

# ELRON ELECTRONIC INDUSTRIES LTD.

## English Translation of Periodic Report for the Third Quarter of 2018 Filed with the Israel Securities Authority

<b>Part</b>	<b>Content</b>
I	Material Changes and Updates that Occurred in Elron's Business
II	Board of Directors Report
III	Interim Financial Statements
IV	Effectiveness of the Internal Control over Financial Reporting and Disclosure

ELRON ELECTRONIC INDUSTRIES LTD.

English Translation of Periodic Report  
for the Third Quarter of 2018  
Filed with the Israel Securities Authority

Part I

Material Changes and Updates that Occurred in  
Elron's Business for the Three Months ended  
September 30, 2018

**Elron Electronic Industries Ltd.**  
**("Elron" or the "Company")**  
**English Translation of Quarterly Report**  
**for the Third Quarter of 2018**

**Part I**

**Material Changes and Updates that Occurred in the Company's**  
**Business in the Three Months Ended September 30, 2018**

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

**In this section:**

- |                                    |  |
|------------------------------------|--|
| <b>"Board of Directors Report"</b> | <b>English Translation of Elron's Board of Directors Report for the Third Quarter of 2018, included in Part II of this report.</b>             |
| <b>"Financial Statements"</b>      | <b>English Translation of Elron's Interim Consolidated Financial Statements as of September 30, 2018, included in Part III of this report.</b> |
| <b>"Annual Report"</b>             | <b>Elron's Annual Report for the year ended December 31, 2017 filed with the Israeli Securities Authority.</b>                                 |

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 third quarter of 2018 that were already previously described in Part I of the Company's Quarterly Report for the Second Quarter of 2018. 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**

Section 2.1 – Description of Elron's Operations

Section 2.1.7 – See Section 1.2 of the Board of Directors Report for details regarding additional developments in Elron and group companies during the period of this report and subsequent thereto.

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

Section 14.6 – Compensation Policy

Section 14.6.3 – On November 11, 2018 and November 21, 2018, the Company's Compensation Committee and Board of Directors respectively approved a plan for granting equity compensation to Company officers and employees by way of allocation of options to purchase ordinary Company shares (henceforth: "**Options**"), according to the provisions of Section 102 (under the capital gain track with a trustee) of the Israeli Income Tax Ordinance, 5721-1961, whose provisions comply with the Company's compensation policy (henceforth: "**Option Plan**"). In addition, and in accordance with the Company's compensation policy and as part of the Option Plan, on the above dates, the Compensation Committee and Board of Directors approved the allocation of Options to the Company's CEO and officers (who are not directors), in lieu of the share return component of the annual bonus for 2019. The allocation to the CEO is conditional upon the approval of the general meeting of shareholders, as detailed in the Proxy Statement and the Private Allotment Immediate Report which will be issued shortly after the publication of this report, and in which the details of the allotment are set forth.

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

- 3.1. In the first nine months of 2018, Elron (directly and indirectly) invested approximately \$25.6 million in group companies. For further details, see Section 1.4 of the Board of Directors Report and Note 3 to the Financial Statements.
- 3.2. In September 2018, RDC completed its first investment in the amount of \$2.5 million in CodeValue D.T. Ltd. ("OzCode"), as part of a \$3.5 million financing

round. Following the investment, RDC holds approximately 27% of OzCode's outstanding shares. OzCode is developing a simple, rapid and efficient debugging solution for developers. For further details, see Note 3.J to the Financial Statements.

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

Section 24.11 – Further to the Annual Report and Section 4 of the Company's Quarterly Report for the Second Quarter of 2018, in October 2018, subsequent to the reporting date, Elron reported the detailed results from the ImpACT-24B clinical trial conducted by BrainsGate presented at the World Stroke Congress in Montreal on October 20, 2018, as follows:

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

The net effect measured in the study in the CCI population was 9.7% (p=0.0258), marginally above the 0.025 statistical significance threshold for that group, while the ImpACT-24B did not achieve its efficacy endpoint for the mITT population (net effect 3.2%, p=0.31).

The CCI patient group encompasses approximately 50% of the patients in the trial and is characterized, inter alia, by more serious stroke events in relation to the general stroke population. In this group, the amount of patients treated with SPG stimulation who were unable to walk and attend to bodily needs without assistance, or were bedridden, incontinent and required constant nursing care and attention (mRS 4-5) was approximately a third less (20% compared to 32%) than those in the control group in the three-month follow-up period.

The relationship between SPG stimulation level and patient outcome was highly significant (p<0.001).

SPG stimulation was safe both in the mITT population and the CCI population.

The pooled analysis of ImpACT-24A<sup>1</sup> and B showed a statistically significant and clinically relevant benefit of SPG stimulation in the CCI population.

The conclusion of the trial's Steering Committee is that “Based on the totality of the evidence, in acute ischemic stroke patients with confirmed cortical infarcts, SPG stimulation started within 24 hours reduces post-stroke disability over the entire outcome range and increases the proportion of patients who are alive and independent 3 months after stroke.”

It is BrainsGate's intention to hold meetings with the FDA in order to prepare its marketing approval application, and at the same time, BrainsGate will act to submit its application for CE marketing approval in Europe. It is also BrainsGate's intention to initiate a reimbursement approval process in the U.S. and Europe.

ImpACT-24B was a randomized, sham-controlled, double-masked study conducted in 72 centers in 18 countries. 1,000 mITT patients were enrolled between 2011 and 2018. The mean time from stroke onset to injection and activation of the implant in both the mITT population and the CCI population was approximately 19 hours. The purpose of the study was to evaluate the safety and efficacy of SPG stimulation with an injectable implant, initiated within 24 hours from stroke onset, in patients with acute ischemic stroke in the anterior circulation. The primary efficacy endpoint was final global disability level better than expectation at 3 months after stroke.

The above estimates are forward-looking in nature, as defined in Israel Securities Law, and are based on information existing in BrainsGate as of the date of this report. These estimates, in whole or in part, may not materialize, or may materialize in a manner materially different than expected. The principal factors that may cause material differences are: further analysis of the ImpACT-24B results, which may alter their implication on the regulatory pathways to be pursued for marketing and reimbursement approval of the product around the world as well as the actual filing of marketing and reimbursement approval applications; determinations by regulatory authorities; developments in BrainsGate's field of operation; feedback from the

---

<sup>1</sup> The previous clinical trial conducted by BrainsGate, as described in Section 24.10 of Part I of the Annual Report.

medical and scientific community; or if any risk associated with the data analysis and/or regulatory filings occurs.

##### **5. Section 25 of Part I of the Annual Report – Pocared**

Sections 25.7 to 25.10 – Further to the Annual Report, Pocared is continuing in its development activities in order to improve the system's capabilities, and at the same time is expected to explore a possibility for building value by conducting the clinical trial and subsequently filing for FDA approval based on the system's and mathematical models' capabilities at the time of the clinical trial and the filing for FDA approval, even if the capabilities haven't reached their full potential as planned. Should that be the case, the need to conduct an additional trial will be examined upon completing the models' development to their full planned potential.

In light of the prolonged development activity being carried out in order to improve the capabilities of the mathematical models for pathogen identification and quantification, Pocared is currently expected to commence the trial in the first half of 2019 and not as reported previously, and during this time Elron and RDC will consider its future investments in Pocared, among other things, in light of its progress in its development, clinical, and regulatory efforts, and its ability to raise funds from additional investors.

Pocared's above estimates are forward-looking in nature, as defined in Israel Securities Law, and are based on Pocared's estimations of the potential of its development and business and the direction and strategy of Pocared as of the date of this report as well as on information existing in Pocared as of the date of this report. These estimates, in whole or in part, may not materialize, or may materialize in a manner materially different than expected. The principal factors that may affect this are developments in Pocared's field of operation, failure to obtain regulatory approvals to continue development, obtaining the financing Pocared requires, failure to meet goals, inability to realize technologies, modifications in technologies, delays or malfunctions in development or manufacture, modifications in the business plan, goals and/or strategy, or if any risk associated with the preparations for the trial and its results occurs.

---

Ari Bronshtein

CEO

November 21, 2018, Tel Aviv, Israel

---

Yaron Elad

CFO



ELRON ELECTRONIC INDUSTRIES LTD.

English Translation of Periodic Report  
for the Third Quarter of 2018  
Filed with the Israel Securities Authority

Part II

Board of Directors Report for the Third  
Quarter of 2018

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

## **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 focused on building technology companies. Elron's group of companies includes companies at various stages of development that are engaged in a variety of technology fields, mainly medical devices, cybersecurity, information technology (IT) and enterprise software. Elron's principal shareholder is Discount Investment Corporation Ltd. ("DIC") (50.32%).

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 September 30, 2018 (the "Financial Statements").

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

#### **1.1.2. Main goal**

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

#### **1.1.3. Strategy**

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

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

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

**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 has first rights to commercialize military technologies developed by Rafael – Advanced Defense Systems Ltd. ("Rafael") in civilian markets. RDC seeks to identify technology projects and invest in companies that will either make commercial use of Rafael's military technologies or which will benefit from Rafael's technology, know-how and expertise.

**1.1.5. Group companies**

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

- **RDC (50.1%)** - See description in section 1.1.4 above.
- **Pocared Diagnostics Ltd. (48% by Elron, 22% 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. The system is designed to reduce the average diagnostic time and significantly increase output in comparison with current diagnostic practice. The system's first application is diagnosis of Urinary Tract Infection.
- **BrainsGate Ltd. (30%) ("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. (29%) ("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 2017.

