

ELRON ELECTRONIC INDUSTRIES LTD.

English Translation of Periodic Report
for the Second Quarter of 2021
Filed with the Israel Securities Authority

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ELRON ELECTRONIC INDUSTRIES LTD.

English Translation of Periodic Report
for the Second Quarter of 2021
Filed with the Israel Securities Authority

Part I

Material Changes and Updates that Occurred in
Elron's Business for the Three Months ended
June 30, 2021

Elron Electronic Industries Ltd.
("Elron" or the "Company")
English Translation of Quarterly Report
for the Second Quarter of 2021

Part I

Material Changes and Updates that Occurred in the Company's
Business in the Three Months Ended June 30, 2021

Details according to Regulation 39A of the Israel Securities Regulations (Periodic
and Immediate Reports), 1970

In this section:

"Board of Directors Report"	English Translation of Elron's Board of Directors Report for the Second Quarter of 2021, included in Part II of this report.
"Financial Statements"	English Translation of Elron's Interim Consolidated Financial Statements as of June 30, 2021, included in Part III of this report.
"Annual Report"	Elron's Annual Report for the year ended December 31, 2020 filed with the Israeli Securities Authority.

The rest of the terms in this report shall have the meaning ascribed to them in the Annual Report, unless stated explicitly otherwise.

The matters described below are in addition to the developments and changes that occurred in the second quarter of 2021 that were already previously described in Part I of the Company's Quarterly Report for the First Quarter of 2021. The matters described below are presented according to the section numbers in Part I of the Annual Report.

1. Section 2 of Part I of the Annual Report – Description of Elron's Operations and Description of the Evolution of Its Business

1.1 Section 2.1 – Description of Elron's Operations - in June 2021, an agreement was signed for the sale of the entire shares of SecuredTouch. RDC's share of the consideration in the transaction, amounted to approximately \$10.5 million and as a result, Elron recognized in the second quarter of 2021, an income in the amount of approximately \$10.5 million. For further details, see Note 3.C to the Financial Statements.

1.2 Section 2.2 – Elron's Shareholders - Further to Section 2.2 of Part I of the Annual Report, regarding the appointment of receivers over the shares of Discount Investment Corporation Ltd. ("DIC"), the Company's controlling shareholder, in June 2021, Elco Ltd. ("Elco") completed the purchase of 29.8% of DIC's issued share capital.

2. Section 14 of Part I of the Annual Report – Human Capital

Mr. Elik Etzion was appointed as the Company's Chief Strategy Officer, commencing July 2021. For further details, see Section 2.1 of the Board of Directors Report.

3. Section 15 of Part I of the Annual Report – Investments

In the first half of 2021, Elron (directly and indirectly) invested approximately \$8.6 million in the group companies. For further details, see Section 1.4 of the Board of Directors Report and Note 3 to the Financial Statements.

4. Section 24 of Part I of the Annual Report – BrainsGate

Sections 24.11 and 24.19 - In regards with BrainsGate's application for PMA marketing approval to the FDA and following the list of questions, requests for clarifications, and required supplementary testing received by from the FDA, during the second quarter of 2021, BrainsGate completed all required tests and submitted its response to the FDA.

5. Section 25 of Part I of the Annual Report – CartiHeal

Sections 25.11 and 25.13 - In August 2021, subsequent to the reporting date, 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 (the “Transaction”). For details on the Transaction, including the Conditions Precedent to the Transaction, see section 25.13 in Part I of the of the Annual 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.

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 25.11 in Part I of the Annual 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 the Annual Report). CartiHeal is expected to complete the submission to the FDA of the third and final module of the PMA application (the clinical module, which will include the final results of the pivotal clinical trial as detailed above) by the end of 2021.

CartiHeal's above estimates are forward-looking in nature, as defined in the Israel Securities Law, 5728-1968, and are based on CartiHeal's estimations and information existing in CartiHeal as of the reporting 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, reliance on third parties including data analysis services, FDA feedback on submissions, feedback from the medical and scientific community, unforeseen regulatory difficulties, regulatory changes and restrictions on supply of raw material for implant manufacture, failure to meet goals, inability to realize technologies, modifications in technologies, modifications in the business plan, goals and/or strategy, or if any risk described in Section 22 of Part I of the Annual Report is realized.

Yaron Elad

CEO

Niv Levy

CFO

August 12, 2021, Tel Aviv, Israel

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Part II

Board of Directors Report for the Second
Quarter of 2021

Elron Electronic Industries Ltd.
Part II
English Translation of Board of Directors Report
for the Second Quarter of 2021

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

1.1. Company Description

1.1.1. General

Elron Electronic Industries Ltd. ("Elron", the "Company") is an operational holding company that focuses on building technology companies. Currently, Elron has significant holdings in medical device, cybersecurity and enterprise software 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 Interim consolidated financial statements as of June 30, 2021 (the "Financial Statements").

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

In the absence of Mr. Zahi Nahmias, chairman of the Board of Directors, at the time of the approval of this report, the Company's Board of Directors authorized Mr. Dan Hoz, an Alternate Director to the chairman of the Board of Directors, to sign the Company's reports for the second quarter of 2021, including this report, the Financial Statements and the separate financial information, in lieu of the chairman of the Board of Directors.

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.

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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 .

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.
- **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.
- **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.

For details on the criteria for classifying a Group Company as a main company, see section 1.5 of Part I of the Company's Annual Report for 2020.

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:

- **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.
- **Pocared Diagnostics Ltd. (4% by Elron, 6% by RDC*) ("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.
- **Coramaze Technologies Ltd. (28%) ("Coramaze")** - Coramaze is developing a minimally invasive device to repair heart valves.
- **Nitinotes Ltd. (21%) ("Nitinotes")** - Nitinotes is developing a minimally invasive endoscopic procedure for treatment of obesity.
- **Notal Vision Inc. (11%) ("Notal Vision")** - Notal Vision develops and provides ophthalmic diagnostic services for managing age-related macular degeneration (AMD) from home and improving vision outcomes.
- **IronScales Ltd. (13% 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.

* In regards with additional economic rights, see Note 3.D to the Financial Statements.

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- **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).
- **Cynerio Israel Ltd. (22% by RDC) ("Cynerio")** - Cynerio develops and provides a platform that enables healthcare providers to secure patient data and connected medical devices against cyber threats.
- **Oz Code Ltd. (46% by RDC) ("OzCode")** - Ozcode has developed and markets a debugging platform for development and production environments that reduces time spent on debugging and shortens release cycles.
- **Sayata Labs Ltd. (19% by RDC) ("Sayata")** - Sayata develops and markets technological solutions for insurance agencies and companies to assess the risk in cyber insurance policies for small and medium businesses.
- **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.
- **Imvision Software Technologies Ltd. (SAFE- Simple Agreement for Future Equity by RDC) ("Imvision")** - Imvision develops an AI-based API security threat detection solution.
- **Sighted Technologies Ltd. (21% by RDC) ("Sighted")**- Sighted is developing a security platform to detect and defeat SaaS-native threats.
- **PlyMedia Israel (2006) Ltd. (22%) ("PlyMedia")** - PlyMedia has developed and markets a digital advertising platform for ad networks.
- **AudioBurst Ltd. (7%) ("AudioBurst")** - AudioBurst is developing and supplying a search engine which enables one to find and to hear audio content on any subject from anywhere in the world.
- **KZen Networks Ltd. (8%) ("KZen")** - KZen develops and provides a secure crypto wallet that doesn't compromise between security and user experience.
- **Scribe Security Ltd. (SAFE - Simple Agreement for Future Equity 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.

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 3.R to the Financial Statements.

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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; 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 and more recently also from the consequences of the corona virus (COVID-19). 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 1.2.3 below.

1.2. Description of Operations in the Period of this Report 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 (the "Acquirer") for the sale of the entire outstanding share capital of Alcide (the "Transaction"). Along 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 to the Financial Statements).
- **SecuredTouch Inc. ("SecuredTouch")** - In June 2021, an agreement was signed and completed for the sale of the entire shares of SecuredTouch (the "Transaction"). Pursuant to the Transaction, RDC received in July 2021, subsequent to the reporting date, 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 18 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, a net income (net of non-controlling interests) in the amount of approximately \$5.2 million (consolidated net income in the amount of approximately \$10.5 million (for further details, see Note 3.C to the Financial Statements).
- **Kindite Ltd. ("Kindite")** - In March 2021, Kindite sold all its assets in consideration for approximately \$8.2 million. RDC's expected share in the sale consideration is estimated at approximately \$3.7 million and as a result, in the first quarter of 2021, Elron recognized net income (net of non-controlling interests) in the amount of \$1.9 million (consolidated net income in the amount of \$3.7 million) (for further details, see Note 3.G to the Financial Statements).

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- **Aqwise – Wise Water Technologies Ltd. ("Aqwise")** - In April 2021, an agreement for the sale of Aqwise was signed in consideration for an immediate consideration, an escrow deposit and contingent consideration. In July 2021, subsequent to the reporting date, the sale was completed. The investment in Aqwise as of June 30 2021, is in the amount of \$2 million and reflects the estimate of the consideration that is expected to be received as a result of the sale (for further details, see Note 3.O to the Financial Statements).

1.2.2. Investments

- In the first half of 2021, Elron (directly and through RDC) invested approximately \$8.6 million in the Group Companies. For further details see section 1.4 below and Note 3 to the Financial Statements.
- **External financing round in Kzen, led by new investor** - In April 2021, an investment in Kzen, 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 3.L to the Financial Statements).
- **External financing round in Cynerio, led by new investor** - In April 2021, an investment agreement in Cynerio was signed in a total amount of up to \$25 million led by a new investor and with the participation of its existing investors. An amount of \$13.25 million was invested immediately and subsequent to the reporting date, an additional amount of approximately \$8 million was invested (RDC's share in the total investment is \$2.25 million) (for further details, see Note 3.H to the Financial Statements).
- **External financing round in Sayata, led by new investors** - In June 2021, an investment agreement in Sayata was signed in a total amount of up to \$17 million led by new investors and with the participation of its existing shareholders. An amount of \$13.5 was invested immediately (RDC's share in this investment was \$1.5 million) (for further details, see Note 3.I to the Financial Statements).
- **New investment** - In May 2021, RDC completed its first investment in **Scribe** in an amount of \$1.0 million as part of SAFE agreement (for further details, see Note 3.N to the Financial Statements). In addition, in July 2021, subsequent to the reporting date, RDC invested its first investment in **Keepy** in a total amount of \$3.0 million (for further details, see Note 3.P to the Financial Statements).

1.2.3. Developments in Group Companies

- **Success in CartiHeal's pivotal clinical trial**- Further to sections 25.11 and 25.13 in Part I of the Company's Annual Report for 2020, in August 2021, subsequent to the reporting date, 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 (the "Transaction"). For details on the Transaction, including the Conditions Precedent to the Transaction, see section 25.13 in Part I of the Company's Annual Report for 2020. There is no assurance as to the Transaction's consummation or the timing thereof.

