. In 2020, the loss attributable to non-controlling interests resulted mainly from the share of non-controlling interests in the loss recorded by RDC in respect of its group companies, which was partially offset by the share of non-controlling interests in the gain recorded by RDC in respect of the sale of part of the shares of IronScales and the gain as a result from the loss of control over Pocared. In 2019, the loss attributable to non-controlling interests results mainly from RDC’s share in losses from associates.

	2021	2020	2019	
		Audited		
		$ thousands		Explanation
Basic Gain (loss) per share attributable to the Company's shareholders (in $)	0.11	(0.41)	(0.62)	
Diluted Gain (loss) per share attributable to the Company's shareholders (in $)	0.10	(0.41)	(0.62)	

Analysis of the consolidated operating expenses

Operating expenses in 2021, 2020 and 2019 amounted to $6,897, $10,719 and $16,389 thousand, respectively, and comprised mainly of research and development expenses and general and administrative expenses of Elron's and consolidated companies' corporate operations, as detailed below:

	2021	2020	2019	
	$ thousands			Explanation
Corporate	4,599	5,566	5,283	The decrease in the corporate expenses in 2021 compared with 2020 resulted mainly due to the decrease in the share-based payments expenses. In 2020 there was a non-recurring, non-cash accounting expense due to the acceleration of options to employees granted by the Company as a result of the change of control (for further details see section 12.C above). The increase in 2020 compared with 2019 resulted from the acceleration of options described above. The increase was largely offset as a result of a series of cost saving and efficiency measures the Company has taken since July 2019.
RDC	2,298	2,372	2,070	The increase in 2020 compared with 2019 mainly resulted from the increase in expenses due to examination of investments and projects and from increase in the directors' fees which RDC is pays to its shareholders (including Elron) for the service of their representatives on RDC's board of directors and an increase in expenses caused as a result of USD-NIS exchange rate fluctuations.
Pocared	N/A	2,781	9,036	Pocared's operating expenses shown in the table constitute Pocared's expenses up to the date of loss of control on August 6, 2020. Pocared's operating expenses in 2020 in full were $4,766 thousand. In April 2019, Pocared decided not to conduct its clinical trial at that stage, which decision resulted, inter alia, in significant cost reduction for Pocared during 2019 and even more during 2020.
Total	6,897	10,719	16,389	

1.3.3. Analysis of the results of operations of main associates

	Loss (gain) for the period					
	2021	**Increase (Decrease)**	**2020**	**Increase (Decrease)**	**2019**	
			Audited			
	$ thousands	**%**	**$ thousands**	**%**	**$ thousands**	**Explanation**
BrainsGate	3,637	N/A	(595)	N/A	4,941	BrainsGate is in the development stage and has not yet commenced sales. BrainsGate's losses mainly result from research and development expenses. The change in BrainsGate's results in 2021 compared with 2020 resulted mainly from a change in the fair value of warrants to invest in BrainsGate recorded as a gain during 2020 and an increase in expenses attributed to preparations for an external panel of experts which examined the marketing approval application submitted by BrainsGate to the FDA (see section 1.2.3 above). The change in BrainsGate's results in 2020 compared with 2019 resulted mainly from a change in the fair value of warrants to invest in BrainsGate recorded during 2020, which was partially offset by the increase in costs attributed to BrainsGate's submissions of FDA application.
CartiHeal	10,185	17.15	8,694	(23.35)	11,343	CartiHeal is in the development stage and has not yet commenced sales. CartiHeal's losses mainly result from research and development expenses. The increase in CartiHeal's losses in 2021 compared 2020 resulted mainly from a temporary reduction in expense during 2020 due to the coronavirus. The decrease in loss in 2020 compared with 2019 resulted mainly from the completion of patient enrollment during November 2019 for the FDA trial conducted by CartiHeal and from cost reduction measures as mentioned above.

1.3.4. Main quarterly results of Elron

	Three months ended			
	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
	Unaudited			
	$ thousands			
Net gain (loss) attributable to the Company's shareholders	7,928	881	(6,011)	2,686
Basic net gain (loss) per share attributable to the Company's shareholders (in $)	0.18	0.02	(0.12)	0.05
Diluted net gain (loss) per share attributable to the Company's shareholders (in $)	0.17	0.02	(0.12)	0.05

	Three months ended			
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
	Unaudited			
	$ thousands			
Net gain (loss) attributable to the Company's shareholders	(8,058)	(3,619)	255	(6,301)
Net gain (loss) per share attributable to the Company's shareholders (in $)	(0.19)	(0.08)	0.01	(0.68)

As previously mentioned, the net gain and loss attributable to the Company's shareholders mainly comprises of: 1. Elron's share in the losses of group companies, 2. gains and losses from disposal and revaluation of group companies, and changes in holdings 3. corporate operating expenses, and 4. tax benefit (taxes on income), as detailed below:*

	Three months ended			
	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
	Unaudited			
	$ thousands			
Elron's share in net losses of Group Companies	(2,097)	(1,855)	(2,123)	(2,093)
Gain (loss) from disposal and revaluation of group companies, and changes in holdings, net	13,536	3,768	(2,800)	7,655
Corporate operating expenses	(927)	(964)	(969)	(1,713)
Tax benefit (taxes on income)	(2,413)	204	223	(768)
Other**	(171)	(272)	(342)	(395)
loss attributable to the Company's shareholders	7,928	881	(6,011)	2,686

	Three months ended			
	March 31, 2020	**June 30, 2020**	**September 30, 2020**	**December 31, 2020**
	Unaudited			
	$ thousands			
Elron's share in net losses of Group Companies	(5,747)	(2,824)	(2,252)	(1,574)
Gain (loss) from disposal and revaluation of group companies, and changes in holdings, net	(695)	157	4,311	(3,008)
Corporate operating expenses	(961)	(829)	(844)	(1,618)
Tax benefit (taxes on income)	(28)	-	(425)	1,792
Other**	(627)	(123)	(535)	(1,893)
loss attributable to the Company's shareholders	(8,058)	(3,619)	255	(6,301)

* The results summarized in these tables are presented net of non-controlling interests.

** During 2021 and 2020, line item "Other" included a non-cash accounting expense related to a share based payment in the amounts of approximately $30 and $1,300 thousand, respectively.

The loss Elron recorded in the fourth quarter of 2021 in respect of its share in the net losses of Group Companies (net of non-controlling interests) resulted mainly from the losses of Pocared, Sayata and Canonic.

The loss Elron recorded in the fourth quarter of 2020 in respect of its share in the net losses of Group Companies (net of non-controlling interests) resulted mainly from the losses of Pocared, SixGill and OzCode.

The gains (losses) from disposal, changes in holdings and revaluation of Group Companies measured at fair value in the fourth quarter of 2021 resulted mainly from a $6.5 million gain as a result of the partial sale of IronScales and the initial measurement of the remaining balance of the investment in IronScales at fair value in lieu of the equity method of accounting, an approximately $2.5 million gain as a result of the sale of Imvision, and an approximately $1.1 million loss due to a decrease in the fair value of the investment in Aqwise.

1.3.5. Quarterly consolidated statements of profit and loss

	Year ended December 31, 2021	Three months ended March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
	Audited	Unaudited			
	$ thousands				
Gain (loss) from disposal and revaluation of group companies, and changes in holdings, net	37,403	13,918	9,013	(2,800)	17,272
Financial income	419	142	241	114	123
Total income (expenses)	37,822	14,060	9,254	(2,686)	17,395
General and administrative expenses	6,897	1,432	1,541	1,526	2,398
Equity in losses of associates, net	12,342	3,044	2,775	2,991	3,532
Financial expenses	686	46	288	262	291
Total costs and expenses	19,925	4,522	4,604	4,779	6,221
Gain (loss) before taxes on income	17,897	9,538	4,650	(7,465)	11,174
Tax benefit (taxes on income)	(3,954)	(2,413)	204	223	(1,968)
Loss	13,943	7,125	4,854	(7,242)	9,206
Gain (loss) attributable to the Company's shareholders	5,484	7,928	881	(6,011)	2,686
Gain (loss) attributable to non-controlling interests	8,459	(803)	3,973	(1,231)	6,520
Basic gain (loss) per share attributable to the Company's shareholders (in $)	0.11	0.18	0.02	(0.12)	0.05
Diluted gain (loss) per share attributable to the Company's shareholders (in $)	0.10	0.17	0.02	(0.12)	0.05

	Year ended December 31, 2020	Three months ended			
		March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
	Audited	Unaudited			
	$ thousands				
Gain (loss) from disposal and revaluation of group companies, and changes in holdings, net	3,789	(667)	138	7,606	(3,288)
Financial income	611	701	302	222	73
Total income (expenses)	4,400	34	440	7,828	(3,215)
Research and development expenses	2,150	1,112	470	542	26
Marketing expenses	12	7	4	1	-
General and administrative expenses	8,557	2,114	1,705	1,597	3,141
Equity in losses of associates, net	14,520	5,809	3,173	2,784	2,754
Financial expenses	1,177	1,095	176	136	457
Other expenses	354	-	-	-	354
Total costs and expenses	26,770	10,137	5,528	5,060	6,732
Loss before taxes on income	(22,370)	(10,103)	(5,088)	2,768	(9,947)
Tax benefit (taxes on income)	1,120	(62)	-	(851)	2,033
Loss	(21,250)	(10,165)	(5,088)	1,917	(7,914)
Gain (loss) attributable to the Company's shareholders	(17,723)	(8,058)	(3,619)	255	(6,301)
Gain (loss) attributable to non-controlling interests	(3,527)	(2,107)	(1,469)	1,662	(1,613)
Basic and diluted gain (loss) per share attributable to the Company's shareholders (in $)	(0.41)	(0.19)	(0.08)	0.01	(0.68)

1.3.6. Analysis of research and development expenses in group companies

According to Elron's Group Companies' estimations, and as of the date of the filing of this report, their aggregate projected investment in research and development activities during 2022 will total approximately $121,000 thousand.

The above estimates are forward-looking in nature, as defined in Israel Securities Law, 5728-1968, and are based on the Group Companies' estimations based on information available as of the date of filling of this report. These estimates, in whole or in part, may not materialize, or may materialize in a manner materially different than expected. The principal factors that may affect this are changes in research and development expenses, due to future events that might affect the Group Companies' research and development activities and related plans.

The combined research and development expenses of all Group Companies amounted to approximately $88,000, $69,000 and $60,000 thousand in 2021, 2020 and 2019, respectively.

The increase in 2021 as compared with 2020 resulted mainly due to the increase in Sayata and SixGill as well as new investments made this year. The increase was partially offset by Alcide, SecuredTouch, Kindite, OzCode and Imvision, which were sold during 2021.

The increase in 2020 as compared with 2019 resulted mainly from SixGill, Open Legacy, Notal Vision and new investments made that year. The increase was partially offset by a decrease in CartiHeal and Pocared.

Elron's Consolidated Financial Statements do not include research and development expenses in 2021, following the Pocared's deconsolidation in August 2020 (see Note 3.B.4.c) to the financial statements).

The consolidated research and development expenses amounted to $2,150 and $7,018 thousand in 2020 and 2019, respectively. The decrease in consolidated research and development expenses in 2020 as compared with 2019 was mainly related to a decrease in Pocared's expenses and it's deconsolidation in August 2020.

1.4. Financial Position, Liquidity and Capital Resources

Financial position

	December 31, 2021	December 31, 2020
	Audited	
	$ thousands	
Total assets in the consolidated statement of financial position	144,241	84,954
Current assets (Excluding assets classified as held for sale)	85,977	36,606
Investments in associates and other companies (Including assets classified as held for sale)	52,538	41,174
Other long-term assets	2,414	2,292
Deferred tax asset	-	1,550
Intangible assets	3,051	3,051
Current liabilities	7,173	4,732
Long-term liabilities	1,296	1,404
Deferred tax liability	1,017	-
Long-term loan	8,319	-
Total liabilities	17,805	6,136
Equity (including non-controlling interests)	126,436	78,818

Total equity (including non-controlling interests) at December 31, 2021 was $126,436 thousand, representing approximately 88% of the total assets in the statement of financial position, compared with $78,818 thousand at December 31, 2020, representing approximately 93% of the total assets in the statement of financial position. The increase in equity is mainly as a result of capital raising which was completed by Elron in April 2021 (see section 1.2.4 above) and from an increase in liquid resources due to the sale of Alcide ,SecuredTouch, Imvision, consideration from sale of Kindite's and OzCode's assets and partial sale of holdings in Ironscales (see section 1.2.1 above).

Consolidated working capital at December 31, 2021 amounted to $78,804 thousand, compared with $31,874 thousand at December 31, 2020. The increase in working capital resulted mainly from the increase in liquid resources due to capital raising which was completed by Elron in April 2021, and from the sale of companies. The increase was partially offset as a result of current expenses and investment in investee companies.

The increase in liabilities as of December 31 ,2021, compared with December 31, 2020, resulted from Rafael's share in the loan to RDC in the amount of approximately $8,000 thousand (see section 1.2.4 above).

Elron's and RDC's primary cash flows (1)

	For the year ended December 31,		For the three months ended December 31,	
	2021	2020	2021	2020
	Audited		Unaudited	
	$ thousands			
Investments in Elron's and RDC's group companies	(27,534)	(14,766)	(14,060)	(6,530)
Proceeds from disposal of Elron's and RDC's non-current investments	38,384	6,096	15,441	33
Taxes paid, net	-	(1,629)	-	(923)
Proceeds from issuance of shares net of issuance expenses	33,668	-	-	-
Receiving a loan from Rafael (see section 1.2.4 above)	8,000	-	-	-

(1) The amounts presented include RDC's cash flows in full (100%) in addition to Elron's cash flows.

Liquid resources balance

Consolidated liquid resources at December 31, 2021 amounted to $83,001 thousand (including bank deposits and other short term investments in securities in the total amount of approximately $42,123 thousand), compared with $36,089 thousand at December 31, 2020 (including short term bank deposits and other investments in securities in the total amount of $19,507 thousand).

Elron's and RDC's non-consolidated liquid resources at December 31, 2021 amounted to $48,013 and $34,988 thousand, respectively (Elron's and RDC's liquid resources as of December 31, 2021 included other short term investments in securities in the amounts of $9,224 thousand in Elron, and bank deposits of Elron in the amount of $20,051 thousand and of RDC in the amount of $12,848 thousand).

Elron's and RDC's non-consolidated liquid resources at December 31, 2020 amounted to $18,996 and $17,093 thousand, respectively (Elron's and RDC's liquid resources as of December 31, 2020 included other short term investments in securities in the amounts of $3,770 thousand and $668 thousand, in Elron and RDC, respectively, and bank deposits of Elron in the amount of $11,046 thousand and of RDC in the amount of $4,023 thousand).

Uses of cash

The main uses of cash in 2021 were investments in Group Companies in the amount of $2,451 thousand by Elron and in the amount of $25,083 thousand by RDC. Furthermore, cash was used to pay Elron and RDC's operating expenses, as detailed above in section 1.3.2 above.

The main uses of cash in 2020 were investments in Group Companies in the amount of $4,926 thousand by Elron and in the amount of $9,660 thousand by RDC. Furthermore, cash was used to pay Elron and RDC's operating expenses, as detailed above in section 1.3.2 above.

Investments in Group Companies during 2021 and 2020 are summarized in the following table (see also Notes 3 and 7 to the Financial Statements and also sections 4A and 4B in Part IV of this periodic report for additional details regarding investments in Group Companies):

	Elron		RDC	
	For the year ended December 31,			
	2021	2020	2021	2020
	Audited			
	$ thousands			
BrainsGate	-	2,000	-	-
CartiHeal	-	1,500	-	-
Coramaze	-	286	-	-
Scribe	-	-	3,520	-
Keepy	-	-	3,000	-
Red Access	-	-	3,000	-
SecuredTouch	-	-	430	-
ZenGo	1,667	-	-	-
Alcide	-	500	-	-
Cynerio	-	-	2,250	-
Kindite	-	-	400	400
OzCode	-	-	1,040	1,500
One-View	-	-	83	750
Sayata	-	-	10,260	1,000
ImVision	-	-	1,000	2,000
Canonic	-	-	100	3,100
Pocared	-	540	-	1,060
Notal Vision	584	-	-	-
Other	200	100	-	30
Total investments	2,451	4,926	25,083	9,840

Amounts invested subsequent to the reporting date are summarized in the following table:

	Elron	RDC
	For the year ended December 31,	
	2022	
	Audited	
	$ thousands	
Wonder Robotics	-	1,510
Allero	-	2,500
Notal	584	-
One-View	-	83
Audioburst	500	-
Total investments	1,084	4,093

Proceeds from the disposal of Elron's and RDC's non-current investments

Proceeds received from the disposal of non-current investments in 2021 mainly included:

- Consideration in the amount of approximately $10,500 thousand as a result of the sale of Alcide and a deposit in the amount of approximately $1,300 thousand which was deposited in escrow for a period of 18 months (see Note 3.B.4.d) to the Financial Statements).

- Consideration in the amount of approximately $10,000 thousand as a result of the sale of SecuredTouch and a deposit in the amount of approximately $500 thousand which was deposited in escrow for a period of 12 months (see Note 3.B.4.e) to the Financial Statements).
- Proceeds from the partial realization of holdings in IronScales in the amount of $7,300 thousand (see Note 7.A to the Financial Statements).
- Consideration in the amount of approximately $7,200 thousand as a result of the sale of Imvision and a deposit in the amount of approximately $670 thousand which was deposited in escrow for a period of 12 months (see Note 7.B to the Financial Statements).
- Partial Consideration in the amount of approximately $2,500 thousand as a result of the sale of Kindite's assets out of a consideration of $3,700 which is expected to be received (see Note 3.B.4.l) to the financial statements).
- Partial Consideration in the amount of approximately $900 thousand as a result of the sale of OzCode's assets out of a consideration of $1,400 which is expected to be received (see Note 3.B.4.m) to the Financial Statements).

Proceeds received from the disposal of non-current investments in 2020 mainly included:

- Proceeds from the partial realization of holdings in IronScales and Coramaze in the amount of $5.0 million and approximately $0.8 million, respectively.
- Proceeds RDC received in the amount of approximately $200 thousand from the release of the deposit that was held in escrow in connection with the sale of Cyber Secdo Ltd. (completed in 2018.

Main Group Companies' cash flows

	Cash flows from operating activities		**Liquid resources balance**		
	For the year ended December 31, 2021	**For the year ended December 31, 2020**	**As of December 31, 2021**	**As of December 31, 2020**	
	Audited				**Note in Financial Statements**
	$ thousands				
BrainsGate	(4,189)	(3,108)	9,510	13,865	3.B.4.b)
CartiHeal	(10,443)	(8,206)	6,871	17,541	3.B.4.a)

2. Corporate Governance

2.1.1 The Company's Board of Directors

Appointment of the Chairman of the Company's Board of Directors

In November 2021, Mr. Zahi Nahmias notified the Company of the end of his term as the Chairman of the Company's Board of Directors and as a director. In addition, simultaneously, Mr. Dan Hoz, who at the time, was an alternate director of the Company, was appointed as the Chairman of the Company's Board of Directors. After evaluating his education, experience, skills and knowledge in business-accounting matters and financial statements, the Company's Board of Directors considers Mr. Hoz to have financial and accounting expertise within the meaning of the term in the Accounting Expertise Regulations.

Directors with financial and accounting expertise

The Company determined the minimum number of directors with "financial and accounting expertise" serving on its board of directors to be two. Following evaluation of their education, experience, qualification and knowledge in business-accounting and financial statements, the following directors have been designated as directors with financial and accounting expertise: Dan Hoz, Barak Mashraki, Lee-Bath Nelson, Doron Cohen and Baruch Itzhak (who was appointed as an alternate Director for Mr. Doron Cohen in January 2022, subsequent to the reporting date). For further details, including regarding directors with "financial and accounting expertise", see section 13 in Part IV of this periodic report.

2.1.2 Recommendation and decisions of the Board of Directors

On November 14, 2021, the Company's Board of Directors decided to recommend to the General Meeting of Shareholders to amend the Company's Articles of Association so that the name of the Company will be Elron Ventures Ltd. or any other similar name that will be approved by the Companies Registrar of the Israeli Corporation Authority. On December 27, 2021 the General Meeting of Shareholders approved the name change and on January 17, 2022, subsequent to the reporting date, an approval was received from the Companies Registrar of the Israeli Corporation Authority and the Company's name was changed to Elron Ventures Ltd.

For details regarding the Company's Board of Directors decision to recommend to the General Meeting of Shareholders to approve a new compensation policy and the General Meeting of Shareholders approval, see section 19.2 in Part IV of this report.

2.2 Internal Auditor

Details of internal auditor and compliance with conditions

Internal auditor's name: Itzik Ravid, CPA

Appointment date: October 1, 2020

Role qualifications: Graduate of Accounting and Economics at Tel Aviv University. Around 30 years of experience. Managing partner in the accounting firm Raveh Ravid & Co. and extensive experience in the field of internal auditing. The internal auditor is not an interested party in the Company, does not hold office at the Company (except as the internal auditor), and is not a relative or auditor of any of the above. The internal auditor does not hold any position at the Company besides that of internal auditor, other than handling the complaints of the Company's employees regarding the management of its business, in accordance with the decision of the Company's audit committee. To the best of the Company's knowledge, the internal auditor does not perform any role outside the Company that creates or may create a conflict of interest with his role as an internal auditor. The internal auditor meets the conditions set forth in section 3 (a) and section 8 of the Israel Internal Audit Law, 5752-1992 and the requirements of section 146 (b) of the Israel Companies Law, 5759-1999.

Holding of shares; Material ties: To the best of the Company's knowledge, the internal auditor does not hold any of the Company's shares or shares of the Company's affiliates, nor does he have material business relations or other material ties with the Company or any of its affiliates.

Status of employment: The internal auditor is a service provider through his office.

Other positions: To the best of the Company's knowledge, the internal auditor is a partner at Raveh Ravid & Co. He also serves as the internal auditor of DIC and Cellcom Israel Ltd.

Nomination of internal auditor: The appointment of the internal auditor was approved by the audit committee on August 13, 2020, and by the Board of Directors of the Company on August 17, 2020. The appointment came into effect on October 1, 2020. Among the reasons for approving Mr. Ravid's appointment: Mr. Ravid was found suitable for the position of internal auditor in the company, inter alia, in light of his many years of experience in similar positions, and after examining his education, skills and experience in internal audits, taking into account the type, scope and complexity of the Company audits, and the type, scope and complexity of the Company's activity.

Supervising Organ of the Internal Auditor: The Chairman of the Board of Directors is the supervisor of the internal auditor in the organization and the internal auditor reports to the Audit Committee.

Internal auditor's work plan: The internal auditor's work plan is a multi-year plan, and is based on a risk survey which was conducted for the Company and was last updated in 2020. The multi-year audit plan, including the annual audit plan, is updated and approved every year. The plan is updated and approved following deliberations that are held with the management and members of the audit committee, such that within 4 years most of the risk factors will be audited. The internal auditor is authorized to deviate from such plan subject to reporting to the audit committee and receiving its consent for the proposed change. In addition, the audit committee is authorized to direct the internal auditor to deviate from the audit plan during the year. In 2021 the internal auditor performed, inter alia, an audit in the investee company SixGill, an audit of on information security and cyber protection and controls as part of the embezzlement prevention plan adopted by the company.

Audits abroad or of subsidiaries: The Company has no overseas activity other than the holding of certain corporations outside of Israel. The annual internal audit plan addresses whether or not internal audits have been carried out in the Company's material Group Companies, but does not address their activity in Israel or abroad.

Scope of employment: Between 500 and 550 hours per year according to the work plan, while in 2021, the internal auditors invested approximately 550 hours. In the opinion of the Company's board of directors, the internal audit's work plan as well as the scope of employment which was determined to execute such plan are appropriate for its needs. Insofar as required, the Company is able to expand the aforesaid scope of employment.

Conducting the internal audit: The audit was conducted according to accepted professional standards, in accordance with section 4(B) to the Israeli Internal Audit Law and the standards issued by the Institute of Internal Auditors. The audit committee and the board of directors relied on the internal auditor's reports pertaining to their compliance with professional standards according to which they conduct the audits.

Access to information: The internal auditors and their employees have access to information as defined in section 9 to the Israeli Internal Audit Law, including continuous and direct access to the Company's information systems and those of the Company's Group Companies being audited, including financial data.

Internal auditor's reports: The internal auditor's reports are submitted in writing. The internal auditor's reports are distributed to the management and the audit committee. During the period covered by this Annual Report, one internal audit report was submitted in respect of the 2020 work plan and two reports were submitted in respect of the 2021 work plan. The reports were distributed prior to the audit committee meetings at which these reports were discussed, on March 4, 2021, August 8, 2021 and November 10, 2021. Subsequent to the reporting date, one additional audit report was submitted in respect of the 2021 work plan which was distributed prior to the meetings of the Audit Committee at which this reports was discussed, on March 3, 2022.

Board of directors' evaluation: In the Company's board of directors' opinion, the scope, nature and successiveness of the Company's internal auditor's activity and his work plan are reasonable under the circumstances, and they fulfill the Company's internal audit goals.

Remuneration: The internal auditors are paid based on actual hours worked. The cost of the internal auditor's employment in 2021 was approximately NIS 120 thousand (approximately $40 thousand). In the opinion of the board of directors, the compensation paid to the internal auditor does not influence the exercise of his professional discretion.

2.3 <u>Disclosure regarding Principal Accountant Fees</u>

The Company's principal accountants are Kesselman and Kesselman (PricewaterhouseCoopers). On December 27, 2021, the Company's General Meeting approved their re-appointment.

In accordance with the decision of the General Meeting, the Company's Board of Directors is entitled to set the fees of the principal accountant of the Company in accordance to the scope and manner of the services provided. The fees of the Company's principal accountants were also approved by the Company's Audit Committee.

	In respect of 2021		In respect of 2020	
	Fees ($ thousand)		Fees ($ thousand)	
The Company and fully owned corporate companies:	Audit and tax services (1)	Other Services (2)	Audit and tax services (1)	Other Services (2)
Kesselman and Kesselman	186	-	183	-
Other subsidiaries of the Company				
Kesselman and Kesselman	42	-	38	-
Kost Forer Gabbay & Kasierer	-	-	25	11

(1) Audit services- Fees for audit and related services, and for tax services.

(2) Other services- Fees for tax consulting services, assistance and representation in connection with tax audits and tax compliance services.

3. Disclosure requirements in regards to the Company's financial reporting

3.1 <u>Critical Accounting Policies</u>

In respect to critical accounting policies, refer to Note 2 of the Company's Financial Statements.

3.2 <u>Main data detailed in significant valuations and very significant valuations</u>

The following are highlights from the material valuations that were conducted, pursuant to the requirements of the Israel Securities Regulations (Periodic and Immediate Reports), 1970:

<u>Valuation of the investment in IronScales</u>

RDC's remaining investment in IronScales's fair value after the financing round and the partial sale of holdings was determined with the assistance of an independent appraiser, and estimated at approximately $5,700 thousand.

1. Identity of the asset valued: RDC's investment in IronScales.

2. Timing of work: As of December 31, 2021. Engagement date: December 2021.

3. The value of the investment in IronScales established in the valuation: Approximately $5,700 thousand, recorded under line item gain (loss) from disposal and revaluation of investee companies and changes in holdings, net in the statement of income (since the balance of investment in IronScales was zero).

4. Identity of appraiser: S-Cube, a member of the IBI Capital Trust Group Ltd. ("S-Cube") . The valuation was performed by S-Cube, managed by Mr. Gideon Shalom Bendor, the founder and CEO of S-Cube and Mr. Roi Vrubel, Head of Valuations and Derivatives at S-Cube.

   Mr. Shalom Bendor holds an MBA and has extensive experience in financial consulting, valuations, due diligence and expert opinions. His experience includes several aspects of valuation including valuations of common and preferred shares, valuation of employee stock options and incentives, rights in partnership and intangible assets. Mr. Roi Vrubel has an MA in Economics and has extensive experience in valuations. Roi also has a Certified Valuation Analyst ("CVA") certification from the National Association of Certified Valuators and Analysts ("NACVA").

   5. The valuation was performed according to the Options Pricing Model (OPM), using the value derived from the investment agreement which was completed in December 2021. The valuation used the following main assumptions: share price in the round, standard deviation of 72.45% (based on five comparison companies), risk-free interest of 0.51% and DLOM (Discount For Lack Of Marketability) rate of 27.7%.

<u>Valuation of the investment in ZenGo</u>

ZenGo’s fair value was determined with the assistance of an independent appraiser, and estimated at approximately $6,260 thousand.

1. Identity of the asset valued: Elron’s investment in ZenGo.

2. Timing of work: As of March 31, 2021. Engagement date: April 2021.

3. The value of the investment in ZenGo established in the valuation: The value of Elron’s investment was determined at approximately $6,260 thousand after investment of approximately $1,670 thousand which was invested by Elron during 2021 (in comparison to $1,800 thousand as of December 31, 2020). As a result, in 2021 Elron recorded income of approximately $2,800 thousand in respect of the change in the value of the investment in ZenGo, recorded under line item gain (loss) from sale, revaluation, realization of operation and changes in holdings, net in the statement of income.

4. Identity of appraiser: S-Cube. For further details, please see section 4 above.

5. The valuation was conducted using the Option Pricing Model (OPM), using the value derived from the investment agreement that was completed on April 2021. The evaluation used the following significant assumptions: share price in the investment round, standard deviation of 120.74% (based on five comparison companies and cryptocurrencies) and risk-free interest of 0.56%.

Dan Hoz Chairman of the Board of Directors	Yaron Elad CEO

March 10, 2022, Tel Aviv

ELRON VENTURES LTD.
(FOREMELY - ELRON ELECTRONIC INDUSTRIES LTD.)

Periodic report for 2021

Part III

Consolidated Financial Statements for the Year Ended December 31, 2021

Elron Ventures Ltd.
(formerly - Elron Electronic Industries Ltd.)

Consolidated Financial Statements

For the Year Ended
December 31, 2021

Consolidated Financial Statements for the Year Ended December 31, 2021

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of

ELRON VENTURES LTD.

We have audited the accompanying consolidated statements of financial position of Elron Ventures Ltd. (the “Company") as of December 31, 2021 and 2020, and the consolidated statements of profit or loss, comprehensive loss, changes in equity and cash flows for each of the three years in the period ended December 31, 2021. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of some associates, the investment in which, at equity, amounted to approximately $13,365 and $3,938 thousand as of December 31, 2021 and 2020, respectively, and the Company's share in their loss amounted to approximately $1,640, $6,970 and $11,609 thousand for the years ended December 31, 2021, 2020 and 2019, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our conclusion, insofar as it relates to the financial statements in respect of these companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor׳s Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2021 and 2020, and the results of their operations, changes in their equity and their cash flows for each of the three years in the period ended December 31, 2021 in conformity with International Financial Reporting Standards ("IFRS") and with the provisions of the Securities Regulations (Preparation of Annual Financial Statements), 2010.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel, "An Audit of Components of Internal Control over Financial Reporting" the company׳s components of internal control over financial reporting as of December 31, 2021, and our report dated March 10, 2022 included an unqualified opinion on the effective maintenance of those components.

Tel-Aviv, Israel
March 10, 2022

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

Kesselman & Kesselman, 146 Derech Menachem Begin St. Tel-Aviv 6492103, Israel,
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Report of Independent Registered Public Accounting Firm to the Shareholders of Elron Ventures Ltd. regarding the audit of internal control over financial reporting in conformity with regulation 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Elron Ventures Ltd. and its subsidiaries (the "Company") as of December 31, 2021. These components of internal control were determined as explained in the following paragraph. The Company's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the Company's periodic report. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

The company's components of internal control over financial reporting audited by us were determined according to the provisions of Israel Auditing Standard (Israel) 911 issued by the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" (hereinafter – "Auditing Standard (Israel) 911"). These components are: (1) Entity level controls, including controls over the process of editing and closing financial reporting and general controls of information systems; (2) Controls over the investment in companies process; (3) Controls over the treasury process; (4) Controls over the payroll process; (those components are collectively referred to hereinafter as "the audited control components").

We conducted our audit in accordance with Auditing Standard (Israel) 911, which require that we plan and perform the audit in order to identify the audited control components and to obtain reasonable assurance about whether these components of internal control were maintained effectively in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identification of the audited control components, assessing the risk that a material weakness exists in the audited control components, testing and evaluating the design and operating effectiveness of those components of internal control based on the assessed risk. Our audit, in regard to those components of internal control, also included performing other procedures that we deemed as necessary under the circumstances. Our audit pertained only to the audited control components, as opposed to internal control over all material processes in connection with financial reporting, and therefore our opinion refers only to the audited control components. Furthermore, our audit did not reference the mutual effects between the audited control components and those that are not audited; hence our opinion does not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general, and components thereof in particular, may not prevent or detect misstatements. In addition, any conclusions that would be drawn regarding the future based on any current assessment of effectiveness are subjected to the risk that controls may become inadequate because of changes in circumstances, or that the degree of maintaining the policies or procedures may worsen.

In our opinion, the Company maintained effectively, in all material respects, the audited control components as of December 31, 2021.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2021 and 2020, and for the three years in the period ended December 31, 2021, and our report, dated March 10, 2022 expressed an unqualified opinion on the financial statements based on our audit and the reports of other auditors.