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

- **Nitinotes Ltd. (31%) ("Nitinotes")** - Nitinotes is developing a non-invasive endoscopic procedure that mimics gastric sleeve surgery for treatment of obesity.
- **SixGill Ltd. (22%) ("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.
- **Alcide IO Ltd. (26%) ("Alcide")** - Alcide is developing a security solution for emerging data center environments to enable visibility and security policy enforcement for hybrid data centers.
- **Coramaze Technologies GmbH (36%) ("Coramaze")** - Coramaze is developing a minimally invasive device to treat functional mitral valve regurgitation – backflow in the left side of the heart, caused by an enlarged left ventricle that prevents the valve from closing properly.
- **Notal Vision Inc. (15%) ("Notal Vision")** - Notal Vision develops, manufactures and provides a system and services for remote monitoring of age-related macular degeneration, or AMD, patients at risk of vision loss, in order to enable early detection of visual changes before the disease progresses to the point of significant vision loss or blindness.

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

- **SecuredTouch Inc. (28% by RDC) ("SecuredTouch")** - SecuredTouch develops and provides a solution that profiles users based on their physical behavior with mobile devices, allowing for seamless and persistent identity verification.
- **IronScales Ltd. (24% 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.
- **Open Legacy Technologies Ltd. (32% by RDC) ("Open Legacy")** - Open Legacy develops and markets a platform allowing for integration of information systems in organizations, based on API (Application Programming Interface).
- **Cynerio Israel Ltd. (22% by RDC) ("Cynerio")** - Cynerio is developing a platform that enables healthcare providers to secure patient data and connected medical devices against cyber threats.
- **Kindite Ltd. (28% by RDC) ("Kindite")** - Kindite is developing an encryption platform for cloud and other applications that enables search and retrieval of data while maintaining complete end to end encryption.
- **CodeValue D.T. Ltd. (27% by RDC) ("OzCode")** - OzCode is developing a simple, rapid and efficient debugging solution for developers.
- **Lirhot Systems Ltd. (32% by RDC) ("Lirhot")** - Lirhot is developing navigation technologies based on light emitted from celestial bodies.
- **PlyMedia Israel (2006) Ltd. (22%) ("PlyMedia")** - PlyMedia has developed and markets a digital advertising platform for ad networks.

**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.

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

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

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.

## **1.2. Description of Operations in the Period of this Report and Subsequently**

### **1.2.1. Exit Transactions**

- **Cyber Secdo Ltd. ("Secdo")** - In April 2018, the sale of the entire outstanding share capital of Secdo (held by RDC) to Palo Alto Networks (Israel) Ltd. was completed. Pursuant to this sale, RDC received approximately \$17.9 million (of which an amount of approximately \$2.7 million was deposited in escrow for a period of 18 months). As a result, Elron recorded a net gain attributable to its shareholders of approximately \$8.1 million (a consolidated net gain of approximately \$16.2 million) in the second quarter of 2018. Secdo is a company in the field of automatic detection and investigation of cyber events in organizations through a platform that protects endpoints. For further details see Note 3.A to the Financial Statements.

### **1.2.2. Investments**

- In the first nine months of 2018, Elron (directly and through RDC) invested approximately \$25.6 million in the Group Companies. For further details see section 1.4 below and Note 3 to the Financial Statements.
- **New investments** – In January 2018, RDC completed its first investment in **Cynerio** as part of a financing round of \$3 million (RDC's share in this round was \$1.5 million). (For further details see Note 3.G to the Financial Statements).  
  
In February 2018, RDC completed its first investment in **Kindite** as part of a financing round of \$3.5 million (RDC's share in this round was \$2.5 million). (For further details, see Note 3.H to the Financial Statements).  
  
In September 2018, RDC completed its first investment in **OzCode** as part of a financing round of \$3.5 million (RDC's share in this round was \$2.5 million). (For further details, see Note 3.J to the Financial Statements).
- **External financing round in Open Legacy, led by new and strategic investors** - In October 2018, subsequent to the reporting date, Open Legacy completed a financing round in the amount of approximately \$16.3 million, led by a new investor and with the participation of strategic investors, new investors and Open Legacy's existing shareholders, including RDC (RDC's share was \$2 million). For further details see Note 3.I to the Financial Statements.
- **New strategic investor joins CartiHeal** - In January 2018, CartiHeal raised \$2.5 million from Bioventus, a leading global orthopedic company, which extended the investment round from April 2017 to a total amount of approximately \$21 million. (For further details see Note 3.C to the Financial Statements).
- **Financing round led by new strategic investor in SecuredTouch** - In March 2018, SecuredTouch raised approximately \$7.4 million in a financing round led by a new investor, Arvato Financial Solutions, a German finance company, and with the participation of other shareholders of SecuredTouch, including RDC. RDC's share in this investment was \$2 million. (For further details see Note 3.D to the Financial Statements).
- **External financing round in Alcide** - In April 2018, Alcide raised approximately \$6.2 million in a round led by a new investor and with the participation of other shareholders of Alcide, including

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

Elron (Elron's share was approximately \$1.6 million). (For further details see Note 3.E to the Financial Statements).

**1.2.3. Developments in Main Group Companies**

- **BrainsGate's FDA Trial** - Further to section 24.11 in Part I of the Company's Annual Report for 2017 and to section 4 in Part I of the Quarterly Report for the Third Quarter of 2018, in October 2018, subsequent to the reporting date, Elron reported the detailed results from the ImpACT-24B clinical trial conducted by BrainsGate presented at the World Stroke Congress in Montreal on October 20, 2018, as follows:

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

The net effect measured in the study in the CCI population was 9.7% (p=0.0258), marginally above the 0.025 statistical significance threshold for that group, while the ImpACT-24B did not achieve its efficacy endpoint for the mITT population (net effect 3.2%, p=0.31).

The CCI patient group encompasses approximately 50% of the patients in the trial and is characterized, inter alia, by more serious stroke events in relation to the general stroke population. In this group, the amount of patients treated with SPG stimulation who were unable to walk and attend to bodily needs without assistance, or were bedridden, incontinent and required constant nursing care and attention (mRS 4-5) was approximately a third less (20% compared to 32%) than those in the control group in the three-month follow-up period.

The relationship between SPG stimulation level and patient outcome was highly significant (p<0.001). The SPG stimulation has also demonstrated a consistent benefit in all the trial's sub-criteria.

SPG stimulation was safe both in the mITT population and the CCI population.

The pooled analysis of ImpACT-24A<sup>1</sup> and B showed a statistically significant and clinically relevant benefit of SPG stimulation in the CCI population.

The conclusion of the trial's Steering Committee is that "Based on the totality of the evidence, in acute ischemic stroke patients with confirmed cortical infarcts, SPG stimulation started within 24 hours reduces post-stroke disability over the entire outcome range and increases the proportion of patients who are alive and independent 3 months after stroke."

IMPACT-24B was a randomized, sham-controlled, double-masked study conducted in 72 centers in 18 countries. 1,000 mITT patients were enrolled between 2011 and 2018. The mean time from stroke onset to injection and activation of the implant in both the mITT population and the CCI population was approximately 19 hours. The purpose of the study was to evaluate the safety and efficacy of SPG stimulation with an injectable implant, initiated within 24 hours from stroke onset, in patients with acute ischemic stroke in the anterior circulation. The primary efficacy endpoint was final global disability level better than expectation at 3 months after stroke.

It is BrainsGate's intention to hold meetings with the FDA in order to prepare its marketing approval application, and at the same time, BrainsGate will act to submit its application for CE marketing approval in Europe. It is also BrainsGate's intention to initiate a reimbursement approval process in the U.S. and Europe.

---

<sup>1</sup> The previous clinical trial conducted by BrainsGate, as described in Section 24.10 in Part I of the Company's Annual Report for 2017.

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

The above estimates are forward-looking in nature, as defined in Israel Securities Law, 5728-1968, and are based on information existing in BrainsGate as of the date of this report. These estimates, in whole or in part, may not materialize, or may materialize in a manner materially different than expected. The principal factors that may cause material differences are: further analysis of the ImpACT-24B results, which may alter their implication on the regulatory pathways to be pursued for marketing and reimbursement approval of the product around the world as well as the actual filing of marketing and reimbursement approval applications; determinations by regulatory authorities; developments in BrainsGate's field of operation; feedback from the medical and scientific community; or if any risk associated with the data analysis and/or regulatory filings occurs.

- **Pocared's FDA Trial** - Further to sections 25.7 to 25.10 in Part I of the Company's Annual Report for 2017, Pocared is continuing in its development activities in order to improve the system's capabilities, and at the same time is expected to explore a possibility for building value by conducting the clinical trial and subsequently filing for FDA approval based on the system's and mathematical models' capabilities at the time of the clinical trial and the filing for FDA approval, even if the capabilities haven't reached their full potential as planned. Should that be the case, the need to conduct an additional trial will be examined upon completing the models' development to their full planned potential.

In light of the ongoing development activity being carried out in order to improve the capabilities of the mathematical models for pathogen identification and quantification, Pocared is currently expected to commence the trial in the first half of 2019 and not as reported previously, and during this time Elron and RDC will consider whether to continue investing in Pocared, among other things, in light of its progress in its development, clinical and regulatory efforts, and its ability to raise funds from additional investors.

Pocared's above estimates are forward-looking in nature, as defined in Israel Securities Law, 5728-1968, and are based on Pocared's estimations of the potential of its development and business and the direction and strategy of Pocared as of the date of this report as well as on information existing in Pocared as of the date of this report. These estimates, in whole or in part, may not materialize, or may materialize in a manner materially different than expected. The principal factors that may affect this are developments in Pocared's field of operation, failure to obtain regulatory approvals to continue development, obtaining the financing Pocared requires, failure to meet goals, inability to realize technologies, modifications in technologies, delays or malfunctions in development or manufacture, modifications in the business plan, goals and/or strategy, or if any risk associated with the preparations for the trial and its results occurs.