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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.

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 25.11 in Part I of the Company's Annual Report for 2020, 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 the Company's Annual Report for 2020). CartiHeal is expected to complete the submission to the FDA of the third and final module of the PMA application (the clinical module, which will include the final results of the pivotal clinical trial as detailed above) by the end of 2021.

CartiHeal's above estimates are forward-looking in nature, as defined in the Israel Securities Law, 5728-1968, and are based on CartiHeal's estimations and information existing in CartiHeal as of the reporting 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, reliance on third parties including data analysis services, FDA feedback on submissions, feedback from the medical and scientific community, unforeseen regulatory difficulties, regulatory changes and restrictions on supply of raw material for implant manufacture, failure to meet goals, inability to realize technologies, modifications in technologies, modifications in the business plan, goals and/or strategy, or if any risk described in section 22 in Part I of the Company's Annual Report for 2020 is realized.

- **Submission of PMA marketing approval application to the FDA by BrainsGate** - Further to sections 24.11 and 24.19 in Part I of the Company's Annual Report for 2020, in regards with BrainsGate's application for PMA marketing approval to the FDA and following the list of questions, requests for clarifications, and required supplementary testing received from the FDA, during the second quarter of 2021, BrainsGate completed all required tests and submitted its response to the FDA.

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- **The impact of the spread of the coronavirus** The impact of the coronavirus - Further to section 22.1 in Part I of the Company's Annual Report for 2020, the Company is monitoring and examining the impact of the spread of the coronavirus (COVID-19) on its activities as a whole, and the focal points of potential 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 clients, suppliers and business partners at the focal points of the virus; 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 recruiting patients for clinical trials. The aforesaid factors had no material effect on the Company's results in the first half of 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 3.R to the Financial Statements.
- As of the date of filing this report, Elron's and RDC's non-consolidated liquid resources amounted to approximately \$49.3 million and \$35.7 million, respectively. These amounts include Elron's and RDC's bank deposits in the amount of approximately \$24 and \$16.8 million, respectively, and other short term investments in securities of Elron and RDC in the amount of approximately \$5.4 million and \$0.3 million, respectively. As of the date of filing this report, Elron has no 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.

1.3. Results of Operations

1.3.1. Elron's main operating results

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December 31, 2020
	2021	2020	2021	2020	Audited
	Unaudited				
	\$ thousands				
Gain (loss) attributable to Elron's shareholders	8,809	(11,677)	881	(3,619)	(17,723)
Basic gain (loss) per share attributable to Elron's shareholders (in \$)	0.19	(0.27)	0.02	(0.08)	(0.41)
Diluted gain (loss) per share attributable to Elron's shareholders (in \$)	0.18	(0.27)	0.02	(0.08)	(0.41)

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As previously mentioned, the loss attributable to Elron's shareholders mainly comprises 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) taxes on income, as detailed below:

	For the six months ended June 30,		For the three months ended June 30,		For the year ended December
	2021	2020	2021	2020	31, 2020
\$ thousands					
Losses in respect of Group Companies:					
Elron's share in net losses of Group Companies, net	(3,902)	(8,505)	(1,830)	(2,791)	(12,281)
Excess cost amortization	(50)	(66)	(25)	(33)	(116)
Total	(3,952)	(8,571)	(1,855)	(2,824)	(12,397)
Gain (loss) from sale, revaluation, realization of operation and changes in holdings, net	17,304	(538)	3,768	157	765
Corporate operating expenses	(1,891)	(1,790)	(964)	(829)	(4,252)
Tax benefit (Taxes on income)	(2,209)	(28)	204	-	1,339
Other	(443)	(750)	(272)	(123)	(3,178)
Gain (loss) attributable to shareholders	8,809	(11,677)	881	(3,619)	(17,723)

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

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 an increase in R&D expenses (insofar as these expenses are not capitalized as intangible assets as is permitted, according to accounting principles, only when technological feasibility has been established). 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 in the second quarter and first half of 2021 in respect of its share in the losses of Group Companies (net of non-controlling interests) resulted mainly from the losses of Pocared, SixGill, Sayata, Oz Code and CartiHeal.

The loss Elron recorded in the second quarter and first half of 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, Alcide and Nitinotes.

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

Gain (loss) from sale, revaluation, realization of operation and changes in holdings and updating the value of investments measured at fair value, in the second quarter and the first half of 2021 resulted mainly from:

- An approximately \$11.3 million gain (before tax) recorded in the first quarter as a result of the sale of Alcide (for further details see section 1.2.1 above).
- An approximately \$5.2 million gain (net of non-controlling interests) recorded in the second quarter as a result of the sale of SecuredTouch (for further details see section 1.2.1 above).
- An approximately \$2.8 million gain recorded in the first quarter as a result of increase in the fair value of the investment in KZen.
- An approximately \$1.9 million gain (net of non-controlling interests) recorded in the first quarter as a result of the sale of Kindite's operation (for further details see section 1.2.1 above).
- An approximately \$0.8 million loss recorded in the first half due to a decrease in the fair value of the investment in Aqwise, out of which an approximately \$0.3 million loss was recorded in the second quarter of 2021.
- An approximately \$1.2 million loss recorded in the second quarter 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 in the first quarter 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 (see Note 3.D to the Financial Statements).

Gain (loss) from sale, revaluation, realization of operation and changes in holdings and updating the value of investments measured at fair value, in the second quarter and the first half of 2020 resulted mainly from:

- An approximately \$1.4 million loss recorded due to a decrease in the fair value of the investment in Aqwise, out of which a loss of \$0.6 million was recorded in the second quarter of 2020.
- An approximately \$0.7 million gain recorded due to increase in the fair value of the investment in Notal Vision during the second quarter of 2020.

III) Corporate operating expenses

Corporate operating expenses mainly include general and administrative expenses. The increase in the first half of 2021 compared with the first half of 2020 resulted mainly due to USD-NIS exchange rate fluctuations as well as the increase in the insurance premium of Elron's officers in 2021.

IV) Tax Benefit (taxes on Income)

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 recorded from sale of Alcide. Tax expenses in the first half of 2021 resulted mainly from the reversal of the said tax asset.

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1.3.2. Analysis of the consolidated statements of profit and loss

	For the six months ended June 30,		For the three months ended June 30,		
	2021	2020	2021	2020	
Unaudited					Explanation
\$ thousands					
Gain (loss) from sale, revaluation, realization of operation and changes in holdings, net	22,931	(529)	9,013	138	<p>In the first half and the second quarter of 2021, this item mainly included a \$11,300 thousand gain recorded in the first quarter due to the sale of Alcide, a \$10,470 thousand gain recorded in the second quarter due to sale of SecuredTouch , a \$3,700 thousand gain recorded in the first quarter as a result of the sale of Kindite's operation, an approximately \$2,800 thousand gain recorded in the first quarter due to an increase in the fair value of the investment in KZen, a \$850 thousand loss recorded in the first half due to the decrease in the fair value of the investment in Aqwise (out of which \$300 thousand loss was recorded in the second quarter), a \$3,300 thousand loss recorded in the first quarter due to the decrease in the participating share in profit or loss of Pocared and a \$1,200 thousand loss recorded in the second quarter due to a decrease in the fair value of the investment in Notal Vision.</p> <p>In the first half and second quarter of 2020, this item mainly included an approximately \$1,400 thousand loss (out of which \$600 thousand was recorded in the second quarter) due to a decrease in the fair value of the investment in Aqwise. This loss was partially offset by a \$700 thousand gain recorded in the second quarter due to an increase in the fair value of the investment in Notal Vision.</p>
Financial income	266	744	241	302	<p>Financial income in the first half and the second quarter of 2021 resulted mainly from interest income on deposits and debentures.</p> <p>Financial income in the first half of 2020 resulted mainly from interest income on deposits and debentures and from USD-NIS exchange rate fluctuations. Financial income in the second quarter of 2020 mainly resulted from interest income on deposits and debentures and an increase in the value of debentures measured at fair value.</p>
Total income	23,197	215	9,254	440	

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	For the six months ended June 30,		For the three months ended June 30,		Explanation
	2021	2020	2021	2020	
Unaudited					
\$ thousands					
Research and development expenses	-	1,582	-	470	
General and administrative expenses	2,973	3,830	1,541	1,709	See analysis of Elron's and RDC's operating expenses below.
Equity in losses of associates, net	5,819	8,982	2,775	3,173	<p>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.</p> <p>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.</p> <p>The decrease in Elron's share in the losses of its associates in the first half of 2021 compared with the first half of 2020 resulted mainly from a \$2,000 thousand loss recorded in the first half of 2020, following an investment in BrainsGate and the full deduction of the investment immediately thereafter because of equity losses that were not recorded in the past. In addition, the decrease is due to a decrease in Elron's share in Alcide's losses since Alcide was sold in the first quarter of 2021 (see section 1.2.1 above).</p>

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	For the six months ended June 30,		For the three months ended June 30,		Explanation
	2021	2020	2021	2020	
Unaudited					
\$ thousands					
Financial expenses	217	1,012	288	176	Financial expenses in the first half and the second quarter of 2021 resulted mainly from interest expenses in respect of the loan granted to RDC by Rafael (see section 1.2.4 above). Financial expenses in the first half of 2020 resulted mainly from a decrease in the fair value of debentures measured at fair value.
Total expenses	9,009	15,406	4,604	5,528	
Gain (loss) before taxes on income	14,188	(15,191)	4,650	(5,088)	
Tax benefit (taxes on income)	(2,209)	(62)	204	-	
Gain (loss)	11,979	(15,253)	4,854	(5,088)	
Gain (loss) attributable to the Company's shareholders	8,809	(11,677)	881	(3,619)	
Gain (loss) attributable to non-controlling interests	3,170	(3,576)	3,973	(1,469)	The gain or loss attributable to non-controlling interests results mainly from the share of the non-controlling interests in the gain or loss recorded by RDC. The gain attributable to non-controlling interests In the first half and second quarter of 2021, resulted mainly from the share of non-controlling interests in the gain recorded by RDC from the sale of SecuredTouch and Kindite (see section 1.2.1 above), which was partially offset mainly by the share of non-controlling interests in the loss recorded by RDC in respect of its group companies.