Tel-Aviv, Israel
March 10, 2022

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

Kesselman & Kesselman, Azrieli Town, Derech Menachem Begin 146, Tel-Aviv 6492103, Israel,
P.O Box 7187 Tel-Aviv 6492103 Telephone: +972 -3- 7954555, Fax:+972 -3- 7954556, www.pwc.com/il

Consolidated Statements of Financial Position as of

	Note	December 31 2021	December 31 2020
		$ thousands	
Current assets			
Cash and cash equivalents	4	40,878	16,582
Bank deposits	19	32,899	15,069
Other investments in securities	5	9,224	4,438
Other accounts receivable	6	2,976	517
Investment in associate classified as held for sale	3.B.4.d)	-	373
		85,977	36,979
Non-current assets			
Investments in associates	3.B	30,870	20,295
Other investments measured at fair value	7	21,668	20,506
Long-term receivables	8	1,124	774
Right-of-use assets	10	1,290	1,518
Property, plant and equipment, net		261	281
Intangible assets	9	3,051	3,051
Deferred taxes	16	-	1,550
		58,264	47,975
Total assets		144,241	84,954

The notes to the consolidated financial statements constitute an integral part thereof.

Consolidated Statements of Financial Position as of

	Note	December 31 2021	December 31 2020
		$ thousands	
Current liabilities			
Trade payables		816	172
Current maturities of lease liabilities	10	266	318
Other accounts payable	11	6,091	4,242
		7,173	4,732
Long-term liabilities			
Long-term loan	3.A.3.a)	8,319	-
Lease liabilities	10	1,296	1,404
Deferred taxes	16	1,017	-
		10,632	1,404
Equity attributable to the Company's shareholders	12		
Issued capital		9,592	9,584
Share premium		245,278	211,618
Capital reserves		6,403	6,422
Accumulated deficit		(161,008)	(166,518)
		100,265	61,106
Non-controlling interests		26,171	17,712
Total equity		126,436	78,818
Total liabilities and equity		144,241	84,954

Dan Hoz	Yaron Elad	Niv Levy
Chairman of the Board of Directors	Chief Executive Officer	CFO

Approval date of the consolidated financial statements: March 10, 2022

The notes to the consolidated financial statements constitute an integral part thereof.

Consolidated Statements of Income (Loss)

	Note	For the year ended December 31 2021	2020	2019
		$ thousands (except for loss per share data)		
Income				
Gain from sale, revaluation, realization of operation and changes in holdings, net	15.A	37,403	3,789	529
Financial income	15.D	419	611	2,649
		37,822	4,400	3,178
Expenses				
Research and development expenses	15.B	-	2,150	7,018
General and administrative expenses	15.C	6,897	8,569	9,371
Equity in losses of associates, net	15.E	12,342	14,520	15,804
Financial expenses	15.D	686	1,177	750
Other expenses, net		-	354	371
		19,925	26,770	33,314
Gain (loss) before taxes on income		17,897	(22,370)	(30,136)
Tax benefit (taxes on income), net	16	(3,954)	1,120	146
Net income (loss)		13,943	(21,250)	(29,990)
Attributable to:				
The Company's shareholders		5,484	(17,723)	(22,376)
Non-controlling interests		8,459	(3,527)	(7,614)
		13,943	(21,250)	(29,990)
Income (loss) per share attributable to the Company's shareholders (in $)	17			
Basic income (loss) per share		0.11	(0.41)	(0.62)
Diluted income (loss) per share		0.10	(0.41)	(0.62)

The notes to the consolidated financial statements constitute an integral part thereof.

Consolidated Statements of Comprehensive Income (Loss)

	For the year ended December 31		
	2021	2020	2019
		$ thousands	
Net income (loss)	13,943	(21,250)	(29,990)
Other comprehensive income (loss) (net of tax):			
Amounts that are classified or may be reclassified to profit or loss under certain conditions:			
Foreign currency translation differences for foreign operation	(19)	56	(24)
Total gain (loss) that would be reclassified to profit or loss under certain conditions	(19)	56	(24)
Total other comprehensive income (loss)	(19)	56	(24)
Total comprehensive income (loss)	13,924	(21,194)	(30,014)
Attributable to:			
The Company's shareholders	5,465	(17,667)	(22,400)
Non-controlling interests	8,459	(3,527)	(7,614)
	13,924	(21,194)	(30,014)

The notes to the consolidated financial statements constitute an integral part thereof.

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders									
	Issued capital	Share premium	Capital reserve for transaction with controlling shareholders	Capital reserve for financial assets measured at fair value through other comprehensive income	Capital reserve from translation differences	Capital reserve from transactions with non-controlling interests	Accumulated deficit	Total	Non-controlling interests	Total equity
	$ thousands									
Balance at January 1, 2021	9,584	211,618	351	(1,192)	45	7,218	(166,518)	61,106	17,712	78,818
Total net income	-	-	-	-	-	-	5,484	5,484	8,459	13,943
Total other comprehensive loss	-	-	-	-	(19)	-	-	(19)		(19)
Share-based payments	-	-	-	-	-	-	26	26		26
Proceeds from issuance of shares net of issuance expenses (see note 12.A)	8	33,660	-	-	-	-	-	33,668		33,668
Balance at December 31, 2021	9,592	245,278	351	(1,192)	26	7,218	(161,008)	100,265	26,171	126,436

The notes to the consolidated financial statements constitute an integral part thereof.

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders									
	Issued capital	**Share premium**	**Capital reserve for transaction with controlling shareholders**	**Capital reserve for financial assets measured at fair value through other comprehensive income**	**Capital reserve from translation differences**	**Capital reserve from transactions with non-controlling interests**	**Accumulated deficit**	**Total**	**Non-controlling interests**	**Total equity**
					$ thousands					
Balance at January 1, 2020	9,584	211,618	351	(1,192)	(11)	7,010	(150,110)	77,250	25,257	102,507
Total loss	-	-	-	-	-	-	(17,723)	(17,723)	(3,527)	(21,250)
Total other comprehensive loss	-	-	-	-	56	-	-	56	-	56
Share-based payments	-	-	-	-	-	-	1,315	1,315	2	1,317
Investment in Pocared	-	-	-	-	-	208	-	208	(208)	-
Change in non-controlling interests due to loss of control over Pocared (see Note 3.B.4.c))	-	-	-	-	-	-	-	-	(3,812)	(3,812)
Balance at December 31, 2020	9,584	211,618	351	(1,192)	45	7,218	(166,518)	61,106	17,712	78,818

The notes to the consolidated financial statements constitute an integral part thereof.

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders									
	Issued capital	Share premium	Capital reserve for transaction with controlling shareholders	Capital reserve for financial assets measured at fair value through other comprehensive income	Capital reserve from translation differences	Capital reserve from transactions with non-controlling interests	Accumulated deficit	Total	Non-controlling interests	Total equity
	$ thousands									
Balance at January 1, 2019	9,573	190,753	351	(1,192)	13	6,266	(128,292)	77,472	33,430	110,902
Total loss	-	-	-	-	-	-	(22,376)	(22,376)	(7,614)	(29,990)
Total other comprehensive loss	-	-	-	-	(24)	-	-	(24)	-	(24)
Proceeds from issuance of shares net of issuance expenses (see note 12.A)	11	20,865	-	-	-	-	-	20,876	-	20,876
Share-based payments	-	-	-	-	-	-	558	558	2	560
Investment in Pocared by RDC	-	-	-	-	-	744	-	744	(744)	-
Investment of non-controlling interests in Pocared	-	-	-	-	-	-	-	-	183	183
Balance at December 31, 2019	9,584	211,618	351	(1,192)	(11)	7,010	(150,110)	77,250	25,257	102,507

The notes to the consolidated financial statements constitute an integral part thereof.

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2021	2020	2019
		$ thousands	
Cash flows from operating activities			
Net income (loss)	13,943	(21,250)	(29,990)
Adjustments to reconcile loss to net cash used in operating activities:			
Adjustment to the profit or loss items:			
Depreciation and amortization	288	891	995
Finance, net	246	(86)	(1,782)
Stock based compensation	26	1,317	560
Change in fair value of financial liabilities measured at fair value	-	(50)	(884)
Gain from sale, revaluation, realization of operation and changes in holdings, net	(37,403)	(3,789)	(529)
Equity in losses of associates, net	12,342	14,520	15,804
Tax benefit (taxes on income), net	3,954	(1,120)	(146)
Other	(16)	(9)	(31)
	(20,563)	11,674	13,987
Changes in Assets and Liabilities:			
Decrease (increase) in other accounts receivable	63	(236)	271
Increase (decrease) in trade payables	644	135	(305)
Increase (decrease) in other accounts payable	512	(1,296)	788
	1,219	(1,397)	754
Cash paid and received during the year for:			
Taxes paid	-	(706)	(39)
Interest paid	(106)	(144)	(72)
Interest received	313	694	1,293
	207	(156)	1,182
Net cash used in operating activities	(5,194)	(11,129)	(14,067)

The notes to the consolidated financial statements constitute an integral part thereof.

	For the year ended December 31		
	2021	2020	2019
		$ thousands	
Cash flows from investment activities			
Purchase of property and equipment	(40)	(281)	(50)
Investment in associates and other companies	(27,562)	(13,266)	(9,948)
Cash disposed of due to Pocared's deconsolidation (see Note 3.B.4.c))	-	(381)	-
Proceeds from sale of associates and other companies	38,384	6,096	4,378
Sale of (investment in) other investments in securities, net	(4,954)	28,371	(18,894)
Taxes paid as a result of realization of investments in companies	-	(923)	(293)
Withdrawal of (investment in) deposits, net	(17,790)	(9,000)	7,678
Net cash provided by (used in) investment activities	(11,962)	10,616	(17,129)
Cash flows from financing activities			
Proceeds from issuance of shares net of issuance expenses (see note 12.A)	33,668	-	20,876
Receipt of long-term loan from Rafael (see Note 3.A.3.a))	8,000	-	-
Repayment of lease liability	(210)	(521)	(596)
Investment of non-controlling interests in Pocared	-	-	232
Net cash provided by (used in) financing activities	41,458	(521)	20,512
Exchange rate differences in respect of cash and cash equivalents	(6)	477	39
Increase (decrease) in cash and cash equivalents	24,296	(557)	(10,645)
Cash and cash equivalents as of beginning of the year	16,582	17,139	27,784
Cash and cash equivalents as of end of the year	40,878	16,582	17,139

The notes to the consolidated financial statements constitute an integral part thereof.

Note 1- General

Elron Ventures Ltd. (formerly- Elron Electronic Industries Ltd.) ("Elron" or "the Company") is an operational holding company that focuses on building technology companies. Currently, Elron has significant holdings in cybersecurity, enterprise software and medical device companies, and is examining investment opportunities mainly in cybersecurity and enterprise software companies. The Company is an Israeli-resident company incorporated in Israel, traded on the Tel-Aviv Stock Exchange, its main market. Its registered address is ToHa Tower, 114 Yigal Alon St., 27th floor, Tel Aviv.

The Company's parent company is Discount Investment Corporation Ltd. ("DIC"), an Israeli-resident company, traded on the Tel-Aviv Stock Exchange. DIC holds a 60.08% interest in the Company as of December 31, 2021.

These financial statements were approved by the Company's Board of Directors on March 10, 2022.

<u>The impact of the spread of the coronavirus</u>

The outbreak of the coronavirus (COVID-19) has rapidly developed since the beginning of 2020. Measures taken by governments around the world to stop the spread of the virus have affected economic activity in many countries.

In order to deal with the outbreak of the coronavirus and in an attempt to curb its spread, significant regulatory measures are being taken in large parts of the world, as well as in Israel, to restrict people's mobility and congregation. As a result, there has been a significant decline in economic activity in many regions of the world, as well as in Israel. As of the date of approval of the consolidated financial statements, the full effects of the coronavirus on the economy in Israel and countries around the world are not yet fully clear.

The Company is monitoring and examining the impact of the spread of the coronavirus on its operations and the activities of its affiliates. The decline in the volume of economic activity may, among other things, affect the ability to raise capital for affiliates, and may, in the case of some affiliates, affect their ability to expand their development and sales activities. The Company examined the balance of investments in companies accounted for under the equity method of accounting as of December 31, 2021 and 2020 and did not find any need for examination of impairment of such investments.

Definitions

In these financial statements:

IFRS - Standards and interpretations that were issued by the International Accounting Standards Board (IASB) and which include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) along with the interpretations to these standards of the International Financial Reporting Interpretations Committee (IFRIC) and interpretations of the Standing Interpretations Committee (SIC).

RDC - RDC Rafael Development Corporation Ltd. RDC is a holding company consolidated by Elron. Elron holds 50.1% of RDC's outstanding shares, through DEP Holding Technology Ltd. ("DEP"), a fully owned corporate company.

Note 1- General (Cont.)

RDC is engaged in the establishment of ventures and investment in early stage technology companies, mostly ventures that utilize technologies developed by Rafael – Advanced Defense Systems Ltd. ("Rafael") to develop products that meet the needs of the civilian market, and ventures that have synergy potential and are either based on Rafael's know-how and expertise or on Raphael's technologies. RDC has first rights to adapt military technologies developed by Rafael for civilian markets.

The Group - Elron and RDC.

Investee companies - Consolidated companies, associates and other investments held by the Group.

Subsidiaries/Consolidated Companies - Companies that are controlled by the Group (as defined in the International Financial Reporting Standard "IFRS 10") and whose accounts are consolidated with those of the Company.

Associates - Companies over which the Group has significant influence and that are not subsidiaries and are accounted for in these consolidated financial statements in accordance with the equity method of accounting.

Other investments/Other companies - Companies in which the Group has invested and that are neither subsidiaries nor associates.

Related parties - As defined in IAS 24 (Revised) with respect to "Related Parties".

Principal shareholders and Controlling shareholders - As defined in the Israel Securities Regulations (Preparation of Annual Financial Statements), 2010.

Dollar - The US dollar.

CPI - The Israeli Consumer Price Index, as published by the Israeli Central Bureau of Statistics.

Government - Government of the State of Israel.

Note 2- Significant Accounting Policies

A. Basis of presentation of the financial statements

1. Measurement basis

The Company's consolidated financial statements have been prepared on a cost basis, except for the following: financial instruments measured at fair value, investments in associates accounted for using the equity method of accounting and deferred tax assets and deferred tax liabilities.

See below for additional information regarding the measurement of these assets and liabilities.

2. The preparation format of the financial statements

These financial statements have been prepared in accordance with IFRS and in conformity with the provisions of the Israeli Securities Regulations (Annual Financial Statements), 2010.

Note 2- Significant Accounting Policies (Cont.)

A. Basis of presentation of the financial statements (Cont.)

3. **Consistent accounting policies**

The accounting policies adopted in the financial statements are consistent with those followed in all periods presented.

B. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements

The Company's accounting policies set forth below in regard to this consolidated financial statements, are referring both to subsidiaries and associates Companies.

Preparation of financial statements in accordance with IFRS, requires the use of certain material accounting estimates. It also requires the Company's management to exercise discretion in the process of implementing the Company's accounting policies. In this note below, a disclosure is given to fields in which a large degree of discretion or complexity is involved, or fields in which assumptions and estimates have a material effect on the financial reports. The results may materially differ from the estimates and assumptions used by the Company's management.

Presented below is a description of the critical accounting estimates that were used in preparing the consolidated financial statements of the Company:

Determining the fair value of unquoted financial instruments

The fair value of unquoted financial assets and financial liabilities in Level 3 of the fair value hierarchy is determined using valuation techniques including an option-pricing model. At times, the Company contracts independent valuation experts to assist in determining the fair value of such assets. The model's assumptions consist of the price of the underline asset, which is the value of the estimated company's equity, exercise price, expected volatility, expected life, expected dividend and risk-free interest rate. The price of the underlying asset is determined based upon several parameters, including: recent financing rounds, if any, or based upon projected future cash flows discounted at current discount rates applicable for items with similar terms and risk characteristics. Further details are given in Note 7.

Impairment of non-financial assets

The Group examines at each reporting date whether there have been any events or changes in circumstances which would indicate impairment of one or more of the non-financial assets. When indications of impairment exist, the Company examines whether the carrying amount of the asset can be recovered from the discounted cash flows anticipated to be derived from the asset, and if necessary, it records an impairment provision necessary to record the asset at the amount of the recoverable value. The cash flows are discounted using a discount rate before taxes that reflects current market assessments of the time value of money and the risks specific to the asset. The estimates regarding cash flows are based on past experience with respect to this asset or similar assets, and on the best possible assessments of the Group regarding the economic conditions that will exist during the remaining useful life of the asset, considering the market status at the area in which the asset is located. At times, these assessments are made with the assistance of independent valuation experts.

Note 2- Significant Accounting Policies (Cont.)

B. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements (Cont.)

Legal proceedings

When assessing the possible outcomes of legal proceedings which the Company is a party, the Company relied on the opinions of its legal counsel and on the signed settlement agreements. The opinions of their legal counsel are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. The results of the legal procedure may be different from such estimates.

Valuation of intangible assets

The Group is required to allocate the purchase price of investee companies (other than in the acquisition of non-controlling interests that do not confer control) to the assets and liabilities of such investee companies on the basis of their estimated fair value. At times, the Company contracts independent valuation experts to assist in determining the fair value of such assets and liabilities. Such valuations require management to make significant estimates and assumptions. The material intangible assets that were recognized with the assistance of evaluators include mainly in process research and development. Critical estimates to estimate the useful life of such intangible assets may include, inter alia, the estimated life of the intangible assets as well as anticipated market developments.

C. The operating cycle

The Company's operating cycle is 12 months.

D. Basis of consolidation

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control, only when its substantive. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and its subsidiaries are prepared as of the same dates and periods. Significant intercompany balances and transactions and gains or losses resulting from intercompany transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent company. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. In circumstances where the non-controlling interest's ownership in a consolidated company is in the form of a preferred security or other senior security, the distribution of profit or losses between the Company and the non-controlling interests is based on the ownership level of the particular security held by the Company that grants it the preferred rights, while considering the distribution order between the different types of securities. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

Note 2- Significant Accounting Policies (Cont.)

D. Basis of consolidation (Cont.)

A transaction with non-controlling interests, whether a sale or an acquisition, is accounted for as an equity transaction. As such, further acquisitions of non-controlling interests by the Company are recognized directly in equity (recorded at capital reserves in respect of transaction with non-controlling interests). Any difference between the amount of the adjustment to non-controlling interest (reflecting the change in relative interest in the subsidiary) and the consideration paid or received by the parent on the change in holding is recognized directly as an increase in equity. In disposal part of the equity interests while control is retained, an increase or decrease in equity (recorded at capital reserve from transactions with non-controlling interests) is recognized for the amount of the difference between the consideration received by the Company and the carrying amount of the non-controlling interests in the subsidiary which has been added to the Company's equity, taking into consideration realization of goodwill attributed to the subsidiary, if any, and capital reserves resulting from other comprehensive income (loss), in accordance with the decrease in holdings in the subsidiary.

In a business combination achieved in stages, equity rights in the acquiree that had been previously held by the acquirer prior to obtaining control are measured at the acquisition date at fair value by recognizing the gain or loss resulting from the revaluation of prior investment at the acquisition date.

Direct acquisition costs attributed to a business combination transaction are recognized in the statement of income as incurred rather than as part of the acquisition cost.

When the Group loses control over a company, it measures and recognizes its remaining investment at fair value. Any difference between the carrying amount of the former consolidated company as of the date on which control ceases and the fair value of any remaining investment and any consideration from disposal is recognized in profit or loss. If the remaining investment is subject to significant influence, it is treated as an investment in an associate.

E. Associates accounted for using the equity method of accounting

Associates are those entities in which the Group has significant influence or the ability to significantly influence the financial and operating policies, but control was not achieved. In assessing whether or not the Group has significant influence over an entity, the Group takes into consideration ownership of potential voting rights that are immediately exercisable, directly or through subsidiaries, and their impact. Associates are accounted for using the equity method of accounting. The Company's consolidated financial statements include the Group's share of the income and expenses of equity accounted investees from the date that significant influence commences until the date that significant influence ceases. In addition, the financial statements of the Company and of the associates are prepared as of the same periods and dates.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has a legal or implied obligation to support the investee or has made payments on behalf of the investee, or has granted it loans or guarantees.

In circumstances where the Group's ownership in an associate is in the form of a preferred security or other senior security, the distribution of profit or losses between the Group and the additional shareholders of the associate is based on the ownership level of the particular associate's security held by the Company that grants it the preferred rights, and to which the equity method is being applied, while considering the distribution order between the different types of securities. The distribution between the Group and the additional shareholders of the associate, is determined under the assumption that at the end of the reporting period, the associate company would sell or distribute its assets and repay its liabilities.

Note 2- Significant Accounting Policies (Cont.)

E. Associates accounted for using the equity method of accounting (Cont.)

Excess cost of associates is presented as part of the investment. Goodwill relating to the acquisition of an associate is initially measured as the excess cost of an investment in an associate over the Company's proportional interest in the fair value of the identifiable assets and liabilities, net. Excess cost allocated in an associate to identifiable assets and identifiable liabilities having a finite useful life is amortized according to the said useful life. Goodwill or intangible assets with indefinite useful lives, are not systematically amortized, and evaluated for impairment as part of the investment in the associate as a whole.

The Group's share of the operating results of the associate is shown in the statement of comprehensive income as Group's share of earnings (losses) of associates, and other comprehensive income (loss) of the associate attributable to the Group is presented in other comprehensive income (loss) in the relevant item in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

When the Group loses its significant influence in an associate previously treated at equity, the remaining investment is revalued to its fair value on the date when significant influence is lost and is accounted for as an investment measured at fair value. The Group recognizes in profit or loss any difference between the fair value of any retained investment and any proceeds from disposing of the part interest in the associate, and the carrying amount of the investment at the date when significant influence is lost.

Upon purchase of shares of an associate while retaining significant influence in the associate, the Company applies the purchase method in respect of the interest acquired while the previous carrying amount of investment in the associate remains unchanged.

F. Functional currency, presentation currency and foreign currency

1. Functional currency and presentation currency

The consolidated financial statements are presented in U.S. dollars, the Group's functional currency, and are rounded to the nearest thousand, unless stated otherwise.

The functional currency, which is the currency that best reflects the economic environment in which the Company operates and conducts its transactions, is separately determined for the Company and for each of the investee companies. The functional currency of most of the investee companies is the U.S. dollar.

Assets and liabilities of Group companies held which their functional currency is other than the U.S dollar and are defined as foreign operation, including any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation, are translated at the closing rate at each reporting date for each reporting date presented. Income and expenses for each period presented in the statement of income are translated at average exchange rates for the presented periods. All resulting translation differences are recognized as other comprehensive income (loss).

2. Transactions in foreign currency

Transactions denominated in foreign currency are recorded on initial recognition at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency existing as of the reporting date are translated into the functional currency at the exchange rate at the end of the reporting period.

Note 2- Significant Accounting Policies (Cont.)

F. Functional currency, presentation currency and foreign currency (Cont.)

2. **Transactions in foreign currency (Cont.)**

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the Company's functional currency using the exchange rate on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate on the date that the fair value was determined.

G. Financial instruments

Financial assets:

At the date of initial recognition, the Group classifies a financial asset into one of the following measurement categories: amortized cost, fair value through other comprehensive income or fair value through profit or loss. Financial assets will not be subsequently reclassified unless the Group changes its business model for managing debt instruments.

A financial asset which is a debt instrument is measured at amortized cost, if both of the following conditions are met (and it is not designated to be measured at fair value):

- The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows. and

- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset which is a debt instrument is measured at fair value through other comprehensive income, if both of the following conditions are met (and it is not designated to be measured at fair value):

- The asset is held within a business model whose objective is achieved by holding assets in order to collect the contractual cash flows and by selling them. and

- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In certain cases, at the date of initial recognition of an investment in equity instruments which are not held for trading, the Group elects to measure the instruments at fair value through other comprehensive income. This election is on an instrument-by-instrument basis.

All financial assets that are not classified at amortized cost or at fair value through other comprehensive income, as aforementioned, and financial assets which were designated to be measured at fair value, will be measured at fair value through profit or loss. At initial recognition, the Group designates financial assts at fair value through profit or loss if doing so eliminates or significantly reduces accounting mismatch.

1. <u>Initial recognition</u>

Financial assets are recognized initially at fair value. If a financial asset is not measured subsequently at fair value through profit or loss, its initial recognition includes any directly attributable transaction costs.

Note 2- Significant Accounting Policies (Cont.)

G. Financial instruments (Cont.)

2. Subsequent measurement

After the initial recognition, the Company measures its financial assets at amortized cost or at fair value, as follows:

a) Financial assets measured at amortized cost

In subsequent periods, these financial assets are measured at amortized cost, using the effective interest method while deducting any impairment losses. Interest income, exchange rate fluctuations and impairment loss are recorded at profit or loss.

b) Financial assets measured at fair value through other comprehensive income

In subsequent periods, these financial assets are measured at fair value and the changes will be recognized in other comprehensive income (loss). When the Group sells an equity instrument, it transfers the gain or loss in respect with the asset sold from the capital reserve into accumulated deficit and when the Group sells a debt instrument, it transfers the gain or loss in respect with the asset sold from the capital reserve into profit or loss.

c) Financial assets measured at fair value through profit or loss

In subsequent periods, these financial assets are measured at fair value. Gains and losses, including interest income or dividends, are recognized in profit or loss.

Cash and cash equivalents

Cash includes cash balances available for immediate use. Cash equivalents include short-term highly liquid deposits in banks (with original maturities of three months or less) that are readily convertible into known amounts of cash and are part of the Company's and the Consolidated Companies' cash management.

Short term deposits

Short term deposits include deposits in banks with original maturities that exceeds three months from its deposit date.

Contingent Consideration

Fair value of contingent consideration from sale of group companies is initially recorded at fair value and is classified as a financial asset. The contingent consideration is measured at fair value at each reporting period and subsequent changes in the fair value are recorded at profit or loss.

Financial liabilities:

Financial liabilities are recognized initially on the trade date. Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Financial liabilities, other than financial liabilities designated at fair value through profit or loss, are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Note 2- Significant Accounting Policies (Cont.)

G. Financial instruments (Cont.)

Offset between financial assets and financial liabilities (Cont.)

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is an immediate right, which is legally enforceable, to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

H. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The fair value of financial assets measured at fair value is determined with reference to their quoted closing bid price as of the reporting date, and in the absence of such a quoted price, by other appropriate valuation methods.

I. Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation, less accumulated impairment losses, if any, and excluding day-to-day servicing expenses.

Depreciation is recognized in the statement of income on a straight-line basis over the estimated useful lives of the property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Computers, office furniture and equipment	3-14 years

Leasehold improvements are depreciated on a straight-line basis, over the shorter of related lease period or the estimated life of the improvement.

J. Intangible assets

1. **Research and development**

Research expenses undertaken with the goal of gaining new scientific or technical knowledge are recognized in the statement of income when incurred.

Note 2- Significant Accounting Policies (Cont.)

J. Intangible assets (Cont.)

1. **Research and development (Cont.)**

Development activities are activities relating to a plan for the creation of new products or processes or the significant improvement of existing products or processes. Expenditures in respect of development activities are recognized as an intangible asset only if all the following exist: the development costs can be reliably measured; the product or process is technically and commercially feasible; future economic benefits from the product are probable; and the Group intends to and has sufficient resources to complete the development and to use or sell the asset. The costs recognized as an intangible asset include the cost of the materials, direct labor and overhead costs that can be directly attributed to preparation of the asset for its intended use. Other development expenditures are recognized in the statement of income as incurred. This asset is measured at cost less any accumulates amortization and impairment.

2. **Other intangible assets**

a. Intangible assets acquired in a business combination are included at the fair value at the acquisition date. After initial recognition, intangible assets are carried at the cost attributed to them, less any accumulated amortization (other than intangible assets having an indefinite useful life) and any accumulated impairment losses.

b. Separately acquired intangible assets are measured on initial recognition at cost with the addition of costs directly attributable to the acquisition.

c. Subsequent expenditures are capitalized as an intangible asset only when they increase the future economic benefits embodied in the specific asset for which they were expended. All other expenditures, including expenditures relating to goodwill and intangibles developed independently, are recognized in the statement of income as incurred (except for development costs which were capitalized).

d. The amortization period of intangible assets having a finite useful life is determined according to the expected future economic benefits from the assets in each period, on the basis of estimated useful life of each group of assets. As for the testing of impairment, see Note 2.K below.

A summary of the policies applied to the Group's intangible assets is as follows:

	Technology and development in process *	**Agreement with Rafael****
Useful lives	Not yet determined	Indefinite
Amortization period	***	Not amortized
Internally generated or acquired	Acquired	Acquired

*) Technology and development assets in process acquired in business combinations. In August 2020, Pocared ceased to be a subsidiary of Elron and as a result, these assets were deducted from the consolidated statements of financial position (see Note 3.B.4.c))

**) As a result of the agreement with Rafael - see Note 3.A.3.a).

***) Amortization of technology and development in process begins when the property is available for use. The amortization period is set to reflect the future useful life, such as the estimated period in which future sales expected to be generated from the said technology developed.

The estimates regarding the amortization method and useful life of intangible assets having a finite useful life are reviewed at least at each year-end.

Note 2- Significant Accounting Policies (Cont.)

J. Intangible assets (Cont.)

2. **Other intangible assets (Cont.)**

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or more if events or changes in circumstances indicate that the intangible asset may be impaired (see also Note 2.K below). The useful life of these assets is reviewed annually to determine whether their life assessment continues to be supportable.

K. Impairment

1. **Financial assets carried at amortized cost**

The Group recognizes a provision for loss in respect of expected credit losses on financial assets that are debt instruments carried at amortized cost.

On each reporting date, the Group examines if the credit risk of a financial assets has increased significantly since its initial recognition, on an individual basis or on a group basis. In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers information that is reasonable and supportable, including forward-looking information.

For financial instruments with low credit risk, the Group assumes that credit risk has not increased significantly from its initial recognition.

2. **Non-financial assets**

The Group evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of income.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

The following criteria are applied in assessing impairment of an associate:

After application of the equity method, the Group examines whether it is necessary to recognize any impairment loss with respect to the investment in associates. The Group examines at each reporting period whether there is objective evidence that the value of the investment in the associate is impaired. Such evidence may include general market data, the industry in which the investees operate, failure of research and development efforts, a significant deviation from the business plan, rounds of financing at an amount below the cost basis of the investment and other parameters. The test of impairment is carried out with reference to the entire investment, including excess cost and goodwill attributed to the associate.

Note 2- Significant Accounting Policies (Cont.)

L. Non-current assets held for sale

A non-current asset or disposal group (a group for which settlement is planned, including assets and liabilities) is classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are not depreciated and are presented separately as current assets in the statement of financial position, at the lower of their carrying amount and fair value less costs to sell. Simultaneously, liabilities associated with these assets are presented separately in the statement of financial position in a similar manner.

M. Employee benefits

1. Post-employment benefits

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by a trustee, and they are classified as defined contribution plans and defined benefit plans.

Part of the Investee companies have defined contribution plans pursuant to section 14 to the Severance Pay Law under which fixed contributions payment are made and with no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

In 2021 and 2020, the Company and the Consolidated Companies recorded expenses in respect of defined contribution plans in the amounts of approximately $125 and $175, respectively.

Additionally, the Company operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include expected salary increases and rates of employee turnover based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation. Remeasurement of the net liability are recorded through other comprehensive income to the accumulated deficit in the period in which they occur.

2. Short-term benefits

Short-term employee benefits are benefits that are expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

Note 2- Significant Accounting Policies (Cont.)

M. Employee benefits (Cont.)

3. Long-term benefits

The Company recognizes a liability and expense for success-based payments to consultants for services provided, when there is a legal obligation to make such payments and the obligation can be reliably estimated.

N. Share-based payment transactions

The cost of equity-settled transactions with employees and others is measured at the fair value of the equity instruments granted at grant date.
The fair value of share-based payments on the grant date is recognized as an expense, with a corresponding increase in retained earnings, over the period in which the relevant employees become fully entitled to the award. The amount recognized as an expense, taking the vesting terms into account, consisting of service terms and performance terms other than market terms, is adjusted to reflect the actual number of share options that are expected to vest. Expense attributed to grants that do not eventually vest, is canceled at the time the options expire.

O. Provisions

A provision is recognized when there is a present obligation, legal or constructive, as a result of a past event and a reliable estimate can be made of the amount of the obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

P. Leases

Initial recognition:

At the date of initial recognition, the Group recognizes a lease liability at the present value of future lease payments, which includes, among other things, the exercise price of extension options that are reasonably certain to be exercised. At the same time, the Company recognizes the right of use asset at the same value the liability for a lease.

The interest rate used to discount the liability is the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate.

Variable lease payments linked to the CPI are initially measured by using the prevailing index at the commencement date of the lease, and are included in the calculation of the lease liability. When there is a change in the cash flows of the lease as a result of a change in the index, the Group remeasures the lease liability based on the updated contractual flows, as adjustment to the right of use asset.

The term of the lease is the period during which the lease is non- cancellable, including periods covered by an option to extend the lease if it is reasonably certain that the Group will exercise that option and periods covered by an option to terminate the lease if it is reasonably certain that the Group will not exercise that option.

In lease agreements of offices and vehicles that include non-lease components, such as services or maintenance that are related to the lease component, the Group has elected to separate the lease components and treat the lease component in separate.