- **CartiHeal's FDA Trial** - Further to section 26.10 in Part I of the Company's Annual Report for 2017, CartiHeal is continuing to recruit patients for the pivotal clinical trial for FDA marketing approval it commenced in September 2017. As of the date of filing this report, CartiHeal has recruited 112 patients.

#### **1.2.4. Financing**

- As of the date of filing this report, Elron's and RDC's non-consolidated liquid resources amounted to approximately \$20.5 million and \$35.6 million, respectively. These amounts include RDC's bank deposits in the amount of approximately \$16.1 million and Elron's other investments in securities in the amount of approximately \$14.6 million. As of the date of filing this report, Elron and RDC have no debt.

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

**1.3. Results of Operations**

**1.3.1. Elron's main operating results**

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	\$ thousands				
Net income (loss) attributable to Elron's shareholders	(10,153)	(14,910)	(7,456)	465	(25,482)
Net income (loss) per share attributable to Elron's shareholders (in \$)	(0.34)	(0.50)	(0.25)	0.02	(0.86)

As previously mentioned, the income and loss attributable to Elron's shareholders mainly comprises of: I) Elron's share in the losses of Group Companies, II) gain (loss) from disposal and revaluation of investee companies and changes in holdings, net, III) corporate operating expenses, IV) tax benefit (taxes on income), as detailed below. \*

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2018	2017	2018	2017	2017
	\$ thousands				
<b>Losses in respect of Group Companies:</b>					
<b>Elron's share in losses of Group Companies, net</b>	(12,767)	(17,432)	(4,874)	(5,424)	(23,796)
<b>Gain (loss) from disposal and revaluation of group companies and changes in holdings, net</b>	6,334	5,682	(1,725)	7,550	3,030
<b>Corporate operating expenses</b>	(3,105)	(2,959)	(1,075)	(958)	(4,575)
<b>Tax benefit (taxes on income)</b>	(488)	(650)	324	(672)	(273)
<b>Other</b>	(127)	449	(106)	(31)	132
<b>Net income (loss) attributable to shareholders</b>	(10,153)	(14,910)	(7,456)	465	(25,482)

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



**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

**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 third quarter and first nine months of 2018 in respect of its share in the losses of Group Companies (net of non-controlling interests) resulted mainly from the losses of Pocared, CartiHeal, BrainsGate, Coramaze and SixGill.

The loss Elron recorded in the third quarter and first nine months of 2017 in respect of its share in the losses of Group Companies (net of non-controlling interests) resulted mainly from the losses of Pocared, BrainsGate, CartiHeal, Secdo (which was sold in April 2018, see section 1.2.1 above) and SixGill.

**II) Gain (loss) from disposal and revaluation of group companies, and changes in holdings, net:**

Gains and losses from disposal, changes in holdings, and revaluation of investments recorded at fair value in the third quarter and first nine months of 2018 resulted mainly from:

- An approximately \$8.1 million net gain recorded in the second quarter (net of non-controlling interests) due to the sale of Secdo (approximately \$8.9 million before tax) (for additional details see section 1.2.1 above);
- A \$0.8 million loss recorded in the third quarter and \$1.0 million loss recorded in the first quarter due to a decrease in the fair value of the investment in Notal Vision mainly due to decrease in Elron's holding percentage;
- A \$0.6 million net loss (net of non-controlling interest) as a result of a decrease in the value of a contingent consideration asset that was recorded following the sale of Kyma Medical Technologies Ltd. ("Kyma", sold in September 2015, following which it changed its name to Zoll Medical Israel Ltd.).

Gains and losses from disposal, changes in holdings, and revaluation of investments recorded at fair value in the third quarter and first nine months of 2017 resulted mainly from:

- A \$6.6 million net gain (net of non-controlling interest) recorded in the third quarter due to the sale of Cloudyn Software Ltd. ("Cloudyn", sold in April 2017) (\$7.3 million before tax) ;
- A \$0.4 million gain recorded in the third quarter due to the initial fair value measurement of the investment in Azura Ophthalmics Ltd. ("Azura", formerly: M.G Therapeutics Ltd.) in lieu of the equity method of accounting as a result of the decrease in Elron's holding in the outstanding shares of Azura;
- A \$1.9 million loss recorded in the second quarter due to a decrease in the fair value of the investment in Notal Vision.

**III) Corporate operating expenses**

Corporate operating expenses mainly include general and administrative expenses. The increase in corporate expenses in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017 resulted primarily from the termination of the Services Agreement with DIC (for further details see Note 17.B to Elron's 2017 consolidated financial statements), which was

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

partially offset by an increase in revenues deriving from management fees from Group Companies, and by a decrease in costs following the deregistration in the U.S (for further details see Note 1 to Elron's 2017 consolidated financial statements).

**IV) Taxes on Income**

Taxes on income in the first nine months of 2018 resulted mainly from Elron's share in the tax expenses recorded by RDC due to the gain recorded from the sale of Secdo.

Taxes on income in the first nine months of 2017 resulted mainly from Elron's share in the tax expenses recorded by RDC due to the gain recorded from the sale of Cloudyn.

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

**1.3.2. Analysis of the consolidated statements of profit and loss**

	<u>For the nine months ended September 30,</u>		<u>For the three months ended September 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
<b>Unaudited</b>					
<b>\$ thousands</b>					<b>Explanation</b>
Gain (loss) from disposal and revaluation of group companies, and changes in holdings, net	14,254	12,925	(2,659)	14,779	<p>In the first nine months of 2018, this item mainly included a \$17,863 thousand consolidated gain recorded in the second quarter as a result of the sale of Secdo (see section 1.2.1 above), a \$1,871 thousand loss recorded in the third quarter as a result of a decrease in the value of a contingent consideration asset that was recorded following the sale of Kyma, and a \$1,800 thousand loss recorded as a result of a decrease in the fair value of the investment in Notal Vision.</p> <p>In the first nine months of 2017, this item mainly included a \$14,486 thousand consolidated gain recorded in the third quarter as a result of the sale of Cloudyn, a \$1,894 thousand loss recorded in the second quarter as a result of a decrease in the fair value of the investment in Notal Vision, and a \$444 thousand gain recorded in the third quarter due to the decrease in Elron's holdings in Azura and the initial fair value measurement of this investment in lieu of the equity method of accounting.</p>
Financial income	1,080	2,733	248	475	<p>Financial income in the first nine months of 2018 resulted mainly from interest income on deposits and debentures and from USD-NIS exchange rate fluctuations.</p> <p>Financial income in the first nine months and third quarter of 2017 resulted mainly from USD-NIS exchange rate fluctuations in NIS bank deposits held by RDC, interest income on deposits, and an increase in the value of marketable investments measured at fair value.</p>
<b>Total</b>	15,334	15,658	(2,411)	15,254	

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

	<u>For the nine months ended September 30,</u>		<u>For the three months ended September 30,</u>		<u>Explanation</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
	<u>Unaudited</u>				
	<u>\$ thousands</u>				
Research and development expenses, net	7,512	6,999	2,646	2,384	See analysis of Elron and consolidated companies' operating expenses below.
Selling and marketing expenses	219	468	14	135	
General and administrative expenses	5,965	5,928	1,978	1,948	
Equity in losses of associates, net	7,710	14,406	3,683	4,435	Elron's share in the net losses of its associates results from its holdings in certain investments that are accounted for under the equity method.  As most of the Group Companies are companies whose operations have not yet generated significant revenues, if at all, and invest considerable resources in research and development and in marketing activities, Elron expects to continue to record losses in respect of these companies' ongoing operations in accordance with the accounting method applied to them in Elron's financial statements. In addition, see the analysis of the results of operations of main associates below.  The decrease in the first nine months and third quarter of 2018 as compared with the first nine months and third quarter of 2017 was mainly due to a gain Open Legacy recorded in the first quarter of 2018 from revenue it recognized from sales, whereas in the first nine months of 2017 Open Legacy recorded a loss. In addition, the decrease resulted also from the sale of Cloudyn (sold in July 2017) and the sale of Secdo (sold in April 2018, see section 1.2.1 above).
Financial expenses	255	200	115	71	
Other expenses, net	-	71	-	-	

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

	<u>For the nine months ended September 30,</u>		<u>For the three months ended September 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
	<u>Unaudited</u>				
	<u>\$ thousands</u>				<u>Explanation</u>
<b>Total expenses</b>	21,661	28,072	8,436	8,973	
Gain (loss) before taxes on income	(6,327)	(12,414)	(10,847)	6,281	
Tax benefit (taxes on income)	(997)	(1,366)	640	(1,370)	Taxes on income in the first nine months of 2018 resulted mainly from tax expenses recorded by RDC due to the sale of Secdo (see section 1.2.1 above).  Taxes on income in the third quarter and in the first nine months of 2017 resulted mainly from the tax expense recorded by RDC due to the gain from the sale of Cloudyn.
<b>Net income (loss)</b>	<u>(7,324)</u>	<u>(13,780)</u>	<u>(10,207)</u>	<u>4,911</u>	
<b>Net income (loss) attributable to the Company's shareholders</b>	(10,153)	(14,910)	(7,456)	465	
Gain (loss) attributable to non-controlling interests	2,829	1,130	(2,751)	4,446	The income (loss) attributable to non-controlling interests results mainly from the share of the non-controlling interest in the income (loss) recorded by RDC.  In the first nine months of 2018, the gain attributable to non-controlling interests resulted mainly from the share of non-controlling interests in the gain from the sale of Secdo which was partially offset by the current loss recorded by RDC.  In the first nine months and third quarter of 2017, the gain attributable to non-controlling interests resulted mainly from the share of non-controlling interests in the gain from the sale of Cloudyn which was partially offset by the current loss recorded by RDC.