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	<u>For the six months</u> <u>ended June 30,</u>		<u>For the three months</u> <u>ended June 30,</u>		<u>Explanation</u>
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	
	Unaudited				
	\$ thousands				
Basic gain (loss) per share attributable to the Company's shareholders (in \$)	0.19	(0.27)	0.02	(0.08)	
Diluted gain (loss) per share attributable to the Company's shareholders (in \$)	0.18	(0.27)	0.02	(0.08)	

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Operating Expenses

Operating expenses in the first half and second quarter of 2021 amounted to \$2,973 and \$1,541 thousand, respectively, compared with \$3,024 and \$1,404 thousand, respectively, in the first half and second quarter of 2020, and comprised mainly of general and administrative expenses of Elron's and RDC's corporate operations (the comparative figures in the table do not include the operating expenses of Pocared which was consolidated in the first half of 2020 and its consolidation was discontinued in August 2020), as detailed below:

	<u>For the six months</u> <u>ended June 30,</u>		<u>For the three months</u> <u>ended June 30,</u>		<u>Explanation</u>
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	
	<u>\$ thousands</u>				
Corporate	1,891	1,866	964	834	The increase in the corporate expenses in the second quarter of 2021 compared with the second quarter of 2020 resulted mainly due to USD-NIS exchange rate fluctuations as well as the increase in the insurance premium of Elron's officers.
RDC	1,082	1,158	577	570	-
Total	2,973	3,024	1,541	1,404	

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1.3.3. Analysis of the results of operations of main associates

	Loss for the six months ended June 30,		Loss for the three months ended June 30,		Explanation
	2021	2020	2021	2020	
Unaudited					
\$ thousands					
BrainsGate	1,434	2,396	614	1,102	BrainsGate is in the development stage and has not yet commenced sales. BrainsGate's losses mainly result from research and development expenses. The decrease in loss in the first half and second quarter of 2021 compared with the first half and second quarter of 2020 resulted mainly from a decrease in costs attributed to completing tests in regards with BrainsGate's application for marketing approval to the FDA and also from a decrease in financing expenses as a result of revaluation of warrants for BrainsGate's shares.
CartiHeal	4,643	3,262	2,263	1,399	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 the first half and second quarter of 2021 compared with the first half and second quarter of 2020 resulted mainly from cost reduction act taken by CartiHeal in the second quarter of 2020, following the coronavirus.

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1.4. Financial Position, Liquidity and Capital Resources

Financial position

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
	<u>Unaudited</u>	<u>Audited</u>
	<u>\$ thousands</u>	
Total assets in the consolidated statement of financial position	138,906	84,954
Current assets	81,436	36,606
Investments in associates and other companies (including assets classified as held for sale)	42,158	41,174
Other long-term assets	3,980	2,292
Deferred taxes assets	-	1,550
Intangible assets	3,051	3,051
Current liabilities	4,354	4,732
Other long-term liabilities	1,312	1,404
Deferred taxes liabilities	659	-
Long term loan	8,117	-
Total liabilities	14,442	6,136
Equity (including non-controlling interests)	124,464	78,818

Total equity (including non-controlling interests) at June 30, 2021 was 124,464 thousand, representing approximately 90% 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 also an increase in liquid resources and in the balance of short term receivables due to the sale of Alcide and SecuredTouch (see section 1.2.1 above).

Consolidated working capital at June 30, 2021 amounted to \$77,082 thousand, compared with \$31,874 thousand at December 31, 2020. The increase in working capital resulted from the increase in liquid resources due to capital raising which was completed by Elron in April 2021 and from the sale of Alcide, and as a result of an increase in short-term receivables due to the sale of SecuredTouch.

The increase in liabilities as of June 30, 2021, compared with December 31, 2020, resulted from receipt of loan by RDC from Rafael in the amount of \$8,000 thousand (see section 1.2.4 above).

The Company did not include a section on exposure to market risks and their management in the Board of Directors report for this quarter, as the Company is no longer required to according to the conditions set forth in sections 10 (b) (7) to the Israel Securities Regulations (Periodic and Immediate Reports).

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

	For the six months ended June 30,		For the three months ended June 30,	
	2021	2020	2021	2020
Unaudited				
\$ thousands				
Investments in Elron's and RDC's group companies	(8,680)	(7,183)	(7,680)	(286)
Taxes paid	-	(702)	-	-
Proceeds from disposal of Elron's and RDC's non-current investments (2)	12,994	240	2,641	184
Proceeds from issuance of shares, net of issuance expenses	33,668	-	33,668	-
Receipt of 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.

(2) In July 2021, subsequent to the reporting date, RDC received proceeds in an amount of approximately \$10 million from the sale of its holdings in SecuredTouch . For further details see section 1.2.1 above.

Liquid resources balance

Elron's and RDC's non-consolidated liquid resources at June 30, 2021 amounted to \$49,797 and \$28,901 thousand, respectively (Elron's and RDC's liquid resources as of June 30, 2021 included other short term investments in securities of Elron and RDC in the amounts of \$5,417 and \$259 thousand, respectively, bank deposits of Elron and RDC in the total amount of \$14,021 and \$4,805 thousand, respectively, and long term bank deposits of Elron and RDC in the total amount of \$6,001 and \$2,002 thousand, respectively).

In July 2021, subsequent to the reporting date, RDC received proceeds in an amount of approximately \$10,000 thousand, from the sale of its holdings in SecuredTouch. For further details see section 1.2.1 above.

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 total amounts of \$3,770 and \$668 thousand, in Elron and RDC, respectively and bank deposits of Elron and RDC in the total amount of \$11,046 and \$4,023 thousand, respectively).

Uses of cash

The main uses of cash in the second quarter and first half of 2021 were investments in Group Companies in the amount of \$2,251 thousand by Elron and an amount of \$5,380 and \$6,380 thousand, invested by RDC in the second quarter and first half of 2021, respectively. Also, cash was used to pay corporate and RDC's operating expenses, as detailed above in section 1.3.2 above.

The main uses of cash in the second quarter and first half of 2020 were investments in Group Companies in the amount of \$286 and \$4,786 thousand, respectively, by Elron, and \$2,397 thousand, invested by RDC in the first half of 2020. Also, cash was used to pay corporate and RDC's operating expenses.

Investments in Group Companies during the second quarter and first half of 2021 and 2020, and for the year ended December 31, 2020, are summarized in the following table (see also Note 3 to the Financial Statements for additional details regarding investments in Group Companies):

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	Elron			RDC		
	For the six months ended June 30,		Year	For the six months ended June 30,		Year
	2021	2020	2020	2021	2020	2020
	Unaudited \$ thousands		Audited \$ thousands	Unaudited \$ thousands		Audited \$ thousands
BrainsGate	-	2,000	2,000	-	-	-
CartiHeal	-	1,500	1,500	-	-	-
Alcide	-	500	500	-	-	-
Coramaze	-	286	286	-	-	-
Kindite	-	-	-	400	-	400
OzCode(1)	-	-	-	700	647	1,500
One-View	-	-	-	-	750	750
Sayata	-	-	-	1,500	-	1,000
KZen	1,667	-	-	-	-	-
Cynerio	-	-	-	2,250	-	-
Imvision	-	-	-	-	-	2,000
Sighted	-	-	-	100	-	3,100
Pocared	-	500	540	-	1,000	1,060
Notal Vision	584	-	-	-	-	-
SecuredTouch	-	-	-	430	-	-
Scribe	-	-	-	1,000	-	-
Other	-	-	100	-	-	30
Total investments	2,251	4,786	4,926	6,380	2,397	9,840

(1) In July 2021, subsequent to the reporting date, RDC invested \$200 thousand in OzCode.

(2) In July 2021, subsequent to the reporting date, RDC invested its first investment in Keepy in a total amount of \$3,000 thousand (for further details, see section 1.2.2 above).

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

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

- Consideration in the amount of approximately \$10,400 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.
- Initial consideration in the amount of approximately \$2,500 thousand as a result of the sale of Kindite's assets.

In July 2021, subsequent to the reporting date, RDC received proceeds in the amount of \$10,000 thousand from the sale of its holdings in SecuredTouch. For further details see section 1.2.1 above.

Proceeds received from the disposal of non-current investments in the first half of 2020 included \$200 thousand from the release of the deposit that was held in escrow as a result of the sale of Cyber Secdo Ltd. in 2018.

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Main Group Companies' cash flows during the reporting period

	Cash flows used in operating activities				Liquid resources balance	
	For the six months ended June 30,		For the three months ended June 30,		As of June 30,	As of December 31,
	2021	2020	2021	2020	2021	2020
	Unaudited				Audited	
\$ thousands						
BrainsGate	(2,146)	(1,590)	(911)	(810)	11,891	13,865
CartiHeal	(5,622)	(4,553)	(2,345)	(1,436)	11,802	17,541

2. Corporate Governance

2.1 The Company's Board of Directors and it's Committees

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

In April 2021, Mr. Zahi Nahmias was appointed chairman of the Company's Board of Directors. In addition, in June 2021, Mr. Dan Hoz was appointed as an alternate director to Mr. Zahi Nahmias and will serve as chairman of the Board of Directors in his absence.

Additional changes in the Company's Board of Directors

In April 2021, Yoram Turbowicz (who served as chairman of the Board of Directors), Isaac Idan and Yacov Nimkovsky ceased to serve as directors of the Company.

In June 2021, Mr. Salkind Michael Joseph was appointed as director of the Company. In addition, in June 2021, Mrs. Osnat Hilel-Fine and Mr. Omer Serviansky ceased to serve as directors of the Company.

Changes in the Company's Human Capital

Mr. Zohar Rosenberg, who headed the Company's cyber activities since 2016, informed the Company that he intends to engage in other occupations that are not within the Company. Accordingly, as of July 2021, Mr. Rosenberg ceased to serve as Chief Strategy Officer, but is continuing to function in the Company as an active investment partner in the cyber field (Venture Partner), 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.

In parallel, in May 2021, the Company's Board of Directors approved the appointment of Mr. Elik Etzion as the Company's Chief Strategy Officer, responsible for identification and accompanying companies developing cyber security and enterprise software solutions, commencing July 2021.

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

3.1 Main data detailed in a significant valuations

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

Valuation of the investment in Notal Vision

The fair value of the investment in Notal Vision was determined with the assistance of an independent appraiser, and estimated at approximately \$7,100 thousand.

1. Identity of the asset valued: Elron's investment in Notal Vision.
2. Timing of work: As of June 30, 2021. Engagement date: July 2021.
3. The value of the investment in Notal Vision established in the valuation: Approximately \$81,300 thousand. Accordingly, the value of Elron's interest was determined at \$7,100 thousand (in comparison to \$7,700 thousand as of December 31, 2020). In addition, Elron invested approximately \$600 in Notal Vision in the second quarter of 2021, as part of an investment round (for further details, see Note 3.M to the Financial Statements). As a result, in the first half of 2021, Elron recorded loss of approximately \$1,200 thousand in respect of the change in the value of the investment in Notal Vision, 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, 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 conducted using the Option Pricing Model (OPM), using the value derived from the investment that was completed in May 2021. The valuation used the following significant assumptions: standard deviation of 92.2% and risk-free interest of 0.36%.

Dan Hoz *)
Alternate Director
to the Chairman of the Board of Directors

Yaron Elad
CEO

August 12, 2021, Tel Aviv

*) Authorized by the Board of Directors to sign this report in lieu of the chairman of the Board of Directors, see section 1.1.1 above.

ELRON ELECTRONIC INDUSTRIES LTD.