Note 2- Significant Accounting Policies (Cont.)

P. Leases (Cont.)

Subsequent measurement:

After the commencement date, the Group measures the right of use asset applying a cost model, less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. Right of use assets are depreciated, using the straight-line method, over the shorter period of the estimated useful life of the leased asset and the lease term. Interest on the lease liability is recognized in profit or loss in each period during the lease term, in an amount that produces a constant periodic rate on the remaining balance of the lease liability.

Payments for short-term leases of equipment and vehicles as well as payments for leases in which the base asset is of low value are recognized using the straight-line method over the lease period, as an expense in profit or loss. Short-term leases are leases in which the lease term is 12 months or less.

Q. Taxes on income

Taxes on income in the statement of income comprise current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the statement of income except to the extent that the tax arises from items which are recognized directly in equity or in other comprehensive income.

1. **Current taxes**

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date as well as adjustments required in connection with the tax liability in respect of previous years.

A provision is recognized in respect to uncertain tax positions when it is more likely than not that the Group will be required to use its financial resources in order to recover the settlement.

2. **Deferred taxes**

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred tax balances are measured at the tax rates that are expected to apply to the period when the taxes are recorded in the statement of income or in equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Simultaneously, temporary differences (such as carryforward losses) for which deferred tax assets have not been recognized are reassessed and deferred tax assets are recognized to the extent that their recoverability is probable.

Taxes that would apply in the event of the sale of investments in investee companies have not been taken into account in computing the deferred taxes, as long as the sale of the investments in investee companies is not expected in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investee companies as dividend have not been taken into account in computing the deferred taxes, since the distribution of a dividend does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividend that triggers an additional tax liability.

Note 2- Significant Accounting Policies (Cont.)

2. **Deferred taxes (Cont.)**

Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

R. Earnings (loss) per share

Earnings (losses) per share are calculated by dividing the net income (loss) attributable to equity holders of the Company by the weighted number of ordinary shares outstanding during the period. Basic earnings (loss) per share only include shares that were actually outstanding during the period. Potential ordinary shares (convertible securities such as employee options) are only included in the computation of diluted earnings (loss) per share when their conversion has a dilutive effect on the earnings (loss) per share. Further, potential ordinary shares that are converted during the period are included in diluted earnings (loss) per share only until the conversion date and from that date in basic earnings (loss) per share.

S. Examination of the significance of evaluations of assets and obligations for disclosure or inclusion

The Company is reviewing the significance of the evaluations of assets and obligations, for the purposes of disclosing them or attaching them in the annual and interim financial statements, in accordance with Regulation 8b of the Securities Regulations (Periodic and Intermediate Reports), 1970 and according to the legal position number 105-23: parameters for fundamental valuations, as updated by the Israeli Security Authority in July 2014 (the "ISA's Position").

When an evaluation complies with the quantitative conditions for enclosure, the Company examines whether the evaluation does not qualify as very material for qualitative reasons, and therefore will not be enclosed. In accordance with the ISA's Position, the Company also applies as an additional test the "Representative Profit" test, representing an accepted measurement tool for examining the results of companies of the Company's category.

Note 3- Investments in investees

A. Subsidiary

1. **Additional information about a subsidiary that is held by the Company**

Subsidiary with material non-controlling interests

	Principal place of business	Equity interest and voting rights of non-controlling interests
As of December 31, 2021 and 2020:		
RDC	Israel	49.90%

(USD in thousands, except for price per share and number of shares)

Note 3- Investments in investees (Cont.)

A. Subsidiary (Cont.)

2. Summarized financial information of a subsidiary with material non-controlling interests (*)

Balances in respect of RDC's statement of financial position:

	Current assets	Non-current assets	Current Liabilities	Non-current Liabilities	Equity attributable to the shareholders	Non-controlling interests
As of December 31, 2021	21,938	51,083	3,523	16,638	26,689	26,171
As of December 31, 2020	10,142	28,034	2,269	-	18,195	17,712

(*) The information presented does not include excess cost.

Results of operations in RDC's statements:

	Income (loss) for the year	Income (loss) attributable to non-controlling interests	Other comprehensive Income	Total comprehensive Income (loss)
For the year ended December 31, 2021	16,952	8,459	-	16,952
For the year ended December 31, 2020	(6,468)	(3,228)	-	(6,468)

RDC's cash flows:

	For the year ended December 31 2021	2020
Operating activities	(977)	(2,391)
Investment activities	(15,526)	6,142
Financing activities	15,948	(71)
Increase (decrease) in cash and cash equivalents	(555)	3,680

3. Significant changes in investments in a consolidated company during the reporting period

a) **RDC**

RDC is a holding company consolidated by Elron. Elron holds 50.1% of RDC's outstanding shares, through DEP, a subsidiary fully owned by Elron.

RDC is engaged in the establishment of ventures and investment in early stage technology companies, mostly ventures that utilize technologies developed by Rafael to develop products that meet the needs of the civilian market, and ventures that have synergy potential and are either based on Rafael's know-how and expertise or on Raphael's technologies. RDC has first rights to adapt military technologies developed by Rafael for civilian markets.

(USD in thousands, except for price per share and number of shares)

Note 3- Investments in investees (Cont.)

A. Subsidiary (Cont.)

3. Significant changes in investments in a consolidated company during the reporting period (Cont.)

a) **RDC (Cont.)**

In December 2007, Elron, DEP, RDC and Rafael signed an agreement amending the existing agreement between the parties pertaining to the rights granted to RDC to commercialize certain technologies of Rafael (the "Addendum"). Pursuant to the Addendum, RDC's rights to commercialize certain technologies of Rafael will continue without time restrictions. Pursuant to the terms of the Addendum, Elron made a one-time investment in RDC of $4,000 and is committed to make further investments of $750 in RDC for each company established by RDC based on Rafael's technologies.

The excess invested in RDC in respect of Elron's investment in RDC's equity was allocated to the agreement with Rafael as an intangible asset with indefinite useful life, and accordingly is not subject to amortization, but rather is reviewed for impairment at least annually or more frequently if indicators of impairment are identified. As of the reporting date, intangible assets include an amount of $3,051 in respect of this agreement (see Note 9).

In March 2021, Elron and Rafael granted a loan to RDC in an amount of $16,000 (in equal parts). The long-term loan balance in the statement of financial position includes the loan attributed to Rafael. The loan was granted for a five year period and bears 5% annual interest to be paid upon repayment of the loan.

b) Excluding Pocared Diagnostics Ltd. ("Pocared"), which as of August 2020, ceased to be a subsidiary of Elron, in the years 2021, 2020 and 2019, there were no companies that were previously consolidated and are not included in the consolidation at the reporting period or companies that were initially consolidated.

For Pocared’s financial data as of the date of its deconsolidation, see Note 3.B.4.c) below.

B. Investments in associates accounted for using the equity method of accounting:

1. **Composition**

	December 31	
	2021	**2020**
Carrying amount of the investments in the statement of financial position	30,870	20,295
The carrying amount of the shares and loans includes:		
Loans (*)	-	4,532
SAFE agreements (Simple Agreement for Future Equity (*)	983	3,550

(*) Financial instruments measured at fair value through profit or loss and classified as part of the investment in an associate.

Note 3- Investments in investees (Cont.)

3. Significant changes in investments in a consolidated company during the reporting period (Cont.)

According to the Company's accounting policy as described in Note 2.E above, the aggregate equity in losses not recognized by the Group, amounted to a total of approximately $1,488 from the date of acquisition until December 31, 2021 (not including companies that as of the reporting date were not held by the Group) and for the year ended on December 31, 2021 a total amount of $360 (and for companies held by the Company as of December 31, 2020- approximately $2,688 from the date of acquisition through December 31, 2020). See Note 15.E for further details regarding losses in respect of associates for the years ended December 31, 2021, 2020 and 2019.

(USD in thousands, except for price per share and number of shares)

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting: (Cont.)

2. Summarized data of the financial statements of material associates, unadjusted to the Group's percentage of holdings

	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Equity attributable to shareholders of the company	Equity attributable to non-controlling interests
As of December 31, 2021								
BrainsGate Ltd.	9,641	225	9,866	2,012	834	2,846	7,020	-
CartiHeal (2009) Ltd.	7,001	1,048	8,049	1,040	2,202	3,242	4,807	-
As of December 31, 2020								
BrainsGate Ltd.	13,975	359	14,334	2,078	1,807	3,885	10,449	-
CartiHeal (2009) Ltd.	17,803	1,343	19,146	2,248	2,265	4,513	14,633	-

	Revenues	Gross profit	Operating loss	Gain (loss) from continuing operations	Gain (loss) for the year	Gain (loss) attributable to shareholders of the company	Loss attributable to non-controlling interests	Other comprehensive income (loss)	Total comprehensive gain (loss)
2021									
BrainsGate Ltd.	-	-	(4,375)	(3,637)	(3,637)	(3,637)	-	-	(3,637)
CartiHeal (2009) Ltd.	-	-	(10,026)	(10,185)	(10,185)	(10,185)	-	-	(10,185)
2020									
BrainsGate Ltd.	-	-	(4,085)	595	595	595	-	-	595
CartiHeal (2009) Ltd.	-	-	(8,452)	(8,694)	(8,694)	(8,694)	-	-	(8,694)
2019									
BrainsGate	-	-	(3,721)	(4,941)	(4,941)	(4,941)	-	-	(4,941)
CartiHeal (2009) Ltd.	-	-	(10,694)	(11,343)	(11,343)	(11,343)	-	-	(11,343)

(USD in thousands, except for price per share and number of shares)

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

3. **Additional information about material associates that are held by the Company:**

a) **General information**

	Principal place of business	Equity interest and voting rights (1)	Company's participating in gain (loss) rights (2)
As of December 31, 2021:			
BrainsGate Ltd.	Israel	27.85	14.27
CartiHeal (2009) Ltd.	Israel	27.07	7.50
As of December 31, 2020:			
BrainsGate Ltd.	Israel	27.92	14.43
CartiHeal (2009) Ltd.	Israel	27.07	7.50

(1) Reflects the Company's ownership interests in the ordinary shares and the Preferred shares of the investee companies on an as-converted-basis, and does not take full dilution into account.

(2) In most of the investees, the Company invests in the form of a preferred security or other senior security, that grants it the preferred rights over ordinary shares. Therefore, the Company recognizes losses based on its share in the associate's security or loan held by the Company that grants it the preferred rights, and to which the equity method is being applied. See also Note 2.E.

b) **Reconciliation to the carrying amount of the Company's interest in material associates:**

	BrainsGate		CartiHeal	
	As of December 31,		As of December 31,	
	2021	2020	2021	2020
Total equity	7,020	10,449	4,807	14,633
Participating share in profit or loss of the associate (*)	14.27%	14.43%	7.50%	7.50%
	1,002	1,508	361	1,097
Share in the equity attributable to employee options	(855)	(867)	(76)	(48)
Other	1	-	247	247
Balance of the investment in the associate	148	641	532	1,296
Additional information:				
Warrants to purchase shares classified as a financial asset measured at fair value through profit or loss	224	491	-	-

(USD in thousands, except for price per share and number of shares)

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

3. **Additional information about associates that are held by the Company:**

b) **Reconciliation to the carrying amount of the Company's interest in material associates: (Cont.)**

(*)	BrainsGate		CartiHeal	
	For the year ended December 31,		For the year ended December 31,	
	2021	2020	2021	2020
The results of operations of the associates				
Total comprehensive loss	(3,637)	595	(10,185)	(8,694)
Participating share in profit or loss of the associate (*)	14.27%	14.43%	7.50%	7.50%
	(519)	86	(764)	(652)
Withdrawal of unrecorded equity losses from previous years	-	(1,475)	-	-
Other	25	30	-	(367)
Company's share in loss of the associate	(494)	(1,359)	(764)	(1,019)

(*) Represents the participation rate of Elron in BrainsGate's and CartiHeal's losses as of the reporting date in the relevant years. See further details in Note 2.E above.
For details regarding the participation rate in BrainsGate's and CartiHeal's losses, see investment agreements detailed in Notes 3.B.4.b) and 3.B.4.a), respectively.

c) **Other associates**

The book value of the Company's aggregate share in other associates, as of December 31, 2021 is $30,190 (as of December 31, 2020- $18,358). The Group's aggregate share in the loss and in the other comprehensive loss of other associates for the year ended December 31, 2021 is $,11084 (for 2020- $12,689).

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period:

a) **CartiHeal**

CartiHeal (2009) Ltd. ("CartiHeal") is developing an implant for repair of articular cartilage and osteochondral defects in loadbearing joints, such as the knee. As of the reporting date, Elron holds approximately 27% of CartiHeal's outstanding shares and the investment in CartiHeal is accounted for under the equity method of accounting.

In January 2020, an investment agreement (SAFE) was completed in CartiHeal, with the participation of some of its shareholders, in an amount of $5,000, according to which, the investment sum will be converted into CartiHeal shares under certain conditions stipulated in the agreement. Elron's share of the investment was $1,500.

In July 2020, CartiHeal and shareholders of CartiHeal, including Elron, entered into definitive agreements (“the Agreements”) with Bioventus LLC ("Bioventus"), an existing shareholder of CartiHeal, as follows:

1. Bioventus will invest up to $20,000 in CartiHeal, in consideration for Preferred shares ($15,000 was invested immediately and an additional $5,000 is subject to CartiHeal’s decision). As part of this investment round, the balance of the SAFE agreement from January 2020 was converted into Preferred shares. As a result of the said investment, Elron's holdings decreased from approximately 29% to approximately 27% of CartiHeal’s outstanding shares and to approximately 25% on a fully diluted basis.

2. Bioventus was issued an exclusive option to acquire 100% of CartiHeal's share capital (the "Call Option") and CartiHeal was issued a put option to require that Bioventus purchases 100% of CartiHeal's share capital (the "Put Option"). The Call Option is exercisable from the closing of the investment. The Put Option shall be exercisable subject to pivotal clinical trial success, including on certain secondary endpoints, and the FDA approving the Agili-C device with a label consistent in all respects with pivotal clinical trial success as stipulated in the Agreements. The Call Option and Put Option shall terminate 45 days following obtainment of FDA approval and fulfillment of customary closing conditions.

In the event of the exercise of the Call Option or the Put Option, CartiHeal’s shareholders will receive a total consideration of up to $500,000 consisting of an immediate consideration of $350,000 as well as a contingent consideration in the amount of $150,000 as detailed below. Elron's expected share in the total consideration for the acquisition of CartiHeal amounts to $126,000-$129,000 in the aggregate, and is comprised of (i) $90,000-$92,000 (subject to customary financial adjustments) payable at the acquisition closing (including $12,000 to be deposited in escrow for 24 months, primarily to secure certain indemnification obligations of the selling shareholders to Bioventus), and (ii) $36,000-$37,000 payable at such time when the sales of the Agili-C and certain other revenues resulting from the commercializing of other CartiHeal technology shall generate at least $100,000 in revenues during a consecutive 12-month period.

In August 2021, CartiHeal updated that it received the statistical report prepared by a third party, summarizing the final results of the pivotal clinical trial which show compliance with the primary endpoint and all four secondary confirmatory endpoints, demonstrating pivotal clinical trial success as defined in the Agreement.

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.):

a) **CartiHeal (Cont.)**

Also, following its review of the statistical analysis report of the pivotal clinical trial, Bioventus has announced that it decided to proceed with the investment and option transaction for the sale of CartiHeal and deposited an escrow payment of $50,000 to ensure the exercise of the call option and put option.

In September 2021, CartiHeal completed the application for approval to the FDA.

There is no assurance as to the consummation of the exercise of the Call Option or the Put Option, or the timing thereof. The investment in CartiHeal will continue to be accounted for under the equity method of accounting, and as of December 31, 2021, the balance of the investment is approximately $532.

In accordance with the provisions of IFRS 9, the Call Option and the Put Option are financial instruments measured at fair value through profit or loss whose value at the time of signing the Agreements is immaterial and whose measurement does not have a net effect on the Company's profit and loss.

b) **BrainsGate**

BrainsGate Ltd. ("BrainsGate") is developing an electronical stimulation-based treatment for ischemic stroke. As of the reporting date, Elron holds approximately 28% of BrainsGate's outstanding shares. BrainsGate is accounted for under the equity method of accounting.

In December 2020, a financing round in BrainsGate in the amount of approximately $13,900 was completed in consideration for Preferred shares. The financing round included an amount of $6,100 invested by new investor and the conversion of $7,800 SAFE agreement (from March 2020) invested by BrainsGate’s existing shareholders. Elron's share in the total investment is $2,000.

In February 2020, BrainsGate has submitted its PMA marketing approval application to the FDA for its ISS system, used for treatment of ischemic stroke. Following BrainsGate has completed requests for clarifications and required supplementary testing required by the FDA and after BrainsGate PMA marketing approval was examined by external advisory panel, in February, 2022, the response from the FDA was received, according to which Brainsgate’s PMA is not approvable and in order to be approvable, additional clinical data and support is required.

The investment in BrainsGate is accounted for under the equity method of accounting and as of December 31, 2021 the balance of the investment is approximately $150. The balance of Elron’s Warrants to purchase shares of BraisnsGate, classified as a financial asset measured at fair value through profit or loss, was measured with the assistance of an independent appraiser and as of December 31, 2021 amounts to approximately $220.

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.):

c) **Pocared**

Pocared Diagnostics Ltd. ("Pocared"), is developing a real-time and automated system for infectious diseases diagnosis using optical technology. Until the date of the Transaction in August 2020, as detailed below, Pocared was Elron's subsidiary, and Elron and RDC held approximately 45% and 26% of Pocared's outstanding share capital, respectively. As of the reporting date, Elron and RDC hold approximately 4% and 6%, respectively, of Pocared's outstanding share capital, and Pocared is accounted for under the equity method of accounting (In addition, Elron and RDC hold on a consolidated basis approximately 38% of the economic rights in Pocared).

In August 2020, Elron and RDC signed agreements with several of Pocared's shareholders (the "Buyers"), under which the following was settled (the "Transaction"):

The Buyers undertook to fund Pocared's current operations and the continuation of its efforts to obtain external financing, and transferred to Pocared an amount of approximately $1,500. As part of the Transaction, Elron and RDC invested (together) in Pocared a total amount of $100 and thereafter Elron and RDC have no obligation to make any further investment in Pocared.

Elron and RDC transferred most of their holdings in Pocared to the Buyers, as well as most of the balance of the loans previously granted to Pocared by them (collectively: "the Securities"), such that Elron's consolidated holding in Pocared's shares decreased to approximately 10% of Pocared's issued capital.

In addition to their remaining direct holding in Pocared, Elron and RDC will be entitled to approximately 65% of any future consideration that the Buyers may receive (whether from Pocared or from a third party) from the Securities that were transferred. Elron and RDC retained the right to appoint a director on Pocared's board of directors, which will include up to five board members.

As a result of the Transaction, commencing from August 2020, Pocared ceased to be a subsidiary of Elron and from such date, the aforementioned rights in Pocared, both the ownership rights by virtue of the direct holding, and the rights that are essentially ownership rights by virtue of the transferred securities are accounted for under the equity method of accounting. According to the provisions of IFRS 10, Elron recognized during the third quarter of 2020, a net gain attributable to the Company's shareholders in the amount of approximately $1,690 (a consolidated net gain in the amount of approximately $2,700) resulting mainly from the revaluation to fair value of the rights in Pocared, under line item gain from sale, revaluation, realization of operation and changes in holdings, net in the statement of income (loss).

The fair value of the rights in Pocared was determined with the assistance of an independent appraiser at a consolidated amount of approximately $12,800 as of the date of loss of control. The purchase price allocation was attributed to an intangible asset that is mostly attributed to in process research and development ("IPR&D").

(USD in thousands, except for price per share and number of shares)

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.):

c) **Pocared (Cont.)**

The impact of Pocared's deconsolidation on August 2020 on the financial statements:

	$ thousands
Disposal of assets and liabilities and non-controlling interests:	
Cash and cash equivalents (including transaction costs)	381
Current liabilities net of current assets (excluding cash and cash equivalents)	(1,512)
In process research and development asset	14,387
Non-current assets	1,054
Long-term liabilities	(357)
Assets and liabilities, net	13,953
Non-controlling interests	(3,812)
Total net investment which was deducted	10,141
Balance of the rights in Pocared's shares according to the equity method of accounting	8,045
Balance of the rights in loans granted to Pocared	4,326
Balance of the holdings in the warrants to shares of Pocared	471
Gain from Pocared's deconsolidation (net of transaction costs)	2,701
Attributable to:	
The company's shareholders	1,690
Non-controlling interests	1,011
Cash flows due to the deconsolidation	(381)

In February 2021, an investment agreement was signed between Pocared and a new investor, for an investment in the amount of up to $5,000, by way of a convertible loan. A sum of $ 3,100 was transferred in March 2020. As part of the financing round, the preferred shares, the exercisable warrants and the existing loans were converted into ordinary shares.

In December 2021, an investment was signed between Pocared and a new investor, for an investment in the amount of $1,000 in consideration for ordinary shares and options for ordinary shares. In addition, Pocared has received loans in the amount of approximately $1,150 from new and existing investors. In February 2022, subsequent to the reporting date, an additional amount of $1,000 was invested in Pocared. Elron's and RDC's holdings and economic rights in Pocared's shares did not significantly change following the investment.

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.):

d) **Alcide**

Alcide.IO Ltd. ("Alcide") provides a security platform for Kubernetes deployments from code to production. Prior to its sale (as detailed below), Elron held approximately 30% of Alcide's outstanding shares and the investment in Alcide was accounted for under the equity method of accounting, until its classification as held for sale in December 2020.

In January 2021, Alcide and its shareholders (including Elron) signed a definitive agreement with Rapid7 Inc. (the "Acquirer") for the sale of the entire outstanding share capital of Alcide (the "Transaction") and the Transaction was simultaneously completed.

Pursuant to the Transaction, in February 2021, Elron received an amount of approximately $11,800 (of which an amount of approximately $1,300 was deposited in escrow for a period of 18 months, mainly in order to secure certain indemnification obligations of the selling security holders to the Acquirer).

As a result of the aforementioned, in the first quarter of 2021, Elron recorded an income before tax in the amount of approximately $11,300 with respect to the Transaction.

In light of the aforementioned, the Company examined the expected utilization of carryforward losses and other temporary differences and recognized in 2020, a deferred tax asset of approximately $1,550, which was fully utilized during 2021.

e) **SecuredTouch**

SecuredTouch Inc. ("SecuredTouch") develops and provides a solution that profiles users based on their physical behavior with mobile devices, allowing for seamless and persistent identity verification. Prior to its sale (as detailed below) RDC held approximately 28% of SecuredTouch's outstanding shares and the investment in SecuredTouch was accounted for under the equity method of accounting.

In April 2021, an investment agreement (SAFE -Simple Agreement for Future Equity) was completed in SecuredTouch, with the participation of its existing shareholders, in an amount of $1,030, according to which, the investment will be converted into SecuredTouch shares under certain conditions stipulated in the agreement. RDC's share in the investment was $430.

In June 2021, an agreement was completed for the sale of the entire shares of SecuredTouch (the "Transaction"). Pursuant to the Transaction, RDC's share of the consideration amounted to approximately $10,500 (of which approximately $500 was deposited in escrow for a period of 12 months, mainly in order to secure certain indemnification obligations of the selling security holders to the Acquirer). As a result of the Transaction, Elron recognized, in the second quarter of 2021 an income of approximately $10,500 as part of the Gain (loss) from sale, revaluation, realization of operation and changes in holdings, net.

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.):

f) **Open Legacy**

Open Legacy Technologies Ltd. ("Open Legacy") is developing and marketing a software solution for digital integration of information systems in organizations, based on API (Application Programming Interface). As of the reporting date, RDC holds approximately 22% of Open Legacy's outstanding shares and the investment in Open Legacy is accounted for under the equity method of accounting.

In October 2019, Open Legacy signed an investment agreement (SAFE) with the participation of some of its shareholders for an amount of $10,000, according to which, the investment amount will be converted to Open Legacy shares, under certain conditions, stipulated in the agreement.

In February 2020, an investment agreement in Open Legacy was completed, led by a new shareholder, in the amount of approximately $20,600 in consideration for preferred shares. As part of this investment round, the balance of the SAFE agreement of October 2019 was converted into preferred shares. RDC did not participate in this investment.

g) **SixGill**

SixGill Ltd. ("SixGill") develops and provides an automated system that crawls the Dark Web and extracts information to provide its customers with relevant intelligence and alerts regarding possible or ongoing cyber-attacks against the enterprise. As of the reporting date, Elron holds approximately 23% of SixGill's outstanding shares and the investment in SixGill is accounted for under the equity method of accounting.

In December 2019, an investment in SixGill in the amount of approximately $13,500 was completed. This round was led by new investors and with the participation of Elron, in consideration for the issuance of Preferred B shares. A total of approximately $12,000 was invested immediately (Elron's share was approximately $1,000). In March 2020, the remainder of the investment in the amount of $1,500 was invested. In May 2020, the investment agreement was extended by an additional amount of $1,000 which was received from a new investor.

In addition, as part of the agreement, Warrants for Preferred A shares were exercised, for a consideration of approximately $1,200 (Elron's share in the exercise price is approximately $1,000). Moreover, as part of the investment round, the balance of the loan that was granted to SixGill during 2017 in the amount of $1,300 was converted into Preferred B shares (Elron’s share in the loan was $1,000), and in addition, Elron acquired shares from other shareholders of SixGill in the amount of approximately $500.

In March 2022, subsequent to the reporting date, an investment was completed in SixGill in the amount of approximately $35,000, led by a new investor and with the participation of existing investors (the "Transaction"). Part of the Transaction amount is intended to be invested directly in SixGill in consideration for preferred shares and the remaining balance will be used to purchase ordinary shares from existing SixGill shareholders. Elron’s share in the total investment amounts to approximately $6,000. Following the Transaction, Elron’s holdings in SixGill’s outstanding shares did not significantly change.

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.):

h) **Cynerio**

Cynerio Israel Ltd. ("Cynerio") is developing a platform that enables healthcare providers to secure patient data and connected medical devices against cyber threats. As of the reporting date, RDC holds approximately 17% of Cynerio's outstanding shares and the investment in Cynerio is accounted for under the equity method of accounting.

In November 2019, Cynerio signed an investment agreement (SAFE) with the participation of some of its shareholders for an amount of $3,000, according to which, the investment sum will be converted to Cynerio shares, under certain conditions, stipulated in the agreement. RDC's share of the investment was $750.

In April 2021, an investment agreement in Cynerio was signed in the amount of up to $25,800 led by a new investor and with the participation of its existing investors in consideration for Preferred shares. An amount of $13,250 was invested immediately and during the third quarter of 2021, the remaining investment amount of $12,550 was invested (RDC's share in the total amount was $700).

In addition, the SAFE investment from November 2019 in the amount of $3,000 (as detailed in above) was converted into Preferred shares (RDC's share was $750) and RDC completed a purchase of ordinary shares from other shareholders of Cynerio in consideration for $1,550. As part of the investment, the ordinary shares purchased were upgraded to Preferred shares.

i) **Sayata**

Sayata Labs Ltd. ("Sayata") develops and markets software that combines the expertise of cybersecurity researchers, insurance professionals, IT developers and data scientists to help insurance companies to engage in cybersecurity policies, address their clients' cyber risk and accordingly provide the right insurance quotes. As of the reporting date, RDC holds approximately 20% of Sayata's outstanding share capital and the investment in Sayata is accounted for under the equity method of accounting.

In January 2019, RDC completed its first investment in Sayata, along with existing shareholders, as part of an investment round of approximately $4,100 in consideration for Preferred A shares (RDC’s share was $2,500).

In July 2019, the investment round was extended by an additional amount of $2,900 to a total amount of approximately $7,000, and joined by a new investor (RDC’s share in the extension was $300).

In August and November 2020, Sayata signed investment agreements (SAFE) with its existing shareholders, in a total amount of approximately $1,350, according to which, the investment amount will be converted into Sayata shares under certain conditions stipulated in the agreements (RDC's share in the total investment was $1,000).

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.):

i) **Sayata (Cont.)**

In June 2021, an investment agreement in Sayata was signed in the amount of $17,000 led by new investors and with the participation of the existing shareholders of Sayata (including RDC) in consideration for Preferred shares. An amount of $13,500 was invested immediately and in August 2021 the remaining amount of $3,500 was invested (RDC’s share in the total investment was approximately $3,100). In addition, the SAFE balance from August 2020 in the amount of $1,350 (as mentioned above) was converted into Preferred shares.

In December 2021, an investment agreement in Sayata was signed in the amount of $35,000 with the participation new and existing shareholders of Sayata (including RDC) in consideration for Preferred shares. RDC’s share in the total investment was approximately $6,000. In addition, part of Sayata’s existing shareholders (including RDC) completed the purchase of ordinary shares from other shareholders in consideration for approximately $7,000 (RDC’s share was $1,200). As part of the transaction, the ordinary shares purchased were upgraded to Preferred shares.

j) **Nitinotes**

Nitinotes Ltd. ("Nitinotes) is developing a minimally invasive endoscopic procedure for treatment of obesity. As of the reporting date, Elron holds approximately 20% of Nitinotes's outstanding shares and the investment in Nitinotes is accounted for under the equity method of accounting.

In May 2020, an existing investment agreement in Nitinotes was extended, by the shareholders of Nitinotes by an additional amount of approximately $7,100 in consideration for Preferred shares. The investment was invested in three installments. The first installment in the amount of approximately $2,800 was invested during May 2020 and November 2020. The second installment in the amount of approximately $2,900 was invested during May 2021 and June 2021. The third installment in the amount of $1,400 was invested during December 2021. Elron did not participate in the extension of this investment.

k) **Coramaze**

Coramaze Technologies Ltd. (“Coramaze”) is developing a minimally invasive device to repair of the tricuspid heart valve. As of the reporting date, Elron holds approximately 28% of Coramaze’s outstanding shares (directly and through Coramaze Technologies GmbH) and the investment in Coramaze is accounted for under the equity method of accounting.

In June 2019, Elron entered into an investment agreement with Coramaze together with other shareholders of Coramaze, in an amount of approximately €5,000 thousand, to be invested in Coramaze in four installments, in consideration for Preferred shares. During 2019, the first and second installments were invested in an aggregate amount of €2,000 thousand (approximately $2,200). Elron's share in these installments was €520 thousand (approximately $580). In May 2020, the third installment was invested, in the amount of €1,000 thousand (approximately $1,100). Elron's share in this installment was €260 thousand (approximately $290).

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.)

k) **Coramaze (Cont.)**

In May 2021, half of the fourth installment was invested, in the amount of €1,000 thousand (approximately $1,200) and as detailed below, Elron did participate in this installment.

In July 2020, Elron signed agreements to sell part of its holdings in Preferred shares of Coramaze to new investors in consideration for a total amount of approximately €730 thousand (approximately $800). In addition, it was agreed that one of the new investors will invest Elron's share in the fourth installment of the June 2019 investment agreement mentioned above, in the amount of €520 thousand.

As a result of the sale, Elron recognized a gain in the amount of approximately $200 under line item gain from sale, revaluation, realization of operation and changes in holdings, net in the statement of income (loss).

l) **Kindite**

Kindite Ltd. ("Kindite") developed an encryption platform for cloud and other applications that enables search and retrieval of data while maintaining complete end to end encryption.

In October 2020 and November 2020, Kindite signed an investment agreement (SAFE) with its existing shareholders, in an amount of approximately $500, according to which, the investment amount will be converted into Kindite shares under certain conditions stipulated in the agreement (RDC's share in the total investment was $400). In January 2021, a loan agreement was signed in an amount of approximately $500 (RDC's share was approximately $400 and was transferred in February and March 2021).

In March 2021, Kindite sold all its assets in consideration for approximately $8,200. RDC's expected share in the sale consideration is approximately $3,700 and as a result, Elron recognized during 2021 a net gain attributable to the Company's shareholders in the amount of approximately $1,800 (a consolidated net gain in the amount of approximately $3,700) under line item gain from sale, revaluation, realization of operation and changes in holdings, net in the statement of income (loss). In May 2021, RDC received an initial amount of approximately $2,500 from the said consideration.

m) **OzCode**

Oz Code Ltd. (previously- CodeValue D.T. Ltd.,"OzCode") developed and marketed a debugging platform for development and production environments that reduces time spent on debugging and shortens release cycles.

In November 2020, RDC signed an investment agreement, to invest in Oz Code an amount of $1,500 in consideration for Preferred shares, in two equal installments. RDC's share in this investment is $1,000. The first installment was invested immediately and in February 2021, the second installment was invested.

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.)

m) **OzCode (Cont.)**

In May and July 2021, investment agreements (SAFE) were completed in OzCode, with the participation of its existing shareholders, in the amount of approximately $810, according to which, the investment will be converted into OzCode shares under certain conditions stipulated in the agreement. RDC's share in the investment was approximately $540.