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

	<u>For the nine months ended September 30,</u>		<u>For the three months ended September 30,</u>		<u>Explanation</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
	<b>Unaudited</b>				
	<b>\$ thousands</b>				
Basic and diluted gain (loss) per share attributable to the Company's shareholders (in \$)	(0.34)	(0.50)	(0.25)	0.02	

**Operating Expenses**

Operating expenses in the third quarter and first nine months of 2018 amounted to \$4,638 and \$13,696 thousand, respectively, compared with \$4,467 and \$13,395 thousand, respectively, in the third quarter and first nine months of 2017, and comprised mainly of Elron's and its consolidated companies' research and development and general and administrative expenses, as detailed below:

	<u>For the nine months ended September 30,</u>		<u>For the three months ended September 30,</u>		<u>Explanation</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	
	<b>\$ thousands</b>				
Corporate	3,105	2,959	1,074	958	The increase in the first nine months and third quarter of 2018 compared with the first nine months and third quarter of 2017 resulted primarily from the termination of the Services Agreement with DIC (for further details see Note 17.B to Elron's 2017 consolidated financial statements), which was partially offset by an increase in revenues deriving from management fees from Group Companies, and by a decrease in costs following the deregistration in the U.S (for further details see Note 1 to Elron's 2017 consolidated financial statements).
RDC	1,542	1,385	464	409	The increase in the first nine months of 2018 compared with the first nine months of 2017 mainly resulted from an increase in expenses related to the examination of new investments and projects.

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

	For the nine months ended September 30,		For the three months ended September 30,		Explanation
	2018	2017	2018	2017	
	\$ thousands				
Pocared	9,049	9,051	3,100	3,100	-
Total	13,696	13,395	4,638	4,467	

**1.3.3. Analysis of the results of operations of main associates**

	Loss for the period				Explanation
	For the nine months ended September 30,		For the three months ended September 30,		
	2018	2017	2018	2017	
	Unaudited				
	\$ thousands				
BrainsGate	3,285	5,244	764	1,958	BrainsGate is in the development stage and has not yet commenced sales. BrainsGate's losses mainly results from research and development expenses. The decrease in loss in the first nine months and third quarter of 2018 compared with the first nine months and third quarter of 2017 resulted mainly from a decrease in expenses as a result of completing the patient enrollment for the clinical trial in March 2018.
CartiHeal	6,200	5,928	2,291	2,163	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 loss in the first nine months and third quarter of 2018 compared with the first nine months and third quarter of 2017 was mainly from expenses related to the FDA trial that CartiHeal commenced in September 2017.

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

**1.4. Financial Position, Liquidity and Capital Resources**

**Financial position**

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	<u>Unaudited</u>	<u>Audited</u>
	<u>\$ thousands</u>	
Total assets in the consolidated statement of financial position	127,960	136,701
Current assets	64,275	83,472
Investments in associates and other companies	40,489	29,115
Long-term receivables	4,758	5,544
Intangible assets	17,438	17,438
Current liabilities	7,859	9,574
Long-term liabilities	866	821
Total liabilities	8,725	10,395
Equity including non-controlling interests	119,235	126,306

Total equity at September 30, 2018 was \$119,235 thousand, representing approximately 93% of the total assets in the statement of financial position, compared with \$126,306 thousand at December 31, 2017, representing approximately 92% of the total assets in the statement of financial position. The decrease in equity resulted mainly from the loss recorded by Elron in the first nine months of 2018, which was partially offset by the net gain recorded due to the sale of Secdo (see section 1.2.1 above).

Consolidated working capital at September 30, 2018 amounted to \$56,416 thousand, compared with \$73,898 thousand at December 31, 2017. The decrease in working capital resulted mainly from a decrease in liquid resources due to investments in Group Companies in the first nine months of 2018 (as detailed below) and due to Elron's and its subsidiaries' operating expenses during the first nine months of 2018. The decrease was partially offset by cash received from the sale of Secdo (see section 1.2.1 above).

With respect to the claim against Elron and others in connection with the sale of the shares of Elscint in 1999, as well as the supplementary settlement agreement, see Note 4.A to the Financial Statements.

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

	<u>For the nine months ended September 30,</u>		<u>For the three months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>Unaudited</u>			
	<u>\$ thousands</u>			
Investments in Elron's and RDC's group companies(1)	(25,578)	(16,096)	(10,580)	(1,971)
Proceeds from disposal of Elron's and RDC's non-current investments, net of tax	17,017	17,205	-	14,722

(1) The amounts presented include RDC's cash flows in full (100%) in addition to Elron's cash flows, but exclude the cash flows of their subsidiaries.



**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

**Liquid resources balance**

Consolidated liquid resources at September 30, 2018 amounted to \$61,577 thousand (including bank deposits and other investments in securities in the total amount of \$31,690 thousand), compared with \$79,216 thousand at December 31, 2017 (including short term bank deposits and other investments in securities in the total amount of \$57,684 thousand).

Elron's and RDC's non-consolidated liquid resources at September 30, 2018 amounted to \$21,219 and \$36,904 thousand, respectively (Elron's and RDC's liquid resources as of September 30, 2018 included other investments in securities and bank deposits of Elron in the amount of \$15,248 thousand, and bank deposits of RDC in the amount of \$16,442 thousand). Elron's and RDC's non-consolidated liquid resources at December 31, 2017 amounted to \$32,720 and \$39,024 thousand, respectively (Elron's and RDC's liquid resources as of December 31, 2017 included other short term investments in securities of Elron in the amount of \$19,710 thousand and bank deposits of RDC in the amount of \$31,325 thousand).

**Uses of cash**

The main uses of cash in the third quarter and first nine months of 2018 were investments in Group Companies in the amount of \$1,080 and \$7,767 thousand, respectively, by Elron, and in the amount of \$9,500 and \$17,811 thousand, respectively, by RDC. Furthermore, cash was used to pay corporate and RDC's operating expenses, as detailed above in section 1.3.2.

The main uses of cash in the third quarter and first nine months of 2017 were investments in Group Companies in the amount of \$971 and \$8,030 thousand, respectively, by Elron and in the amount of \$1,000 and \$8,066 thousand, respectively, by RDC. Furthermore, cash was used to pay corporate and RDC's operating expenses, as detailed above in section 1.3.2.

Investments in Group Companies during the first nine months of 2018 and 2017, and for the year ended December 2017, are summarized in the following table (see also Note 3 to the Financial Statements for additional details regarding investments in Group Companies):

	Elron			RDC		
	For the nine months ended September 30,		Year	For the nine months ended September 30,		Year
	2018	2017	2017	2018	2017	2017
	Unaudited \$ thousands		Audited \$ thousands	Unaudited \$ thousands		Audited \$ thousands
<b>Consolidated Company:</b>						
Pocared	-	2,000	2,000	4,811	6,766	6,766
<b>Associates and Other Investments:</b>						
CartiHeal	3,467	1,733	1,733	-	-	-
Coramaze	-	1,892	1,892	-	-	-
Notal Vision	-	894	894	-	-	-
Open Legacy	-	-	-	3,000	-	-
Secdo	-	-	-	-	1,000	1,000
SecuredTouch	-	-	-	2,000	300	300
IronScales	-	-	-	-	-	1,000
Alcide	1,618	750	750	-	-	-
Nitinotes	1,522	761	761	-	-	-
Cynerio(1)	-	-	-	1,500	-	-
SixGill	-	-	1,000	-	-	-
Kindite	-	-	-	2,500	-	-
Lirhot	-	-	-	-	-	2,000
OzCode	-	-	-	2,500	-	-
KZen Networks	900	-	-	-	-	-
N-Drip	-	-	-	1,500	-	-
Other	260	-	-	-	-	-
<b>Total investments</b>	<b>7,767</b>	<b>8,030</b>	<b>9,030</b>	<b>17,811</b>	<b>8,066</b>	<b>11,066</b>

(1)Subsequent to the reporting date, RDC invested \$800 thousand in Cynerio.

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

**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 nine months of 2018 mainly included:

- Cash proceeds RDC received in the amount of \$14,142 thousand (net of tax) from the sale of Secdo (see section 1.2.1 above), and an amount of \$2,732 thousand RDC received which was deposited in escrow for a period of 18 months following the sale of Secdo (recorded under line item long term receivables in the statement of financial position as of September 30, 2018).
- Proceeds RDC received in the amount of approximately \$2,003 thousand from the release of the deposit that was held in escrow in connection with the sale of Kyma, completed in 2015.
- Proceeds Elron received in the total amount of \$768 thousand, in connection with the sale of Jordan Valley Semiconductors Ltd. ("Jordan Valley") completed in 2015, mainly from contingent consideration which was received due to the full achievement of Jordan Valley's milestones for 2017, as stipulated in its sale agreement.

Proceeds received from the disposal of non-current investments in the first nine months of 2017 mainly included:

- Cash proceeds received by RDC in the total amount of approximately \$14,700 thousand (net of tax) and an amount of 1,750 thousand which was deposited in escrow following the sale of Cloudyn.
- Proceeds in the amount of approximately \$2,400 thousand received during 2017 from the sale of Jordan Valley completed in 2015.