English Translation of Periodic Report
for the Second Quarter of 2021
Filed with the Israel Securities Authority

Part III

1. Interim Consolidated Financial Statements as of June 30, 2021
2. Financial Data from the Interim Consolidated Financial Statements Attributable to the Company as of June 30, 2021

Elron Electronic Industries Ltd.

Part III

**English Translation of Interim
Consolidated Financial Statements**

**As of
June 30, 2021
Unaudited**

Interim Consolidated Financial Statements as of June 30, 2021

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Auditors' review report to the shareholders of Elron Electronic Industries Ltd.

We have reviewed the accompanying financial information of Elron Electronic Industries Ltd and its subsidiary (hereinafter - the "Company"), which comprises the condensed consolidated statement of financial position as of June 30, 2021 and the condensed consolidated statements of income or loss, comprehensive income or loss, changes in equity and cash flows for the six and three months periods then ended. The Company's board of directors and management are responsible for the preparation and presentation of this interim financial information for this interim period in accordance with IAS 34, "Interim Financial Reporting". In addition, they are responsible for the preparation of this interim financial information for this interim period in accordance with chapter 4 of the provisions of the Securities Regulations (periodic and immediate reports 1970). Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not reviewed the condensed interim financial information of associates, the investment in which, at the equity method, amounted to approximately \$6,897 thousand as of June 30, 2021, and the Company's share in their losses amounted to approximately \$1,631 thousand and approximately \$946 thousand for the six and three months periods then ended, respectively. The condensed financial information of those associates was reviewed by the other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those associates, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with (Israel) Review Standard No. 2410, issued by the Israeli Institute of Certified Public Accountants regards "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing principles generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of the other auditors, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements do not present fairly, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

In addition to the previous paragraph, based on our review and the review reports of the other auditors, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information do not present, in all material respects, in accordance with chapter 4 of the provisions of the Securities Regulations (Periodic and immediate reports 1970).

Tel-Aviv, Israel
August 12, 2021

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

Consolidated Statements of Financial Position

	June 30		December 31
	2021	2020	2020
	Unaudited		Audited
	\$ thousands		
Current assets			
Cash and cash equivalents	46,193	22,694	16,582
Bank deposits	18,826	10,026	15,069
Other investments in securities	5,676	11,111	4,438
Other accounts receivable	10,741	625	517
Investment in associate classified as held for sale	-	-	373
Investment in a company measured at fair value classified as held for sale (see Note 3.O)	2,000	-	-
	<u>83,436</u>	<u>44,456</u>	<u>36,979</u>
Non-current assets			
Investments in associates	18,215	9,348	20,295
Other investments measured at fair value	21,943	20,550	20,506
Long-term bank deposits	8,003	-	-
Long-term receivables	2,614	1,333	774
Right-of-use assets	1,366	2,263	1,518
Property, plant and equipment, net	278	836	281
Intangible assets	3,051	17,438	3,051
Deferred taxes	-	-	1,550
	<u>55,470</u>	<u>51,768</u>	<u>47,975</u>
Total assets	<u><u>138,906</u></u>	<u><u>96,224</u></u>	<u><u>84,954</u></u>

The accompanying notes are an integral part of the interim consolidated financial statements.

Consolidated Statements of Financial Position

	June 30		December 31
	2021	2020	2020
	Unaudited		Audited
	\$ thousands		
Current liabilities			
Trade payables	345	224	172
Current maturities of lease liabilities	254	764	318
Other accounts payable	3,755	6,078	4,242
	<u>4,354</u>	<u>7,066</u>	<u>4,732</u>
Long-term liabilities			
Long-term loan (see Note 3.A)	8,117	-	-
Financial liabilities measured at fair value	-	176	-
Lease liabilities	1,312	1,649	1,404
Deferred taxes (see Note 3.B)	659	-	-
	<u>10,088</u>	<u>1,825</u>	<u>1,404</u>
	<u>14,442</u>	<u>8,891</u>	<u>6,136</u>
Equity attributable to the Company's shareholders			
Issued capital	9,592	9,584	9,584
Share premium	245,278	211,618	211,618
Capital reserves	6,422	6,177	6,422
Accumulated deficit	(157,709)	(161,710)	(166,518)
	<u>103,583</u>	<u>65,669</u>	<u>61,106</u>
Non-controlling interests	<u>20,881</u>	<u>21,664</u>	<u>17,712</u>
Total equity	<u>124,464</u>	<u>87,333</u>	<u>78,818</u>
Total liabilities and equity	<u>138,906</u>	<u>96,224</u>	<u>84,954</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

Dan Hoz *)
 Alternate Director to the Chairman
 of the Board of Directors

Yaron Elad
 Chief Executive Officer

Niv Levy
 CFO

Approval date of the interim consolidated financial statements: August 12, 2021

*) Authorized by the Board of Directors to sign these financial statements in lieu of the chairman of the Board of Directors, see Note 1.

Consolidated Statements of Income (Loss)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	Unaudited				Audited
	\$ thousands				
	(except for gain (loss) per share data)				
Income					
Gain (loss) from sale, revaluation, realization of operation and changes in holdings, net	22,931	(529)	9,013	138	3,789
Financial income	266	744	241	302	611
	<u>23,197</u>	<u>215</u>	<u>9,254</u>	<u>440</u>	<u>4,400</u>
Expenses					
Research and development expenses	-	1,582	-	470	2,150
General and administrative expenses	2,973	3,830	1,541	1,709	8,569
Equity in losses of associates, net	5,819	8,982	2,775	3,173	14,520
Financial expenses	217	1,012	288	176	1,177
Other expenses, net	-	-	-	-	354
	<u>9,009</u>	<u>15,406</u>	<u>4,604</u>	<u>5,528</u>	<u>26,770</u>
Gain (loss) before taxes on income	14,188	(15,191)	4,650	(5,088)	(22,370)
Tax benefit (taxes on income)	(2,209)	(62)	204	-	1,120
Gain (loss)	<u>11,979</u>	<u>(15,253)</u>	<u>4,854</u>	<u>(5,088)</u>	<u>(21,250)</u>
Attributable to:					
The Company's shareholders	8,809	(11,677)	881	(3,619)	(17,723)
Non-controlling interests	3,170	(3,576)	3,973	(1,469)	(3,527)
	<u>11,979</u>	<u>(15,253)</u>	<u>4,854</u>	<u>(5,088)</u>	<u>(21,250)</u>
Income (loss) per share attributable to the Company's shareholders (in \$)					
Basic income (loss) per share	<u>0.19</u>	<u>(0.27)</u>	<u>0.02</u>	<u>(0.08)</u>	<u>(0.41)</u>
Diluted income (loss) per share	<u>0.18</u>	<u>(0.27)</u>	<u>0.02</u>	<u>(0.08)</u>	<u>(0.41)</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2021	2020	2021	2020	2020
	Unaudited				Audited
	\$ thousands				
Net income (loss)	<u>11,979</u>	<u>(15,253)</u>	<u>4,854</u>	<u>(5,088)</u>	<u>(21,250)</u>
Other comprehensive income (loss) (net of tax):					
<u>Amounts that are classified or may be reclassified to profit or loss under certain conditions:</u>					
Foreign currency translation differences for foreign operation	<u>(1)</u>	<u>1</u>	<u>17</u>	<u>23</u>	<u>56</u>
<u>Total gain (loss) that would be reclassified to profit or loss under certain conditions</u>	<u>(1)</u>	<u>1</u>	<u>17</u>	<u>23</u>	<u>56</u>
Total other comprehensive income (loss)	<u>(1)</u>	<u>1</u>	<u>17</u>	<u>23</u>	<u>56</u>
Total comprehensive income (loss)	<u>11,978</u>	<u>(15,252)</u>	<u>4,871</u>	<u>(5,065)</u>	<u>(21,194)</u>
Attributable to:					
Company's shareholders	8,809	(11,676)	898	(3,596)	(17,667)
Non-controlling interests	<u>3,169</u>	<u>(3,576)</u>	<u>3,973</u>	<u>(1,469)</u>	<u>(3,527)</u>
	<u>11,978</u>	<u>(15,252)</u>	<u>4,871</u>	<u>(5,065)</u>	<u>(21,194)</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

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
	Unaudited									
	\$ thousands									
Balance at January 1, 2021 (audited)	9,584	211,618	351	(1,192)	45	7,218	(166,518)	61,106	17,712	78,818
Total income	-	-	-	-	-	-	8,809	8,809	3,170	11,979
Total other comprehensive loss	-	-	-	-	-	-	-	-	(1)	(1)
Proceeds from issuance of shares, net of issuance expenses (see Note 3.R)	8	33,660	-	-	-	-	-	33,668	-	33,668
Balance at June 30, 2021	<u>9,592</u>	<u>245,278</u>	<u>351</u>	<u>(1,192)</u>	<u>45</u>	<u>7,218</u>	<u>(157,709)</u>	<u>103,583</u>	<u>20,881</u>	<u>124,464</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

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
	Unaudited									
	\$ thousands									
Balance at January 1, 2020 (audited)	9,584	211,618	351	(1,192)	(11)	7,010	(150,110)	77,250	25,257	102,507
Total loss	-	-	-	-	-	-	(11,677)	(11,677)	(3,576)	(15,253)
Total other comprehensive income	-	-	-	-	1	-	-	1	-	1
Share-based payments	-	-	-	-	-	-	77	77	1	78
Investment in Pocared	-	-	-	-	-	18	-	18	(18)	-
Balance at June 30, 2020	<u>9,584</u>	<u>211,618</u>	<u>351</u>	<u>(1,192)</u>	<u>(10)</u>	<u>7,028</u>	<u>(161,710)</u>	<u>65,669</u>	<u>21,664</u>	<u>87,333</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

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
	Unaudited \$ thousands									
Balance at April 1, 2021	9,584	211,618	351	(1,192)	28	7,218	(158,590)	69,017	16,908	85,925
Total income	-	-	-	-	-	-	881	881	3,973	4,854
Total other comprehensive income	-	-	-	-	17	-	-	17	-	17
Proceeds from issuance of shares net of issuance expenses (see Note 3.R)	8	33,660	-	-	-	-	-	33,668	-	33,668
Balance at June 30, 2021	<u>9,592</u>	<u>245,278</u>	<u>351</u>	<u>(1,192)</u>	<u>45</u>	<u>7,218</u>	<u>(157,709)</u>	<u>103,583</u>	<u>20,881</u>	<u>124,464</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

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
	Unaudited									
	\$ thousands									
Balance at April 1, 2020	9,584	211,618	351	(1,192)	(33)	7,028	(158,098)	69,258	23,132	92,390
Total loss	-	-	-	-	-	-	(3,619)	(3,619)	(1,469)	(5,088)
Total other comprehensive income	-	-	-	-	23	-	-	23	-	23
Share-based payments	-	-	-	-	-	-	7	7	1	8
Balance at June 30, 2020	<u>9,584</u>	<u>211,618</u>	<u>351</u>	<u>(1,192)</u>	<u>(10)</u>	<u>7,028</u>	<u>(161,710)</u>	<u>65,669</u>	<u>21,664</u>	<u>87,333</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

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
	Audited									
	\$ 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 income	-	-	-	-	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	-	-	-	-	-	-	-	-	(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 accompanying notes are an integral part of the interim consolidated financial statements.