In October 2021, Ozcode sold all its assets in consideration for approximately $3,600 (of which an amount of approximately $360 was deposited in escrow for a period of 18 months, mainly in order to secure certain indemnification obligations of the sellers in the transaction to the acquirer). RDC's expected share in the sale is approximately $1,400 and as a result, Elron recognized during 2021 a net gain attributable to the Company's shareholders in the amount of approximately $700 (a consolidated net gain in the amount of approximately $1,400) under line item gain from sale, revaluation, realization of operation and changes in holdings, net in the statement of income (loss). In October 2021, RDC received a total amount of approximately $900 of the said consideration.

n) **One View**

One-View Space Ltd. ("One View") is developing an automated platform for analyzing and extracting insights from satellite imagery from multiple sources using Artificial Intelligence (AI) algorithms. As of the reporting date, RDC holds approximately 10% of One View's outstanding shares and the investment in One View is accounted for under the equity method of accounting (among other things, because RDC's share of One View's board of directors is higher than 20%).

In February 2020, RDC completed its first investment in One View, along with other shareholders as part of a $3,200 investment round in consideration for Preferred shares (RDC's share was approximately $750).

In December 2021, an investment agreement (SAFE) was completed in One View, with the participation of its existing shareholders, in the amount of approximately $250, according to which, the investment will be converted into One View shares under certain conditions stipulated in the agreement. RDC's share in the investment was approximately $80. In February 2022, subsequent to the reporting date, the SAFE agreement was extended by additional investment of $250 (RDC’s share was approximately $80).

o) **Canonic**

Canonic Security Ltd. (formerly - Sighted Technologies Ltd., "Canonic"), is developing a security platform to detect and defeat SaaS-native threats. As of the reporting date, RDC holds approximately 21% of Canonic’s outstanding shares and the investment in Canonic is accounted for under the equity method of accounting.

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.)

o) **Canonic**

In December 2020, RDC completed its first investment in Canonic in an amount of $3,100. According to the investment agreement, a total amount of approximately $2,200 was invested in consideration for Preferred shares and an amount of $900 was invested in the form of investment agreement (SAFE) which will be converted to Canonic shares, under certain conditions, stipulated in the agreement. In March 2021, the investment agreement in Canonic was extended by additional amount of approximately $2,700 in consideration for Preferred shares (RDC's share was $100).

p) **Scribe**

Scribe Security Ltd. ("Scribe") is developing a supply chain assurance solution that secures the software supplier's digital assets throughout the different stages of software development. As of the reporting date, RDC holds approximately 18.5% of Scribe's outstanding shares and the investment in Scribe is accounted for under the equity method of accounting.

In May 2021, RDC completed its first investment (SAFE) in Scribe in an amount of $1,000.

In October 2021, an investment agreement was completed in Scribe with the participation of new and existing investors in the amount of approximately $7,000 (including the conversion of the SAFE balance described above) in consideration for Preferred shares (RDC's share in the investment was approximately $2,500 invested in October 2021 and $1,000 of the above mentioned SAFE investment).

q) **Keepy**

Keepy AI Ltd. ("Keepy") is developing a solution in the space of HRTech & People Analytics focusing on employee engagement & retention. As of the reporting date, RDC holds approximately 29% of Keepy's outstanding shares and the investment in Keepy is accounted for under the equity method of accounting.

In July 2021, RDC completed its first investment in Keepy in an amount of $3,000 in consideration for Preferred shares.

r) **Red Access**

Ra Red Access Security Ltd. ("Red Access") is developing advanced protection for enterprises from the dangers of working on the Internet. As of the reporting date, RDC holds approximately 29% of Red Access's outstanding shares and the investment in Red Access is accounted for under the equity method of accounting.

In December 2021, RDC completed its first investment in Red Access in an amount of $3,000 in consideration for Preferred Shares.

(USD in thousands, except for price per share and number of shares)

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.)

s) **Wonder Robotics**

Wonder Robotics Ltd. ("Wonder Robotics ") is developing an autonomous landing system for drones.

In January 2022, subsequent to the reporting date, RDC completed its first investment in Wonder Robotics in the amount of approximately $1,500 in consideration for Preferred shares. Following the investment, subsequent to the reporting date, RDC holds approximately 24% of Wonder Robotics's outstanding shares and the investment in Wonder Robotics will be accounted for under the equity method of accounting.

t) **Allero**

Allero Development Ltd. ("Allero") is developing a platform for developers that provides governance and visibility to manage multiple CI/CD platforms.

In February 2022, subsequent to the reporting date, an initial investment agreement in Allero was signed in a total amount of approximately $4,000 in consideration for Preferred shares. RDC invested approximately $2,500 of the amount and Elron will invest the remainder. Upon the completion of the investment, Elron will hold approximately 30% of Allero's outstanding shares (11% directly and 19% via RDC) and the investment in Allero will be accounted for under the equity method of accounting.

Note 4- Cash and cash equivalents

	December 31	
	2021	**2020**
Cash	25,839	13,864
Cash equivalents - short-term deposits (*)	15,039	2,718
	40,878	16,582

(*) The deposits bear interest rate, which is determined based on the deposit period and currency. The interest rate on deposits as of December 31, 2021, is between 0.3% to 0.57%

Note 5- Other investments in securities, net

This line item is comprised of investment in debentures denominated in USD, carrying an interest linked to the Libor and debentures denominated in USD, carrying a fixed interest rate. This investment is classified as a financial asset measured at fair value through profit or loss (see also Note 19).

(USD in thousands, except for price per share and number of shares)

Note 6- Other accounts receivable

	December 31	
	2021	2020
Escrow deposits (A)	2,517	-
Government institutions	244	219
Prepaid expenses	85	51
Other	130	247
	2,976	517

(A) In 2019, mainly comprised of an escrow from the sales of Alcide, SecuredTouch and Imvision Software Technologies Ltd. (“ImVision”) (see Notes 3.B.4.d), 3.B.4.e) and 7.A).

Note 7- Other investments measured at fair value

The Company holds interests in several private companies that do not confer it significant influence as well as warrants to be converted into shares of associates. The fair value of these holdings has been estimated using:

1. Company Security Transaction Method ("CSTM") - According to the CSTM method, the value of each investee is estimated based upon recent transaction prices in the investee's securities. For these transactions to be relied upon to develop an estimate of fair value, they must be arm's length transactions. Additional factors considered in this analysis include: size, amount and type of shares sold; the timing of the transaction relative to the estimation date; differences in the rights, preferences, marketability; control of the transaction securities; participation of new investors and existing shareholders, volatility in the investee's projections and the volatility of comparable firms.

2. Discounted Future Earnings Method - This methodology is used when the investees undergoing evaluation are able to provide projections for their future cash flows. In addition, it was deemed not unreasonable that market participants or other investors would use this methodology to determine the fair value of their rights in these companies.

3. Option Pricing Model ("OPM") - After deriving the investee's fair value, it is generally accepted for market participants to allocate the value of the investee to the different classes of equity. OPM is an option pricing model based on the Black and Scholes formula or based on the Binomial (lattice) model. This model is based upon the concept that the securities of a firm's capital structure can be considered as call options on the value of the firm. The model uses a Black and Scholes option model or a Binomial (lattice) model to estimate the value of the investee between value ranges.

The valuations require management to make certain assumptions about certain parameters, including projections, credit risk and volatility.

(USD in thousands, except for price per share and number of shares)

Note 7- Other investments measured at fair value (Cont.)

Composition:

	December 31	
	2021	2020
IronScales (A)	5,673	-
Imvision (B)	-	2,000
Zengo (C)	6,260	1,800
Notal (D)	6,550	7,700
Aqwise (E)	-	2,950
Audioburst (F)	500	2,600
N-Drip (G)	1,530	1,530
Other (*)	1,155	1,926
	21,668	20,506

*) includes warrants for shares of associates.

A. IronScales

IronScales Ltd. ("IronScales") is developing and providing a cloud-based (SaaS) solution, which aims to protect the organization from targeted email attacks (spear-phishing). Until the investment and partial sale Transaction from December 2021 (as detailed below) the investment in IronScales was accounted for under the equity method of accounting and its balance was reset. Following the Transaction and as of the reporting date, RDC holds approximately 8% of IronScales's outstanding shares and the investment in IronScales is accounted for as a financial asset measured at fair value through profit or loss.

In July 2020, IronScales signed an investment agreement in the amount of approximately $6,000, with the participation of a new investor, in consideration for Preferred shares.

In addition to the said investment agreement, RDC completed two agreements for the sale of a portion of its holdings in IronScales for a total amount of $5,000. As a result, Elron recognized during 2020 a net gain attributable to the Company's shareholders in the amount of approximately $1,900 (a consolidated net gain in the amount of approximately $3,800) under line item gain from disposal and revaluation of investee companies and changes in holdings, net, in the statement of income (loss).

In December 2021, an investment agreement was signed in IronScales in the amount of approximately $64,000 with the participation of a new and existing investors (the "Transaction"). Part of the Transaction amount is intended to be invested directly in IronScales in consideration for Preferred shares (RDC did not participate in the investment) and the remaining balance will be used to purchase shares from existing IronScales shareholders (RDC's share in the proceeds from this sale is approximately $7,300).

Following the completion of the partial sale of shares, Elron recognized a gain attributable to the Company's shareholders in the amount of approximately $3,700 (a consolidated gain in the amount of approximately $7,300) under line item gain from sale, revaluation, realization of operation and changes in holdings, net. In addition, following the partial sale, the Company recorded tax expenses in the amount of $1,400.

Following the completion of the Transaction, RDC lost its significant influence over IronScales. Therefore, the investment in IronScales began to be accounted for as a financial asset measured at fair value through profit or loss.

Note 7- Other investments measured at fair value (Cont.)

A. IronScales (Cont.)

The fair value of the investment in IronScales was determined with the assistance of an independent appraiser using the Option Pricing Model (OPM), based on the value derived from the aforementioned investment in IronScales, using the Black and Scholes formulas, to allocate IronScale's value to different classes of shares and to determine the value of RDC's interest accordingly. The evaluation used the following significant assumptions: share price in the aforementioned round, standard deviation of 72.45% (based on five comparison companies), risk-free interest of 0.51% and DLOM (Discounts For Lack Of Marketability) rate of 27.7%. The fair value of the investment in IronScales was estimated at approximately $5,700 recorded as gain under line item gain from sale, revaluation, realization of operation and changes in holdings, net (as its balance was reset) (Elron recognized a gain attributable to the Company's shareholders in the amount of approximately $2,800). In addition, the company recorded tax expenses in the amount of approximately $1,000 against a deferred tax liability following the classification of the investment in IronScales as financial asset measured at fair value through profit or loss.

B. Imvision

Imvision Software Technologies Ltd. ("Imvision"), develops an AI-based API security threat detection solution. Prior to its sale (as detailed below), Imvision was held by RDC and the investment in was accounted for as a financial asset measured at fair value through profit or loss.

In October 2020, RDC completed its first investment in the amount of $2,000 in Imvision, as part of a financing round in the amount of $3,100. According to the investment agreement (SAFE) the investment amount will be converted into Imvision shares under certain conditions stipulated in the agreement. The SAFE investment in Imvision is accounted for as a financial asset measured at fair value through profit or loss.

In December 2021, an additional SAFE agreement was completed in Imvision with the participation of its existing shareholders in the total amount of $2,000 (RDC’s share was $1,000).

In December 2021, an agreement was completed for the sale of the entire shares of Imvision (the "Transaction"). Pursuant to the transaction, RDC's share of the consideration amounted to approximately $7,900 (of which approximately $670 was deposited in escrow for a period of 12 months, mainly in order to secure certain indemnification obligations of the selling security holders to the Acquirer). As a result of the Transaction, Elron recognized an income of approximately $2,450 (a consolidated gain in the amount of approximately $4,900) as part of the gain (loss) from sale, revaluation, realization of operation and changes in holdings, net.

C. Zengo

Zengo Ltd. (formerly - Kzen Networks Ltd. , " Zengo") is a company that develops and provides a secure crypto wallet which does compromise security with the user experience. Elron holds approximately 8% of Zengo's outstanding shares and the investment in Zengo is treated as a financial asset measured at fair value through profit or loss.

Note 7- Other investments measured at fair value (Cont.)

C. Zengo (Cont.)

In April 2021, an investment in the amount of approximately $20,000 was completed, led by a new investor, in consideration for Preferred shares (Elron’s share was approximately $1,300). As part of the investment agreement, a SAFE balance in amount of $3,750 was converted into Preferred shares (Elron’s share was approximately $350). In addition, some of Zengo’s shareholders, including Elron, completed purchase of ordinary shares from other Zengo’s shareholders in consideration for approximately $1,500 (Elron’s share was approximately $350).

The fair value of the investment in Zengo was determined with the assistance of an independent appraiser based on the investment round from April 2021. The valuation was conducted in accordance with the Option Pricing Model (OPM), using the Black and Scholes formulas, to allocate Zengo’s value to different classes of shares and to determine the value of Elron's interest accordingly . The evaluation used the following significant assumptions: share price in the aforementioned round, standard deviation of 120.74% (based on five comparison companies and cryptocurrencies) and risk-free interest of 0.56%. The value of the investment was estimated at approximately $6,300. As a result, Elron recorded a gain of approximately $2,800 from the change in the value of the investment in Zengo.

D. Notal

Notal Vision Inc. ("Notal") develops, manufactures and provides Ophthalmic diagnostic services for home monitoring of macular retinal degeneration (AMD) patients and improving their vision. As of the reporting date, Elron holds approximately 11% of Notal's outstanding shares. The investment in Notal is accounted for as a financial asset measured at fair value through profit or loss.

In February 2019, Notal and its controlling shareholder, signed an additional investment agreement in the amount of $10,000, in consideration for Preferred shares and options for Preferred shares. The investment was fully completed by the end of 2019. In December 2019, this investment agreement was extended by an additional $15,000, of which approximately $14,500 was invested by the end of 2020 and the remainder was invested during the first quarter of 2021.

In May 2021, an investment agreement was signed with Notal in the amount of up to approximately $38,000 led by a new investor and with the participation of Notal's existing shareholders (including Elron). The investment will be made in two installments in consideration for the issuance of Preferred shares (Elron's share in the total investment is approximately $1,200). The first installment in the amount of approximately $16,400 was invested immediately (Elron's share was approximately $600). In March 2022, subsequent to the reporting date, the second installment was invested.

The fair value of the investment in Notal was determined with the assistance of an independent appraiser and was estimated at approximately $6,550 as of December 31, 2021 (comparing to $7,700 as of December 2020). As a result, during 2021 Elron recorded a loss of approximately $1,750 in respect of a change in the value of the investment in Notal that was recorded under line item gain (loss) from sale, revaluation, realization of operation and changes in holdings, net in the statement of income (loss).

E. Aqwise

Aqwise – Wise Water Technologies Ltd. ("Aqwise") provides biological water and wastewater treatment solutions for the industrial and municipal markets. Prior to its sale, Elron held approximately 19.8% of Aqwise's outstanding shares and 18% on a fully diluted basis and the investment in Aqwise was accounted for as a financial asset measured at fair value through profit or loss.

Note 7- Other investments measured at fair value (Cont.)

E. Aqwise (Cont.)

In September 2020, a convertible loan agreement was signed between Aqwise and its existing shareholders in an amount of $2,500 (Elron’s share in the convertible loan agreement was approximately $100).

Following the impact of the Corona virus, Aqwise experienced a loss in its sales and difficulty closing new deals and as a result, in 2020, Elron recorded a loss of approximately $2,050 in respect of the change in the value of Aqwise, which was recorded under line item gain (loss) from sale, revaluation, realization of operation and changes in holdings, net in the statement of income (loss).

In July 2021, an agreement for the sale the entire shares of Aqwise was completed for a consideration consisting of immediate consideration (Elron’s share was approximately $100 related to the repayment of the convertible loan mentioned above) and additional consideration contingent in Aqwise’s results in the years 2021 and 2022. As of December 31, 2021, Elron recognized a financial asset in the amount of $350 which reflects the estimate of the remaining consideration that is expected to be received as a result of the sale of Aqwise as mentioned above. As a result, during 2021, Elron recognized a loss of approximately $2,500 (under line item gain (loss) from sale, revaluation, realization of operation and changes in holdings, net).

F. AudioBurst

AudioBurst Ltd. ("AudioBurst") is developing and supplying a search engine that enables users to find and to hear audio content on any subject from anywhere in the world. As of the reporting date, Elron held approximately 7% of AudioBurst's outstanding shares.

In March 2019, an investment in AudioBurst in the amount of approximately $10,700 by new investors was completed. Elron did not participate in the investment. Following this investment, Elron lost its significant influence over AudioBurst, among other things since as a result of the decrease in its shareholdings, Elron also lost its right to representation on AudioBurst's board of directors. Therefore, the investment in AudioBurst began to be accounted for as a financial asset measured at fair value through profit or loss.

In October 2021, an investment SAFE was completed in AudioBurst, with the participation of its existing shareholders, in an amount of $1,000, according to which, the investment will be converted into AudioBurst shares under certain conditions stipulated in the agreement. Elron's share in the investment was $200.

The fair value of the investment in AudioBurst was determined with the assistance of an independent appraiser and was estimated at approximately $500. As a result, during 2021, Elron recorded a loss of $2,300 in respect of the change in the value of the investment in AudioBurst.

In March 2022, subsequent to the reporting date, an investment in AudioBurst was completed in the amount of $1,500 led by a new investor. Elron’s share in the investment was $500. As part of the investment, the SAFE balance from October 2021 (as mentioned above) was converted into Preferred shares. Following the completion of the investment, Elron holds approximately 9% of AudioBurst's outstanding shares.

(USD in thousands, except for price per share and number of shares)

Note 7- Other investments measured at fair value (Cont.)

G. N-Drip

N-drip Ltd. ("N-drip") has developed a micro-irrigation solution powered by gravity, providing precise irrigation while saving on water and energy. As of the reporting date, RDC holds approximately 4% of N-Drip’s outstanding shares. The investment in N-drip is accounted for as a financial asset measured at fair value through profit or loss.

In December 2019, January 2020 and February 2020, N-drip entered into an investment agreements (SAFE) with some of its existing shareholders in the amount of approximately $8,000. RDC did not participate in the said investment. In December 2020, N-drip completed a round of approximately $4,600 in consideration for Preferred shares. RDC participated in the amount of $30 in this investment. As part of this round, the balance of the SAFE agreement was converted into Preferred shares. During 2021, the investment from December 2020 was extended and additional amount of $15,800 was invested in N-Drip.

Note 8- Long term receivables

	December 31	
	2021	2020
Contingent consideration (*)	996	646
Escrow deposits	106	106
Other	22	22
	1,124	774

*) Contingent considerations from the sale of Kyma Medical Technologies Ltd. ("Kyma" - which after its sale in 2015, was renamed Zoll Medical Israel Ltd.) and the sale of Aqwise in July 2021 (see note 7.E above).

Note 9- Intangible Assets

	Agreement with Rafael (1),(2)
Balance as of December 31, 2021 and December 31, 2020	3,051

(1) The Company examines the need for impairment in regards with these assets at least once a year.
(3) Indefinite useful life (see Note 3.A.3.a)). The Company estimated the recoverable amount of the agreement with Rafael as part of RDC as a whole. In accordance with this examination, it was concluded that there was no need to depreciate the carrying amount of the asset in the financial statements. The assets and liabilities of RDC were included in the recoverable amount estimate.

(USD in thousands, except for price per share and number of shares)

Note 10- Right-of-use assets and liabilities

In accordance to the Company's accounting policy as detailed in Note 2.p above, commencing January 1, 2020, the Company applies IFRS 16. This note refers to leases in which the Company is the lessee.

A. Right-of-use assets:

	Cost					Accumulated depreciation						Amortized balance	
	Balance at the beginning of the year	Additions	Deconsolidation *	Decreases	Balance at the end of the year	Balance at the beginning of the year	Depreciation	Impairment losses recognized (cancelled) in profit or loss	Deconsolidation *	Decreases	Balance at the end of the year	Balance at the beginning of the year	Balance at the end of the year
2020													
Offices	3,299	-	(1,074)	-	2,225	(661)	(677)	-	631	-	(707)	2,638	1,518
Vehicles	184	-	(184)	-	-	(81)	(50)	-	131	-	-	103	-
	3,483	-	(1,258)	-	2,225	(742)	(727)	-	762	-	(707)	2,741	1,518
2021													
Offices	2,225	-	-	(548)	1,677	(707)	(228)	-	-	548	(387)	1,518	1,290

(*) Decrease of assets related to Pocared following its deconsolidation on August 2020 (see Note 3.B.4.b)).

(USD in thousands, except for price per share and number of shares)

Note 10- Right-of-use assets and liabilities (Cont.)

B. Lease liability:

	Balance at the beginning of the year	Additions	Deconsolidation **	Interest expenses	Lease payments	Other changes*	Balance at the end of the year	Current maturities of leases	Long term lease liabilities
2020									
Offices	2,698	-	(593)	145	(641)	113	1,722	318	1,404
Vehicles	71	-	(44)	-	(24)	(3)	-	-	-
	2,769	-	(637)	145	(665)	110	1,722	318	1,404
2021									
Offices	1,722	-	-	106	(316)	50	1,562	266	1,296

(*) In 2020, Mainly due to changes made to lease agreements.
(**) Decrease of assets related to Pocared following its deconsolidation on August 2020 (see Note 3.B.4.c)).

C. In relation to the increase of the Company lease office space commencing from 2022, see note 18 below.

(USD in thousands, except for price per share and number of shares)

Note 11- Other accounts payable

	December 31	
	2021	2020
Liabilities in respect of payroll	1,081	962
Governmental institutions (A)	2,475	2,633
Accrued expenses	1,011	482
Current taxes (see note 7.A)	1,387	-
Other payables	137	165
	6,091	4,242

(A) Including short term taxes as well as provision related to indirect taxes. During 2017 and 2016, the Company received a tax assessment from the VAT authorities regarding the years 2011-2016, in the total amount of approximately $3,500 bearing interest and linked to the CPI. During 2018, the Company reached agreements with the VAT authorities over some of their claims. As part of the agreements obtained, the Company committed to pay an amount of approximately $1,100 bearing interest and linked to the CPI. In June 2018, the Company filed an appeal to the District Court concerning the amount that remains in dispute of $1,500 bearing interest and linked to the CPI. In December 2020, a settlment agreement was signed between the Company and the VAT authorities, that was given the effect of a judgment. As a result of the aforesaid, the Company recognized an expenses of approximately $350 during 2020, classified as other expenses in the statements of income (loss). As of December 31, 2020, the balance included a total of approximately $300, remained for payment according to the said settlement agreement that was paid in January 2021.

Note 12- Equity

A. Composition of share capital:

	December 31,			
	2021		2020	
	Registered	Issued and outstanding	Registered	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 0.003 par value each	70,000,000	51,920,867	70,000,000	43,065,467

Elron's shares are Quoted on the Tel Aviv Stock Exchange.

On April 20, 2021, the Company issued 8,855,400 ordinary shares of NIS 0.003 par value on the Tel Aviv Stock Exchange, in consideration for (net, after issuance expenses) approximately NIS 109,500 thousand (approximately $33,700). DIC invested in this issuance a total of NIS 61,740 thousand (approximately $19,000) and after this investment, directly and indirectly, holds approximately 60% of the issued share capital of Elron.

On June 11, 2019, the Company issued 13,321,700 ordinary shares of NIS 0.003 par value on the Tel Aviv Stock Exchange, in consideration (net, after issuance expenses) for approximately NIS 75,300 thousand (approximately $21,000). DIC invested a total of NIS 49,500 thousand (approximately $14,000) in the said issuance.

Note 12- Equity (Cont.)

B. Capital management in the Company

The Company and RDC's capital management policy is to maintain a strong equity base in order to preserve their ability to ensure business continuity thereby creating a return for the shareholders, to uphold their commitments to other interested parties such as credit givers and employees, and in order to support future development activity.

The Company is not under any minimal equity requirements nor is it required to attain a certain level of capital return.

C. Share based payments

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

In May 2020, following the approval of the Compensation Committee, the Company's Board of Directors approved the grant of options to the Company's CEO and two additional officers who are not directors. In July 2020, the General Meeting of shareholders of the Company approved the aforementioned grant of options to the Company's CEO.

In accordance with the Company's compensation policy, the grant of Options to the CEO of the Company and the additional officers was made in lieu of the annual bonus component in respect of the share return index for 2020 and 2021 as determined in the compensation policy. The amount of Options granted was done as a derivative of the fair value of approximately NIS 1,530 thousands for the CEO and approximately NIS 2,187 thousands for the other two officers, reflecting the maximum limit of the annual bonus component in respect of the share return index.

Accordingly, in July 2020, 971,138 Options were granted to the CEO, and in May 2020, 1,388,156 Options were granted to the other two officers. The vesting period of the Options is as follows: 1/3 at the end of one year from the date of grant, an additional 1/3 at the end of the second year from the date of the grant and an additional 1/3 at the end of the third year from the date of the grant. The Options are exercisable up to a period of 5 years from the date of grant. Any Option not exercised by such date shall expire. The exercise price of each Option (calculated as the average of the Company's share price on the TASE in the 30 trading days of trading preceding May 26, 2020, together with a premium of 10%) is NIS6.8409. The exercise of the Options will be according to the net exercise mechanism (cashless) according to which the number of shares which will be issued to the employee will be calculated.

During 2020, a total amount of 1,241,664 options granted to the previous CEO of the Company, were forfeited and expired after his employment ended.

In November 2020, Mr. Eduardo Elsztain ceased to be an indirect controlling shareholder of the Company, and as result and in accordance to the term of the grant, all Options which were granted under the Company's Option Plan until that date, vested in full. As a result, during the fourth quarter of 2020, the Company recorded an one-time expense of approximately $1,000 in respect of the vesting of all the options granted.

The movement in the number of stock options and the weighted averages of their exercise prices is as follows:

(USD in thousands, except for price per share and number of shares)

Note 12- Equity (Cont.)

C. Share based payments (Cont.)

	2021		2020		2019	
	Number of options	**Weighted average of exercise price**	**Number of options**	**Weighted average of exercise price**	**Number of options**	**Weighted average of exercise price**
Outstanding options at the beginning of year	5,023,582	9.07	3,905,952	11.05	-	-
Granted	84,981	13.27	2,359,294	6.84	3,905,952	11.05
Forfeited	-	-	(724,304)	11.05	-	-
Expired	-	-	(517,360)	11.05	-	-
Outstanding options at end of year	5,108,563	9.14	5,023,582	9.07	3,905,952	11.05
Exercisable at end of year	5,023,582	9.07	5,023,582	9.07	-	-

In January 2022, subsequent to the reporting date, 1,261,164 options were granted to its officers, other employees of the Company and its subsidiary, RDC and consultants of the Company. The vesting period of the Options is as follows: 1/3 at the end of one year from the date of grant, an additional 1/3 at the end of the second year from the date of the grant and an additional 1/3 at the end of the third year from the date of the grant. The Options are exercisable up to a period of 5 years from the date of grant. Any Option not exercised by such date shall expire. The exercise price of the options was determined based on the higher of the average share price during the 30 trading days prior to the date of board approval and the share price on the last trading day immediately prior to the date of board approval (January 19, 2022), namely NIS11.06 and in respect of the officers only, plus a 10% premium, namely NIS12.166. The exercise of the Options will be according to the net exercise mechanism (cashless) according to which the number of shares which will be issued to the employee will be calculated. The fair value of the aforementioned options was estimated at approximately NIS3,900.

In parallel to the aforementioned approval, the Company's Board of Directors also approved the grant of 467,508 options to the Company's CEO in accordance with the Company's compensation policy. The CEO’s grant of options is subject to the approval of the General Meeting of shareholders of the Company that is scheduled to March 13, 2022.

In addition, On March 10, 2022, subsequent to the reporting date, the Board of Directors of the Company approved, following receipt of the approval and recommendation of the Compensation Committee, and subject to the approval of the general meeting, the terms of tenure of Mr. Dan Hoz as an active chairman of the Company’s Board of Directors. According to the Compensation Policy, the Board of Directors of the Company approved that Mr. Hoz will be granted 646,100 options. The aforementioned options grant is subject to the approval of the General Meeting of the Shareholders of the Company and the Company intends to publish a summoning report in the upcoming days. Moreover, the issuance of options is also subject to the approval of the stock exchange.

The vesting period of the Options is as follows: 1/3 at the end of one year from the date of grant, an additional 1/3 at the end of the second year from the date of the grant and an additional 1/3 at the end of the third year from the date of the grant. The Options are exercisable up to a period of 5 years from the date of grant. Any Option not exercised by such date shall expire. The exercise price of the options was determined based on the higher of the average share price during the 30 trading days prior to the date of board approval and the share price on the last trading day immediately prior to the date of board approval plus a 10% premium- accordingly NIS 11.51 to the Chairman of the Board and NIS12.17. to the CEO of the Company. The exercise of the Options will be according to the net exercise mechanism (cashless) according to which the number of shares which will be issued to the employee will be calculated. The fair value of the aforementioned options was estimated at approximately NIS 1,370 to Chairman of the Board and NIS1,300 to the CEO of the Company.

(USD in thousands, except for price per share and number of shares)

Note 12- Equity (Cont.)

C. Share based payments (Cont.)

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

Note 13- Operating Segment

The Company operates in one segment, namely "Holdings and Corporate Operations". This segment includes corporate headquarters and reflects the operations of the investments in investee companies and their sale.

Note 14- Contingent liabilities, pledges and commitments

A. Legal claims

As of the reporting and signing dates of these reports, there is no legal proceeding against the Company and its subsidiaries.

B. Commitments

1. The Group has commitments in regards with possible indemnification for presentations given in transactions for sale of investee companies, such as Medingo Ltd., which was sold in 2010. For details regarding sale of Group companies during the reporting periods, see Notes 3 and 7 above.
2. For details about other transactions with related parties, see Note 18 below.

Note 15- Supplementary statement of income data

A. Gain (loss) from disposal and revaluation of investee companies and changes in holdings, net

	For the year ended December 31		
	2021	2020	2019
Sale of Alcide (Note 3.B.4.d)	11,300	-	-
Sale of SecuredTouch (Note 3.B.4.e)	10,470	-	-
Sale of ImVision (Note 7.B)	4,908	-	-
Sale of the assets of Kindite (Note 3.B.4.l)	3,700	-	-
Sale of the assets of Oz-Code (Note 3.B.4.m)	1,400	-	-
Partial sale of IronScales and revaluation of the remaining investment (Note 7.A)	12,962	4,577	-
Gain from deconsolidation of Pocared (Note 3.B.4.c))	-	2,701	-
Loss from change of holding percentage in Pocared (Note 3.B.4.c)	(3,326)	-	-
Revaluation of the investment in Zengo (Note 7.C)	2,793	-	550
Revaluation of the investment in AudioBurst (Note 7.F)	(2,300)	-	2,600
Revaluation of Kyma contingent consideration (1)	-	(561)	(564)
Revaluation of the investment in Notal (Note 7.D)	(1,750)	200	(2,700)
Revaluation of the investment in Aqwise and contingent consideration from its sale (Note 7.E)	(2,500)	(2,050)	200
Other (2)	(254)	(1,078)	443
	37,403	3,789	529

(USD in thousands, except for price per share and number of shares)

Note 15- Supplementary statement of income data (Cont.)

(1) Revaluation of contingent consideration, as a result sale of Kyma during 2015.
(2) During 2020, included an expense in an amount of approximately $1,500 related to revaluation of warrants for BrainsGate's shares.

B. Research and development expenses

	For the year ended December 31		
	2021	2020	2019
Raw materials and consumables used	-	70	2,282
Salaries, wages and related expenses	-	905	2,465
Other	-	1,175	2,271
	-	2,150	7,018

Research and development expenses are mainly attributed to Pocared, which as of August 2020, ceased to be a consolidated company in Elron's financial statements (see Note 3.B.4.c)).

C. General and administrative expenses

	For the year ended December 31		
	2021	2020	2019
Salaries, wages and related expenses	3,520	5,021	4,740
Rent and building maintenance	482	548	849
Professional services	878	1,471	1,829
Other	2,017	1,529	1,953
	6,897	8,569	9,371

D. Financial income and expenses

1. **Financial income**

	For the year ended December 31		
	2021	2020	2019
Interest income from deposits and securities	401	470	1,355
Gain from exchange rate differences, net	-	86	-
Gain from change in fair value of financial assets and liabilities in profit or loss	-	49	1,192
Other	18	6	102
Total financial income	419	611	2,649

(USD in thousands, except for price per share and number of shares)

Note 15- Supplementary statement of income data (Cont.)

2. Financial expenses

	For the year ended December 31		
	2021	2020	2019
Loss from decrease in value of financial assets and liabilities measured at fair value through profit or loss	155	698	-
Interest expenses from financial liabilities measured at amortized cost	425	-	-
Loss from foreign currency exchange rate changes, net	86	-	263
Commissions	20	40	28
Other	-	439	459
Total financial expenses	686	1,177	750

E. Equity in losses of associates, net

	For the year ended December 31		
	2021	2020	2019
Company's share in net losses of associates (1) (2)	12,096	14,439	15,773
Amortization of excess cost in respect of associates	246	81	31
Total loss on equity basis	12,342	14,520	15,804

(1) Including also the Company's share in the losses of former associates until the date they were sold.
(2) See also Note 3.B above.

Note 16- Taxes on Income

A. Tax rates applicable to the Group

The corporate tax rate in Israel in 2019, 2020 and 2021 is 23%.

Elron and RDC received final, or considered final tax assessments until and through 2016.