**Main Group Companies' cash flows**

	<b>Cash flows used in operating activities</b>				<b>Liquid resources balance</b>	
	<b>For the nine months ended September 30, 2018</b>	<b>For the nine months ended September 30, 2017</b>	<b>For the three months ended September 30, 2018</b>	<b>For the three months ended September 30, 2017</b>	<b>As of September 30, 2018</b>	<b>As of December 31, 2017</b>
			<b>Unaudited</b>			<b>Audited</b>
	<b>\$ thousands</b>					
Pocared	(9,093)	(8,424)	(3,058)	(2,996)	3,454	7,472
BrainsGate	(4,279)	(5,051)	(1,311)	(1,604)	7,429	11,696
CartiHeal	(6,040)	(5,107)	(2,264)	(1,870)	18,449	10,390

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

**2.1 Main data detailed in 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"):

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

**Impairment test of IPR&D asset attributed to Pocared**

Due to ongoing development processes being undertaken by Pocared, the Company completed examination if there is a need to amortize the IPR&D asset attributed to Pocared, which was initially recognized upon its consolidation in 2015 in the amount of \$14,387 thousand. The examination was conducted with the assistance of an external appraiser, and showed that the fair value of this asset is \$24,000 thousand and therefore, there is no need to recognize an impairment of the IPR&D asset attributable to Pocared. In accordance with the Regulations, the valuation is attached to these reports.

The significant details included in the valuation in accordance with the Regulations' requirements are as follows:

1. Identity of the asset evaluated: IPR&D asset attributed to Pocared.
2. Timing of work: As of September 30, 2018. Engagement date: October 2018.
3. Identity of appraiser: The valuation was performed with the assistance of Fair Value Ltd., by a team led by Eli Elal and Ori Snopkowski. Eli Elal is the founder of the Fair Value Group and has experience of over 15 years in the capital market in the fields of economic and business consulting. Among his clients are banks, insurance, holding, communications, energy, infrastructure, real estate and commercial companies and hundreds of public and private companies and bodies among the largest in the Israeli market. Eli is a certified public accountant with a masters' degree in economics and a doctoral candidate in finance, and an Accredited Senior Appraiser (ASA) on behalf of the American Society of Appraisers and its representative in Israel. Ori Snopkowski (MBA) is the head of the Evaluation Department, which is engaged in providing economic consulting and evaluations of fair value of corporations, and intangible assets for the purpose of mergers and acquisitions, for accounting requirements, tax assessments and regulatory requirements. The Department's team has experience of thousands of evaluations of corporations, intangible assets, Price Purchase Allocation, impairments in value of goodwill and other intangible assets, expert opinions for litigation purposes, financial analysis and investment projects feasibility. The appraiser has received an indemnification commitment from the Company in respect of claims and expenses that he might incur as a result of this valuation only for such expenses that are greater than three times the fees paid to the appraiser.
4. The valuation was conducted by forecasting the cash flows (income approach) that will derive from Pocared's future revenues resulting from the technology attributed to Pocared's IPR&D, using a WACC of 45%, and a 5% royalty rate.

**Valuation of the investment in Notal Vision**

Notal Vision's fair value as of September 30, 2018 was determined with the assistance of an independent appraiser, and estimated at approximately \$10,200 thousand.

1. Identity of the asset valued: Elron's investment in Notal Vision.
2. Timing of work: As of September 30, 2018. Engagement date: October 2018.
3. Notal Vision's fair value as of December 31, 2017: approximately \$12,000 thousand.
4. The value of Notal Vision established by the appraiser: approximately \$76,400 thousand. Accordingly, the value of Elron's interest was determined at approximately \$10,200 thousand (compared with \$11,000 thousand as of March 31, 2018 and \$12,000 thousand as of December 31, 2017). As a result, in 2018 Elron recorded a loss of approximately \$1,800 (\$1,000 thousand loss in the first quarter and \$800 thousand loss in the third quarter) in respect of the change in

**Elron Electronic Industries Ltd.**  
**Part II**  
**English Translation of Board of Directors Report**  
**for the Third Quarter of 2018**

the value of the investment in Notal Vision, recorded under line item gain (loss) from disposal and revaluation of investee companies and changes in holdings, net in the statement of income.

5. Identity of appraiser: S-Cube Financial Consulting Ltd. ("S-Cube"). The valuation was performed by S-Cube, managed by Mr. Gideon Shalom Bendor. Mr. Shalom Bendor is the managing partner of S-Cube and holds an MBA from San Jose State University. Mr. Shalom Bendor 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, purchase price allocation (PPA) studies and more.
6. The valuation model used by the appraiser: The DCF Method was used to determine Notal Vision's value (enterprise value).

The Option Pricing Model (OPM), using Black and Scholes formulas, was used to allocate Notal Vision's value to different classes of shares and to determine the value of Elron's interest accordingly.

7. The assumptions used:
  - a. The discount rate (WACC): 18.3%.
  - b. The long term growth rate: 3%.
  - c. The terminal value as a percentage of the value determined in the valuation: 40%.
  - d. The standard deviation: The volatility used in the Black and Scholes model was 60.69%.
  - e. The number of comparable items used – four publicly listed companies and their historical volatilities which were calculated based on their market prices.

---

Eduardo Elsztain  
Chairman of the Board of Directors

---

Ari Bronshtein  
CEO

November 21, 2018, Tel Aviv, Israel



# Impairment Test of Intangible Asset

As of September 30, 2018



The **best**  
is our only  
option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



## Table of Contents

Summary	3
Overview	4
Description of the Company	5
Brief Market Overview	7
Methodology	9
Analysis of main risk factors and uncertainty	13
Main Work Assumptions	15
Valuation Summary IPR&D	18
Comparison to previous work	20
<b>Appendices</b>	
A - Discount Rate	22
B - Our Professional Credentials	23
C - Our Professional Experience	24
D - Limiting conditions	25



הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידיים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



## Summary

Dear Mr. Yaron Elad, CFO

### Elron Electronic Industries Ltd.

Elron Electronic Industries Ltd. (hereinafter: “**Elron**”) has requested that we conduct an impairment test of Intangible Asset in respect of POCARED Diagnostics Ltd. (hereinafter: “**the Company**” and/or “**Pocared**”), as of September 30, 2018 (“**Our Work**” and/or “**Our Opinion**” and/or “**Our Report**”), under the requirements of the international Accounting Standards 36 (hereinafter “**IAS 36**”) and based on the assumptions set forth in this report.

Our Report has been prepared solely for Elron’s accounting purposes, its independent auditors and for regulatory filings. Third parties should not make any use of, or rely upon it for any purpose whatsoever without our explicit prior written approval.

**Based on our assessments and calculations, subject to the reservations stated above and below, Pocared’s Intangible asset IPR&D fair value is estimated to be approximately 20 -27 million United State dollars as of September 30, 2018. Based upon Elron’s representations, the carrying amount of the said IPR&D asset is approximately 14.4 million United State dollars. Therefore, we believe that no impairment needs to be recognized.**

Our Report, attached, includes a description of the methodology used in the examination. The description included in Our Report is not meant to be a full and detailed description of all the procedures we adopted, rather it summarizes the main ones.

- ▶ It is agreed that Elron may attach this valuation to reports published in accordance with the Securities Law, 1968 or regulations under it, and to any other report submitted under the Israeli Securities Authority’s regulations, and to include the content of this Valuation in such reports.

November 21, 2018

*Fair Value LTD*



הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידיים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ www.fairvalue.co.il ▶ info@fairvalue.co.il ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



## Overview

### General Description of the company

- ▶ The Company develops real time diagnostic laboratory system for infectious diseases based on optical technology and data processing algorithm.
- ▶ The Company's products are intended mainly for microbiological laboratories and hospitals, and expected to reduce both duration and cost of diagnosis, as well as skilled manpower required for interpreting the diagnostic findings, without decreasing tests' accuracy thus, enabling to perform a large number of tests simultaneously.
- ▶ The system is planned to diagnose infections in various body fluids, including urine, blood, saliva, spinal fluid and various swabs such as throat and others.

### Company Products- Sample Processor

- ▶ This product is a general use, highly efficient rapid filtration-based, fractionation and concentration platform, which concentrates biological particles that are suspended in liquid-form from a feed suspension.
- ▶ The SP's technology can accommodate any liquid type and volume.
- ▶ It can purify, recover and maintain viability of extremely low CFU/ml samples
- ▶ SP does not damage the cell surface or cause the cell to lose oxygen or be depleted of nutrients.



The **best**  
is  
our only  
option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.





## Description of the Company

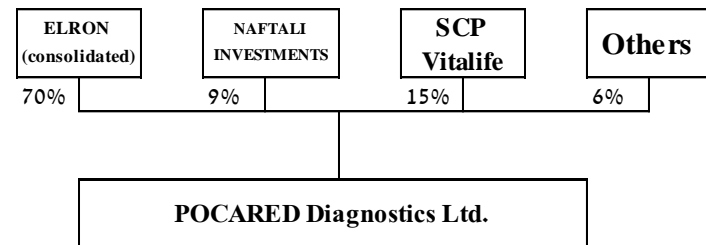
### Company Products- P-1000

- ▶ The SP-1000 analyzer is a universal, robust platform that addresses a wide range of in-vitro diagnostic (IVD) applications.
- ▶ It is an automated and rapid system which employs intrinsic fluorescence and optical data analysis methods to analyze multi-dimensional spectral characteristics of microorganisms.
- ▶ The product is intended to significantly reduce the duration of the diagnosis, its cost and the skilled manpower needed to decipher the diagnostic findings, while maintaining maximum accuracy.

### Products Status

- ▶ As of September 30, 2018 the Company is at product development stages and has not commenced sales. As a result, Pocared will require additional funding to finance its operations.
- ▶ As of Our Work, Pocared has over 60 patents, and over 50 pending patent applications.

### Structure chart of the Company



The **best** is our only option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידיים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



## Description of the Company (cont'd)

### Previous trials

- ▶ In July 2013, Pocared commenced the collection of urine samples for a trial to prove the efficacy of its UTI diagnosis, compared to standard diagnostic methods. The trial was intended to support its planned FDA submission.
- ▶ In February 2016, upon the completion of the sample collection, data was received and the analysis of the results commenced, following which the trial was ceased.
- ▶ As conveyed by Pocared to Elron in March 2016, the examination of the trial results revealed that there was a malfunction in some of the calibration components of its systems, which led to incorrect results. The source of the malfunction was identified and its substance was examined, inter alia, by running raw data collected in the trial on a system with properly calibrated components, and the results thereof met Pocared's expectations.