Consolidated Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2020
	Unaudited				Audited
	\$ thousands				
Cash flows from operating activities					
Net income (loss)	11,979	(15,253)	4,854	(5,088)	(21,250)
<u>Adjustments to reconcile net income (loss) to net cash used in operating activities:</u>					
<u>Adjustment to the profit or loss items:</u>					
Depreciation and amortization	194	599	73	268	891
Finance, net	(93)	153	(13)	(332)	(86)
Stock based compensation	-	78	-	8	1,317
Change in fair value of financial liabilities measured at fair value	-	56	-	-	(50)
Loss (gain) from sale, revaluation, realization of activity and changes in holdings, net	(22,931)	529	(9,013)	(138)	(3,789)
Equity in losses of associates, net	5,819	8,982	2,775	3,173	14,520
Taxes on income (tax benefit), net	2,209	62	(204)	-	(1,120)
Other	(13)	1	(63)	4	(9)
	<u>(14,815)</u>	<u>10,460</u>	<u>(6,445)</u>	<u>2,983</u>	<u>11,674</u>
<u>Changes in Assets and Liabilities:</u>					
Decrease (increase) in other accounts receivable	(275)	(75)	259	180	(236)
Increase (decrease) in trade payables	173	27	255	(179)	135
Increase (decrease) in other accounts payable	(511)	(1,420)	(448)	256	(1,296)
	<u>(613)</u>	<u>(1,468)</u>	<u>66</u>	<u>257</u>	<u>(1,397)</u>
<u>Cash paid and received during the period for:</u>					
Taxes paid	-	(706)	-	-	(706)
Interest paid	(54)	(89)	(27)	(58)	(144)
Interest received	177	581	95	230	694
	<u>123</u>	<u>(214)</u>	<u>68</u>	<u>172</u>	<u>(156)</u>
Net cash used in operating activities	<u>(3,326)</u>	<u>(6,475)</u>	<u>(1,457)</u>	<u>(1,676)</u>	<u>(11,129)</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

Consolidated Statements of Cash Flows (Cont.)

	Six months ended		Three months ended		Year ended
	June 30		June 30		December
	2021	2020	2021	2020	2020
	Unaudited				Audited
	(\$ thousands)				
Cash flows from investment activities					
Purchase of property and equipment	(38)	(235)	(30)	(25)	(281)
Cash disposed of due to Pocared's deconsolidation	-	-	-	-	(381)
Investment in associates and other companies	(8,643)	(5,683)	(7,643)	(286)	(13,266)
Proceeds from sale of associates and other companies	12,994	240	2,641	184	6,096
Sale of (investment in) other investments in securities, net	(1,289)	21,671	(1,690)	9,017	28,371
Taxes paid as a result of sale of investments in companies	-	-	-	-	(923)
Investment in deposits	(11,709)	(4,000)	(11,709)	(7,000)	(9,000)
Net cash provided by (used in) investment activities	(8,685)	11,993	(18,431)	1,890	10,616
Cash flows from financing activities					
Proceeds from issuance of shares net of issuance expenses (see Note 3.R)	33,668	-	33,668	-	-
Receipt of long-term loan from Rafael (see Note 3.A)	8,000	-	-	-	-
Repayment of lease liability	(132)	(331)	(36)	(144)	(521)
Net cash provided by (used in) financing activities	41,536	(331)	33,632	(144)	(521)
Exchange rate differences in respect of cash and cash equivalents	86	368	79	92	477
Increase (decrease) in cash and cash equivalents	29,611	5,555	13,823	162	(557)
Cash and cash equivalents as of beginning of the period	16,582	17,139	32,370	22,532	17,139
Cash and cash equivalents as of end of the period	46,193	22,694	46,193	22,694	16,582

The accompanying notes are an integral part of the interim consolidated financial statements.

Notes to the Interim Consolidated Financial Statements

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

Note 1 – General

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 medical device, cybersecurity and enterprise software 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, Israel.

The Company's parent company is Discount Investment Corporation Ltd. ("DIC"), an Israeli-resident company, traded on the Tel-Aviv Stock Exchange. DIC held a 60.08% interest in the Company as of June 30, 2021.

The accompanying consolidated financial statements have been prepared as of June 30, 2021, and for the six and three months then ended ("interim consolidated financial statements") in accordance with International Financial Reporting Standards ("IFRS") in condensed format. The interim consolidated financial statements are presented in U.S. dollars, the Company's functional currency, and are rounded to the nearest thousand. These interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements as of December 31, 2020 and the year then ended and accompanying notes ("the annual consolidated financial statements").

In the absence of Mr. Zahi Nahmias, Chairman of the Board of Directors, at the time of the approval of this report, the Company's Board of directors authorized Mr. Dan Hoz, an Alternate Director to the Chairman of the Board of Directors, to sign the Financial Statements, in lieu of the Chairman of the Board of Directors.

Note 2 – Significant Accounting Policies and Basis of presentation

The interim consolidated financial statements were prepared in accordance with generally accepted accounting policies for the preparation of financial statements for interim periods as prescribed in IAS 34 – Interim Financial Reporting, and in accordance with Section D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 ("the Regulations").

The significant accounting policies followed in the preparation of the interim consolidated financial statements are identical to those applied in preparation of the annual consolidated financial statements.

Note 3 – Material Changes During the Reporting Period

A. RDC

RDC Rafael Development Corporation Ltd. ("RDC") is a holding company which establishes ventures and invests in early stage technology companies and consolidated by Elron. Elron holds 50.1% of RDC's outstanding shares and Rafael – Advanced Defense Systems Ltd. ("Rafael") holds the rest.

In March 2021, Elron and Rafael granted a loan to RDC in an amount of \$16,000 (in equal parts). Line item long-term loan in the statement of financial position includes the portion of the loan attributed to Rafael.

Notes to the Interim Consolidated Financial Statements**(USD in thousands, except for price per share and number of shares)****Note 3 – Material Changes During the Reporting Period (Cont.)****B. Alcide**

Alcide.IO Ltd. ("Alcide") provides a security platform for Kubernetes deployments from code to production.

As mentioned in Note 3.B.4.d) to the annual consolidated financial statements, in January 2021, Alcide and its shareholders (including Elron) have 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. In the first half of 2021, Elron recognized tax expenses in the amount of approximately \$2,200, resulted mainly from the reversal of the tax asset recorded in 2020.

C. 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. Until its sale (see 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 (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, RCD's share of the consideration amounted to approximately \$10,500 (of which approximately \$500 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). The immediate consideration was received in July 2021, subsequent to the reporting date. The balance of other accounts receivable in the statement of financial position as of the reporting date includes a total of approximately \$10,000 in respect of this immediate consideration. 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).

Notes to the Interim Consolidated Financial Statements**(USD in thousands, except for price per share and number of shares)**

Note 3 – Material Changes During the Reporting Period (Cont.)**D. Pocared**

Pocared Diagnostics Ltd. ("Pocared"), is developing a real-time and automated system for infectious diseases diagnosis using optical technology. 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).

As mentioned in Note 3.B.4.b) to the annual consolidated 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 \$5,000, by way of a convertible loan. An amount of \$3,000 was invested in March 2021. As part of the financing round, all the preferred shares, the exercisable warrants and the existing loans of Pocared were converted into ordinary shares.

Elron's and RDC's holdings and economic rights in Pocared's shares did not significantly change following the investment.

As a result, in the first quarter of 2021, Elron recorded a consolidated loss in the amount of approximately \$3,300 (loss attributed to the Company's shareholders of approximately \$1,900) as a result of the realization of excess cost resulting from a decrease in Elron's participation share in profit or loss of Pocared.

E. 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.

As mentioned in Note 3.B.4.a) to the annual consolidated financial statements regarding binding agreements (the "Agreements") which were signed with Bioventus LLC, for the investment and option for the sale of CartiHeal, in August 2021, subsequent to the reporting date, 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.

F. Sighted

Sighted Technologies Ltd. ("Sighted"), is developing a security platform to detect and defeat SaaS-native threats. As of the reporting date, RDC holds approximately 21% of Sighted's outstanding shares and the investment in Sighted is accounted for under the equity method of accounting.

Notes to the Interim Consolidated Financial Statements**(USD in thousands, except for price per share and number of shares)**

Note 3 – Material Changes During the Reporting Period (Cont.)**F. Sighted (Cont.)**

As mentioned in Note 3.B.4.q) to the annual consolidated financial statements, in December 2020, RDC completed its first investment in Sighted 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 SAFE agreement, which will be converted into Sighted shares under certain conditions, stipulated in the agreement. In March 2021, the investment agreement was extended and an additional amount of approximately \$2,700 was invested in consideration for preferred shares (RDC's share in the extension was approximately \$100).

G. 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.

As mentioned in Note 3.B.4.m) to the annual consolidated financial statements, in January 2021, a loan agreement was signed in an amount of approximately \$500 (RDC's share was approximately \$400 and was invested 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, in the first quarter of 2021, RDC recognized a gain from realization of associate's operation in the amount of \$3,700. In May 2021, RDC received an initial amount of approximately \$2,500 from the said consideration.

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 22% of Cynerio's outstanding shares and the investment in Cynerio is accounted for under the equity method of accounting.

In April 2021, an investment agreement in Cynerio was signed in the amount of up to \$25,000 led by a new investor and with the participation of its existing investors in consideration for preferred B-1 shares. An amount of \$13,250 was invested immediately and subsequent to the reporting date, an additional amount of approximately \$7,800 was invested (RDC's share in the total amount was \$2,250).

In addition, the SAFE balance from November 2019 in the amount of \$3,000 (as detailed in Note 3.B.4.l) to the annual consolidated financial statements) was converted into preferred B-2 shares (RDC's share was \$750).

Notes to the Interim Consolidated Financial Statements**(USD in thousands, except for price per share and number of shares)**

Note 3 – Material Changes During the Reporting Period (Cont.)**I. Sayata**

Sayata Labs Ltd. ("Sayata") develops and markets technological solutions for insurance agencies and companies to assess the risk in cyber insurance policies for small and medium businesses. As of the reporting date, RDC holds approximately 19% of Sayata's outstanding share capital and the investment in Sayata is accounted for under the equity method of accounting.

In June 2021, an investment agreement in the Sayata was completed in the amount of up to \$17,000 led by new investors and with the participation of the existing shareholders of Sayata (including RDC) in consideration for Preferred A shares. An amount of \$13,500 was invested immediately (RDC's share in the total investment was approximately \$1,500). In addition, the SAFE balance from August 2020 in the amount of \$1,350 (as specified in Note 3.b.4.o)) to the annual consolidated financial statements) was converted into Preferred A-2 shares (RDC's share in the SAFE balance was \$1,000).