B. Taxes on income (tax benefit) included in the statements of income

	Year ended December 31,		
	2021	2020	2019
Current taxes	1,387	430	(146)
Deferred taxes	2,567	(1,550)	-
	3,954	(1,120)	(146)

C. Deferred taxes

As of December 2021, the deferred tax liability balance amounts to $1,017 attributed to a temporary difference in an investment measured in fair value. Such temporary difference is expected be reversed following a period of over 12 months from the balance sheet date. As of December 31, 2020, the Company and its Consolidated Companies did not have long term tax liability balances.

(USD in thousands, except for price per share and number of shares)

Note 16- Taxes on Income (Cont.)

C. Deferred taxes (Cont.)

As a result from the sale of Alcide (see Note 3.B.4.d) above), the Company recognized in the fourth quarter of 2020, a deferred tax asset in the amount of approximately $1,550 in respect of the temporary differences and carryforward losses for tax purposes that was expected to be utilized in 2021, due to the gain from this transaction. In 2021 the Company recognized tax expenses in the amount of approximately $1,550 , resulted mainly from the reversal of the tax asset recorded in 2020.

As of December 31, 2021, the Company had Carryforward operating tax losses for tax purposes of approximately $325,000 and capital losses for tax purposes of approximately $18,000. Carryforward tax losses in Israel may be set against future taxable income. The Company did not recognize deferred tax assets relating to carryforward losses in the amount of approximately $79,000 because their utilization in the foreseeable future is not probable.

As of December 31, 2021, the Consolidated Companies had Carryforward operating tax losses for tax purposes of approximately $41,000 and capital losses for tax purposes of approximately $1,600. The Consolidated Companies did not recognize deferred tax assets relating to carryforward losses in the amount of approximately $9,700 because their utilization in the foreseeable future is not probable.

Deferred tax assets in the amount of approximately $29,100 (approximately $28,600 as of December 31, 2020) have not been recognized in respect of temporary differences associated with investments in the amount of approximately $124,700 (approximately $124,000 as of December 31, 2020), because the realization of these investments in the foreseeable future is not expected (which realization is at the Company's discretion), and because the distribution of dividends by these companies is not liable for tax or because of the Company's policy not to initiate dividend distribution which will lead to tax liability.

The Company and its Consolidated Companies do not have tax results carried to other comprehensive income.

D. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31,		
	2021	2020	2019
Gain (loss) before taxes on income	17,897	(22,370)	(30,136)
Statutory tax rate	23%	23%	23%
Taxes on income (tax benefit) computed at the statutory tax rate	4,116	(5,145)	(6,931)
Increase (decrease) in taxes on income (tax benefit) resulting from the following factors:			
Company's share of losses of associates, net	2,839	3,340	3,635
Changes in temporary differences with respect to which deferred taxes were not recognized	(3,547)	(1,213)	317
Increase in unrecognized tax losses for which deferred taxes were not recognized	554	3,257	3,012
Deferred taxes recorded in respect of losses for tax purposes from previous years for which deferred taxes were not recognized in the past	-	(1,220)	-
Non-deductible expenses (exempt income), net	(8)	(139)	(179)
Taxes on income (tax benefit)	3,954	(1,120)	(146)

(USD in thousands, except for price per share and number of shares)

Note 17- Net earnings (loss) per share

Basic and diluted net earnings per share

The basic net earnings (loss) per share is calculated by division of the net earnings (loss) attributed to ordinary shareholders by the weighted average of the number of ordinary shares issued as follows:

	2021	2020	2019
Gain (loss) attributable to the Company's shareholders	5,484	(17,723)	(22,376)
Weighted average number of common shares issued	49,215,050	43,065,467	37,173,177
Basic gain (loss) per share (USD)	0.11	(0.41)	(0.62)

The diluted net earnings (loss) per share is calculated by adjusting the weighted average of the number of the outstanding ordinary shares while including all potential ordinary shares with a diluting effect (options). In relation to options, a calculation is made to determine the number of shares that could be purchased at fair value (determined as an annual average of the market price of the Company's shares) using the monetary value of the options, in accordance with the unexercised option terms. The number of shares calculated as aforesaid is compared to the number of shares that were issued on the assumption of the exercise of the options.

	2021	2020	2019
Gain (loss) attributable to the Company's shareholders	5,484	(17,723)	(22,376)
Weighted average number of common shares issued	49,215,050	43,065,467	37,173,177
Adjustment attributed to additional shares due to option exercise	3,558,887	N.A	N.A
Weighted average number of shares used in the calculation of the diluted net earnings (loss) per share	52,773,937	43,065,467	37,173,177
Diluted gain (loss) per share (USD)	0.10	(0.41)	(0.62)

Note 18- Balances and transactions with related and interested parties

A. Related parties

The related parties of the Company are DIC and related parties of DIC (IDB Development Corporation Ltd., "IDB", was a related party until September 25, 2020 with the appointment of a trustee and the order for its liquidation), associates and subsidiaries, directors and key management personnel of the Company or DIC and a close member of the family of any of the persons mentioned above. For details regarding holdings in investee companies, see Note 3 and Note 7 above.

B. Details of transactions with related and interested parties

Classification of transactions as negligible transactions

The Board of Directors of the Company adopted a policy determining guidelines and rules for the classification of a transaction by the Company or by a consolidated company with a related party in which the controlling shareholder in the Company has a personal interest as a negligible transaction as set in regulation 41(A)(6)(1) to the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010 (“Negligble Transaction Policy”). The following is a summary of these guidelines.

Note 18- Balances and transactions with related and interested parties (Cont.)

B. Details of transactions with related and interested parties (Cont.)

Classification of transactions as negligible transactions (Cont.)

In the absence of any special qualitative considerations given the specific circumstances, a transaction that is not extraordinary (in other words - it is conducted in the ordinary course of its business, under market conditions, and does not have a material impact on the Company), it will be considered a negligible transaction, if the relevant criteria calculated for the transaction (one or more, as set out below) is less than one percent (1%) of the Company's equity (including non-controlling interests) according to the Company's last consolidated financial statements, and if the transaction amount does not exceed $1,200.

In any related party transaction that is evaluated as to whether it is a negligible transaction, the relevant criteria shall be calculated as follows: (A) In the purchase of a fixed asset ("asset that is not a current asset") - the size of the transaction; (B) In the sale of a fixed asset ("asset that is not a current asset") - the profit/loss from the transaction; (C) In the incurrence of a monetary liability - the size of the transaction; (D) In the purchase/sale of products (with the exception of a fixed asset) or services - the size of the transaction.

The Company or its subsidiaries may enter, from time to time, into agreements with the controlling shareholder of the Company or with a person to whom the controlling shareholder has a personal interest in transactions, which are defined by the Company as negligible and therefore not detailed below.

Loans To a Subsidiary

Regarding a loan granted by the Company to RDC, in March 2021 see Note 3.A.3.a) above.

Shared Office Use and Expenses Agreement

On September 23, 2019, the Company's Audit Committee and Board of Directors approved the Company's engagement (as a non-extraordinary transaction in which the controlling party has a personal interest) with DIC, other companies from the DIC group, and IDB, in an agreement to share office uses and expenses in joint offices, into which the Company has moved in the ToHa project on Yigal Alon Street in Tel Aviv (hereinafter: "ToHa") (hereinafter: the "Allocation of Expenses Agreement").

The Allocation of Expenses Agreement regulates the manner of rent allocation in ToHa, and bindes the Company for a five-year period beginning July 1, 2019 and includes an option, in the Company's sole discretion, to extend the agreement period by two additional periods of 5 years each. Furthermore, there are two additional 5-year option periods, which may be exercised subject to the prior agreement of all parties to the Allocation of Expenses Agreement, each party in respect of its share. The Allocation of Expenses Agreement will regulate the manner of allocation of the leased space's costs, as mentioned above, pursuant to a lease agreement that DIC has signed with Gav-Yam Property and Building Corp Ltd. and Amot Investments Ltd. to lease offices and parking spaces in ToHa, and also regulates the manner of allocation of related costs (such as: cleaning, logistics services, computer services, kitchen services and regular maintenance services) and adjustment costs of the offices in ToHa, in a manner that reflects the relative share of each of the parties to the Allocation of Expenses Agreement in the leased areas.

In March 2022, subsequent to the reporting date, the Audit Committee and Board of Directors approved (as a non- extraordinary transaction in which the controlling party has a personal interest) the update of the Company's contract under the Allocation Expenses Agreement (hereinafter: the "Updated Agreement"). As part of the Updated Agreement, the Company increased the space it leases and accordingly the costs of the lease were updated. The other main terms of the agreement remained unchanged, including the lease period and the options for its extension as described above.

(USD in thousands, except for price per share and number of shares)

Note 18- Balances and transactions with related and interested parties (Cont.)

B. Details of transactions with related and interested parties (Cont.)

Shared Office Use and Expenses Agreement

As a result of the update of the said agreement, and in accordance with the provisions of IFRS 16, the Company is expected to update its Right-of-Use Asset and Lease Liability, that reflects a lease period of 10 years from the commencment of the Allocation of Expenses Agreement and as of December 31, 2021 amounted to $1290 and 1,562, respecively, to an estimated amount at this stage of $2,400.

RDC's engagement with the Company and Rafael in an agreement to pay directors fees

In 2017, RDC signed an agreement with its shareholders (Elron and Rafael) whereby RDC will pay its shareholders directors' remuneration. The total remuneration paid by RDC, pursuant to the said agreement, to the Company and Rafael in 2019, 2020 and 2021 was approximately $425, approximately $500 and approximately $500 per-year, respectively.

C. Composition of balances with interested and related parties

As of December 31, 2021

	DIC	Other related parties and interested parties	Associates	Key management personnel
Other accounts receivable	-	-	32	-
Trade and other accounts payable	(155)	-	-	(112)
Highest balance during the year of receivables	-	-	42	-

As of December 31, 2020

	DIC	Other related parties and interested parties	Associates	Key management personnel
Other accounts receivable	31	-	112	-
Trade and other accounts payable	(171)	-	-	(87)
Highest balance during the year of receivables	-	-	112	-

(USD in thousands, except for price per share and number of shares)

Note 18- Balances and transactions with related and interested parties (Cont.)

D. Transactions with related and interested parties

Year ended December 31, 2021

	For terms see Note	DIC	Sister companies	Associates	Key management personnel (*)	Other related parties and interested party
Income		-	-	262	-	-
Expenses						
Shared Office Use and Expenses Agreement		(554)	-	-	-	-
Directors' remuneration	18.D	(51)	-	-	(327)	-
Other		-	(10)	-	-	-
		(605)	(10)	262	(327)	-

(*) Not including the CEO's salary, as detailed below.

Year ended December 31, 2020

	For terms see Note	DIC	Sister companies	Associates	Key management personnel (*)	Other related parties and interested party
Income		-	-	378	-	29
Expenses						
Shared Office Use and Expenses Agreement		(404)	-	-	-	-
Directors' remuneration	18.D	(61)	-	-	(294)	-
Insurance-related expenses		-	-	-	-	(88)
Other		-	(8)	-	-	(2)
		(465)	(8)	378	(294)	(61)

Year ended December 31, 2019

	For terms see Note	DIC	Sister companies	Associates	Key management personnel (*)	Other related parties and interested party
Income		-	-	136	-	31
Expenses						
Shared Office Use and Expenses Agreement		(211)	-	-	-	-
Directors' remuneration	18.D	(3)	-	-	(324)	-
Insurance-related expenses		-	-	-	-	(102)
Deposits in respect with employee benefits		-	-	-	-	(152)
Other		-	(14)	-	-	(62)
		(214)	(14)	136	(324)	(285)

(*) Not including the former CEO's salary.

(USD in thousands, except for price per share and number of shares)

Note 18- Balances and transactions with related and interested parties (Cont.)

Compensation of key management personnel employed by the Company (including directors)

The employment cost of Mr. Elad, the CEO of the Company, for 2021 amounted to $470. In addition, in accordance with the terms of the Company's compensation policy that was in effect in 2021, and the decision taken to apply to him the provisions regarding bonuses and since the Company complied with the threshold conditions determined in the policy, Mr. Elad, is entitled to an annual bonus for 2021 of $252, representing approximately 9 times his monthly salary. See Note 12.C above, for details regarding options grant to Mr. Elad, whose approval has not been completed until the signing date of these Financial Statements.

In 2020, the employment cost of Mr. Elad, amounted to $414, in addition to an annual bonus of $239.

Compensation of key management personnel not employed by the Company (including directors)

	For the year ended December 31,					
	2021		2020		2019	
	No. of personnel	Amount	No. of personnel	Amount	No. of personnel	Amount
Short-term employee benefits	15	378	15	355	9	327

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period relating to key management personnel.

On March 10, 2022, subsequent to the reporting date, the Board of Directors of the Company approved, following receipt of the approval and recommendation of the Compensation Committee, and subject to the approval of the general meeting, the terms of tenure of Mr. Dan Hoz as an active chairman of the Company's Board of Directors. According to the Compensation Policy, the Board of Directors of the Company approved that in return for its services as a service provider without employee-employer relations, with a position scope of 35%, Mr. Hoz will be entitled to monthly management fees of NIS 40 thousand. To this sum, VAT will be duly added. In addition, and in accordance with the Compensation Policy, Mr. Hoz will be granted 646,100 non-tradable options which are exercisable for ordinary shares of the Company of NIS 0.003 par value each. The aforementioned terms of tenure is still subject to the approval of the general meeting of the shareholders of the Company and the Company intends to publish a summoning report in the upcoming days. In addition, the issuance of options is still subject to the approval of the Tel Aviv Stock Exchange. For further details, see Note 12.C above.

Directors' compensation

Compensation for directors of the Company is paid in accordance with the provisions set forth in the Companies Regulations (Rules on Compensation and Expenses of an External Director), 5760-2000, (hereinafter: "Compensation Regulations").

In accordance with the decision of the Company's Board of Directors from January 31, 2018, commencing October 29, 2020, the compensation paid to independent directors of the Company (i.e. those that are not connected to controlling shareholders of the Company and/or their relatives and/or that the controlling shareholders have a personal interest in them, including when the compensation for their tenure is paid to a controlling shareholder of the Company), including external directors, includes the maximum amounts determined in the Compensation Regulations regarding the compensation payable to an external director in a company with equity of the Company's type (as of this report, a level C company and as commencing the year of 2022 subsequent to the publication of these reports, a level D company), including the maximum amounts payable to an expert external director, to the extent that such definition applies in relation to a candidate for office (hereafter: the Maximum Amounts)

Note 18- Balances and transactions with related and interested parties (Cont.)

D. Transactions with related and interested parties (Cont.)

Directors' compensation (Cont.)

On March 18, 2019, the Company’s Board of Directors, following the approval of the Company’s Compensation Committee, approved to pay to directors who are controlling shareholders and/or their relatives and/or with respect to whom the controlling shareholders have a personal interest, including where the compensation for their tenure is paid to the controlling shareholder of the Company, serving at the time of the resolution and as will serve from time to time, the Maximum Amounts (including a supplement for expertise).

Accordingly, for resolutions without meeting in person and for resolutions through media, participation compensation is paid at the rate specified in the Compensation Regulations. In addition, these directors are entitled to reimbursement of expenses as set forth in Regulation 6 to the Compensation Regulations. These amounts will be linked to the consumer price index in accordance with Regulation 8 of the Compensation Regulations. As of the reporting date, the annual compensation is NIS 62,448 and the participation compensation per meeting is NIS3,292 (and for a director with expertise, the annual compensation is approximately NIS83,224 and participation compensation per meeting is NIS4,377). VAT in accordance with law will be added to these amounts. The Company is entitled to pay director compensation as above for the service of some of the directors serving in the Company as above, to a controlling shareholder of the Company. This resolution is in effect for three years commencing from March 10, 2019.

On March 10, 2022, subsequent to the reporting date, the Company’s Board of Directors, following the approval of the Company’s Compensation Committee, approved to continue the payment of the Director compensation detailed above to the aforementioned Directors for an additional 3 year period commencing from March 10, 2022.

Directors' compensation which does not exceed the customary compensation that was paid by the Company or that the Company is to pay but has not yet paid for the year 2020 to the directors of the Company during that period, for 15 such directors in total amounted to approximately $355. Of such amount, an amount of approximately $25 was paid to Mr. Eduardo Elsztain, the former controlling shareholder of the Company, for his services as director, until November 23, 2020, and an amount of approximately $61 was paid to DIC, for the service of a number of directors on its behalf in the Company.

(USD in thousands, except for price per share and number of shares)

Note 19- Financial instruments

A. Classification of financial assets and financial liabilities

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IFRS 9:

	December 31, 2021	December 31, 2020
Financial assets:		
Financial assets measured at amortized cost:		
Other accounts receivable	2,794	388
Bank deposits	32,899	15,069
Long term receivables	106	106
Financial assets measured at fair value through profit or loss:		
Other investments measured at fair value	21,668	20,506
Other investments in securities	9,224	4,438
Other accounts receivable	996	646
Financial liabilities:		
Financial liabilities measured at amortized cost:		
Long-term loan	8,319	-
Lease liability	1,562	1,722
Trade payables and other current liabilities	4,464	1,828

B. Management of financial risks

The Company is exposed to various risks resulting from the use of financial instruments, such as:

- Market risk (including currency risk, CPI risk, interest rate risk and other price risk).
- Credit risk.
- Liquidity risk.

The officer responsible for management of the Company's risks is Mr. Niv Levy, the Company’s CFO.

The handling of financial exposures, formulation of hedging strategy, supervision over, execution and provision of an immediate response to extraordinary developments in the various markets, is under the responsibility of the officer responsible for the Company's risk management, who acts in consultation with the Company's CEO, audit and investment committee members. The audit committee is updated as to the implementation of the Company's policy at least on a quarterly basis.

The Company's and the Consolidated Company's financial assets include other receivables (current and non-current), investment in other securities, cash and bank deposits that derive directly from its operations. The Company also holds investments measured at fair value.

Market risk

Market risk comprise four types of risk: currency risk, CPI risk, other price risk and interest rate risk. Financial instruments affected by market risk include deposits, investment in debentures and marketable securities, contingent consideration and investments measured at fair value.

Note 19- Financial instruments (Cont.)

B. Management of financial risks (Cont.)

Market risk (Cont.)

1. **Currency risk**

Since most of the investee companies operate in Israel, there is an exposure results from changes in the exchange rate between the New Israeli Shekel ("NIS") and the dollar. Elron's functional currency, as well as that of most of its investee companies, is the dollar. Elron's policy is to reduce exposure to exchange rate fluctuations by having, to the extent possible, most of its and its investee companies' assets and liabilities, as well as most of their revenues and expenditures in dollars, or dollar linked. However, the Company and its investee companies are subject to an exposure resulting from their corporate expenses and other expenses denominated in NIS. It is the Company's and its investee companies' policy to use derivative financial instruments to protect from changes in the exchange rate between the NIS and the dollar and to keep a portion of the Company's and its investee companies' resources in NIS against a portion of their future NIS expenses and against liabilities denominated in NIS. If the NIS should strengthen against the dollar, it may harm the Company's and its investee companies' results of operations.

The Group holds a material portion of its liquid resources in dollars, however, in the future, changes may take place from time to time in the amounts of these balances, in how the Company maintains its cash, and the portion of cash it holds in each currency, based on business developments and future decisions.

2. **CPI risk**

The Company and several Investee companies are engaged in a number of lease agreements that are linked to the CPI for various time periods, which are also impacted by changes in the CPI.

3. **Other price risk**

The Company has investments in unquoted financial instruments and in quoted financial instruments that are classified as financial assets measured at fair value, which expose the Company to risk stemming from fluctuations in the security price determined based, among other things, on the stock market prices.

4. **Interest risk**

The Company and several Investee companies are exposed to market risks resulting from changes in interest rates, relating primarily to Elron's and RDC's fixed interest bearing deposits in banks, and from the balance of fixed interest bearing debentures, denominated in USD. As part of its risk management, the Company invests a portion of its liquid resources in debentures, denominated in USD and linked to Libor or bearing fixed interest rates and also a portion of its liquid resources in short term deposits with fixed interest. As of the approval date of the financial statements, Elron and RDC do not use derivative financial instruments to limit exposure to interest rate risk.

(USD in thousands, except for price per share and number of shares)

Note 19- Financial instruments (Cont.)

B. Management of financial risks (Cont.)

Market risk (Cont.)

4. **Interest risk (Cont.)**

The following table details the interest of the Group's interest-bearing financial instruments:

	December 31,	
	2021	**2020**
Fixed rate instruments:		
Financial assets (A)	58,780	21,324
Floating rate instruments:		
Financial assets (B)	1,003	1,007

(A) As of December 31, 2021, comprised of deposits denominated in USD classified as cash equivalents in the amount of $15,023, short term bank deposits denominated in USD in the amount of $32,899, which bear interest of 0.51%-1 %. In addition, the balance also includes escrow deposits in the amount of $2,623 received from sale of companies, and investments in debentures, denominated in USD in the amount of approximately $8,221 which bear fixed interest at an average rate of 3.2%.

(B) As of December, 31, 2021, comprised of USD debentures bearing a Libor-linked interest plus 0.9% average spread in the amount of $1,003.

Credit risk

The Group is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions, other investments in securities, foreign exchange transactions and other financial instruments.

The Group invests its liquid resources in low-risk vehicles, with the object of earning sufficient returns, while maintaining a good risk-reward ratio. The Company's policy is to spread out its cash investments among various institutions. Most of its cash and cash equivalents, bank deposits and escrow deposits are held in various financial institutions with high credit ratings. In addition, as of December 31, 2021 the Company has approximately $9,224 invested in investment-grade debentures (mostly with a rating of at least A-).

Liquidity risks

The Group's policy for managing its liquidity is to assure, to the extent possible, that it will have sufficient liquidity to settle its liabilities in a timely manner and to ascertain the existence of the cash balances it requires to meet its financial obligations.

C. Sensitivity tests relating to changes in market factors

In regards with the Company's and the Consolidated Companies' sensitivity to changes in the exchange rate and price index as of December 31, 2021 and 2020, see section H below regarding linkage terms of assets and liabilities on a consolidated basis.

(USD in thousands, except for price per share and number of shares)

Note 19- Financial instruments (Cont.)

C. Sensitivity tests relating to changes in market factors (Cont.)

Sensitivity analysis - interest rate risk

A change in the USD interest rate would have increased (decreased) equity and income (loss) by the following theoretical amounts:

	Profit (loss) from changes in the USD interest rate					
	Increase			Decrease		
	1%	10%	5%	1%	10%	5%
Fixed-rate debentures as of December 31, 2021	(248)	(80)	(40)	248	80	40
Fixed-rate debentures as of December 31, 2020	(36)	(11)	(5)	36	11	5

D. Sensitivity tests relating to price risk

A change in the fair value of financial assets measured at fair value through profit or loss would increase (decrease) the Company's equity and income (loss) in the theoretical amounts presented below:

	2021	2020	2019
5% increase	1,594	1,280	2,800
10% increase	3,189	2,559	5,600
5% decrease	(1,594)	(1,280)	(2,800)
10% decrease	(3,189)	(2,559)	(5,600)

E. Fair value of financial instruments

The carrying amount of all of the Company's financial assets and liabilities, including cash and cash equivalents, other accounts receivable, bank deposits, other investments measured at fair value, other investments in securities, long term receivables, other accounts payable and trade payables and financial liabilities measured at fair value through profit or loss conform to or approximate to their fair values.

F. Classification of financial instruments by fair value hierarchy

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

According to the Company's policy, transfers between the fair value hierarchy are considered to have occurred in the date of the event or change in circumstances that caused the transfer.

(USD in thousands, except for price per share and number of shares)

Note 19- Financial instruments (Cont.)

F. Classification of financial instruments by fair value hierarchy (Cont.)

Financial instruments measured at fair value:

December 31, 2021:

	Level 1	Level 2	Level 3
Financial assets measured at fair value:			
Other investments measured at fair value (1)	-	-	21,668
Other investments in securities (2)	-	9,224	-
Other receivables (3)	-	-	996
	-	9,224	22,664

December 31, 2020:

	Level 1	Level 2	Level 3
Financial assets measured at fair value:			
Other investments measured at fair value (1)	-	-	20,506
Other investments in securities (2)	-	4,438	-
Other receivables (3)	-	-	646
	-	4,438	21,152

1) See Note 7 above.
2) Comprised of investment in debentures denominated in USD. These debentures are measured at fair value using fair value quotes from several information resources.
3) Includes the contingent consideration due to the sale of Kyma in 2015 and Aqwise in 2021.
4) Regarding investments in associates through convertible loans or SAFE agreements, see Note 3.B.1 above.

F. Classification of financial instruments by fair value hierarchy (Cont.)

Changes in financial assets classified in Level 3:

	Financial assets measured at fair value
Balance as of January 1, 2021	21,152
Total recognized income in profit or loss, net (1)	862
Investment (see Notes 3.B.4.p), 7.B, 7.C, 7.D and 7.F)	4,463
Sale of companies (see Note 7.B and 7.E)	(8,015)
Conversion of warrants for shares of Pocared (see Note 3.B.4.c))	(471)
Classification of investment in Scribe under the equity method of accounting (see Note 3.B.4.p))	(1,000)
Asset initially measured at fair value (See Note 7.A)	5,673
Balance as of December 31, 2021	22,664
Balance as of January 1, 2020	22,303
Total recognized income (loss) in profit or loss, net	(3,752)
Investment (see Notes 7.B and 7.E)	2,130
Pocared’s deconsolidation (see Note 3.B.4.c))	471
Balance as of December 31, 2020	21,152

(1) A loss of approximately $850 in 2021, is attributed to an investment in Aqwise which its realization was completed in July 2021 (see Note 7.E). The remaining balance of gain (loss) included in profit or loss is related to assets held at the end of the reporting period.

(USD in thousands, except for price per share and number of shares)

Note 19- Financial instruments (Cont.)

G. Liquidity risk

Set forth below are the contractual repayment dates of financial liabilities in uncapitalized amounts, including an estimate of the interest payments:

	Less than one year	Between 1-2 years	Between 2-5 years	More that 5 years
December 31, 2021:				
Lease liability	266	266	798	665
Long-term loan	-	-	8,319	-
Trade payables	816	-	-	-
Other accounts payable	3,648	-	-	-
	4,730	**266**	**9,117**	**665**
December 31, 2020:				
Lease liability	318	257	772	901
Trade payables	172	-	-	-
Other accounts payable	1,656	-	-	-
	2,146	**257**	**772**	**901**

H. Linkage terms of assets and liabilities on a consolidated basis

December 31, 2021:

	NIS (CPI linked)	USD (or USD linked)	NIS (not linked)	Non-monetary item**	Total
Assets *					
Cash and cash equivalents	-	38,030	2,848	-	40,878
Other investments in securities	-	9,224	-	-	9,224
Bank deposits	-	32,899	-	-	32,899
Other accounts receivable	-	158	893	84	1,135
Right-of-use assets	-	-	-	1,290	1,290
Investments in associates	-	-	-	30,870	30,870
Other investments measured at fair value	-	-	-	21,668	21,668
Property, plant and equipment, net	-	-	-	261	261
Intangible assets	-	-	-	3,051	3,051
Long-term receivables	-	2,943	22	-	2,965
	-	83,254	3,763	57,224	144,241
Liabilities *					
Trade payables	-	-	816	-	816
Lease liability	1,562	-	-	-	1,562
Long-term loan	-	8,319	-	-	8,319
Other accounts payable	3,830	14	2,247	-	6,091
Deferred taxes	-	-	-	1,017	1,017
	5,392	8,333	3,063	1,017	17,805

(USD in thousands, except for price per share and number of shares)

Note 19- Financial instruments (Cont.)

December 31, 2020:

	NIS (CPI linked)	USD (or USD linked)	NIS (not linked)	Non-monetary item**	Total
Assets *					
Cash and cash equivalents	-	15,994	588	-	16,582
Other investments in securities	-	4,438	-	-	4,438
Bank deposits	-	15,069	-	-	15,069
Other accounts receivable	-	-	466	51	517
Right-of-use assets	-	-	-	1,518	1,518
Investments in associates	-	-	-	20,295	20,295
Other investments measured at fair value	-	-	-	20,506	20,506
Property, plant and equipment, net	-	-	-	281	281
Intangible assets	-	-	-	3,051	3,051
Long-term receivables	-	752	22	-	774
Investment in associate classified as held for sale	-	-	-	373	373
Deferred taxes	-	-	-	1,550	1,550
	-	36,253	1,076	47,625	84,954
Liabilities *					
Trade payables	-	-	172	-	172
Lease liability	1,722	-	-	-	1,722
Other accounts payable	2,586	34	1,622	-	4,242
	4,308	34	1,794	-	6,136

*) Non-current assets and liabilities in this table include their current maturities.
**) Including non-financial items.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

Details Relating to Investments as of December 31, 2021

	Rate of holdings in equity		Consolidated rate of holdings in equity	Elron's effective rate of holdings in equity (3)	Fully diluted consolidated rate of holdings	Elron's fully diluted effective rate of holdings (3)	Consolidated carrying value of investment December 31, 2021
	Elron (1)	RDC (2)					
	%						$ thousands
Investments in investee companies							
Associates:							
BrainsGate Ltd.	27.85	-	27.85	27.85	24.93	24.93	148
Cartiheal (2009) Ltd.	27.07	-	27.07	27.07	24.98	24.98	532
Pocared Diagnostics Ltd (4)	3.94	5.90	9.84	6.90	8.73	6.12	6,255
Coramaze technologies Ltd (5)	28.44	-	28.44	28.44	25.75	25.75	374
SixGill Ltd.	23.30	-	23.30	23.30	19.72	19.72	-
Open Legacy Technologies Ltd.	-	22.41	22.41	11.23	18.28	9.16	-
Nitiniotes Ltd.	20.00	-	20.00	20.00	18.20	18.20	-
Cynerio Israel Ltd.	-	17.21	17.21	8.62	14.81	7.42	1,717
Sayata Labs Ltd.	-	20.49	20.49	10.27	17.69	8.86	9,776
One View Space Ltd.	-	9.79	9.79	4.91	8.82	4.42	74
Plymedia Israel (2006) Ltd.	20.28	-	20.28	20.28	13.70	13.70	-
Canonic Security Ltd.	-	21.33	21.33	10.68	19.45	9.74	1,799
Keepy AI Ltd.	-	28.99	28.99	14.52	26.09	13.07	2,492
Scribe Security Ltd.	-	18.49	18.49	9.26	16.73	8.38	3,032
Ra Red Access Security Ltd.	-	29.20	29.20	14.63	26.03	13.04	2,950
Other investments:							
IronScales Ltd.	-	8.33	8.33	4,17	7.47	3.74	5,673
Notal Vision Inc.	10.66	-	10.66	10.66	7.88	7.88	6,550
AudioBurst Ltd.	7.03	-	7.03	7.03	5.89	5.89	500
N-Drip Ltd.	-	3.74	3.74	1.87	3.31	1.66	1,530
Zengo Ltd.	8.19	-	8.19	8.19	7.34	7.34	6,260
Azura Ophthalmics Ltd.	3.06	-	3.06	3.06	2.72	2.72	570
Atlantium Technologies Ltd.	6.16	-	6.16	6.16	5.22	5.22	130
Forsight Vision6 Inc.	3.63	-	3.63	3.63	2.87	2.87	200

(1) Including holdings through Elron's fully-owned subsidiaries.
(2) Including holdings through a fully-owned subsidiary of RDC.
(3) Elron's effective holdings include holdings by RDC multiplied by 50.10% (Elron's holding rate in RDC).
(4) For details regarding to holdings in additional economic rights in Pocared, see Note 3.B.4.c) above.
(5) Includes indirect holdings through Coramaze Technologies GmbH.

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ELRON VENTURES LTD.
(FOREMELY - ELRON ELECTRONIC INDUSTRIES LTD.)

Periodic report for 2021

Part IV

Additional Information about the Company

Part D of the Periodic Report
Additional Details about the Company

TABLE OF CONTENTS

Identifying information

Company Name: Elron Ventures Ltd.

Company number at the Registrar of Companies: 52-002803-6

In this section of the report, the following names and terms will have the meanings specified beside them

"The Company" or "Elron" - Elron Ventures Ltd.

"Affiliated companies" or "Associates" - companies over which the Company has significant influence and which are not consolidated companies.

"Companies Law" - the Companies Law, 5759-1999

"Consolidated Financial Statements" – the consolidated financial statements of Elron as of December 31, 2021.

"DIC" - Discount Investment Corporation Ltd.

"Dollar" - US dollar

"RDC" - RDC Development Company Ltd.

"Securities Law" - the Securities Law, 5728-1968

"Subsidiaries" - companies that are controlled by the Company according to IFRS 10, and whose financial statements are consolidated with the financial statements of the Company.

Elron Ventures Ltd.
(Formerly –
Elron Electronic Industries Ltd.)

English Translation of Financial Data from the Consolidated Financial Statements Attributable to the Company's shareholders

As of

December 31, 2021

US dollars in thousands

Contents

The Shareholders of Elron Ventures Ltd.
Toha building, 27 floor
Tel Aviv, 69306
Israel

Re: **Special auditors' report of the separate financial information in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970**

We have audited the separate financial information presented in accordance with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Elron Ventures Ltd. (the "Company") as of December 31, 2021 and 2020, and for the three years in the period ended December 31, 2021, as disclosed in the Company's periodic report. The Company's board of directors and management are responsible for the separate financial information. Our responsibility is to express an opinion on the separate financial information based on our audit.