### Previous trials

- ▶ As a result, Pocared developed several improvements in the disposable unit, in its production process and in the variety of suppliers it uses.
- ▶ After several additional delays in 2018 and in light of the ongoing development activity being carried out in order to improve the capabilities of the mathematical models for pathogen identification and quantification, Pocared is currently expected to commence the trial in the first half of 2019.





## Brief Market overview

### In –Vitro Diagnostics Market

- ▶ In vitro diagnostic (IVD) tests performed on biological samples, such as blood, urine, saliva, spinal fluid, and DNA, are a key component of healthcare delivery. The information provided by IVD tests enable medical care providers to manage several diseases through timely prevention, diagnosis and decision making, and by administering patient-specific treatment modalities.
- ▶ The products used for diagnosis include analytical equipment for analyzing test results, chemical substances for chemical reaction used for sampling diagnosis, and software that supports such diagnostic and analysis processes in medical laboratories and research facilities.

### In –Vitro Diagnostics Market (cont'd)

- ▶ IVD processes can range from simple, at-home tests to high-precision genomic tests that are used to diagnose the presence of infections and disease, as well as monitoring at-home care and drug therapy compliance.
- ▶ The global IVD market accounted for \$61.1 billion during 2016, and is estimated to reach approximately \$84.6 billion by 2023, reflecting an annual growth rate (CAGR) of 4.6% from 2017 to 2023.
- ▶ The main reasons for the increase in projected market size include among others :
  - Forecast increase in the number of public and private expenditure on health.
  - Technological developments that reduce the cost of treatment and shorten the duration of treatment.





## Brief Market overview (cont'd)

### Microbiology Market

- ▶ The clinical microbiology market includes, among other things, laboratory equipment, including incubators, sterilizers and disinfectants, and equipment for the diagnosis of blood cultures and bacteria. In addition, this field includes analysis and diagnostic tools, such as instrument-based molecular diagnostics and microscopes.
- ▶ The field of activity has grown steadily in recent years, inter alia, in light of the channeling of private and public research grants, which lead to technological progress and an increase in demand. In addition, a high incidence of infectious diseases and outbreaks of epidemics also lead to increased demand for such products.

### Microbiology Market - (cont'd)

- ▶ For example, the global microbiology market is estimated at \$3.3 billion in 2016 and is expected to reach \$5.8 billion in 2021, reflecting an annual growth rate (CAGR) of 11.5%
- ▶ Furthermore, improving healthcare infrastructure across the emerging markets and growing market demand for advanced molecular diagnostic products provide opportunities for players in the clinical microbiology market.



The **best**  
is  
our only  
option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידיים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



## Methodology

### Impairment Test - General

- ▶ The objective of International Accounting Standard 36 is to ensure that assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset.
- ▶ If this is the case, the asset is described as impaired and the standard requires the recognition of an impairment loss.
- ▶ The standard shall be applied to fixed assets, intangible assets, goodwill and investments in companies where the entity holds significant influence.

### Impairment determination

Following is the manner in which an impairment test is carried out as stated in the standard:

- ▶ **Identifying the cash generating unit**
  - ▶ The Cash Generating Unit (hereinafter "CGU") is the smallest identifiable asset group that generates, in extended use, positive cash flows that are independent of other assets cash flows.
  - ▶ In our report, based on data presented to us by Elron's management, the relevant CGU have been defined as Pocared's enterprise value, inter alia, since the company does not have any revenues as of our work, and its main asset is its IPR&D.



The **best**  
is  
our only  
option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



### Impairment determination (cont'd)

- ▶ Internal and external sources of information that may indicate the need for impairment.
  - ▶ The standard determines that, at a minimum, a list of specific signs must be examined in order to conduct an impairment test.
  - ▶ The sources of information that must be checked for these signs are divided into two as follows: internal, such as the asset's physical state or negative changes in its performance, and external, such as changes in the business environment or changes in interest rates.

### Impairment determination (cont'd)

- ▶ **Measurement of the recoverable amount**
  - ▶ The recoverable amount is the highest of (i) an asset's fair value less costs to sell and (ii) value in use of the asset.
  - ▶ The fair value of the asset less costs to sell is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transition between market participants at the measurement date.
  - ▶ This value may be obtained from a binding sale agreement, an active market price or other estimation. The value in use of the asset is the present value of the future cash flows deriving from an asset.





## Methodology (cont'd)

### Impairment determination (cont'd)

- ▶ However, while the fair value of the asset less costs to sell is estimated from a market participant perspective, the value in use of the asset is estimated from a Buyer Specific perspective, meaning the perspective of the reporting entity's management.
- ▶ In our report we have estimated the recoverable amounts as the fair value, less cost to sell, which was estimated at 2%, based inter alia on Elron's experience.
- ▶ When testing goodwill impairment, the value of the goodwill acquired through a business combination must first be allocated to separate CGUs or a group of CGUs that are expected to produce benefits as a result of the synergies created through the combination.

### Impairment determination (cont'd)

- ▶ If the recoverable amount as explained above is lower than the carrying amount, the carrying amount shall be reduced to the value of the recoverable amount and this impairment shall immediately be recognized as an impairment loss.
- ▶ The allocation of the impairment loss shall be executed as follows: If there is goodwill in the entities books, its value shall be reduced first. Afterwards, the rest of the impairment shall be allocated to the other intangible assets held by the CGU, proportionally to their value in the entities books.
- ▶ Furthermore, the standard determines that when determining the value of an asset the entity will not reduce the carrying amount of that asset below the greater value of: (i) the fair value of the asset less costs to sell; (ii) value in use; (iii) zero;





### Date of Impairment testing

- ▶ The standard determines that a reporting entity will be required to test for signs of impairment in the value of an asset or CGU at each balance sheet date.
- ▶ The standard also determines that regardless of identifying signs for the impairment of all assets, the entity will be required to conduct annual impairment tests for three types of assets: (i) intangible assets lacking an identifiable life span; (ii) intangible assets that are not ready for use; (iii) goodwill;

### Impairment determination (cont'd)

- ▶ We estimated the fair value less costs to sale in accordance with the Relief from Royalty method.
- ▶ Based on the principles of this method, the value of an intangible asset is estimated by discounting the appropriate royalty payments that the owner of the asset would have had to pay for the use of the asset if it had not been owned by him.
- ▶ This method is used mainly to assess the value of intangible assets legally registered in the name of the Company such as: brands, patents, trademarks, etc.







## Analysis of main risk factors and uncertainty

### Main risk factors

- ▶ **Recruiting and retaining key personnel** – The Company's success depends to a large extent on a small number of key people in various fields. In addition, recruitment and retention of skilled personnel is expected to have a direct impact on the Company's future success. Leaving key employees in the Company and/or recruiting unsuccessful personnel may adversely affect the results of the Company's operations.
- ▶ **Establishment and operation of a mass production line** – The establishment and operation of a mass production line requires knowledge and regulatory approval that constitutes a significant risk factor for the Company.

### Main risk factors - (cont'd)

- ▶ **Elements of risk and uncertainty in the technology industry** – The Company's field is characterized by high uncertainty that depends on the success of the Company's product development. Failure to develop the products and /or development of the products after the entry of a competitor into the market is liable to adversely affect materially the Company's business results.
- ▶ **The level of competition and industry consolidation trend among competitors** – A delay in the development of the products may provide a competitive advantage to the competitors, in a manner that may have a significant adverse effect on the Company's operations.



The **best** is our only option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידיים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



## Analysis of main risk factors and uncertainty (cont'd)

### Main risk factors - (cont'd)

- ▶ **Possible difficulties in obtaining future financing** – As of the date of Our Work, the Company is in the product development stage and bears high costs of research, development and marketing activities without income sources. The Company's success depends on raising additional capital to support such costs. The lack of access to capital sources in the future is liable to materially endanger the continuation of its current operations and adversely affect the Company's operations and its business results.

### Main risk factors - (cont'd)

- ▶ **Uncertainty about success in clinical trials** - Continued development of the Company's products depends on clinical trials and their success, in accordance with the regulations based on the Company. Clinical trials involve the consent of clinical research bodies and obtaining approvals. A situation in which the Company will fail at each of these stages may have a direct impact on the Company's continued operations and results.





## Main Work Assumptions

### Cash Flow

- ▶ Revenue forecast : based on the Company's projections for the years 2019-2022.
- ▶ According to this forecast, sales are expected to commence in 2019.
- ▶ Starting 2023, a yearly growth rate of 3%, reflecting a recession market penetration rate.
- ▶ Forecast period: until 2032, in accordance with estimated patent's lifetime.
- ▶ In our work we considered further R&D costs, which are required in order to perform the expected trial, which totaled to approximately 10.5 million USD based on Company's financial plan .

### Royalty Rate

- ▶ Royalty Rate : 5%, based on:
  - Studies regarding different industries royalty rates<sup>1</sup> .
  - Furthermore, we conducted sanity check based on the split methodology<sup>2</sup>.
- ▶ The Split methodology:
  - Several studies suggest that the licensee will pay a royalty rate equivalent to approximately 25% of its expected profits for the product that incorporates the IP.
  - We analyzed the royalty rates implied from profitability rates of companies operating in the Healthcare Equipment & Supplies industry, by using the Split methodology. The implied royalty rate was estimated at approx. 4.7%.

<sup>1</sup>source :Industry report - IP valuation for medical device innovations affected by US policy changes?