J. Nitinotes

Nitinotes Ltd. ("Nitinotes") is developing a minimally invasive endoscopic procedure for treatment of obesity. As of the reporting date, Elron holds approximately 21% of Nitinotes's outstanding shares and the investment in Nitinotes is accounted for under the equity method of accounting.

As mentioned in Note 3.B.4.k) to the annual consolidated financial statements, 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 A-1 shares. The investment will be invested in three installments. The first installment in the amount of approximately \$2,800 was invested during the year 2020. The second installment in the amount of approximately \$2,900 was invested during May 2021 and June 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 heart valves. 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.

Notes to the Interim Consolidated Financial Statements**(USD in thousands, except for price per share and number of shares)****Note 3 – Material Changes During the Reporting Period (Cont.)****K. Coramaze (Cont.)**

As mentioned in Note 3.B.4.f) to the annual consolidated financial statements, 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 A 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).

In July 2020, Elron signed agreements to sell part of its holdings in Preferred A 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 aforementioned investment agreement from June 2019, in the amount of €520 thousand.

In May 2021, half of the fourth installment was invested, in the amount of €1,000 thousand (approximately \$1,200).

L. Kzen

Kzen Networks Ltd. ("Kzen") is a company that develops and provides a secure crypto wallet which does compromise security with the user experience. As of the reporting date, Elron holds approximately 8% of Kzen's outstanding shares and the investment in Kzen is accounted for as a financial asset measured at fair value through profit or loss.

In April 2021, an investment in the amount of approximately \$20,000 was completed, led by a new investor, in consideration for preferred A shares (Elron's share was approximately \$1,300). As part of the investment agreement, the SAFE balance in amount of \$3,750 was converted into Preferred A-1 shares (Elron's share was approximately \$350).

In addition, some of Kzen's shareholders, including Elron, completed purchase of ordinary shares from other Kzen's shareholders in consideration for approximately \$1,500 (Elron's share was approximately \$350).

The fair value of the investment in Kzen was determined with the assistance of an independent appraiser based on the investment round. The value of the investment was estimated at approximately \$6,260. As a result, Elron recorded a gain of \$2,793 from the change in the value of the investment in Kzen.

Notes to the Interim Consolidated Financial Statements**(USD in thousands, except for price per share and number of shares)**

Note 3 – Material Changes During the Reporting Period (Cont.)**M. 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 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 D 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).

The fair value of the investment in Notal was determined with the assistance of an independent appraiser in accordance with the options pricing model (OPM) and based on the investment round detailed above, using Black & Scholes formulas, to allocate Notal's value to different classes of shares and to determine the value of Elron's interest accordingly. The value of Notal was estimated at approximately \$81,300, and accordingly the value of Elron's holding was set at approximately \$7,100. As a result, in the second quarter of 2021, Elron recognized a loss of approximately \$1,200 in respect of a change in the value of the investment in Notal that was charged to the line item gain (loss) from sale, revaluation, realization of operation and changes in holdings, net in the statement of income (loss). The valuation used a standard deviation of 92.2% and a risk-free interest rate of 0.36%.

N. 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.

In May 2021, RDC first invested in Scribe an amount of \$1,000 in the form of SAFE. As of the reporting date, the investment in Scribe is accounted for as a financial asset measured at fair value through profit or loss.

Notes to the Interim Consolidated Financial Statements**(USD in thousands, except for price per share and number of shares)**

Note 3 – Material Changes During the Reporting Period (Cont.)**O. Aqwise**

Aqwise- Wise Water Technologies Ltd. ("Aqwise") provides biological water and wastewater treatment solutions for the industrial and municipal markets. As of the reporting date, 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 classified as held for sale measured at fair value through profit or loss.

In April 2021, an agreement for the sale the entire shares of Aqwise was signed for a consideration consisting of immediate consideration (Elron's share was approximately \$100 and was received immediately), an escrow deposit and additional consideration contingent in Aqwise's results in the years 2021 and 2022. The investment in Aqwise as of June 30, 2021, is in the amount of \$2,000 and reflects the estimate of the consideration that is expected to be received as a result of the sale of Aqwise as mentioned above. As a result, in the first half of 2021, Elron recognized a loss of approximately \$850 under line item gain (loss) from sale, revaluation, realization of operation and changes in holdings, net, due to the decrease in the value of Elron's holding in Aqwise. In July 2021, subsequent to the reporting date, the aforementioned sale was completed.

As of June 30, 2021, the investment in Aqwise complied with the terms set in the International Financial Reporting Standard 5 for classification as a non-current asset held for sale, and accordingly, the investment was classified as an asset held for sale in the statement of financial position as of June 30, 2021.

P. Keepy

Keepy AI Ltd., ("Keepy") is developing a solution in the space of HRTech & People Analytics focusing on employee engagement & retention.

In July 2021, subsequent to the reporting date, RDC first invested in Keepy signed an amount of \$3,000 in consideration for preferred shares.

Following the completion of this investment, RDC holds approximately 29% of Keepy's outstanding shares and the investment in Keepy is accounted for under the equity method of accounting.

Notes to the Interim Consolidated Financial Statements

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

Note 3 – Material Changes During the Reporting Period (Cont.)**Q. OzCode**

Oz Code Ltd. ("OzCode") has developed and markets a debugging platform for development and production environments that reduces time spent on debugging and shortens release cycles. As of the reporting date, RDC holds approximately 46% of OzCode's outstanding shares and the investment in OzCode is accounted for under the equity method of accounting.

As mentioned in Note 3.B.4.n) to the annual consolidated financial statements, in November 2020, an investment agreement was signed in Oz Code in the amount of \$1,500 with the participation of its existing shareholders (including RDC), in consideration for Preferred B shares, in two equal installments. RDC's share in this investment was \$1,000. The first installment was invested immediately and in February 2021, the second installment was invested.

In May and July 2021, subsequent to the reporting date, investment agreements (SAFE) were completed in OzCode, with the participation of some of its shareholders, in the total amount of \$600, 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 \$400.

R. Equity

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).

Notes to the Interim Consolidated Financial Statements

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

Note 4 – Summarized data of the financial statements of associates, unadjusted to the Group's percentage of holdings

	<u>Current assets</u>	<u>Non-current assets</u>	<u>Total assets</u>	<u>Current liabilities</u>	<u>Non-current liabilities</u>	<u>Total liabilities</u>	<u>Equity attributable to shareholders of the company</u>	<u>Equity attributable to non-controlling interests</u>
As of June 30, 2021 (unaudited)								
BrainsGate Ltd.	12,000	290	12,290	1,349	1,741	3,090	9,200	-
CartiHeal (2009) Ltd.	12,214	1,174	13,388	837	2,254	3,091	10,297	-
Pocared Diagnostics Ltd. (*)	756	640	1,396	2,249	2,557	4,806	(3,410)	-
As of June 30, 2020 (unaudited)								
BrainsGate Ltd.	9,505	419	9,924	1,650	6,815	8,465	1,459	-
CartiHeal (2009) Ltd.	7,301	1,523	8,824	1,084	2,213	3,297	5,527	-
As of December 31, 2020 (audited)								
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	-
Pocared Diagnostics Ltd.	541	834	1,375	1,615	9,517	11,132	(9,757)	-

(*) In addition, the investment in Pocared includes excess cost in the amount of approximately \$9,875.

Notes to the Interim Consolidated Financial Statements

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

Note 4 – Summarized data of the financial statements of associates, unadjusted to the Group's percentage of holdings (Cont.)

	<u>Revenues</u>	<u>Gross profit</u>	<u>Operating loss</u>	<u>Gain (loss) from continuing operations</u>	<u>Gain (loss) for the period</u>	<u>Gain (loss) attributable to shareholders of the company</u>	<u>Gain (loss) attributable to non-controlling interests</u>	<u>Other comprehensive income (loss)</u>	<u>Total comprehensive income (loss)</u>
For the six months period ended June 30, 2021 (unaudited)									
BrainsGate Ltd.	-	-	(1,428)	(1,434)	(1,434)	(1,434)	-	-	(1,434)
CartiHeal (2009) Ltd.	-	-	(4,599)	(4,643)	(4,643)	(4,643)	-	-	(4,643)
Pocared Diagnostics Ltd.			(2,942)	(2,921)	(2,921)	(2,921)	-	-	(2,921)
For the six months period ended June 30, 2020 (unaudited)									
BrainsGate Ltd.	-	-	(2,037)	(2,396)	(2,396)	(2,396)	-	-	(2,396)
CartiHeal (2009) Ltd.	-	-	(3,186)	(3,262)	(3,262)	(3,262)	-	-	(3,262)
For the three months period ended June 30, 2021 (unaudited)									
BrainsGate Ltd.	-	-	(602)	(614)	(614)	(614)	-	-	(614)
CartiHeal (2009) Ltd.	-	-	(2,266)	(2,263)	(2,263)	(2,263)	-	-	(2,263)
Pocared Diagnostics Ltd.			(1,639)	(896)	(896)	(896)	-	-	(896)
For the three months period ended June 30, 2020 (unaudited)									
BrainsGate Ltd.	-	-	(904)	(1,102)	(1,102)	(1,102)	-	-	(1,102)
CartiHeal (2009) Ltd.	-	-	(1,337)	(1,399)	(1,399)	(1,399)	-	-	(1,399)
For the year ended December 31, 2020 (audited)									
BrainsGate Ltd.	-	-	(4,085)	595	595	595	-	-	595
CartiHeal (2009) Ltd.	-	-	(8,452)	(8,694)	(8,694)	(8,694)	-	-	(8,694)
Pocared Diagnostics Ltd.	-	-	(4,766)	(5,452)	(5,452)	(5,452)	-	-	(5,452)

Notes to the Interim Consolidated Financial Statements

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

Note 5 – Financial instruments**A. Fair value**

The carrying amount of all of the Company's financial assets and liabilities, including cash and cash equivalents, bank deposits, other investments in securities, other accounts receivable, other investments measured at fair value, long term receivables, other accounts payable, trade payables and long-term loans, conform to or approximate their fair values.

B. 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).

Financial assets measured at fair value:

	As of June 30, 2021		
	Unaudited		
	Level 1	Level 2	Level 3
Other investments measured at fair value	-	-	21,943
Other investments in securities	-	5,676	-
Other accounts receivable	-	-	646
Investment classified as held for sale	-	-	2,000
	-	5,676	24,589

	As of June 30, 2020		
	Unaudited		
	Level 1	Level 2	Level 3
Other investments measured at fair value	-	-	20,550
Other investments in securities	-	11,111	-
Other accounts receivable	-	-	1,207
	-	11,111	21,757
Financial liabilities measured at fair value through profit or loss	-	-	176

Notes to the Interim Consolidated Financial Statements

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

Note 5 – Financial instruments (Cont.)