We did not audit the financial statements of some associates, the investment in which, at equity, amounted to approximately $ 6,696 and approximately $ 2,912 thousand as of December 31, 2021 and 2020 respectively, and the Company's share in their loss amounted to approximately $ 822, approximately $ 4,590 and approximately $ 14,390 thousand for each of the three years in the period ended December 31, 2021, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our conclusion, insofar as it relates to the financial statements in respect of these companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial information. An audit also includes assessing the accounting principles used and significant estimates made by the Company's board of directors and management, as well as evaluating the overall separate financial information presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the separate financial information as of December 31, 2021 and 2020, and for three years in the period ended December 31, 2021 is prepared, in all material respects, in conformity with Regulation 9c to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel	Kesselman & Kesselman
March 10, 2022	Certified Public Accountants (lsr.)
	A member firm of PricewaterhouseCoopers International Limited

Kesselman & Kesselman, 146 Derech Menachem Begin St. Tel-Aviv 6492103, Israel,
P.O Box 7187 Tel-Aviv 6107120, Telephone: +972 -3- 7954555, Fax:+972 -3- 7954556, www.pwc.com/il

Special Report Pursuant to Regulation 9(c)
Financial Data and Information from the Consolidated Financial Statements Attributable to Elron Ventures Ltd.(Formerly - Elron Electronic Industries Ltd.) ("the Company")

The following separate financial data and information attributable to the Company ("Separate Data") are derived from the Company's Consolidated Financial Statements as of December 31, 2021 ("Consolidated Financial Statements"), which form part of the Company's periodic reports. The Separate Data is presented in accordance with Regulation 9(c) of the Israel Securities Law Regulations (Periodic and Immediate Statements) – 1970.

The significant accounting policies followed in the preparation of the following Separate Data are identical to those applied in the preparation of the Company's Consolidated Financial Statements.

Presentation of transactions which were eliminated in the Consolidated Financial Statements

Intercompany balances, transactions and cash flows between the Company and its subsidiaries were eliminated in the preparation of the Consolidated Financial Statements.

In the Separate Data, such transactions are presented as follows:

- Financial position data attributable to the Company include balances in respect of the Company's subsidiaries which were eliminated in the Consolidated Financial Statements.
- Income and loss data attributable to the Company include income and expenses of the Company resulting from transactions with its subsidiaries, which were eliminated in the Consolidated Financial Statements.
- Cash flow data attributable to the Company include cash flows between the Company and its subsidiaries which were eliminated in the Consolidated Financial Statements.

Data from the Consolidated Financial Statements of Financial Position Attributable to the Company as of

	December 31,	
	2021	2020
	$ thousands	
Current assets		
Cash and cash equivalents (Note 2)	18,689	4,132
Bank deposits	20,051	11,046
Other investments in securities (Note 6)	9,224	3,770
Other accounts receivable	2,031	273
Investment in associate classified as held for sale	-	373
	49,995	19,594
Non-current assets		
Investments in subsidiaries and associates, net	84,830	78,729
Investments in other companies measured at fair value	14,177	16,425
Loan to subsidiary (see Note 3)	8,319	-
Long-term receivables	350	-
Right-of-use assets	1,290	1,518
Property, plant and equipment, net	249	270
Deferred taxes	-	1,550
	109,215	98,492
Total assets	159,210	118,086

The accompanying additional information is an integral part of the separate financial data and information.

Data from the Consolidated Financial Statements of Financial Position Attributable to the Company as of

	December 31,	
	2021	2020
	$ thousands	
Current liabilities		
Trade payables	172	136
Current maturities of lease liabilities	266	318
Other accounts payable	2,320	2,024
	2,758	2,478
Long-term liabilities		
Lease liabilities	1,296	1,404
Other long term liabilities (Note 4)	54,891	53,098
	56,187	54,502
Equity attributable to the Company's shareholders		
Issued capital	9,592	9,584
Share premium	245,278	211,618
Capital reserves	6,403	6,422
Accumulated deficit	(161,008)	(166,518)
Total equity	100,265	61,106
	159,210	118,086

The accompanying additional information is an integral part of the separate financial data and information.

March 10, 2022 Approval date of the Financial Statements	Dan Hoz Chairman of the Board of Directors	Yaron Elad Chief Executive Officer	Niv Levy Chief Financial Officer

Data from the Consolidated Financial Statements of Income (Loss) Attributable to the Company

	Year ended December 31,		
	2021	**2020**	**2019**
		$ thousands	
Income			
Financial income (Note 4)	616	436	829
Expenses			
General and administrative expenses	4,599	5,566	5,283
Financial expenses (Note 4)	1,888	3,813	3,792
Other expenses	-	354	371
	6,487	9,733	9,446
	(5,871)	(9,297)	(8,617)
Gain (loss) from disposal and revaluation of investee companies and changes in holdings, net	6,860	(2,271)	909
Company’s share of gain (loss) of subsidiaries and associates	6,045	(7,705)	(14,668)
Gain (loss) attributable to the Company's shareholders before taxes on income	7,034	(19,273)	(22,376)
Tax benefit (taxes on income), net	(1,550)	1,550	-
Gain (loss) attributable to the Company's shareholders	5,484	(17,723)	(22,376)

The accompanying additional information is an integral part of the separate financial data and information.

Data from the Consolidated Financial Statements of Comprehensive Income (Loss) Attributable to the Company

	Year ended December 31,		
	2021	**2020**	**2019**
		$ thousands	
Gain (loss) attributable to the Company's shareholders	5,484	(17,723)	(22,376)
Other comprehensive (gain) loss:			
<u>Amounts that are classified or may be reclassified to profit or loss under certain conditions:</u>			
Foreign currency translation differences for foreign operation	(19)	56	(24)
<u>Total gain (loss) that would be reclassified to profit or loss under certain conditions</u>	(19)	56	(24)
Total other comprehensive gain (loss) attributable to the Company	(19)	56	(24)
Total comprehensive gain (loss) attributable to the Company's shareholders	5,465	(17,667)	(22,400)

The accompanying additional information is an integral part of the separate financial data and information.

Data from the Consolidated Financial Statements of Cash Flows Attributable to the Company

	Year ended December 31,		
	2021	**2020**	**2019**
		$ thousands	
Cash flows from operating activities			
Net gain (loss) attributable to the Company	5,484	(17,723)	(22,376)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Adjustment to the profit or loss items:			
Company's share of loss (gain) of subsidiaries and associates	(6,045)	7,705	14,668
Depreciation and amortization	278	455	292
Finance, net	(336)	100	(735)
Stock based compensation	26	1,315	558
Taxes on income (tax benefit)	1,550	(1,550)	-
Loss (gain) from disposal and revaluation of investee companies and changes in holdings, net	(6,860)	2,271	(909)
Other	(261)	(590)	(622)
	(11,648)	9,706	13,252
Changes in assets and liabilities of the Company:			
Decrease (increase) in other accounts receivable	(438)	(179)	120
Increase (decrease) in trade payables	36	70	8
Increase in other accounts payable	346	(2,059)	672
Increase in other long term liabilities	1,793	3,702	3,848
	1,737	1,534	4,648
Cash paid and received during the year for:			
Interest paid	(106)	(109)	-
Interest received	274	383	762
Cash used in operating activities	(4,259)	(6,209)	(3,714)

Data from the Consolidated Financial Statements of Cash Flows Attributable to the Company

	Year ended December 31,		
	2021	**2020**	**2019**
		$ thousands	
Cash flows from investment activities			
Purchase of property and equipment	(29)	(275)	(3)
Investment in associates and subsidiaries	(2,463)	(4,926)	(6,960)
Proceeds from sale of investments in group companies	10,460	856	-
Sale of (investment in) other investments in securities, net	(5,610)	17,624	(7,330)
Withdrawal of banks deposits, net	(9,000)	(11,000)	-
Grant of a loan to subsidiary (see Note 3)	(8,000)	-	-
Net cash provided by (used in) investment activities	(14,642)	2,279	(14,293)
Cash flows from financing activities			
Proceeds from issuance of shares net of issuance expenses (Note 5)	33,668	-	20,876
Repayment of lease liability	(210)	(375)	(243)
Net cash provided by financing activities	33,458	(375)	20,633
Increase (decrease) in cash and cash equivalents	14,557	(4,305)	2,626
Cash and cash equivalents as of beginning of the year	4,132	8,437	5,811
Cash and cash equivalents as of end of the year	18,689	4,132	8,437

The accompanying additional information is an integral part of the separate financial data and information.

U.S. dollars in thousands

1. General

The accompanying condensed separate financial data as of December 31, 2021, have been prepared in accordance with Regulation 9(c) of the Israel Securities Law Regulations (Periodic and Immediate Reports), 1970. The accompanying separate financial data should be read in conjunction with the Company's consolidated financial statements for 2021 ("Consolidated Financial Statements").

2. Cash and Cash equivalents attributed to the Company

	December 31	
	2021	2020
In U.S. dollar	17,186	3,698
In NIS (unlinked)	1,503	434
	18,689	4,132

3. Loan to associate

In March 2021, the Company granted a loan to its subsidiary RDC Rafael Development Corporation Ltd. (hereinafter “RDC”) in the amount of $8,000. For further details regarding the loan granted by the Company to RDC, see Note 3.A. to the Consolidated Financial Statements.

4. Other long term liabilities

Other long term liabilities include liabilities towards Elbit Ltd. ("Elbit") which is a fully owned corporate company of Elron. The balance is comprised of non-interest bearing and unlinked NIS capital notes. Exchange rate differences related to these capital notes are included under line item financial income or financial expenses in the statement of income (loss).

5. Equity

On June 11, 2019, the Company issued 13,321,700 ordinary shares of NIS 0.003 par value on the Tel Aviv Stock Exchange, in consideration (net, after issue expenses) for approximately NIS 75,300 thousand (approximately $21,000).

On April 20, 2021, the Company issued 8,855,400 ordinary shares of NIS 0.003 par value on the Tel Aviv Stock Exchange, in consideration (net, after issue expenses) for approximately NIS 109,500 thousand (approximately $33,700).

U.S. dollars in thousands

6. Financial assets attributable to the company Pursuant to IFRS 9:

	December 31,	
	2021	**2020**
Financial assets measured at amortized cost:		
Other accounts receivable	1,973	222
Financial assets measured at fair value through profit or loss:		
Investments in other companies measured at fair value	14,177	16,425
Other investments in securities (A)	9,224	3,770
Long-term receivables	350	-

1) The balance is comprised of debentures denominated in USD in a total sum of approximately $8,221, carrying a fixed interest and debentures denominated in USD in a total sum of approximately $1,003, carrying a Libor- linked interest (as of 31 December 2020, the balance was comprised of debentures denominated in USD in a total sum of approximately $2,762, carrying a fixed interest and debentures denominated in USD in a total sum of approximately $1,008, carrying a Libor- linked interest).

7. Taxes on income

A. Tax laws applicable to the Company

For information about the tax laws applicable to the Company see Note 16 to the Consolidated Financial Statements.

B. Tax assessments attributed to the Company

The Company received final tax assessments through 2016, included.

C. Carryforward tax losses and other temporary differences attributed to the Company

As of December 31, 2021, the Company has operating carryforward tax losses in the amount of $325,000, capital losses in the amount of $18,000 and temporary differences of approximately $95,000.

As of December 31, 2021, Deferred tax assets relating to the aforesaid carryforward operating losses and to other temporary differences of approximately $101,000 were not recognized because their utilization in the foreseeable future is not probable.

U.S. dollars in thousands

8. Balances and transaction with subsidiaries and associates

A. Balances with subsidiaries and associates

Composition

	December 31, 2021	December 31, 2020
Other accounts receivable	581	159
Other accounts payable	-	1
Capital note (see Note 4 above)	54,891	53,098

B. Loans

The Company granted some of its subsidiaries and associates loans which are presented in the Company's statement of financial position as part of investments in subsidiaries and associates. The Company recorded interest income related to the loans mentioned above in the amount of $328 in 2021 ($62 in its statement of income for 2020 and $76 in 2019).

For further details about loans which the Company granted its subsidiaries and associates see Note 3 to the Consolidated Financial Statements.

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2. Summary of Quarterly Statements of Income (Loss) and Quarterly Statements of Total Comprehensive Income (Loss), on a Consolidated Basis
[Regulation 10A]

Quarterly Statements of Income (Loss) on a Consolidated Basis (in $ thousands)

	For the three months ended				
	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	
	Q1	Q2	Q3	Q4	Total
Income					
Gain (loss) from disposal and revaluation of group companies, and changes in holdings, net	13,918	9,013	(2,800)	17,272	37,403
Financial income	142	241	114	123	419
Expenses					
Research and development expenses	1,432	1,541	1,526	2,398	6,897
Equity in losses of associates, net	3,044	2,775	2,991	3,532	12,342
Financial expenses	46	288	262	291	686
	4,522	4,604	4,779	6,221	19,925
Gain (loss) before taxes on income	9,538	4,650	(7,465)	11,174	17,897
Tax benefit (taxes on income)	(2,413)	204	223	(1,968)	(3,954)
Net income (loss)	7,125	4,854	(7,242)	9,206	13,934
Attributable to:					
The Company's shareholders	7,928	881	(6,011)	2,686	5,484
Non-controlling interests	(803)	3,973	(1,231)	6,520	8,459

2A. Summary of Quarterly Statements of Income (Loss) and Quarterly Statements of Total Comprehensive Income (Loss) on a Consolidated Basis (Cont.)
[Regulation 10A]

Quarterly Statements of Comprehensive Income (Loss) on a Consolidated Basis (in $ thousands)

	For the three months ended				
	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021	
	Q1	Q2	Q3	Q4	Total
Net income (loss)	7,125	4,854	(7,242)	9,206	13,943
Other comprehensive income (loss):					
Amounts that are classified or may be reclassified to profit or loss under certain conditions:					
Foreign currency translation differences for foreign operation	(18)	17	(11)	(7)	(19)
Total gain (loss) that would be reclassified to profit or loss	(18)	17	(11)	(7)	(19)
Total other comprehensive income (loss)	(18)	17	(11)	(7)	(19)
Total comprehensive income (loss)	7,107	4,871	(7,253)	9,199	13,924
Attributable to:					
The Company's shareholders	7,911	898	(6,022)	2,678	5,465
Non-controlling interests	(804)	3,973	(1,231)	6,521	8,459
	7,107	4,871	(7,253)	9,199	13,924

2B. Use of securities proceeds
[Regulation 10C]

On April 20, 2021, Elron completed a public offering of 8,855,400 ordinary shares on the Tel Aviv Stock Exchange in exchange for an amount of approximately NIS 109.5 million (approximately $33.7 million), net, after issuance expenses . The proceeds from this issuance are used for various purposes, depending on the Company's operations, as they will be from time to time, including for continued investment in group companies held by the Company and / or in new companies in which the Company has invested and / or in which the Company will invest, all in accordance with the decisions of the Company's Board of Directors. It should be clarified that the Company may, from time to time, in its sole discretion, change the designation of the proceeds from the offering.

3A. Investments in subsidiaries and associates as of December 31, 2021
[Regulation 11 (1) and (2)]

A. Investments of the Company in subsidiaries (directly or through fully-owned corporate companies):

Company name	Number of shares in stock exchange	Type of share and par value	Number of shares	Total par value	Amount in seperate report in accordance with regulation 9(C) $thousands	Holding share in %			Remarks
						From the same type of issued securities	In voting	In the right to appoint directors	
RDC	-	Common NIS 0.01	50,100	NIS 501	29,741	50.10	50.10	55.56	(1)

(1) Held through DEP Holding Technology Ltd., a fully-owned corporate company of Elron. including Elron's direct investment in the amount of approximately $20,000 thousand. In addition, there is a loan balance (including interest) in the amount of approximately $8,300 thousand granted by Elron (see section 3.B below).

3A **Investments in subsidiaries and affiliated companies as of December 31, 2021 (Cont.)**
[Regulation 11 (1) and (2)]

B. **Investments in associates of the Company:**

Company name	Number of shares in stock exchange	Type of share and par value	Number of shares	Total par value	Amount in seperate report in accordance with regulation 9(C) $thousands	Holding share in % From the same type of issued securities	Holding share in % In voting	Holding share in % In the right to appoint directors	Remarks
BrainsGate Ltd.	-	Common NIS 0.01	16,327,242	NIS 163,272		29.51			(1)
		Preferred NIS 0.01	9,753,026	NIS 97,530		25.45			
				NIS 260,802	148		28.51	16.67	
CartiHeal (2009) Ltd.	-	Preferred NIS 0.01	3,398,799	NIS 33,988	532	30.7	27.07	25.00	
Pocared Diagnostics Ltd.	-	Common NIS 0.01	17,171,160	NIS 171,712	3,060	3.94	3.94	20.00	(2)
Coramaze Technologies Ltd.	-	Preferred NIS 0.01	117	NIS 1	374	1.3	28.44	33.33	(3)
SixGill Ltd.	-	Common NIS 0.01	56,304	NIS 563		3.07			
		Preferred NIS 0.01	955,075	NIS 9,551		38.08			
				NIS 10,114	-		23.30	14.29	
Nitinotes Ltd.	-	Preferred NIS 0.01	810,117	NIS 8,101	-	28.31	20.00	16.67	

1. Additionally, Elron holds an amount of 2,315,786 warrants for ordinary shares representing 35.31% of the total warrants for ordinary shares and an amount of 1,971,859 warrants for preferred shares representing 29.86% of the total warrants for preferred shares. Elron's holding on a fully diluted basis is 24.93%.
2. Also held by RDC (see section C below). The consolidated share of holdings is approximately 10%. Elron's direct and indirect holding, including 50.1% of RDC's holding, is approximately 7%. In addition to these rights directly, Elron holds approximately 21% of the economic rights in Pocared and RDC holds approximately 17% of the economic rights in Pocared (fully diluted), see Note 3.B.4.c) to the Consolidated Financial Statements.
3. In addition to the direct holding, Elron holds also indirectly in Coramaze Technologies Ltd., via Coramaze Technologies GmbH, the parent company of Coramaze Technologies Ltd., See Note 3.B.4.k) to the Consolidated Financial Statements. In the table above, the type of share, the number of shares and the par value represent the direct holding in Coramaze Technologies Ltd., while the share in voting and the amount in the financial report represent the investment including the indirect rights.

3A. Investments in subsidiaries and affiliated companies as of December 31, 2021 (Cont.)
[Regulation 11 (1) and (2)]

C. Investments in associates of RDC:

Company name	Number of shares in stock exchange	Type of share and par value	Number of shares	Total par value	Amount in separate report in accordance with regulation 9(C) $thousands	Holding share in % – From the same type of issued securities	Holding share in % – In voting	Holding share in % – In the right to appoint directors	Remarks
Pocared Diagnostics Ltd.	-	Common NIS 0.01	25,713,813	NIS 257,138	3,192	5.90	5.90	-	(1)
Open Legacy Technologies Ltd.	-	Preferred NIS 0.01	474,321	NIS 4,743	-	25.52	22.41	33.33	(2)
Cynerio Israel Ltd.	-	Preferred NIS 0.01	1,825,217	NIS 18,252	1,717	20.63	17.21	14.29	
Sayata Labs Ltd.	-	Preferred NIS 0.01	12,003,710	NIS 120,037	9,776	23.49	20.49	14.29	
Canonic Technologies Security Ltd.	-	Preferred NIS 0.01	701,006	NIS 7,010	1,799	54.46	21.33	20.00	(3)

(1) Held by Elron and RDC. In addition to these rights directly, RDC holds approximately 17% of the economic rights in Pocared (on a fully diluted basis), see Note 3.B.4.c) to the Consolidated Financial Statements.
(2) Held by RDSeed Ltd., a fully owned subsidiary of RDC.
(3) Previously – Sighted Technologies Ltd.

3B. Loans granted to subsidiary as of December 31, 2021

[Regulation 11(3)]

A. Loan granted by the Company to its subsidiary:

Borrower	Balance type	Balance (including accrued interest) in $ thousands	Interest rate %	Linkage	Repayment year	Terms of conversion
RDC	Loan	8,319	5%	No	2026	The loan can be converted if certain conditions are met

4A. Changes in investments in subsidiaries and affiliated companies in 2021

[Regulation 12]

A. Changes in investments of the Company in associates in 2021:

Date of change	Nature of change	Company name	Number of shares in stock exchange	Type of share and par value	Total par value	Cost paid in $thousands	Note in the Consolidated Financial Statements
February 2021	Sale of shares	Alcide IO Ltd.	-	Preferred NIS 0.01	NIS 24,774	(10,550) *	3.B.4.d)

* The consideration does not include a total amount of approximately $1,320 deposited in escrow. For further details see Note 3.B.4.d) to the Consolidated Financial Statements.

B. Changes in investments of RDC in its associates in 2020:

Date of change	Nature of change	Company name	Number of shares in stock exchange	Type of share and par value	Total par value	Cost paid (received) in $thousands	Note in the Consolidated Financial Statements
April 2021	SAFE Agreement*	SecuredTouch Inc.	-	-	-	430	3.B.4.e)
April 2021	Purchase of shares	Cynerio Israel Ltd.	-	Preferred NIS 0.01	NIS 5,602**	2,250	3.B.4.h)
June, August 2021	Purchase of shares	Sayata Labs Ltd.	-	Preferred NIS 0.01	NIS 375**	3,063	3.B.4.i)
March 2021	Purchase of shares	Canonic Technologies Security Ltd.	-	Preferred NIS 0.01	NIS 305	100	3.B.4.o)
July 2021	Sale of shares	SecuredTouch Inc.	-	Preferred USD 0.01	USD 102	(9,950)***	3.B.4.e)
December 2021	Sale of shares	IronScales Ltd.	-	Preferred NIS 0.01	NIS 8,169	(7,289)	7.A
December 2021	Purchase of shares	Sayata Labs Ltd.	-	Preferred NIS 0.01	NIS 31,505	7,197	3.B.4.i)

* Simple Agreement for Future Equity

** Including conversion of the SAFE balance to preferred shares.

*** The consideration does not include a total amount of approximately $500 deposited in escrow. For further details see Note 3.B.4.e) to the Consolidated Financial Statements.

4B. Changes in loans to subsidiary and associates in 2021

[Regulation 12]

- **Changes in 2021 in respect with loans granted by the Company to its subsidiary:**

Date of change	Company name	Nature of change	Amounts in $thousands	Note in the Consolidated Financial Statements
March 2021	RDC	Grant of loan	8,000	3.A.3.a)

- **Changes in 2021 in respect with loans granted by the Company to its associate:**

Date of change	Company name	Nature of change	Amounts in $thousands	Note in the Consolidated Financial Statements
February 2021	Pocared Diagnostics Ltd.	Conversion of loan into shares	265	3.B.4.c)

- **Changes in 2021 in respect with loans granted by RDC to its associate:**

Date of change	Company name	Nature of change	Amounts in $thousands	Note in the Consolidated Financial Statements
February 2021	Pocared Diagnostics Ltd.	Conversion of loan into shares	530	3.B.4.c)

5. Losses of subsidiaries and associates and income from them for the year ended December 31, 2021
[Regulation 13]

A. Losses of a subsidiary and associates of the Company and income from them for the year ended December 31, 2021:

	Total comprehensive loss				Interest	
	Income (loss)	Other comprehensive loss	Dividend income	Management and directors' fee	Income	Date received
	$ thousands					
Subsidiary:						
RDC	16,952	-	-	500(**)	319	-
Associates:						
BrainsGate Ltd.	(3,637)	-	-	-	-	-
CartiHeal (2009) Ltd.	(10,185)	-	-	-	-	-
Pocared Diagnostics Ltd.	(6,669)	-	-	-	2	(****)
Coramaze technologies Ltd.*	(1,390)	-	-	70(***)	-	-
SixGill Ltd.	(12,117)	-	-	-	-	-
Nitinotes Ltd.	(3,750)	-	-	-	-	-

(*) The loss presented is the loss in the consolidated financial statements of Coramaze Technologies GmbH, which includes the results of operations of Coramaze Technologies Ltd. as mentioned above.

(**) Subsequent to the reporting date and until the filing date of these reports, the Company is entitled to further revenues in the amount of approximately $100 thousands.

(***) Subsequent to the reporting date and until the filing date of these reports, the Company is entitled to further revenues in the amount of approximately $20 thousands.

(****) In February 2021, the loan was converted, see section 4.B above.

5. Losses of subsidiaries and associates and income from them for the year ended December 31, 2021 (Cont.)
[Regulation 13]

B. Losses of associates of RDC and revenues from them for the year ended December 31, 2021:

	Total comprehensive loss			Interest	
	Loss	Other comprehensive loss	Dividend income	Interest income	Date received
	$ thousands				
Associates:					
Pocared Diagnostics Ltd.	(6,669)	-	-	4	(*)
Open Legacy Technologies Ltd.	(9,488)	-	-	-	-
Cynerio Israel Ltd.	(10,680)	-	-	-	-
Sayata Labs Ltd.	(8,357)	-	-	-	-
Canonic Technologies Security Ltd.	(2,801)	-	-	-	-

(*) In February 2021, the loan was converted, see section 4.B above.

Trading on the stock exchange - securities listed for trading in the reporting year and dates and reasons for suspension of trading
[Regulation 20]

For details regarding the issuance of securities listed for trading in the reporting year, see Regulation 10C, section 2.B above. To the best of the Company's knowledge, during the reporting period there was no suspension of trading in the Company's securities, except for regular trading breaks, initiated by the Tel Aviv Stock Exchange Ltd., which are customary when publishing financial statements or when publishing material immediate reports.

6. Compensation paid, during the Report Period, to the five highest salary recipients amongst the Company's and its subsidiaries' senior officers

[Regulation 21(a)]

A. Below are the required details pursuant to Regulation 21(a)(1) regarding compensation paid, to the best of the Company's knowledge, to the five highest salary recipients amongst the Company's and its subsidiaries' senior officers:

Information on recipient				Compensation for services * $ thousands					
Name	**Position**	**Date of Commencement of employment**	**Extent of Position**	**Shareholdings (Fully diluted)[1]**	**Salary**	**Bonus**	**Share-based payments**	**Man't Fee**	**Total**
Mr. Yaron Elad	CEO of the Company	July 2007[2]	100% (1)	2.29%	470 (2)	252 (3)	- (4)	-	722
Mr. Niv Levy	CFO of the Company	September 2009[3]	100% (5)	1.85%	273 (6)	121 (7)	- (8)	-	394
Mr. Zohar Rozenberg	Former Vice-President of the Company	January 2016	- (9)	1.95 %	256 (10)	86 (11)	- (12)	-	342
Mr. Lior Levinsky	CFO in RDC	August 2009	100% (13)	0.21 %	255 (14)	72 (15)	- (16)	-	327
Mr. Elik Etzion	Vice-President of the Company	July 2021	100% (17)	0.66 %	204 (18)	72 (19)	26 (20)	-	302

* Details recognized in the financial statements for the reporting year. No other compensation except as set forth in table.

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[1] It should be clarified, with respect to the shareholdings on a fully diluted basis, that it is based on a maximum exercise and maximum holding in equity and voting rights, deriving from the underlying shares, under the assumption that the options were exercised at the Maximum Price (as detailed in the immediate report regarding a general meeting of shareholders, publish on November 21, 2018 (ref. no. 2018-01-112128), and in the immediate report regarding the private offering published on November 21, 2018 (ref. no. 2018-01-112131)) and in light of the net exercise mechanism (as detailed in a supplementary immediate reportregarding a meeting with respect to Mr. Elad and a supplementary immediate report regarding a private offer which is not exceptional with respect to Mr. Rosenberg and Mr. Levy that the Company published on June 29, 2020 (ref nos. 2020-01-068487, 2020-01-068502). In practice, the shareholdings may be lower if and to the extent that the exercise shall be made at a price lower than the Maximum Price.

[2] Commencing March 1, 2020, Mr. Elad serves as the Company's CEO. Before that Mr. Elad served in various positions in the Company. For further details see Section 6.B below.

[3] Commencing March 18, 2020, Mr. Levy serves as the Company's CFO. Before that Mr. Levy served in various positions in the Company. For further details see Section 6.B below.

6. Compensation paid, during the Reporting Period, to the five highest salary recipients amongst the Company's and its subsidiaries' senior officers [Continued]

[Regulation 21(a)]

B. Notes to data in tables:

1) On July 2, 2020, the Company's shareholder meeting approved, following receipt of the Compensation Committee and the Board of Directors, the terms of employment of Mr. Elad as the Company's CEO as of March 1, 2020. Until such date, Mr. Elad served as the Company's CFO.

2) The amount includes all of the following components that were paid for the entire year of 2021, namely, salary, social benefits and related benefits as customary, carallowance (including gross-up) and loss of earning capacity insurance. The engagement with Mr. Elad will end three months after the date on which either party will give the other party written notice of its desire to terminate the engagement under the employment agreement.

3) Variable compensation – annual bonus: According to the Company's compensation policy, which was in force in 2021 (the "**2021 Policy**"), Mr. Elad, as CEO of the Company, is entitled to receive an annual bonus which shall not exceed 9 monthly gross salaries ("**Bonus Cap**") where in accordance with the 2021 Policy, the annual bonus is composed of a component based on measurable goals connected with the performance of the Company and its group companies (the "**Measurable Goals**") and a discretionary bonus component based on an evaluation with respect to the performance of his role and his performance during the bonus year (in any case, the discretionary annual bonus component will not exceed 3 monthly salaries and its grant will be subject to the Bonus Cap). In accordance with the 2021 Policy, the Company's Board of Directors, after receiving theCompensation Committee's recommendation, will determine every year, close in time to the bonus year, the composition of the goals , their weight in the bonus formula out of the Bonus Cap, the goal compliance rate range, including the possibility of setting a minimum threshold and maximum threshold, the scope of eligibility for a bonus in relation to the goal compliance rate range and the required date to meet the various goals. Partial compliance with a particular goal may entitle the recipient to part of the bonus for such goal, subject to the minimum threshold determined, if determined, while results reflecting overperformance of a particular goal, as may be relevant, may entitle the recipientto a bonus that exceeds the bonus component attributed to such goal (subject tothe Bonus Cap). The goals with respect to the CEO (and the other officers) for theyear of 2021 are specified in this Section below and have been approved by the Compensation Committee and the Board of Directors close in time to the beginning of the bonus year as detailed below.

6. <u>Compensation paid, during the Reporting Period, to the five highest salary recipients amongst the Company's and its subsidiaries' senior officers</u> <u>[Continued]</u>

[Regulation 21(a)]

B. <u>Notes to data in tables [Continued]:</u>

For further details regarding the 2021 Policy, see annex A to the report convening a meeting that the Company published on February 3, 2020 (ref no. 2020-01-010882), incorporated herein by reference. For further details regarding Mr. Elad's terms of employment as CEO of the Company as of March 1, 2020 and regarding their approval, see part B to the Report Convening a Meeting that the Company published on June 29, 2020 (ref no. 2020-01-068487), Part B to the report convening a meeting that the Company published on January 26, 2021 (ref no. 2021-01-010717), and Part C to the report convening a meeting that the Company published on February 4, 2022 and on March 6, 2022 (subsequent to the reporting date) (ref no. 2022-01-013554, 2022-01-022359), which are incorporated herein by reference. For details regarding the Company's Compensation Policy which came into force on December 27, 2021, see Part B to the report convening a meeting that the Company published on November 22, 2021 (ref no. 2021-01-100414), incorporated herein by reference.

With respect to the component based on the Measurable Goals, the goals for 2021 were determined for the CEO and other officers of the Company, as follows:

1. Increase of at least 10% in the value of the portfolio companies' holdings in the areas of cyber security and software, on a consolidated basis, in accordance with the last investment round made in them, calculated linearly up to a 25% increase in the portfolio companies, where an increase of 25% or more will entitle the recipient to the entire grant.
2. Increase of at least 10% in the value of all portfolio companies' holdings on an effective basis, in accordance with the last investment round made in them, calculated linearly up to a 25% increase in the portfolio companies, where an increase of 25% or more will entitle the recipient to the entire grant.

   Accordingly, and according to the provisions of the 2021 Policy and since the Company met the threshold conditions set forth in the 2021 Policy, and considering the implementation of discretional component which is afforded to the Compensation Committee and the Board of Directors in accordance with the 2021 Policy, Mr. Elad is entitled to an annual bonus for 2021 in the amount of NIS783 thousand constituting 9 monthly salaries.

4) Equity Compensation: On July 2, 2020, the General Meeting approved the terms of Mr. Elad's tenure and employment as CEO of the Company as of March 1, 2020, including the granting of 971,138 non-tradable options which are exercisable into ordinary shares of the Company of NIS 0.003 par value each. For details, see the Supplementary Immediate Report Convening a Meeting published by the Company on June 29, 2020 (ref no. 2020-01-068487), which is incorporated in this Report by way of reference. It should be noted that in accordance with the terms of the grant and in light of the change of control event that took place in the Company as detailed in section 2.2 of chapter A of this Report, all the options granted to Mr. Elad in 2019 and 2020 were vested in November 2020. In 2021, no expense was recognized for equity compensation to the CEO.

6. Compensation paid, during the Reporting Period, to the five highest salary recipients amongst the Company's and its subsidiaries' senior officers [Continued]

[Regulation 21(a)]

B. Notes to data in tables [Continued]:

On January 20, 2022, subsequent to the reporting date, the Company's Board of Directors approved, subject to approval of the general meeting which was convened for March 13, 2022, to grant the CEO of the Company 467,508 non-tradable options which are exercisable into ordinary shares of the Company of NIS 0.003 par value each. For details see immediate reports of the Company from February 4, 2022 and March 6, 2022 (ref no. 2022-01-013554, 2022-01-013551, 2022-01-022359) incorporated herein by reference.