<sup>2</sup>source :Profitability and royalty rates across industries: Some preliminary evidence, KPMG International, 2012, Medical Industry

הערכות שוות מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה





## Main Work Assumptions (cont'd)

### Main Work Assumptions - WACC

- ▶ Discount rate: 45%.
  - ▶ 45%, Based on our understanding of the characteristics of the Company's operations, including the operational stage in which it is situated (development stage, prior to the beginning of sales) and based on various academic studies regarding appropriate discount rates for various stages of development of venture capital companies. The discount rate used in our report is higher than discount rate used in our previous report, of 40% mainly due to the delay in schedules of the above mentioned trial.

### Main Work Assumptions - WACC

- ▶ Based on management representations, Success in the experiment will enable the Company to commercialize its IP.
- ▶ Therefore, we believe that the Company is at the lower range of the development stage (Early development). For further details, see Appendix B.





## Main Work Assumptions (cont'd)

### Main Work Assumptions - cost to sell

- ▶ In our work we estimated the recoverable amount based on the estimated fair value, less costs to sell
- ▶ Based on discussion with Elron's management we estimate cost to sell to be approx. 2% of the discounted cash flow, including the tax amortization benefit.
- ▶ Based upon previous transactions, the transactions cost are negligible.

### Main Work Assumptions - Taxes

- ▶ Tax Amortization – the recoverable amount includes the estimated value of the tax amortization benefit, since the fair value of the intangible assets, which are depreciable for tax purposes, is expected to include the value of the tax benefit inherent in their acquisition.
- ▶ Subsequently, when valuing assets using the Income or Cost approach, one must add the value of the tax depreciation benefits to the value of the intangible assets.
- ▶ Tax rate: the Company tax rate set forth in accordance with the statutory tax rate that applies at a rate of 23%, and the estimate expected losses carry forward, based on losses forecasted on 2018.





# Fair Value Group

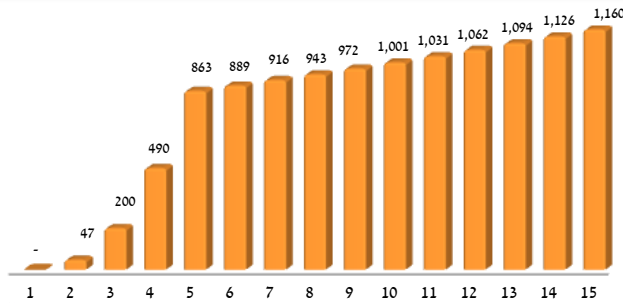
Trusted Business Advisors

# ELRON

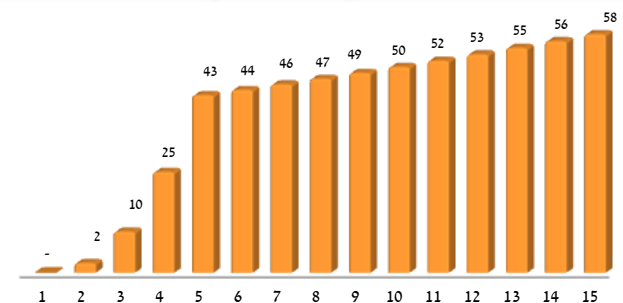
## Valuation Summary IPR&D

Millions of USD	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>14</u>	<u>15</u>
IPR&D Revenues	-	47	200	490	863	889	916	943	972	1,001	1,031	1,062	1,094	1,126	1,160
<i>Growth rate</i>			323.4%	144.7%	76.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Royalties	-	2	10	25	43	44	46	47	49	50	52	53	55	56	58
R&D Expenses until commercialization	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating Profit</b>	<b>(10)</b>	<b>2</b>	<b>10</b>	<b>25</b>	<b>43</b>	<b>44</b>	<b>46</b>	<b>47</b>	<b>49</b>	<b>50</b>	<b>52</b>	<b>53</b>	<b>55</b>	<b>56</b>	<b>58</b>
Tax expenses	-	-	(0)	(6)	(10)	(10)	(11)	(11)	(11)	(12)	(12)	(12)	(13)	(13)	(13)
<b>Operating Profit, After tax</b>	<b>(10)</b>	<b>2</b>	<b>10</b>	<b>19</b>	<b>33</b>	<b>34</b>	<b>35</b>	<b>36</b>	<b>37</b>	<b>39</b>	<b>40</b>	<b>41</b>	<b>42</b>	<b>43</b>	<b>45</b>
<b>Discounted Cash Flow</b>	<b>(9)</b>	<b>1</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>IPR&amp;D</b>	<b>23</b>														
Tax Amortization Benefit	<u>1</u>														
<b>Total IPR&amp;D Fair value</b>	<b>24</b>														
Less: costs of disposal	(0)														
<b>Total IPR&amp;D Fair value</b>	<b>24</b>														

### Forecast Revenue



### Expected Royalties



The best is our only option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ www.fairvalue.co.il ▶ info@fairvalue.co.il ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



## Valuation Summary IPR&D (cont'd)

### Sensitivity Analysis

- ▶ The following is a two-parameter sensitivity analysis of the value of the IPR&D asset in relation to the change in the weighted discount rate and in relation to the change in the rate of royalties (in USD millions):

		Royalty rate				
		7%	6%	5%	4%	3%
WACC	55%	23	19	14	10	5
	50%	29	24	18	13	8
	45%	36	30	<b>24</b>	17	11
	40%	46	38	30	23	15
	35%	59	49	40	30	20

### Sensitivity Analysis - (Cont'd)

- ▶ The following two-parameter sensitivity analysis of the value of the IPR&D asset in relation to the change in the rate of royalties and the growth rate from 2023 (in USD millions):

		Royalty rate				
		7%	6%	5%	4%	3%
Long term growth rate	5%	38	31	25	18	11
	4%	37	31	24	18	11
	3%	36	30	<b>24</b>	17	11
	2%	36	29	23	17	11
	1%	35	29	23	17	10





# Fair Value Group

Trusted Business Advisors

# ELRON

## Comparison to previous work

### Valuation IPR&D

- ▶ The following is a brief summary of main parameters used in our report, and in our previous work, as of December 31, 2017:

	<u>As of</u>	
	<u>December 31, 2017</u>	<u>September 30, 2018</u>
WACC	40%	45%
Royalties Rate	5%	5%
	<i>(Millions of USD)</i>	
<b>IPR&amp;D</b>	<b>29</b>	<b>23</b>
Tax Amortization Benefit	2	1
<b>Total IPR&amp;D Fair value</b>	<b>30</b>	<b>24</b>

- ▶ As described above, due to additional delays, the WACC used in our current work is higher than the WACC used in our previous work.



הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידיים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.





**Fair Value Group**  
Trusted Business Advisors

ELRON

## Appendices

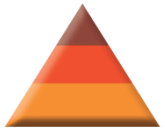


The **best**  
is our only  
option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.

POCARED Diagnostics Ltd. Valuation at September 30, 2018



## Appendix A - Discount Rate

▶ The following are details of capitalization rates divided into different stages, as detailed in the studies used in our work :

<u>Stage</u>	<u>characteristics</u>	<u>Frei&amp;Leleux</u>	<u>Seiffer</u>	<u>Plummer</u>	<u>Scherlis and Shelman</u>	<u>Stevenson and Bihide</u>
Start up	pre-prototype	70%-100%	60%-80%	50%-70%	50%-70%	50%-100%
Early delopment	pre-commercialization	50%-70%	50%-60%	40%-60%	40%-60%	40%-60%
first stage	commercialization	40%-60%	40%-50%	NA	NA	NA
expansion	Shipping product	35%-50%	30%-40%	35%-50%	30%-50%	30%-40%
mezzanine/IPO	profitable	25%-40%	25%-30%	25%-35%	20%-35%	20%-30%



The **best**  
is our only  
option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



# Fair Value Group

Trusted Business Advisors

# ELRON

## Appendix B - Our Professional Credentials

- ▶ Fair Value Ltd, is a privately associated corporation (the “**Company**”). The Company specializes in financial advisory and professional evaluations for the purposes of financial reporting and expert opinions to courts, for tax purposes and regulatory and statutory authorities in Israel and abroad.
- ▶ Mr. Eli Elal, (CPA) ASA, is the chief appraiser, certified as a Senior Appraiser by ASA, American Society of Appraisers. In addition, Mr. Elal is the Vice president of the international chamber of ASA, and its representative in Israel.
- ▶ The Company has a team of accountants and economist’s experts, highly qualified as financial advisors and evaluators. Among the Company’s clients are dozens of large private companies and publicly traded companies in Israel.
- ▶ The Company has four main areas of expertise:
  - Corporate Valuation
  - Quantitative Finance & Derivative Valuation
  - Financial and Economic Modeling
  - Litigation and Transaction Support



הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ www.fairvalue.co.il ▶ info@fairvalue.co.il ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.

POCARED Diagnostics Ltd. Valuation at September 30, 2018



# Fair Value Group

Trusted Business Advisors

# ELRON

## Appendix C - Our Professional Experience



The **best**  
is our **only**  
option.

הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.

POCARED Diagnostics Ltd. Valuation at September 30, 2018



## Appendix D - Limiting conditions

- For the purpose of Our Report we have relied on information sources, which seemed to us reasonable, complete, exact and up-to-date. Furthermore, we have not come across any sign that indicates that these sources are unreasonable. We must emphasize that Our Report does not include a due diligence examination or any other examination verifying or validating the said information. Therefore, Our Report may not be considered to be a confirmation that the data given to us is correct, complete or exact. In Our Report we have also dealt with forward-looking data that was given to us by Elron. Forward-looking data refers to data that lacks certainty with regards to the future and is based on information that exists in the Company at the date of Our Report. This data includes expectations and intentions of the Company at the date of Our Report. If the expectations of the Company are not realized the results are likely to be different from the expected results based on this data. We must emphasize that alterations in the main variables and/or the information are likely to change the basis of the fundamental assumptions in Our Report, and consequently our conclusions. Therefore, Our Report must not be viewed as any verification or indication of the correctness, completeness or preciseness of the data, but rather as an indicative economic evaluation based on economic models and future estimates, as detailed below in the body of Our Report. Furthermore, we reserve the right to update Our Report based upon any new data that was not presented to us prior the completion of Our Report. Our Report, includes a description of the methodology used in the examination. The description included in Our Report is not meant to be a full and detailed description of all the procedures we adopted, rather it summarizes the main ones.