	As of December 31, 2020		
	Audited		
	Level 1	Level 2	Level 3
Other investments measured at fair value	-	-	20,506
Other investments in securities	-	4,438	-
Other accounts receivable	-	-	646
	<u>-</u>	<u>4,438</u>	<u>21,152</u>

Changes in financial assets classified in Level 3:

For the six and three months period ended June 30, 2021:

	Financial assets measured at fair value
Balance as of January 1, 2021 (audited)	21,152
Total recognized income in profit or loss, net (*)	752
Investment	3,263
Sale of companies	(107)
Conversion of warrants for shares of Pocared (see Note 3.D)	<u>(471)</u>
Balance as of June 30, 2021 (unaudited)	<u>24,589</u>
Balance as of April 1, 2021 (unaudited)	22,926
Total recognized loss in profit or loss, net (*)	(1,493)
Investment	3,263
Sale of companies	<u>(107)</u>
Balance as of June 30, 2021 (unaudited)	<u>24,589</u>

(*) A loss of approximately \$850 in the first half of 2021 and approximately \$300 in the second quarter of 2021 is attributed to an investment in Aqwise which at the reporting date is classified as held for sale and in July 2021, subsequent to the reporting date, its realization was completed (see Note 3.O). The balance of gain (loss) included in profit or loss relating to assets held at the end of the reporting period.

Notes to the Interim Consolidated Financial Statements

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

Note 5 – Financial instruments (Cont.)

For the six and three months period ended June 30, 2020

	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance as of January 1, 2020 (audited)	22,303	(120)
Total recognized loss in profit or loss	<u>(546)</u>	<u>(56)</u>
Balance as of June 30, 2020 (unaudited)	<u>21,757</u>	<u>(176)</u>
Balance as of April 1, 2020 (unaudited)	21,580	(176)
Total recognized income in profit or loss	<u>177</u>	<u>-</u>
Balance as of June 30, 2020 (unaudited)	<u>21,757</u>	<u>(176)</u>

For the year ended December 31, 2020:

	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance as of January 1, 2020 (audited)	22,303	(120)
Total recognized income (loss) in profit or loss, net	(3,752)	50
Investment	2,130	-
Pocared's deconsolidation	<u>471</u>	<u>70</u>
Balance as of December 31, 2020	<u>21,152</u>	<u>-</u>

C. Valuation techniques

For details on the fair value of investments in unquoted shares, see Note 7 to the annual consolidated financial statements.

ANNEX TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Details relating to investments in the interim consolidated financial statements as of June 30, 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 June 30, 2021
	Elron (1)	RDC (2)					
				%			
	<u>\$ thousands</u>						
<u>Investments in investee companies</u>							
<u>Associates:</u>							
BrainsGate Ltd.	27.85	-	27.85	27.85	24.93	24.93	461
Cartiheal (2009) Ltd.	27.07	-	27.07	27.07	24.98	24.98	948
Pocared Diagnostics Ltd (4)	4.00	5.99	9.99	7.00	8.88	6.23	7,674
Coramaze technologies Ltd (5)	28.44	-	28.44	28.44	25.75	25.75	404
SixGill Ltd.	23.40	-	23.40	23.40	19.76	19.76	412
Open Legacy Technologies Ltd.	-	22.49	22.49	11.27	18.28	9.16	-
IronScales Ltd.	-	12.68	12.68	6.35	11.69	5.86	-
Nitiniotes Ltd.	21.38	-	21.38	21.38	19.33	19.33	-
Oz Code Ltd.	-	46.01	46.01	23.05	33.69	16.88	-
Cynerio Israel Ltd.	-	21.97	21.97	11.01	18.60	9.32	1,899
Sayata Labs Ltd.	-	18.65	18.65	9.34	16.45	8.24	2,274
SinuSafe Medical Ltd.	21.90	-	21.90	21.90	19.74	19.74	-
One View Space Ltd.	-	9.79	9.79	4.91	8.82	4.42	166
Plymedia Israel (2006) Ltd.	21.79	-	21.79	21.79	14.37	14.37	-
Sighted Technologies Ltd.	-	21.33	21.33	10.68	19.45	9.74	2,724
<u>Other investments: (6), (7)</u>							
Notal Vision Inc.	10.66	-	10.66	10.66	7.87	7.87	7,096
Aqwise – Wise Water Technologies Ltd. (8)	19.73	-	19.73	19.73	17.94	17.94	2,000
AudioBurst Ltd.	7.19	-	7.19	7.19	6.00	6.00	2,600
N-Drip Ltd.	-	4.74	4.74	2.38	4.10	2.05	1,530
Kzen Networks Ltd.	8.06	-	8.06	8.06	7.22	7.22	6,260
Azura Ophthalmics Ltd.	3.13	-	3.13	3.13	2.72	2.72	570
Atlantium Technologies Ltd.	6.16	-	6.16	6.16	5.49	5.49	130
Forsight Vision6 Inc.	3.63	-	3.63	3.63	2.87	2.87	200

(1) Including holdings through Elron's fully-owned subsidiary.

(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 the holding of additional economic rights, see Note 3.B.4.b) to the annual consolidated financial statements.

(5) Includes indirect holdings through Coramaze Technologies GmbH.

(6) Invision Software Technologies Ltd. is held by RDC through SAFE investment, its book value is \$2,000, for further details see Note 7.F to the annual consolidated financial statements.

(7) Scribe Security Ltd. is held by RDC through SAFE investment, its book value is \$1,000 (see Note 3.N).

(8) Its sale was completed in July 2021, subsequent to the reporting date (see Note 3.O).

Elron Electronic Industries Ltd.

English Translation of Financial Data from the
Interim Consolidated Financial Statements
Attributable to the Company

As of
June 30, 2021
Unaudited

Contents

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**The Shareholders of Elron Electronic Industries Ltd
ToHa Tower, Yigal Alon 114
Tel Aviv, 6744320
Israel**

Re: **Special report to the review of the separate interim financial information in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970**

Introduction

We have reviewed the separate condensed interim financial information disclosed in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Elron Electronic Industries Ltd. (the "Company") as of June 30, 2021 and for the six and three months periods then ended. The Company's board of directors and management are responsible for the separate condensed interim financial information. Our responsibility is to express a conclusion on the separate condensed interim financial information based on our review.

We did not review the condensed interim financial information of associates, the investment in which, at the equity method, amounted to approximately \$3,455 thousand as of June 30, 2021, and the Company's share in their losses amounted to approximately \$817 thousand and approximately \$474 thousand for the six and three months periods then ended, respectively. The condensed interim financial information of those associates was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those associates, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with Review Standard 2410 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the report of the other auditor, nothing has come to our attention that causes us to believe that the accompanying separate condensed interim financial information is not prepared, in all material respects, in accordance with Regulation 38d to the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
August 12, 2021

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

Special Report according to Regulation 38d

Financial Data and Information from the Interim Consolidated Financial Statements

Attributable to 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 Interim Consolidated Financial Statements as of June 30, 2021, and for the six and three months then ended ("the Interim Consolidated Financial Statements"), which form part of the Company's periodic reports. The Separate Data is presented in accordance with Regulation 38d of the Israel Securities Regulations (Periodic and Immediate Reports) – 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 annual financial statements for the year ended December 31, 2020 ("Consolidated Financial Statements for 2020") and the Company's Interim Consolidated Financial Statements, apart from differences arising from compliance with the aforementioned regulations.

Presentation of transactions which were eliminated in the interim consolidated financial statements

Intercompany balances, transactions and cash flows between the Company and its subsidiaries were eliminated in the preparation of the Company's Interim 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 Interim 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 Interim Consolidated Financial Statements.
- Cash flow data attributable to the Company include cash flows between the Company and its subsidiaries which were eliminated in the Interim Consolidated Financial Statements.

Data from the Interim Consolidated Financial Statements of Financial Position Attributable to the Company as of

	<u>June 30</u>		<u>December 31</u>
	<u>2021</u>	<u>2020</u>	<u>2020</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>\$ thousands</u>		
<u>Current assets</u>			
Cash and cash equivalents	24,310	5,374	4,132
Bank deposits	14,021	6,016	11,046
Other investments in securities	5,417	9,737	3,770
Other accounts receivable	957	650	273
Investment in associate classified as held for sale	-	-	373
Investment in a company measured at fair value classified as held for sale (See Note 3.O to the Interim Consolidated Financial Statements)	2,000	-	-
	<u>46,705</u>	<u>21,777</u>	<u>19,594</u>
<u>Non-current assets</u>			
Investments in subsidiaries and associates, net	78,921	76,748	78,729
Investments in other companies measured at fair value	17,124	18,762	16,425
Long-term bank deposits	6,001	-	-
Loan to subsidiary (see Note 2)	8,117	-	-
Long-term receivables	1,320	-	-
Right-of-use assets	1,366	1,731	1,518
Property, plant and equipment, net	266	244	270
Deferred taxes	-	-	1,550
	<u>113,115</u>	<u>97,485</u>	<u>98,492</u>
<u>Total assets</u>	<u>159,820</u>	<u>119,262</u>	<u>118,086</u>

The accompanying additional information is an integral part of the separate financial data and information.

Data from the Interim Consolidated Financial Statements of Financial Position Attributable to the Company as of

	June 30		December 31
	2021	2020	2020
	Unaudited		Audited
	\$ thousands		
<u>Current liabilities</u>			
Trade payables	327	151	136
Current maturities of lease liabilities	254	422	318
Other accounts payable	1,320	2,399	2,024
	1,901	2,972	2,478
<u>Long-term liabilities</u>			
Lease liabilities	1,312	1,368	1,404
Deferred taxes	659	-	-
Other long term liabilities (Note 3)	52,365	49,253	53,098
	54,336	50,621	54,502
<u>Equity attributable to the Company's shareholders</u>			
Issued capital	9,592	9,584	9,584
Share premium	245,278	211,618	211,618
Capital reserves	6,422	6,177	6,422
Accumulated deficit	(157,709)	(161,710)	(166,518)
<u>Total equity</u>	103,583	65,669	61,106
	159,820	119,262	118,086

The accompanying additional information is an integral part of the separate financial data and information.

Dan Hoz *) Alternate Director to the Chairman of the Board of Directors	Yaron Elad Chief Executive Officer	Niv Levy Chief Financial Officer
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Approval date of the interim consolidated financial statements: August 12, 2021

*) Authorized by the board of directors to sign these financial statements in lieu of the chairman of the board of directors, see Note 1 to the Interim Consolidated Financial Statements.

Elron Electronic Industries Ltd.

Data from the Interim Consolidated Financial Statements of Income (Loss) Attributable to the Company

For the

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2021	2020	2021	2020	2019
	Unaudited				Audited
	\$ thousands				
<u>Income</u>					
Financial income (Note 2)	867	507	134	247	436
<u>Expenses</u>					
General and administrative expenses	1,891	1,866	963	834	5,566
Financial expenses (Note 2)	87	493	1,049	1,307	3,813
Other expenses	-	-	-	-	354
	1,978	2,359	2,012	2,141	9,733
	(1,111)	(1,852)	(1,878)	(1,894)	(9,297)
Gain (loss) from sale, revaluation, realization of operation and changes in holdings, net	11,657	(546)	(1,497)	177	(2,271)
Company's share of income (loss) of subsidiaries and associates, net	472	(9,279)	4,052	(1,902)	(7,705)
Income (loss) before taxes on income	11,018	(11,677)	677	(3,619)	(19,273)
Tax benefit (taxes on income), net	(2,209)	-	204	-	1,550
Income (loss) attributable to the Company's shareholders	8,809	(11,677)	881	(3,619)	(17,723)

The accompanying additional information is an integral part of the separate financial data and information.