5) On May 26, 2020, the Compensation Committee and the Company's Board of Directors approved the terms of employment of Mr. Levy as the Company's CFO effective as of his appointment in March 2020.

6) The amount includes all the following components that were paid for the year 2021: salary, social and ancillary provisions as customary, car expenses and loss of earning capacity insurance. The engagement with Mr. Levy will terminate three months after the date on which either party will give the other a written notice of its desire to terminate the engagement under the employment agreement.

7) In accordance with the 2021 Policy, Mr. Levy is entitled to an annual bonus not to exceed 7.5 gross monthly salaries, in accordance with the principles set forth in the 2021 Policy. Accordingly, and in accordance with the provisions of the 2021 Policy, and as the Company has met the threshold conditions set in the 2021 Policy and the Measurable Goals set by the Compensation Committee and the Company's Board of Directors, Mr. Levy is entitled to an annual grant for 2021 in the amount of NIS375 thousand, which constitute 7.5 monthly salaries.

8) On May 27, 2020, following the approval of the Compensation Committee and the Company's Board of Directors, Mr. Levy was granted with 571,258 non- tradable options which are exercisable into ordinary shares of the Company of NIS 0.003 par value each. It should be noted that in accordance with the terms of the grant and in light of the change of control event that took place in the Company as detailed in section 2.2 of chapter A of this report, all the options granted to Mr. Levy in 2019 and 2020 were vested in November 2020. In 2021 no expense was recognized for equity compensation to Mr. Levy. In January 2022, subsequent to the reporting date, and following the approval of the Compensation Committee and the Board of Directors of the Company, Mr. Levy was granted with 242,196 non-tradable options which are exercisable into ordinary shares of the Company of NIS 0.003 par value each.

6. <u>Compensation paid, during the Reporting Period, to the five highest salary recipients amongst the Company's and its subsidiaries' senior officers</u> <u>[Continued]</u>
[Regulation 21(a)]

B. <u>Notes to data in tables [Continued]:</u>

9) On May 26, 2020, the Compensation Committee and the Board of Directors of the Company approved the employment terms of Mr. Rosenberg as of the date of the approval. In July 2021, Mr. Rosenberg finished his tenure as an officer and VP in the Company responsible for the cyber field and continues to function in the Company as an active partner in investments in the world of cyber (Venture Partner).

10) The amount includes all the following components that were paid for the year 2021 as follows: salary, social and ancillary provisions as customary and loss of earning capacity insurance.

11) In accordance with the 2021 Policy, Mr. Rosenberg is entitled to an annual bonus not to exceed 7.5 gross monthly salaries, in accordance with the principles set forth in the 2021 Policy and relatively to his tenure as an officer during the year. Accordingly, and in accordance with the provisions of the 2021 Policy, and as the Company has met the threshold conditions set in the 2021 Policy and the Measurable Goals set by the Compensation Committee and the Company's Board of Directors, Mr. Rosenberg is entitled to an annual bonus for 2021 in the amount of NIS268 thousand, which constitutes 3.7 monthly salaries (as were in force at the time he was an officer).

In March 2021, in accordance with the 2021 Policy, the Company's Board of Directors, following the recommendation of the Compensation Committee, approved a one-time grant to Mr. Rosenberg in the amount of 4 salaries, due to his significant contribution to leading and completing the sale of Alcide – see Note 3.B.4.d) to the Consolidated Financial Statements.

12) On May 27, 2020, following the approval of the Compensation Committee and the Company's Board of Directors, Mr. Rosenberg was granted with 816,898 non-tradable options which are exercisable into ordinary shares of the Company of NIS 0.003 par value each. It should be noted that in accordance with the terms of the grant and in light of the change of control event that took place in the Company as detailed in section 2.2 of chapter A of this report, all the options granted to Mr. Rosenberg in 2019 and 2020 were vested in November 2020. In 2021 no expense was recognized for equity compensation to Mr. Rosenberg.

6. <u>Compensation paid, during the Reporting Period, to the five highest salary recipients amongst the Company's and its subsidiaries' senior officers</u> <u>[Continued]</u>

[Regulation 21(a)]

B. <u>Notes to data in tables [Continued]:</u>

13) Mr. Levinsky serves as CFO of the Company's subsidiary RDC and receives his salary from it.

14) The amount includes all the following components that were paid for the year 2021: salary, social and ancillary provisions as customary, car expenses and loss of earning capacity insurance. The engagement with Mr. Levinsky will terminate after thirty days from the date either of the parties sends the other written notice regarding its desire to terminate the engagement in accordance with the employment agreement.

15) In March 2022, subsequent to the reporting date, the Board of Directors of RDC approved a grant of NIS225 thousand to Mr. Levinsky for 2021.

16) In January 2022, subsequent to the reporting date, and following the approval of the Compensation Committee and the Board of Directors of the Company, Mr. Levinsky was issued with 100,000 non-tradable options which are exercisable into ordinary shares of the Company of NIS 0.003 par value each.

17) On May 20, 2021, the Compensation Committee and the Board of Directors of the Company approved the appointment and terms of employment of Mr. Etzion as an officer and VP in the Company in force as of July 1, 2021.

18) The amount includes all the following components that were paid for 2021: salary, social and ancillary provisions as customary, car expenses and loss of earning capacity insurance. The engagement with Mr. Etzion will terminate after three months from the date either of the parties sends the other written notice regarding its desire to terminate the engagement in accordance with the employment agreement.

19) In accordance with the 2021 Policy, Mr. Etzion is entitled to an annual grant in an amount not to exceed 7.5 monthly gross salaries, in accordance with the principles stated in the 2021 Policy and relative to his tenure during the year. Accordingly, and in accordance with the instructions of the 2021 Policy, and as the Company met the threshold conditions that were set forth in the 2021 Policy and the Measurable Goals set by the Compensation Committee and the Board of Directors of the Company, Mr. Etzion is entitled to an annual grant for 2021 of NIS225 thousand which constitute 3.7 monthly salaries.

6. Compensation paid, during the Reporting Period, to the five highest salary recipients amongst the Company's and its subsidiaries' senior officers [Continued]

[Regulation 21(a)]

B. Notes to data in tables [Continued]:

20) On May 20, 2021, the Board of Directors of the Company approved, following receipt of the approval and recommendation of the Compensation Committee, an issuance to Mr. Etzion of 84,981 non-tradable options which are exercisable into ordinary shares of the Company of NIS 0.003 par value each. In January 2022, subsequent to the reporting date, and following the approval of the Compensation Committee and the Board of Directors of the Company, Mr. Etzion was granted 290,635 non-tradable options which are exercisable into ordinary shares of the Company of NIS 0.003 par value each.

C. Below are details of the compensation granted to each of the interestedparties in the Company, who is not above-listed in this Section 6, whether such compensation was granted to him by the Company or by any of its subsidiaries:

1. For details regarding the directors' compensation, see Note 18.D to the Consolidated Financial Statements.
2. For details regarding the consideration paid to DIC in the framework of the Expenses Allocation Agreement, see Note 18.B to the Consolidated Financial Statements.

7. The Company's Controlling Shareholder

[Regulation 21a]

DIC is deemed a controlling shareholder of the Company by virtue of its holdings,as of December 31, 2021 and as of the date of this report, of 60.08% of the Company's issued share capital and of the voting rights at the Company (as of the date of this report, 54.90% on a fully diluted basis). For further details see section 2.2 to Part A to the periodic report. DIC is a company whose shares are listed on TASE and the information in respect of which is publicly published.

8. Transactions with the Company's Controlling Shareholder

[Regulation 22]

Below are the details, to the Company's best knowledge, regarding every transaction (except for certain negligible transactions, in accordance with Note 18.B to the Consolidated Financial Statements) with the Company's controlling shareholder or in which the controlling shareholder has personal interest in its approval ("**Controlling Shareholder Transaction**"), engaged by the Company, its subsidiaries or affiliates (the "**Group**") during the reporting year or at a later date until the date of this report, or which is in effect at the date of this report.

8. Transactions with the Company’s Controlling Shareholder [Continued]
[Regulation 22]

8.1. Transactions listed in Section 270(4) to the Companies Law, including transactions approved in accordance with theCompanies Regulations (Reliefs in Interested Party Transactions), 5760-2000 (the “Reliefs Regulations”)

A. Directors and Officers Insurance Policy

For details regarding the Company’s Board of Directors approval of the Company’s engagement in an agreement to purchase directors and officers insurance policy, for those who serve and who will serve from time to time in the Company, and in its subsidiaries and serve as directors on behalf of the Company in its affiliate companies, including directors and officers who are controlling shareholders of the Company or their relatives, for a period of 12 months as of January 1, 2022, see section 20 [Regulation 29A] below.

B. Exemption and Indemnification to Officers and Directors

In accordance with the Company's compensation policy, the Company shall be entitled to grant the officers, subject to the provisions of any law, an exemption from liability for any damage caused to it due to a breach of the officer's duty of care towards the Company in his actions as an officer, subject to the law and the Company’s articles of association. Such exemption shall not apply in relation to an act or omission of an officer with respect to a decision or transaction in which the controlling shareholder or any officer has a personal interest.

On March 12, 2020, following the approval of the Compensation Committee and the Board of Directors of the Company, the general meeting of the Company’s shareholders re-approved the grant of indemnification letters to the Company’s directors and officers, in a form identical to the form of the current indemnification letter of all of the Company’s officers, who themselves and/or their relatives are controlling shareholders in the Company, as shall be from time to time, who serve and/or will serve in the Company from time to time, and to Company’s officers that the controlling shareholders in the Company may have personal interest in the grant of indemnification letters to them, who serve and/or shall serve in the Company from time to time, due to their actions in the framework of their service in the Company and due to their actions while serving, upon the Company’s request, as officers in another company, in which the Company holds shares, directly or indirectly, or in which the Company has an interest, all for a period of three years, commencing from the date of the approval of the general meeting of shareholders of the Company (meaning until March 11, 2023). For additional details see the Company’s immediate report of February 3, 2020, with regard to convening a special general meeting, that on its agenda, among others, is a transaction between the Company and its controlling shareholder (ref. no. 2020-01-010882).

8. Transactions with the Company's Controlling Shareholder [Continued]

[Regulation 22]

8.1. Transactions listed in Section 270(4) to the Companies Law, including transactions approved in accordance with theCompanies Regulations (Reliefs in Interested Party Transactions), 5760-2000 (the "Reliefs Regulations") [Continued]

B. Exemption and Indemnification to Officers and Directors [Continued]

The Company's obligation in accordance with the indemnification letter will benefit its other directors and officers even after the end of the term of their service, provided that the actions with respect to which the indemnification is given were and/will be performed during the term of service.

The Company's officers serving as directors of the Company's subsidiaries and/or affiliates receive letters of indemnification from certain companies and their responsibility is assured, as customary in the same companies.

C. Directors' Compensation

On March 10, 2022, subsequent to the reporting date, the Compensation Committee and the Board of Directors of the Company approved to pay directors of the Company, who are controlling shareholders of the Company and/or their relatives and/or in which the controlling shareholders have a personal interest in the compensation paid to them, the maximum rates set forth in the Companies Regulations (Rules regarding Compensation and Expenses of External Directors), 5760-2000 (the "**Compensation Regulations**") (including supplements for expertise). In addition, said directors will be entitled to expense reimbursement as set forth in regulation 6 of the Compensation Regulations. These sums will be linked to the consumer price index in accordance with regulation 8 of the Compensation Regulations. To these sums VAT will be duly added. The Company will be entitled to pay the said director's compensation for the tenure of some of the serving directors to the Company's controlling shareholders, DIC and/or to companies which are interested parties in it, in which the directors are employed and/or serve as officers. The decision will be valid for a period of three years commencing on March 10, 2022, and will be applicable to any directors that serve and/or that will serve from time to time during said period, which he and/or his relative is a controlling shareholder of the Company or in which the controlling shareholder has a personal interest in the compensation paid to him, including if the compensation for his tenure is paid to the controlling shareholder of the Company. For additional details see immediate report from March 10, 2022 (ref no. 2022-01-024291). For additional details regarding director compensation, including about compensation of directors who are not related to the controlling shareholder of the Company see Note 18.D to the Consolidated Financial Statements.

8. Transactions with the Company’s Controlling Shareholder [Continued]
[Regulation 22]

8.2 Other Transactions with a Controlling Shareholder

A. Uses and Office Expenses Allocation Agreement

On September 23, 2019, the Audit Committee and the Board of Directors of the Company approved (as a non-extraordinary transaction in which the controlling shareholder has a personal interest) the Company’s engagement with DIC and other companies of the DIC and IDB’s group, in a Uses and Office Expenses Allocation Agreement in the joint offices to which the Company relocated, in the ToHa project, Yigal Alon st., Tel Aviv (the “**New Company’s Offices**”, the “**Expenses Allocation Agreement**”).

The Expenses Allocation Agreement regulates, among others, the allocation of the Company’s new offices rental fees, and will bind the Company for a period of five years commencing from July 1, 2019, and includes an option, at the Company’s sole discretion, to extend the lease period for two additional periods of five years each. In addition, the agreement contains two additional option periods of 5 years each, which exercise is subject to the prior consent of all parties to the Expenses Allocation Agreement, each party with respect to its share. In the event of change of control in the Company, the Company has the right to terminate the engagement.

During March 2022, subsequent to the reporting date, the Audit Committee and the Board of Directors of the Company approved (as a non-exceptional transaction in which the controlling shareholder has a personal interest) to update the Company’s engagement in an expenditure distribution agreement (the “**Updated Agreement**”). Under the Updated Agreement, the Company increased the area it rents and accordingly the property costs have risen relatively. The other main points of the agreement remain unchanged, including the lease period and the options for its extension as described above.

For details see Note 18.B to the Consolidated Financial Statements.

8. Transactions with the Company's Controlling Shareholder [Continued]

[Regulation 22]

8.2 Other Transactions with a Controlling Shareholder [Continued]

B. Extension of Engagement in Lease Agreement with with Kanit Hashalom Investments Ltd.

On June 30, 2015, the Audit Committee approved the exercise of the option in accordance with the agreement to rent areas on the 42 floor of Azrieli tower which was signed with Kanit Hashalom Investments Ltd (the "**Company's Previous Offices**", "**Kanit Hshalom**", respectively), for another five-year period until March 2021 (the "**Lease Termination Date**"). The terms of the rental during the option remain primarily the same as in the original agreement, while the rental will increase by 5% and amounted to a total of 120 NIS per meter per month, for rent and management fees. Even though the engagement was an independent and separateengagement of the Company with Kanit Hashalom, for the sake of caution and in view of the existence of other engagements of the IDB Group with Kanit Hashalom in lease agreements in the Azrieli Towers, thematter was brought to the approval of the Audit Committee, which determined thatthe engagement of the Company as aforesaid is not extraordinary and that this engagement including the rental set forth therein, serves the Company's benefit andis fair and reasonable.

Due to the Company's relocation to its new offices in accordance with the Expenses Allocation Agreement set forth in Section 8.2A above, the Company sub-let most ofthe Company's Previous Offices' space until the Lease Termination Date. DIC undertook towards the Company to indemnify the Company for any rental feesinsofar as it shall not be sub-let to any third party, with effect from January 2020. As stated, the lease agreement with Kanit Hashalom ended on March 31, 2021.

C. The Company or its consolidated companies transact periodically with its controlling shareholder or others with respect to which the controlling shareholder has a personal interest in transactions defined by the Company as negligible. For details regarding the adoption of guidelines and rules for the classification of the transactions of the Company or its consolidated companies with a related party or with respect to which the controlling shareholder has a personal interest as a negligible transaction as set forth in regulation 41 (a) (6) (1) of the Securities Regulations (Annual Financial Statements), 2010, see Note 18.B in the Consolidated Financial Statements.

9. Holdings by Related Parties and Senior Officers of shares and other securities of the Company or any company held by the Company whose activities are materialto the Companies operations –all as of December 31, 2021.

[Regulation 24]

(The provisions of this Section 9 do not include: indirect holdings through related parties, who are reporting entities, of the Company and its subsidiary companies and associates who are also reporting entities. For the purposes hereof, “reporting entities” are entities whose securities are traded on the Tel Aviv stock exchange).

For details, see Immediate Report dated January 6, 2022 regarding the holdings of related parties and officers (ref no.2022-01-003579).

On May 20, 2021 the Board of Directors of the Company approved, after receiving the approval and recommendation of the Compensation Committee, to grant to an officer of the Company who does not serve as a director or CEO of the Company, as of July 2021, 84,981 non-tradable options which are exercisable for ordinary shares of the Company of NIS0.003 par value each. For details, see section 6 above, and Company’s immediate report dated June 30, 2021 (ref no. 2021-01-046066), incorporated herein by reference.

On January 20, 2022, subsequent to the reporting date, the Board of Directors of the Company approved, after receiving approval and recommendation from the Compensation Committee, an issuance to officers who are VPs and employees of the Company, to other employees of the Company and its subsidiary, RDC, and to permanent service providers of the Company, 1,261,164 options to purchase ordinary shares of the Company of NIS 0.003 par value each. For details, see Company’s immediate report dated January 30, 2022 (ref no. 2022-01-011439),incorporated herein by reference.

On January 20, 2022, subsequent to the reporting date, the Board of Directors of the Company, following approval and recommendation of the Compensation Committee, approved the grant to the Company’s CEO of 467,508 non-tradable options which are exercisable for ordinary shares of the Company of NIS0.003 par value each. For details see Section 6 above, and immediate reports of the Company dated February 4, 2022 and March 6, 2022 (ref nos. 2022-01-013554, 2022-01-013551, 2022-01-022359) incorporated herein by reference. The issuance is still subject to the approval of the general meeting of the shareholders of the Company and the approval of the Tel Aviv Stock Exchange.

9. Holdings by Related Parties and Senior Officers of shares and other securities of the Company or any company held by the Company whose activities are materialto the Companies operations –all as of December 31, 2021 [Continued]

[Regulation 24]

On March 10, 2022, subsequent to the reporting date, the Board of Directors of the Company approved, following receipt of the approval and recommendation of the Compensation Committee, and subject to the approval of the general meeting, the terms of tenure of Mr. Dan Hoz as an active chairman of the Company's Board of Directors. According to the Compensation Policy, the Board of Directors of the Company approved that in return for his services as a service provider without employee-employer relations, with a position scope of 35%, Mr. Hoz will be entitled to monthly management fees of NIS 40 thousand. To this sum VAT will be duly added. In addition, and in accordance with the Compensation Policy, Mr. Hoz will be granted 646,100 non-tradable options which are exercisable for ordinary shares of the Company of NIS0.003 par value each. The aforementioned terms of tenure are still subject to the approval of the general meeting of the shareholders of the Company and the Company intends publishing a notice convening a shareholders meeting in the upcoming days. In addition, the issuance of options is still subject to the approval of the Tel Aviv Stock Exchange.

10. Authorized Share Capital, Issued Share Capital and Convertible Securities ofthe Company as of the date of the Report.

[Regulation 24a]

For details with respect to the Company's share capital composition, see Note 12 to the Consolidated Financial Statements.

For details with respect to grant of options to the chairman of the Board of Directors, the CEO, to officers who are VPs and employees of the Company, to other employees of the Company and its subsidiary, RDC, and to permanent service providers of the Company, see Sections 6 and 9 above.

11. Shareholder register

[Regulation 24b]

For further details, see Company's immediate report dated March 8, 2022 (ref no. 2022-01-023220).

12. Registered Address of the Company

[Regulation 25a]

The registered Address of the Company is:

TOHA Tower, Tel Aviv 6744320, Tel: (03) 6075555, fax (03) 6075556.

Email addresses of the Company: info@elron.com and elron@elron.com

13. Directors of the Company as of the date of the Publication of the Report

[Regulation 26]

Name, Identity No., Date of Birth citizenship	Address for service of process	Membership of Director committees ; Is he an independent /external director as defined in the Companies Law- yes/no	Is he/she an employee of the Company, any subsidiary, associate company of the Company or of a related party- the position/s he /she fulfills as aforesaid	Date of Commencement of term as director of the Company	Education and occupation over the last 5 years with details of the professions or fields in which education was acquired, the institution from which the academic degree or professional qualification was obtained and the companies in which he/she serves as a director	Is he/she to the best knowledge of the company and its other directors, a family member of a related party in the Company Yes/no society, specifying details	Is he/she a director who sees himself/herself as having accounting and financial expertise or as professional competence.
Dan Hoz 027860824 10.07.1970 Israeli	8 Hahita, Bnei Atarot	Chairman of the Company's Board of Directors	No	14.11.2021	Graduate of accounting and economics, Ben Gurion University. Certified – business management, Ben Gurion University. VP of Siemens Industries Software, as of 2017. CEO of Graphics Israel Ltd., as of 2017. Division CEO, Valor Computerized System, 2011 -2016. Director at AlphaVee.	No	Accounting and financial expertise
Michael Yoseph Salkind 022972020 18.04.1967 Israeli	53 Hagderot, Savyon	No	No	24.06.2021	Bachelor of business administration, Boston University, USA and Master of Business Administration (MBA) from Columbia University, USA. Director and Co-CEO of Elco Ltd., Chairman at Electra Ltd. and director of companies at Elco Group Ltd. Director of the following companies: Discount Investment Corporation Ltd., Celcom Israel Ltd, Property and Building Company Ltd., Mehadrin Ltd. (until November 2021), Electra Real Estate Ltd., Electra Consumer Products (1970) Ltd. (and private companies of this group), Supergas Energy Ltd (and private companies of this group), G. Salkind Ltd., Michale and Mersi Salkind Holdings (1977) Ltd., The Dream Theater Ltd., Meet In Place Inc., Elco Hospitality Ltd., and private companies of Elco Group Ltd. and until August 2020		

					served as a director of Golan Telcom Ltd.		
Doron Haim Cohen 056681562 27.09.1960 Israeli	TOHA Tower, Yigal Alon 114, Tel Aviv	No	Chief Executive Officer of DIC, Interested party and controlling shareholder of the Company	18.03.2020	Graduate of Accounting and Economics - Tel Aviv University MA in law - Bar Ilan University CEO of DIC CEO of Property and Building Company Ltd. Director of the following companies: Cellcom Israel Ltd. (Chairman);Epsilon Investment House Ltd. (Chairman). Mehadrin Ltd. (Chairman), and Epsilon Underwriting and IPOs Ltd. (Chairman). Serves as director of Property and Building Company Ltd, Gav Yam Lands Ltd, RDC, and private companies owned by DIC and Property and Building Company Ltd. Founder and Chairman of Credito Ltd., the ORT Braude College of Engineering (Chairman of the Board of Trustees) and the Civil Service Commission (Member of the Appointments Committee and Member of the Service Committee). Chairman of the Board of	No	Accounting and financial expertise .

Name, Identity No., Date of Birth citizenship	Address for service of process	Membership of Director committees ; Is he an independent /external director as defined in the Companies Law- yes/no	Is he/she an employee of the Company, any subsidiary, associate company of the Company or of a related party- the position/s he /she fulfills as aforesaid	Date of Commencement of term as director of the Company	Education and occupation over the last 5 years with details of the professions or fields in which education was acquired, the institution from which the academic degree or professional qualification was obtained and the companies in which he/she serves as a director	Is he/she to the best knowledge of the company and its other directors, a family member of a related party in the Company Yes/no society, specifying details	Is he/she a director who sees himself/herself as having accounting and financial expertise or as professional competence.
					Directors of the IBC Israel Broadband Company (2015-2019). Served as director in Lachish Industries Ltd. (and as external director until December 2020), and served in ID Or Group Ltd. (and as an external director until January 2020.		
Baruch Itzhak 029274693 19.07.1972 Israeli	Yigal Alon 114, Tel Aviv	No	CFO of DIC, Interested party and controlling shareholder of the Company. CFO of Property and Building Company Ltd. Alternate director	20.01.2022	Graduate of business management at the College of Management. Accountant. Member of the Institute of Certified Public Accountants in Israel. CFO of DIC as of July 2021 until this day, CFO of Property and Building Company Ltd. as of May 2020 until this day. CEO of Sapir Corp Ltd. 2018-2020, VP at El Ad US Holding Inc (2016-2018), Chairman and acting CEO at Elad National 2017 LLC (2016-2018). Director of the following companies: Cellcom Israel Ltd., Mehadrin Ltd., Epsilon Investments Ltd., IDB Group Investments Inc., and held companies of DIC and of Property and Building Company Ltd.	No	Accounting and financial expertise

Name, Identity No., Date of Birth citizenship	**Address for service of process**	**Membership of Director committees ; Is he an independent /external director as defined in the Companies Law- yes/no**	**Is he/she an employee of the Company, any subsidiary, associate company of the Company or of a related party- the position/s he /she fulfills as aforesaid**	**Date of Commencement of term as director of the Company**	**Education and occupation over the last 5 years with details of the professions or fields in which education was acquired, the institution from which the academic degree or professional qualification was obtained and the companies in which he/she serves as a director**	**Is he/she to the best knowledge of the company and its other directors, a family member of a related party in the Company Yes/no society, specifying details**	**Is he/she a director who sees himself/herself as having accounting and financial expertise or as professional competence.**
Lee-Bath Nelson 22366553 08.03.1966 Israeli and USA	8 HaGadna Street, Raanana Israel	Audit Committee, Compensation Committee and Investment Committee. External Director	No	29.10.2014	B.A. in Computer Science, Technicon-Israel Institute of Technology, Haifa, Israel; MSc. In Computer Science, Technicon-Israel Institute of Technology, Haifa, Israel; Ph.D. in Finance, Graduate School of Business, Stanford University, CA. Former general partner at Plenus Venture Lending, Previously Corporate Director Business Development, Orbotech; Director of Tumor Ltd. external director of Migdalor- alternative products Ltd., serves on the board of "Ore to Excellence", a non-profit organization promoting excellence and volunteerism among teens and children in the periphery.	No	Accounting and financial expertise.

Name, Identity No., Date of Birth citizenship	Address for service of process	Membership of Director committees ; Is he an independent /external director as defined in the Companies Law- yes/no	Is he/she an employee of the Company, any subsidiary, associate company of the Company or of a related party- the position/s he /she fulfills as aforesaid	Date of Commencement of term as director of the Company	Education and occupation over the last 5 years with details of the professions or fields in which education was acquired, the institution from which the academic degree or professional qualification was obtained and the companies in which he/she serves as a director	Is he/she to the best knowledge of the company and its other directors, a family member of a related party in the Company Yes/no society, specifying details	Is he/she a director who sees himself/herself as having accounting and financial expertise or as professional competence.
Shalom Turgeman 059214452 28.05.1965 Israeli	ToHA Building, 114 Yigal Alon, Tel Aviv	Audit Committee, Compensation Committee. Independent Director	No	07.12.2020	Master of Business Administration (EMBA), Tel Aviv University. Graduate of Political Science, and Islamic studies and the Middle East, the Hebrew University. Managing Partner in an Israeli-Chinese investment fund GEOC (from 2013 until today); Consultant in Israeli consulting company EOC (from 2009 until today). Serves also as a consultant at the Foreign Ministry Office as of 2018.	No	No

Name, Identity No., Date of Birth citizenship	Address for service of process	Membership of Director committees ; Is he an independent /external director as defined in the Companies Law- yes/no	Is he/she an employee of the Company, any subsidiary, associate company of the Company or of a related party- the position/s he /she fulfills as aforesaid	Date of Commencement of term as director of the Company	Education and occupation over the last 5 years with details of the professions or fields in which education was acquired, the institution from which the academic degree or professional qualification was obtained and the companies in which he/she serves as a director	Is he/she to the best knowledge of the company and its other directors, a family member of a related party in the Company Yes/no society, specifying details	Is he/she a director who sees himself/herself as having accounting and financial expertise or as professional competence.
Barak Mashraki 029714086 28.01.1973 Israeli	Giv'ati 4 Ramat Gan	Audit Committee, Compensation Committee and Investment Committee. External Director	No	02.03.2021	Graduate of Economicsand Accounting, Bar-Ilan University. Until August 2020, Deputy CEO and Chief Financial Officer, Delek Group Ltd.; Director at Delek Drilling – Limited Partnership; Delek Energy Systems Ltd.; Delek the Israeli Fuel Corp Ltd.; The Phoenix Insurance Company Ltd.; Phoenix Holdings Ltd.; CEO and Director at Cohen Gas &Oil Development Ltd. Serves as director of the following companies: Space-Communication Ltd., Tamar Petrolium Ltd and director of private companies in the field of loans to oil and gas companies in USA and in the field of e-commerce.	No	Accounting and financial expertise

14. Officers of the Company as of the date of the Publication of the Report
[Regulation 26a]

Name, Identity No., Date of Birth	Date of Commencement of Service	The position held in the Company, its subsidiary or its associate or its related party; if he/she was a senior officer, independent signatory in the Company – indicate this fact	If he/she is a related party or a family member of another senior officer or related party of the Company	Education and occupation over the last 5 years with details of the professions or fields in which education was acquired, the institution from which the academic degree or professional qualification was obtained
Yaron Elad 034147223 17.07.1977	01.01.2010	Company's Chief Executive Officer. Director of the following companies: RDC RDSeed Ltd. (Chairman), Open Legacy Technologies Ltd., CartiHeal (2009) Ltd., BrainsGate Ltd., Atlantium Technologies Ltd. and Ozcode Ltd.	No	Bachelor of Arts degree in Accounting and Economics from Tel Aviv University. Masters of Science degree in Finance in research track from Tel Aviv University. Licensed CPA in Israel since 2004. CEO of the Company from March 1st 2020. Chief Financial Officer and responsible for management of the Company's market risks from January 2010 until end of February 2020. Controller of the Company between July 2007 and December 2009. Manager in the auditing and professional practice department in BDO Ziv Haft Israel from 2001 to 2007. Director of the following companies: RDC RDSeed Ltd. (Chairman), Open Legacy Technologies Ltd., CartiHeal (2009) Ltd., BrainsGate Ltd., Atlantium Technologies Ltd. and Ozcode Ltd. Member of the trustee board of NFTE Israel.
Elik Isarel Etzion 027450626 09.02.1974	01.07.2021	VP in the Company. Director of the following companies: Cynerio Isarel Ltd., Keepy AI Ltd. R.A Red Access Security Ltd. Allero Development Ltd.	No	Graduate of Computer Science (BSC) Tel Aviv University. Certified Business Management (MBA), Tel Aviv University. VP in the Company as of July 2021. Manager of Cyber Defence at Bank Hapoalim between 2017-2020, Chairman of Masav company (2018-2019). Director of Shva company (2018-2020), commander of technology and

				operational cyber units in 8200 unit (2009-2016). Director of the following companies: Cynerio Isarel Ltd., Keepy AI Ltd. R.A Red Access Security Ltd. Allero Development Ltd.

Name, Identity No., Date of Birth	**Date of Commencement of Service**	**The position held in the Company, its subsidiary or its associate or its related party; if he/she was a senior officer, independent signatory in the Company – indicate this fact**	**If he/she is a related party or a family member of another senior officer or related party of the Company**	**Education and occupation over the last 5 years with details of the professions or fields in which education was acquired, the institution from which the academic degree or professional qualification was obtained**
Niv Levy 038400792 11.03.1976	18.03.2020	CFO and responsible for the Company's market risks management; Director of the following companies: RDC, Cartiheal (2009) Ltd. and Nitinotes Ltd.	No	BA in Accounting and LLB in Law, and an MBA in Business, Tel Aviv University. CFO and responsible for the Company's market risks management as of March 2020. VP Accounting as of March 2018, Director of Finance between February 2017 and March 2018. Controller from December 25, 2011 until January 2017. Prior thereto served in various positions in the Company from September 2009. Auditor at Ernst & Young (Israel) from 2006 until 2009. Director of RDC, Cartiheal (2009) Ltd. and Nitinotes Ltd .
Itzhak Ravid 052761384 24.8.1954	1.10.2020	Internal auditor	No	Accountant- Senior partner in the accounting firm Raveh Ravid & Co. Certified internal auditor. BA in Accounting and Economics, Tel Aviv University. Internal Auditor of, among others, Cellcom Israel Ltd and DIC.

15. <u>Auditors of the Company</u>
[Regulation 27]

Kesselman and Kesselman (PWC), auditors – Azrieli Town, Derech Menachem Begin 146, Tel Aviv serve as the Company's auditors.

On December 27, 2021, the general meeting of the shareholders of the Company resolved to re-appoint the accounting firm of Kesselman & Kesselman (PwC), as the Company's auditors, for an additional term until the next annual general meeting of the Company, and to authorize the Board of Directors of the Company and the Audit Committee of the Company, as required, to determine their fees as auditors. For details see immediate report with respect to convening a general meeting, published by the Company on November 22, 2021 (ref no. 2021-01-100414) and an immediate report with respect to the results of the general meeting dated December 27, 2021 (ref no. 2021-01-114616).