Data from the Interim Consolidated Financial Statements of Comprehensive Income (Loss) Attributable to the Company

	For the				Year ended December 31 2020 <u>Audited</u>
	Six months ended June 30		Three months ended June 30		
	2021	2020	2021	2020	
	Unaudited				
\$ thousands					
Income (loss) attributable to the Company's shareholders	8,809	(11,677)	881	(3,619)	(17,723)
Other comprehensive income (loss) net of tax:					
<u>Amounts that are classified or may be reclassified to profit or loss under certain conditions:</u>					
Foreign currency translation differences for foreign operation	-	1	17	23	56
<u>Total income that would be reclassified to profit or loss under certain conditions</u>	-	1	17	23	56
Total other comprehensive income attributable to the Company	-	1	17	23	56
Total comprehensive income (loss) attributable to the Company's shareholders	<u>8,809</u>	<u>(11,676)</u>	<u>898</u>	<u>(3,596)</u>	<u>(17,667)</u>

The accompanying additional information is an integral part of the separate financial data and information.

Data from the Interim Consolidated Financial Statements of Cash Flows Attributable to the Company

	Six months ended		For the		Year ended
	June 30		Three months ended		
	2021	2020	2021	2020	2020
	Unaudited				Audited
\$ thousands					
<u>Cash flows from operating activities</u>					
Income (loss) attributable to the Company	8,809	(11,677)	881	(3,619)	(17,723)
<u>Adjustments to reconcile net income (loss) to net cash used in operating activities:</u>					
<u>Adjustment to the profit or loss items:</u>					
Company's share of loss of subsidiaries and associates	(472)	9,279	(4,052)	1,902	7,705
Depreciation and amortization	185	225	71	108	455
Finance, net	(212)	193	(163)	(198)	100
Share based compensation	-	77	-	7	1,315
Taxes on income (tax benefit)	2,209	-	(204)	-	(1,550)
Loss (gain) from disposal and revaluation of investee companies and changes in holdings, net	(11,657)	546	1,497	(177)	2,271
Other	94	(25)	(229)	(219)	(590)
	<u>(9,853)</u>	<u>10,295</u>	<u>(3,080)</u>	<u>1,423</u>	<u>9,706</u>
<u>Changes in assets and liabilities of the Company:</u>					
Increase in other accounts receivable	(684)	(556)	(96)	(138)	(179)
Increase (decrease) in trade payables	191	96	252	(118)	70
Increase (decrease) in other accounts payable	(728)	(1,743)	(502)	142	(2,059)
Increase (decrease) in other long term liabilities	(733)	(143)	1,162	1,368	3,702
	<u>(1,954)</u>	<u>(2,346)</u>	<u>816</u>	<u>1,254</u>	<u>1,534</u>
<u>Cash received during the period for:</u>					
Interest paid	(54)	(54)	(27)	(27)	(109)
Interest received	134	298	71	107	383
	<u>80</u>	<u>244</u>	<u>44</u>	<u>80</u>	<u>274</u>
Net cash used in operating activities	<u>(2,918)</u>	<u>(3,484)</u>	<u>(1,339)</u>	<u>(862)</u>	<u>(6,209)</u>

The accompanying additional information is an integral part of the separate financial data and information.

**Data from the Interim Consolidated Financial Statements of Cash Flows Attributable to the Company
(Cont.)**

	Six months ended		For the		Year ended December 31 2020
	June 30		Three months ended June 30		
	2021	2020	2021	2020	
	Unaudited				Audited
\$ thousands					
<u>Cash flows from investment activities</u>					
Purchase of property and equipment	(29)	(232)	(29)	(25)	(275)
Investment in associates and subsidiaries	(2,263)	(4,786)	(2,263)	(286)	(4,926)
Proceeds from sale of associates and other companies (See Note 3.B to the Interim Consolidated Financial Statements)	10,460	-	107	-	856
Sale of (investment in) other investments in securities, net	(1,690)	11,624	(1,690)	5,383	17,624
Investment in deposits in banks, net	(8,918)	(6,000)	(8,918)	(6,000)	(11,000)
Grant of a loan to subsidiary (see Note 2)	(8,000)	-	-	-	-
Net cash provided by (used in) investment activities	(10,440)	606	(12,793)	(928)	2,279
<u>Cash flows from financing activities</u>					
Proceeds from issuance of shares net of issuance expenses (see Note 4)	33,668	-	33,668	-	-
Repayment of lease liability	(132)	(185)	(36)	(93)	(375)
Net cash provided by (used in) financing activities	33,536	(185)	33,632	(93)	(375)
Increase (decrease) in cash and cash equivalents	20,178	(3,063)	19,500	(1,883)	(4,305)
Cash and cash equivalents as of beginning of the period	4,132	8,437	4,810	7,257	8,437
Cash and cash equivalents as of end of the period	24,310	5,374	24,310	5,374	4,132

The accompanying additional information is an integral part of the separate financial data and information.

ADDITIONAL INFORMATION

U.S.D in thousands

1. General

The accompanying condensed separate financial data as of June 30, 2021 and for the six and three months then ended, have been prepared in accordance with Regulation 38d of the Israel Securities Regulations (Periodic and Immediate Reports) – 1970. The accompanying separate financial data should be read in conjunction with the Company's Consolidated Financial Statements for 2020, the Company's Interim Consolidated Financial Statements and accompanying notes.

2. 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 Interim Consolidated Financial Statements.

3. 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 note. Exchange rate differences related to this capital note are included under line item financial income or financial expenses in the statement of income (loss).

4. Equity

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).

Elron Electronic Industries Ltd.

Part IV

**English Translation of Quarterly Report
regarding the Effectiveness of the Internal
Control over Financial Reporting and
Disclosure pursuant to Regulation 38C:**

As of June 30, 2021

Attached herein is a quarterly report regarding the effectiveness of internal control over financial reporting and disclosure, pursuant to Regulation 38C of the Israel Securities Regulations (Periodic and Immediate Reports), 5730-1970:

Quarterly report regarding the effectiveness of the internal control over financial reporting and disclosure, pursuant to Regulation 38C(a):

Management, under the supervision of the board of directors of Elron Electronic Industries Ltd. (the "**Corporation**"), is responsible for establishing and maintaining adequate internal controls over the financial reporting and disclosure in the Corporation.

In this regard, the members of management are:

1. Mr. Yaron Elad, CEO;
2. Mr. Niv Levy, CFO.

The Corporation's internal control over financial reporting and disclosure is a process designed by, or under the supervision of, the Corporation'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 Corporation 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 Corporation is required to disclose as aforesaid, is recorded and made available to the Corporation'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.

In the quarterly report on the effectiveness of the internal control over financial reporting and disclosure which was attached to the periodic report for the period ended March 31, 2021 (the "**Last Quarterly Report Regarding the Internal Control**"), the board of directors and management assessed the Corporation's internal control. Based on this assessment, the Corporation's board of directors and management deemed the internal control as of March 31, 2021 effective.

Up until the date of this report, no event or matter was brought to the attention of management or the board of directors which would change the assessment of the effectiveness of the internal control, as set forth in the Last Quarterly Report Regarding the Internal Control.

As of the date of this report, based on the assessment of the effectiveness of the internal control in the Last Quarterly Report Regarding the Internal Control, and based on information which was brought to the attention of management and the board of directors as aforesaid, the internal control is effective.

Declaration of the Principal Executive Officer pursuant to Regulation 38C(d)(1):

Managers' Declaration

Declaration of the Chief Executive Officer

I, Yaron Elad, declare that:

- (1) I have examined the quarterly report of Elron Electronic Industries Ltd. (the "**Corporation**") for the second quarter of 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 Corporation, as of, and for the periods presented in the Reports;
- (4) I have disclosed to the Corporation's independent auditors, board of directors and audit committee of the Corporation'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 Corporation'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 Corporation, 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 Corporation, 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 Corporation 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) No event or matter was brought to my attention during the period between the date of the last report (quarterly or periodic, as relevant) and the date of this report, which would change the conclusion of the board of directors and management regarding the effectiveness of the internal control over financial reporting and disclosure of the Corporation.

Nothing in the aforesaid derogates from my responsibility or the responsibility of any other person, pursuant to any law.

August 12, 2021

Yaron Elad, CEO

Declaration of the Principal Financial Officer pursuant to Regulation 38C(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 Electronic Industries Ltd. (the "**Corporation**") for the second quarter of 2021 (the "**Reports**" or the "**Interim Reports**");
- (2) Based on my knowledge, the interim 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 interim financial statements and other financial information included in the Interim Reports fairly present, in all material respects, the financial condition, results of operations and cash flows of the Corporation, as of, and for the periods presented in the Reports;
- (4) I have disclosed to the Corporation's independent auditor, board of directors and the audit committee of the Corporation'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 interim financial statements and other financial information which is included in the Interim Reports, which are reasonably likely to adversely affect the Corporation'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 Corporation, 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 Corporation, 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 Corporation 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) No event or matter was brought to my attention during the period between the date of the last report (quarterly or periodic, as relevant) and the date of this report, relating to the interim financial statements and other financial information included in the Interim Reports, which would change, in my assessment, the conclusion of the board of directors and management regarding the effectiveness of the internal control over financial reporting and disclosure of the Corporation.

Nothing in the aforesaid derogates from my responsibility or the responsibility of any other person, pursuant to any law.

August 12, 2021

Niv Levy, CFO



August 12, 2021

To:

The Board Of Directors of
Elron Electronic Industries Ltd. ("the Company")

Dear Sirs,

Re: Auditors' Consent in connection with the self prospectus of the Company published
February 2019

We hereby consent to the incorporation (including by reference) of our reports described below in connection with the shelf prospectus from February 2019:

- (1) Auditors' review report from August 12, 2021 regarding the interim consolidated financial information of the Company as of June 30, 2021 and for the six and three months periods then ended.
- (2) Auditors' report from August 12, 2021 regarding the separate interim financial information of the Company as of June 30, 2021 and for the six and three months periods then ended in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

Kind Regards,

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

English Translation of Liabilities report of the Company by repayment date

Section 36a to the Israel Securities Law (1968)

Report as of June 30, 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 June 30, 2021 (1 USD = 3.26 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 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

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	26,080	0	6,524	32,604
Total	0	0	0	26,080	0	6,524	32,604

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	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)

(2) Cash and cash equivalents, marketable securities and short-term deposits based on the Company's consolidated Statements (NIS in thousands)

142,618
230,466