16. <u>Changes in the Memorandum and Articles of the Company</u>
[Regulation 28]

On December 27, 2021, the general meeting of the Company decided to approve the change of the Company's name to "אלרון ונצ'רס בע"מ" and in English "Elron Ventures Ltd." and to amend the Company's articles of association accordingly. See immediate report regarding the convening of a meeting published by the Company on November 22, 2021 (ref no. 2021-01-100414) and immediate report regarding the results of meeting from December 27, 2021 (ref no. 2021-01-114616) and immediate report regarding the change of the articles of association from January 17, 2022 (ref no. 2022-01-007755).

17. <u>Recommendations and Decisions of the Board Of Directors</u>
[Regulation 29a]

For decisions on the following topics: (1) Engagement in a Directors & Officers insurance policy and its renewal, see section 20 below; (2) Indemnification of Officers, see Section 8.1 B. above; (3) Compensation to directors of the Controlling shareholder or his relatives, see section 8.1 C. above; (4) The Company's engagement with DIC and additional companies of DIC and IDB group in a Uses and Office Expenses Allocation Agreement, see section 8.2 A. above; (5) Grant of Options to the Chairman, see sections 6 and 9 above; (6) grant of options to the CEO, see sections 6 and 9 above; (7) grant of options to officers who are VPs and employees of the Company, to other employees of the Company and its subsidiary, RDC, and to permanent service providers of the Company, see sections 6 and 9 above.

18. Decisions taken by the general meeting of shareholders not in accordance with the Recommendations of the Board of Directors

[Regulation 29b]

None

19. Decisions of the General Meeting of Shareholders

[Regulation 29c]

1. On March 2, 2021, the general meeting (the "**March Meeting**") approved: (1) the re-appointment of the following directors in addition to the external directors serving at the Company to date of the March Meeting: Yoram Avraham Turbovich (who served as the Chairman of the Board of Directors at the time of the March meeting), Omer Serviansky, Osnat Hilel-Fine, Doron Haim Cohen, Yacov Nimkovsky, Isaac Idan, Amiram Erel and Shalom Turgeman (independent director), as directors of the Company for an additional term to commence on the date their appointment is approved by the March Meeting and until the annual general meeting which took place after the March Meeting; (2) the appointment of Barak Mashraki as an external director of the Company for a term of three years to commence on the date approved by the meeting; and (3) the amendment of section 11.1 of the compensation policy for officers of the Company in accordance with section 267A of the Companies Law. For details, see the immediate report of a meeting published by the Company on January 26, 2021 (ref no. 2021-01-010717), as well as an immediate report regarding the results of the meeting published by the Company on March 2, 2021 (ref no. 2021- 01-025522), which are included herein by reference.
2. On December 27, 2021, the general meeting (the "**December Meeting**") approved: (1) the re-appointment of the following directors in addition to the external directors serving at the Company to date of the December Meeting: Dan Hoz (Chairman of the Board of Directors), Doron Haim Cohen, Michael Yoseph Salkind and Shalom Turgeman (independent director), as directors of the Company for an additional term to commence on the date their appointment is approved by the December Meeting and until the Company's next annual general meeting; (2) the Compensation Policy for officers of the Company in accordance with Section 267A of the Companies Law for a period of three years, after receipt of the Company's Board of Directors approval and the recommendation of the Compensation Committee on the matter; (3) the change of the Company's name to "אלרון ונצ'רס בע"מ" and in English "Elron Ventures Ltd." and to amend the Company's articles of association accordingly. For details see the immediate report regarding meeting published by the Company on November 22, 2021 (ref no. 2021-01-100414), as well as an immediate report regarding the results of the meeting published by the Company on December 27, 2021(ref no. 2021-01-114616), which are included herein by reference.

20. Decisions of the Company

[Regulation 29A]

During December 2021, according to the Compensation Committee's approval, the Company engaged in the purchase of directors and officers insurance policy, who serve and who will serve from time to time in the Company, and usually in its subsidiaries and serve as directors on behalf of the Company in its affiliate companies, including directors and officers who are controlling shareholders of the Company or their relatives (in this section, the "**Insurance Policy**"), in accordance with regulation 1B1 of the Reliefs Regulations and the instructions of the Compensation Policy of the Company as approved by the general meeting of the shareholders of the Company on December 27, 2021(see immediate report convening a meeting published by the Company on November 22, 2021, ref no. 2021-01-100414) (in this section, the "**Compensation Policy**"), subject to the below. The Insurance Policy will be in force as of January 1, 2022, until December 31, 2022 (in this section, the "**Insurance Period**"). The limit of the insurer's liability under the Insurance Policy is $30 million per claim and in total for the Insurance Period. The terms of the insurance under the Insurance Policy are the same for all directors and officers. The cost of the premium to be paid in respect of the Insurance Policy for the Insurance Period is in the amount of approximately 367 thousand dollars. The deductible for each claim under the policy will be $200 thousand for a securities law related claim or $100 thousand for any other claim (except for a claim filed in the U.S. or Canada in which case the deductible willbe $1 million for securities law related claim or $100 thousand for any otherclaim).
In its decision, the Compensation Committee noted, among others, that the engagement in the Insurance Policy for directors and officers liability serves the good of the Company. It was also confirmed that the terms of the Insurance Policy comply with the framework set out in the Company's Compensation Policy, and that the engagement may not materially affect the Company's profitability, property or liabilities. The committee determined that the engagement is on market terms, among other things in light of information and advice received from the Company's insurance consultants.
In light of the expiration of the existing policy on December 21, 2021, it is of great importance to approve the Company's engagement in the Insurance Policy, while maintaining the continuity of insurance coverage. Accordingly, the Company entered into the Insurance Policy, in accordance with the approval of the Compensation Committee, the Compensation Policy and regulation 1B1 of the Reliefs Regulations.

For decisions on the following issues: (1) indemnification of officers, see section 8.1B above; (2) The Company's engagement with DIC and other companies from the DIC group and IDB in an agreement for the distribution of uses and office expenses, see section 8.2A above; (3) Granting options to the Chairman and the CEO and the two other officers in the Company who are not directors or the CEO of the Company, see sections 6 and 9 above.

21. Other Details

None

Corporate Governance Questionnaire[5] – Informal English Translation

			Yes	No
Independence of the Board of Directors				
1.		In every report year, two or more external directors served in the corporation. *In this questionnaire, "Yes" can be answered if the period of time in which two external directors did not serve does not exceed 90 days, as specified in Section 363a(b)(10) of the Companies Law, and pursuant to every answer that is (Yes / No) include mention of the period of time (in days) in which two or more external directors did not serve in the report year (including the period of incumbency approved retroactively, and distinguishing between the various external directors):* Director A: Ehud Rassabi (ceased serving on March 10, 2021) Director B: Lee-Bath Nelson Director C: Barak Mashraki. The number of external directors serving in the corporation as of the publication date of this questionnaire: 2[6]	√	
2.		Percentage[7] of independent[8] directors serving on the Board of Directors as of the date of publication of this questionnaire: 3/6		

[5] Published in the framework of legislation proposals to improve the reports on 16/03/2014.
[6] The external directors as of the date of publication of this Report are Lee-Bath Nelson and Barak Mashraki.

Independence of the Board of Directors				
		Percentage of independent directors determined in the Corporation's[9] Articles of Association[10]_______. ☒Not relevant (not determined in the Corporation's Articles of Association)		
3.		In the reporting year, a review was conducted with the external directors (and independent directors) that revealed that in the report year, they complied with the provision of Section 240(b) and (f) of the Companies Law with regards to the absence of a connection of external (and independent) directors serving in the Corporation and that include the stipulations required for serving as external (or independent) director.	√	
4.		All directors who served in the Corporation during the report year <u>are not</u> subordinate to the General Manager, directly or indirectly (with the exception of a director who is an employee's representative, if the corporation has an employee representation). If your answer is "No" (i.e. the director is subordinate to the General Manager, as specified) – the number of directors <u>who do not</u> comply with said limitation will be noted: ________.	√	
5.		All directors who announced a personal interest in approval of a transaction on the meeting's agenda were not present during the discussion and did not participate in the vote as specified (with the exception of a discussion and/or vote under the circumstances listed in Section 278(b) of the Companies Law). If your answer is "No" - a. Was it for the sake of presenting a certain issue by him in compliance with the provisions at the end of Section 278(a) ☐ Yes ☐No The percentage of meetings in which said directors were present during the discussion and/or	√	

[7] In this questionnaire, "Percentage" – a certain number out of total.
[8] Including the "external directors", as defined under the Companies Law.
[9] A debenture company is not required to answer this section.
[10] In this respect – "articles of association", including pursuant to a specific legislation applicable to the company (for example, a banking entity – the directives of the banks' supervisor)

Independence of the Board of Directors				
		participated in the vote with the exception of the circumstances specified in sub-section a:_____.		
6.		The controlling party (including relative and/or agent), who is not a director or other senior officer in the corporation, was not present during the Board of Directors meeting that took place in the reporting year. If your answer is "No" (in other words, the controlling party and/or his relative and/or his agent who is not a member of the Board of Directors and/or senior officer in the corporation attended said Board of Directors meeting) – the following details will be listed regarding the presence of another person in said Board of Directors meetings: Identity: Larisa Cohen. Position in the corporation (if any): None. Details on the affiliation with the controlling party (if the party who was present is not a controlling party himself): Legal counsel of the controlling shareholder (DIC) Was this for the sake of presenting a certain issue by him: Yes ☐, No ☒ *(Mark X in the appropriate box)* The percentage[11] of Board of Directors meetings he attended that took place during the reporting year for the sake of presentation of a certain issue by him: 0, Other presence:2 1. Not relevant (there is no controlling party)		√

[11] While distinguishing between the controlling shareholder, its relative and/or anyone on its behalf.

Competency and Skills of the Directors				
			Yes	**No**
7.		The corporation's regulations do not include a provision that limits the option of immediately terminating the positions of all directors in the corporation who are not external directors (*For these purposes – a regular majority decision* ***is not*** *considered a limitation)*[12]. If the answer is "No" (i.e. there is a limitation as specified), note -	√	
	a.	Length of time established in the regulations for a director's position: ________.		
	b.	The required majority established in the Regulations to terminate the position of the directors: _________.		
	c.	The quorum established in the Regulations in the General Assembly in order to terminate the positions of the directors: _________.		
	d.	The majority required for changing these provisions in the Regulations: _________.		
8.		The Corporation has a training program for new directors in the corporation's businesses and in the law applicable to the corporation and directors, and an extension program for training serving directors that is adapted, inter alia, to the position filled by the director in the corporation[13]. If your answer is "Yes" – list whether the program was operated during the report year. Yes		√

[12] A debenture company is not required to answer this section.

[13] Overviews on the Company's business and on the Company's governing law and directors are regularly presented in the framework of the Board of Directors and its committees' meeting.

Competency and Skills of the Directors					
		☐ No *(Mark X in the appropriate box)*			
9.		a.	The Corporation established the minimum number of directors required for the Board of Directors who possess accounting and financial expertise. If your answer is "Yes" – list the minimum number established: 2.	√	
		b.	Number of directors who served in the corporation during the reporting year: Who possess accounting and financial skills[14]: 7[15] Who possess professional competency[16]: 0 *If changes are made to the number of directors as specified in the reporting year, the data on the lowest number will be given (with the exception of a period of time of 60 daysfrom the occurrence of the change) of directors of every type who served during the reporting year.*	_____	_____
10.		a.	In the entire reporting year, the Board of Directors included members of both genders. If your answer is "No" – list the amount of time (in days) in which the specified was not the case:____________. *In this question, "Yes" can be answered if the period of time in which no additional directors with accounting and financial expertise serve does not exceed 60 days, but with*	√	

[14] Following the evaluation of the Board of Directors, in accordance with the provisions of the Companies Regulations (Conditions and tests for directors with financial and accounting expertise and directors with professional qualifications)5766 - 2005.
[15] During 2021, there were changes to the composition of the Board of Directors and as of March 10, 2022, the date of approval of this report, the maximum number of directors with financial and accounting expertise on the Board of Directors of the Company stands at 4 directors.
[16] See footnote 13

Competency and Skills of the Directors					
			regards to any answer (Yes/No), the period of time (in days) in which directors of both genders did not serve: __________.		
		b.	Number of directors of each gender who serve on the corporation's Board of Directors as of the date of publication of this questionnaire: Men: 6[17], Women: 1.	_____	_____

Board of Directors Meetings (and Convening of Shareholders Meetings)					**Yes**	**No**
11.		a.	Number of Board of Directors meetings that took place during every quarter of the reporting year: First Quarter (2021) 2 Second Quarter 3 Third Quarter 1 Fourth Quarter 1		___	_____
		b.	Next to each of the names of the directors who served in the corporation during the reporting year, list the attendance rate[18] in Board of Directors meetings (in this sub- section – including the Board of Directors committee meetings in which the director is a member, as noted below) that took place during the reporting year (and referencing period of term of services):		____	_____

[17] including Baruch Itzhak who was appointed as an alternate director for Mr. Doron Cohen on January 20, 2022.

[18] See footnote 4.

(Add additional lines based on the number of directors).

Director's Name	Attendance Rate in Board of Directors meetings	Attendance Rate in Audit Committee Meetings (for director who is a member of this committee)[18]	Intentionally Deleted	Compensation Committee[19]	Attendance Rate in Other Board of Directors Committee Meetings in which the Director is a Member (noting the name of the committee)[20]
Tzachi Nachmias[21]	4/4	-		-	-
Dan Hoz[22]	1/1	-		-	-
Michael Yosef Salkind[23]	2/2	-		-	-
Amiram Erel[24]	6/7	-		-	-

[19] In respect of a director serving in this committee

[20] In respect of a director serving in this committee

[21] On 19/4/2021 was appointed as chairman of the Company’s Board of Directors. On 14/11/2021 ceased to be a director of the Company. In one of the meetings Mr. Dan Hoz attended as an alternate director for Mr. Tzachi Nachmias.

[22] On 8/6/2021 was appointed as an alternate director of Mr. Tzachi Nachmias. On 14/11/2021 was appointed a director and the chairman of the Company’s Board of Directors.

[23] On 24/6/2021 was appointed a director of the Company.

[24] On 27/12/2021 ceased to serve as a director of the Company.

			Lee-Bath Nelson	7/7	12/12		6/6	Investment Committee: 1/1 Investment Committee - Strategy Discussion: 3/3		
			Barak Mashraki [25]	7/7	11/12		6/6	Investment Committee: 1/1 Investment Committee - Strategy Discussion: 3/3		
			Ehud Rassabi[26]	1/1						
			Doron Haim Cohen	7/7	-		-	-		
			Yoram Turbowich[27]	2/2	-		-	-		

[25] On 2/3/2021 was appointed a director of the Company.

			Yacov Nimkovsky[28]	2/2	-		-	-		

[26] On 10/3/2021 ceased to serve as an external director of the Company

[27] On 1/4/2021 ceased to serve as a director of the Company.

[28] On 5/4/2021 ceased to serve as a director of the Company.

			Omer Serviansky[29]	5/5	-		-	-		
			Issac Idan[30]	2/2	-		-	-		
			Osnat Hilel-Fine[31]	5/5	-		-	-		
			Shalom Turgeman	7/7	11/12		6/6	Investment Committee: 1/1 Investment Committee - Strategy Discussion: 3/3		

[29] On 16/6/2021 ceased to serve as a director of the Company.
[30] On 5/4/2021 ceased to serve as a director of the Company.

[31] On 16/6/2021 ceased to serve as a director of the Company.

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[31] In a debenture company - approval in accordance with Section 121(d) of the Companies Law.

Separation of duties of the GENERAL MANAGER and the Chairman of the Board of Directors				
			Yes	**No**
12.		In reporting year, there was at least one discussion by the Board of Directors relating to the business management of the Corporation by the CEO and the officers subordinate to him without their presence and they were given an opportunity to express their position.	√	
13.		*Throughout the reporting year, a Chairman of the Board of Directors served in the corporation.* *In this question, "Yes" can be answered if the period of time in which no Chairman of the Board of Directors served does not exceed 60 days as specified in Section 363a(2) of the Companies Law), but in any answer (Yes/No), the period of time (in days) must be listed in which no Chairman of the Board of Directors was serving:18.*	√	
14.		Throughout the reporting year, a General Manager served in the corporation. *In this question, "Yes" can be answered if the period of time in which no General Manager served does not exceed 90 days as specified in Section 363A(b)(6) of the Companies Law), but in any answer (Yes/No), the period of time (in days) must be listed in which no General Manager was serving in the corporation:______________*	√	
15.		In a corporation in which the Chairman of the Board of Directors also serves as General Manager and/or wields its authorities, the double position was approved in accordance with the provisions of Section 121(c) of the Companies Law[31]. ☒ Not relevant (if no dual position exists in the corporation).		

[31] In a debenture company - approval in accordance with Section 121(d) of the Companies Law.

				Yes	No
16.		The General Manager is not a relative of the Chairman of the Board of Directors. If your answer is "No" (i.e. the General Manager is a relative of the Chairman of the Board)-		√	
		a.	The family relation between the parties will be noted_______.	_____	_____
		b.	The position was approved in accordance with Section 121 (c) of the Companies Law[32]: ☐ Yes ☐ No (*Mark X in the appropriate box)*	_____	_____
17.		The controlling shareholder or its relative does not serve as General Manager or senior officer in the corporation, except as a director. 1. Not relevant (the corporation has no controlling interest)		√	

[32] In a debenture company - approval in accordance with Section 121(d) of the Companies Law.

The Audit Committee					
				Yes	**No**
18.		In the Audit Committee, the following parties did not serve in the reporting year -		_____	_____
		a.	Controlling party or relative of controlling party. Not relevant (corporation has no controlling interest)	√	
		b.	Chairman of the Board of Directors.	√	
		c.	Director employed by the corporation or by a controlling party in the corporation or by a corporation that it controls.	√	
		d.	Director who provides the corporation or controlling party in the corporation or a corporation that it controls with services on a regular basis.	√	
		e.	Director whose main livelihood depends on the controlling party. Not relevant (corporation has no controlling interest).	√	
19.	Any party who is not entitled to be a member of the Audit Committee, including a controlling party or his relative, did not attend in the reporting year the Audit Committee meetings with the exception of the provisions of Section 115(e) of the Companies Law and the Companies Regulations (Provisions and Terms regarding the process of approving the Financial Statements), 5770-2010.			√	
20.	The quorum for a discussion and decisions in every Audit Committee meeting that convened during the reporting year included a majority of Committee members, with the majority present being independent directors and at least one external director. If your answer is "No" – list the percentage of meetings in which said requirement was not met as specified: _______			√	
21.	The Audit Committee convened during the reporting year at least one meeting attended by the internal auditor and independent auditor, as the case may be, and that was not attended by the offices in the			√	

The Audit Committee			
	corporation who are not Committee members, on the matter of deficiencies in management of the corporation's businesses.		
22.	Every Audit Committee meeting attended by a party who is not entitled to be a Committee member was approved by the Committee Chairman and/or at the Committee's request (with regards to the legal advisor and Corporate Secretary who is not a controlling party or his relative).	√	
23.	During the reporting year, arrangements were in effect, as determined by the audit committee, with respect to the handling of complaints raised by the corporation's employees regarding malfunctions in the management of its business and to the protection that shall be extended to such complaining employees.	√	
24.	The audit committee (and/or the financial statements review committee) is satisfied that the scope of the auditor's work and his fee relative to the financial statements during the reporting year, were appropriate for the purpose of performing adequate audit and review.	√	

Functions of the Financial Statement Review Committee (hereinafter – The Committee) in its Work Prior to Approval of the Financial Statements				
			Yes	**No**
25.				
	a.	The length of time (in days) established by the Board of Directors as a reasonable amount of time for the delivery of the committee's recommendations ahead of the Board of Directors for approval of the financial statements will be noted: 2	_____	_____
	b.	Number of days that actually passed between the date of delivery of the recommendations to the Board of Directors and the date of approval of the financial statements: First Quarter report (2021) 3 Second Quarter report 3 Third Quarter report 4 Annual Report 4	_____	_____
	c.	Number of days that passed between the date of transfer of the draft Financial Statements to Directors and the date of approval of the Financial Statements: First Quarter report (2021) 3 Second Quarter report 3 Third Quarter report 4 Annual Report 4		
26.		The auditor of the corporation participated in all Committee and Board of Director meetings in which the corporation's financial statements were discussed with regards to the periods included in the reporting year. If your answer is "No" – list the percentage of his participation: ______	√	

27.		In the Committee, throughout the reporting year and until publication of the annual report, all of the terms listed below were met:	_____	_____
	a	The number of members on the committee is not less than three (on the date of discussion in the committee and approval of statements, as specified).	√	
	b	All of the terms set forth in Section 115 (b) and (c) of the Companies Law (with regards to the tenure of the Audit Committee members) were met.	√	
	c	The Committee chairman is an external director.	√	
	d	All of its members are directors and the majority of its members are independent directors.	√	
	e	All of its members can read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	√	
	f	Committee members issued a declaration prior to their appointment.	√	
	g	The quorum for a discussion and to make decisions in the Committee was a majority of its members, provided that the majority of those present were independent directors, including at least one external director.	√	
		If your answer is "No" for one or more of these sub-sections of this question, list with regards to which report (periodic/ quarterly), the said conditions were note met:________.	_____	_____

Compensation Committee

28.	During the reporting year, the committee was comprised of no less than three members, and the external directors constituted a majority therein (at the time in which the discussion was held by the committee) ☐ Irrelevant (no discussion was held)	√	
29.	The terms of office and employment of all members of the compensation committee during the reporting year are in accordance with the Companies Regulations (Rules regarding Compensation and Expenses of External Directors), 5760-2000.	√	
30.	The following were not members of the compensation committee during the reporting year:	____	____
	a. The controlling party or his relative. ☐ Irrelevant (the corporation has no controlling party).	√	
	b. The chairman of the board of directors.	√	
	c. A director who is employed by the corporation or by the controlling party thereof or by a corporation controlled by him.	√	
	d. A director who regularly provides services to the corporation or to the controlling party thereof or to a corporation controlled by him.	√	
	e. A director whose main livelihood depends on the controlling party. ☐ Irrelevant (the corporation has no controlling party).	√	

31.	The controlling party or his relative were not present, during the reporting year, in meetings of the compensation committee, unless if the chairman determined that the presence of any of them is required to present a certain issue.	√	
32.	The compensation committee and the board of directors did not make use of their authority in accordance with sections 267A(C), 272(C)(3) and 272(C1)(1)(C) to approve a transaction or compensation policy, despite the opposition of the general meeting. If your answer is "No" it will be noted – The type of transaction that was so approved: __________ The number of time in which their authority was used during the reporting year: ____________	√	

Internal Auditor

33.	The Chairman of the Board of Directors or Chief Executive Officer of the corporation is the supervising organ of the internal auditor of the corporation.	√	
34.	The Chairman of the Board of Directors or the Audit Committee approved the work plan in the reporting year. In addition, the audit subjects which the internal auditor handled in the reporting year will be detailed: an examination of the Company's compliance with the investment policy and sale of holdings, an accompanying audit in respect of the cancellation of the services agreement with DIC and direct employment of the employees by Elron and controls as part of the program for prevention of embezzlements which was adopted in the Company.	√	
35.	The amount of work of the internal auditor of the corporation in the reporting year (in hours[33]): 550	____	_____
	In the reporting year, a discussion took place (in the audit committee or Board of Directors) regarding the findings of the internal auditor.	√	
36.	The internal auditor is not an interested party in the corporation, relative, auditor or his representative and does not maintain a significant business relationship with the Corporation, its controlling shareholder, relative or companies controlled by them.	√	

[33] Includes hours spent on held corporations or audits abroad, as applicable.

Transactions with Interested Parties			
		Yes	**No**
37.	The controlling party or his relative (including a Corporation it controls) <u>is not</u> employed by the corporation or provides it management services. If your answer is "No" (i.e. the controlling party or his relative is employed by the corporation or provides management services to it) – list - the number of relatives (including controlling party) employed by the corporation (including companies that are controlled by them and/or through management companies): -Were the transaction agreements and/or management services approved by the organs prescribed by law: ☐ Yes ☐ No (*Mark X in the appropriate box)* ☐ Not relevant (the corporation has no controlling party)	√	
38.	To the best of the corporation's knowledge, the controlling party <u>has no</u> other business in the area of the corporation's activity (in one or more segments). If your answer is "No" – list whether an arrangement has been made for demarcation of activities between the corporation and its controlling party. ☐ Yes ☐ No *(Mark X in the appropriate box)* ☐ Not relevant (the corporation has no controlling interest)	√	

Chairman of the Board of Directors:____________

Date: March 10, 2022

Chairman of the Audit Committee: ___________________

Date: March 10, 2022

Comments

Comment to Question 11b: The Audit Committee operates also as the Financial Statements committee.

Elron Ventures Ltd.
(formerly - Elron Electronic Industries Ltd.)

Part V

English Translation of the Annual Report regarding the Effectiveness of the Internal Control over Financial Reporting and Disclosure pursuant to Regulation 9b:

As of December 31, 2021

Attached herein is an annual report regarding the effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 9b of the Israel Securities Regulations (Periodic and Immediate Reports), 5730-1970:

Annual report regarding the effectiveness of the internal control over financial reporting and disclosure, pursuant to Regulation 9b(a):

Management, under the supervision of the board of directors of Elron Ventures Ltd. (formerly - Elron Electronic Industries Ltd.) (the "**Company**"), is responsible for establishing and maintaining adequate internal controls over the financial reporting and disclosure in the Company.

In this regard, the members of management are:

1. Mr. Yaron Elad, CEO;
2. Mr. Niv Levy, CFO.

The Company's internal control over financial reporting and disclosure is a process designed by, or under the supervision of, the Company's principal executive and principal financial officer, or persons performing similar functions, and under the board of directors' supervision, that is meant to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with the provisions of the law, and to ensure that the information that the Company is required to disclose in its reports according to the provisions of the law is recorded, processed, summarized and reported in a timely manner, in the format prescribed by law.

The internal control includes, inter alia, controls and procedures which were designed to ensure that information which the Company is required to disclose as aforesaid, is recorded and made available to the Company's management, including the principal executive officer and principal financial officer, or persons performing similar functions, as necessary to permit the timely adoption of resolutions pertaining to disclosure requirements.

Because of its inherent limitations, internal control over financial reporting and disclosure is not intended to provide absolute assurance regarding prevention or detection of misstatements or omissions.

The management, under the supervision of the board of directors, examined and assessed the Company's internal control over financial reporting and disclosure in the cooperation and its effectiveness; The assessment of the effectiveness of the internal control over financial reporting and disclosure conducted by the management under the board’s supervision included:

1) Preparing a scoping document for 2021, to assure the procedures and the significant locations which ought to be included in the current mapping, on which basis the scope of the effectiveness assessment was determined.
2) Examination of the highly significant procedures and controls in the Company and in the Company’s group companies, including: Entity Level Controls, controls over the Financial Closing and Reporting process, General Controls over the Information Technology (ITGC) and controls over procedures which are highly significant to the financial reporting, which included the process of investment in companies and Treasury.

Based on the aforementioned assessment of the effectiveness conducted by the management under the board of directors’ supervision, the Company's board of directors and management deemed the internal control over the financial reporting and disclosure as of December 31, 2021 effective.

Declaration of the Principal Executive Officer pursuant to Regulation 9b(d)(1):

Managers' Declaration

Declaration of the Chief Executive Officer

I, Yaron Elad, declare that:

(1) I have examined the annual report of Elron Ventures Ltd. (formerly - Elron Electronic Industries Ltd.) (the "**Company**") for the year 2021 (the "**Reports**");

(2) Based on my knowledge, the Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports;

(3) Based on my knowledge, the financial statements and other financial information included in the Reports, fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company, as of, and for the periods presented in the Reports;

(4) I have disclosed to the Company's independent auditors, board of directors and audit committee of the Company's board of directors, based on my most recent assessment of internal control over financial reporting and disclosure:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, which are reasonably likely to adversely affect the Company's ability to record, process, summarize or report financial information in a manner which may cast doubt on the reliability of the financial reporting and preparation of the financial statements in accordance with the provisions of the law; and –

(b) Any fraud, whether or not material, which involves the principal executive officer, a direct subordinate of the principal executive officer, or other employees who have a significant role in the internal control over financial reporting and disclosure.

(5) I, alone or together with others in the Company, have:

(a) Designed such controls and procedures, or caused such controls and procedures to be designed and maintained under my supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries as defined in the Israel Securities Law (Annual Financial Statements), 5770-2010, is made known to me by others within the Company and the consolidated subsidiaries, particularly during the period in which the Reports are being prepared; and –

(b) Designed such controls and procedures, or caused such controls and procedures to be designed and maintained under my supervision, to reasonably ensure the reliability of the financial reporting and preparation of the financial statements in accordance with the provisions of the law, including in accordance with GAAP;

(c) Evaluated the effectiveness of the internal control over financial reporting and disclosure, and presented in this report the conclusions of the board of directors and management regarding the aforesaid effectiveness of the internal control to the date of the reports.

Nothing in the aforesaid derogates from my responsibility or the responsibility of any other person, pursuant to any law.

March 10, 2022

Yaron Elad, CEO

Declaration of the Principal Financial Officer pursuant to Regulation 9b(d)(2):

Managers' Declaration

Declaration of Principal Financial Officer

I, Niv Levy, declare that:

(1) I have examined the interim financial statements and other financial information which is included in the interim reports of Elron Ventures Ltd. (formerly - Elron Electronic Industries Ltd.) (the "**Company**") for 2021 (the "**Reports**");

(2) Based on my knowledge, the financial statements and other financial information which is included in the Interim Reports do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Reports;

(3) Based on my knowledge, the financial statements and other financial information included in the Reports fairly present, in all material respects, the financial condition, results of operations and cash flows of the Company, as of, and for the periods presented in the Reports;

(4) I have disclosed to the Company's independent auditor, board of directors and the audit committee of the Company's board of directors, based on my most recent assessment of internal control over financial reporting and disclosure:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure, insofar as the same refers to the financial statements and other financial information which is included in the Reports, which are reasonably likely to adversely affect the Company's ability to record, process, summarize or report financial information in a manner which may cast doubt on the reliability of the financial reporting and preparation of the financial statements in accordance with the provisions of the law; and –

(b) Any fraud, whether or not material, which involves the principal executive officer, a direct subordinate of the principal executive officer, or other employees who have a significant role in the internal control over the financial reporting and disclosure.

(5) I, alone or together with others in the Company, have:

(a) Designed controls and procedures, or caused such controls and procedures to be designed and maintained under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries as defined in the Israel Securities Law (Annual Financial Statements), 5770-2010, is made known to me by others in the Company and the consolidated subsidiaries, particularly during the period in which the Reports are being prepared; and –

(b) Designed such controls and procedures, or caused such controls and procedures to be designed and maintained under our supervision, to reasonably ensure the reliability of the financial reporting and preparation of the financial statements in accordance with the provisions of the law, including in accordance with GAAP;

(c) Evaluated the effectiveness of the internal control over financial reporting and disclosure, insofar as the same refers to the financial statements and other financial information which is included in the Reports for the period presented in the Reports; my conclusions regarding my aforesaid evaluation were presented to the board of directors and management and are included in this report.

Nothing in the aforesaid derogates from my responsibility or the responsibility of any other person, pursuant to any law.

March 10, 2022

Niv Levy, CFO

English Translation of Liabilities report of the Company by repayment date

Section 36a to the Israel Securities Law (1968)

Report as of December 31, 2021

Following are the liabilities of the Company by repayment date:

The following data are presented in NIS and were translated from USD to NIS using the exchange rate as of December 31, 2021 (1 USD = 3.110 NIS)

A. Debentures issued to the public by the reporting Entity and held by the public, excluding debentures held by the Company's parent ,controlling shareholder, companies controlled by one of the parties mentioned above or by companies controlled by the company - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

B. Private debentures and non-bank credit, excluding debentures or credit granted by the Comapny's parent, controlling shareholder, companies controlled by one of the parties mentioned above or by companies controlled by the company - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

C. Bank credit from Israeli banks - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

D. Bank credit from non-Israeli banks - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

E. Summary of tables A-D, totals of: bank credit, non-bank credit and debentures - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

F. Off-balance credit exposure - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

G. Off-balance credit exposure of all consolidated companies, excluding companies that are considered as reporting companies, and excluding the reporting Company's data described above in Table F (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

H. Totals of: bank credit, non-bank credit, and debentures of all consolidated companies, excluding companies that are considered as reporting companies and excluding the data of the reporting Entity described above in Tables A-D (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	24,880	0	6,223	31,103
Total	0	0	0	24,880	0	6,223	31,103

I. Total credit granted to the reporting Entity by the parent company or controlling shareholder, and total amounts of debentures issued by the reporting Entity that are held by the parent company or controlling shareholder (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

J. Credit granted to the reporting Entity by companies controlled by the parent company or by the controlling shareholder, and are not controlled by the reporting Entity, and debentures issued by the reporting Entity held by companies controlled by the parent company or by controlling shareholder and are not controlled by the reporting Entity (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0	0	0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

K. Credit granted to the reporting Entity by consolidated companies and debentures issued by the reporting Entity held by consolidated companies (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)	Total by years
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other		
First year	0	0	0	0	0	0	0
Second year	0	0		0	0	0	0
Third year	0	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0

L. (1) Cash and cash equivalents, marketable securities and short-term deposits based on the Company's separate financial data (NIS in thousands) 149,169

(2) Cash and cash equivalents, marketable securities and short-term deposits based on the Company's consolidated Statements (NIS in thousands) 258,134