## Appendix D - Limiting conditions (cont'd)

- ▶ Our Report contains figures that were created using computer based calculations. therefore some of the figures displayed may contain slight insignificant deviations. Our Report relates to the composite of aspects associated with the fair value of the Company and is not a recommendation to take any action whatsoever, including investing in, selling of or disposing of any holding. Due to the business uncertainty inherent in the attempt to evaluate the economic variables that were used in Our Report and the numerous exogenous and endogenous parameters of the Company that are likely to affect the results of its operations in the future and the value of its assets, there is no certainty or guarantee that the results of the models and the estimates in Our Report will actually occur, their objective is to reflect the existing information, to the best of our knowledge, at the date of this report. We should also state that this examination is meant to reasonably and fairly reflect a given situation at a specific time, on the basis of the data available, and relating to the basic assumptions and the forecast estimated on the basis of existing information, and is only relevant as of the date of its preparation. Nothing in Our Report may be construed as any type of legal advice or opinion. The interpretation of the various documents we studied was performed only for the purpose of Our Report, and is not an expression of our opinion of them. The information appearing in Our Report does not claim to include all the information which potential investors or any other agents are likely to require. Various investors are likely to have different objectives, considerations and methods of examination on the basis of other assumptions and, accordingly, the economic value with which various parties may undertake economic activities is likely to be different. Our Work was done in accordance with assumptions and presentations, provided by Elron and is solely for this purpose and use. We do not have any responsibility of any sort whatsoever to the reader for causing damages of any type whatsoever or in any other way. We are not obligated to update this document and are not responsible for the preciseness of the content in it and to the fact the information has not changed since the date of our Work.



הערכות שווי מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידיים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



## Appendix D - Limiting conditions (cont'd)

- ▶ Evaluations are not an exact science and their conclusions depend on the discretion of the evaluator. Therefore there is no single and unequivocal value and our Work sets a reasonable range of the value. We believe that the value determined in our Work is reasonable based on the information provided to us by Elron's Management. Notwithstanding the aforesaid, another evaluator is likely to reach a different value. We will not bear any responsibility in any event of a loss, damage or financial expense created as a result of any use made by the reader or any user of this document, to carry out or should the reader rely on this document, or in any other events resulting as a result of achieving access by the reader to this document. As part of the agreement with the Elron, we will be exempt and will not be held responsible or liable under any circumstances for any damage, loss, expense, cost, etc., of any kind, directly or indirectly, caused to Elron and /or to any party on its behalf and / From any and all matters relating to the information received by the Company and / or its designee, including but not limited to inaccuracy or lack or as a result of any discrepancy or other defect, of any kind or type, related to the information. We will not be liable for any loss, damage or expense arising out of any use by any reader or user of this document, or any reliance of a reader on this document, or any other event resulting from obtaining a reader's access to this document. In addition, we shall be liable to participate up to a limit of three times our fees, and shall not be liable in any event for any further damage, loss, expense, cost, etc. of any kind or type, whether direct or indirect, caused to the Company and / or its licensors and Or any third party, due to an act and / or omission directly or indirectly related to the services we provide to the Company (including in the case of negligence on our part or by any employee or officer on our behalf), except in case of gross negligence and / or fraud and / On our part.





## Appendix D - Limiting conditions (cont'd)

- ▶ In any case in which a claim or complaint is filed against us, of any kind, related to the services rendered by us to the Elron, without exception, Elron shall reimburse or indemnify us, as the case may be, for any amount required or to be paid, exceeding our mentioned above fees. In addition, Elron will reimburse or indemnify us, as the case may be, for all reasonable expenses for the purpose of defending against any such claim or procedure, including in respect of full attorneys' fees. We will notify Elron of any demand or claim brought against us reasonable time following its receipt by us. We will notify the Elron in writing of any demand or such claim, immediately after receiving it. In the event that such a demand or claim is brought against us, Elron reserves the right to facilitate our legal defense and employ an attorney to represent us. The identity of the attorney will be brought to our approval in advance (and in the event that we object to the lawyer proposed by Elron, he will be replaced by another lawyer whose identity will be approved by us). Such approval shall not be unreasonably withheld. we will cooperate, in a reasonable fashion, with any attorney that we have approved of as aforementioned and Elron will cover all expenses in conjunction with our cooperation. This will be done in such a manner that we will not incur any related expenses whatsoever. In addition, we will not be able to compromise in any claim or demand without the prior written consent of Elron. We do not have any personal interest in their securities, the Company's shares, its shareholders and their related parties, as defined by law and case law. We also state that no limitations were set with regards to our fees, including the results of Our Work. We shall not be held liable in the event of any loss, damage or expense that would be generated following any use that any reader or any user selects to make of this document, or any of the calls for reliance on this document or any other event that follows the reader obtaining access to this document.



הערכות שוות מקצועיות בלתי תלויות ◀ סטנדרטים בין לאומיים ◀ שווי תאגידיים ◀ נכסים בלתי מוחשיים ◀ מכשירים פיננסיים ◀ חו"ד מומחה

Tel: 03.767.6966 ▶ Fax: 03.767.6964 ▶ [www.fairvalue.co.il](http://www.fairvalue.co.il) ▶ [info@fairvalue.co.il](mailto:info@fairvalue.co.il) ▶ 20 Lincoln St., Rubinstein House, 28<sup>th</sup> floor, Tel-Aviv.



# ELRON ELECTRONIC INDUSTRIES LTD.

English Translation of Periodic Report  
for the Third Quarter of 2018  
Filed with the Israel Securities Authority

## Part III

1. Interim Consolidated Financial Statements as of September 30, 2018
2. Financial Data from the Interim Consolidated Financial Statements Attributable to the Company as of September 30, 2018

**Elron Electronic Industries Ltd.**

**Part III**

**English Translation of Interim  
Consolidated Financial Statements**

**As of  
September 30, 2018  
Unaudited**

**Interim Consolidated Financial Statements as of September 30, 2018**

---

**Contents**

	<u>Page</u>
<b>Auditor Review Report</b>	<b>2</b>
<b>Consolidated Statements of Financial Position</b>	<b>3-4</b>
<b>Consolidated Statements of Income (Loss)</b>	<b>5</b>
<b>Consolidated Statements of Comprehensive Income (Loss)</b>	<b>6</b>
<b>Consolidated Statements of Changes in Equity</b>	<b>7-11</b>
<b>Consolidated Statements of Cash Flows</b>	<b>12-13</b>
<b>Notes to the Interim Consolidated Financial Statements</b>	<b>14-23</b>
<b>Annex to the Interim Consolidated Financial Statements - Details regarding investments in the consolidated financial statements as of September 30, 2018</b>	<b>24</b>



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

We have reviewed the accompanying condensed consolidated financial information of Elron Electronic Industries Ltd. (the "Company") and its subsidiaries, which comprises the interim consolidated statements of financial position as of September 30, 2018 and the related interim consolidated statements of income or loss, comprehensive income or loss, changes in equity and cash flows for the nine and three months periods then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for those periods in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a consolidated company whose assets constitute approximately 4% of the total consolidated assets as of September 30, 2018, and whose revenues constitute approximately 0.3% and 0.0% of the total consolidated revenues for the nine and three months periods then ended, respectively. The condensed interim financial information of that company was reviewed by another auditor whose report was furnished to us, and our conclusion, insofar as it relates to the financial information in respect of that company, is based on the report of the other auditor. We also did not review the condensed interim financial information of associates, the investment in which, at the equity method, amounted to approximately \$15,560 thousand as of September 30, 2018, and the Company's share in their losses amounted to approximately \$6,127 and \$3,097 thousand for the nine and three months periods then ended, respectively. The condensed financial information of those associates was reviewed by the other auditor, 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 auditor.

### **Scope of review**

We conducted our review in accordance with Review Standard 1 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 review reports of the other auditor, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel  
November 21, 2018

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

---

*Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,  
P.O Box 50005 Tel-Aviv 6150001 Telephone: +972 -3- 7954555, Fax: +972 -3- 7954556, [www.pwc.com/il](http://www.pwc.com/il)*

**Consolidated Statements of Financial Position**

	<b>September 30</b>		<b>December 31</b>
	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>Unaudited</b>		<b>Audited</b>
	<b>\$ thousands</b>		
<b>Current assets</b>			
Cash and cash equivalents	29,887	27,160	21,532
Bank deposits	16,442	44,295	37,974
Other investments in securities	15,248	19,718	19,710
Other accounts receivable	2,698	3,740	4,256
	<u>64,275</u>	<u>94,913</u>	<u>83,472</u>
<b>Non-current assets</b>			
Investments in associates	22,544	13,139	11,970
Investments in other companies measured at fair value	17,945	19,146	17,145
Long-term receivables	4,758	8,024	5,544
Property, plant and equipment, net	1,000	1,263	1,132
Long-term bank deposits	-	5,531	-
Intangible assets	17,438	17,438	17,438
	<u>63,685</u>	<u>64,541</u>	<u>53,229</u>
<b>Total assets</b>	<u>127,960</u>	<u>159,454</u>	<u>136,701</u>

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

**Consolidated Statements of Financial Position**

	September 30		December 31
	2018	2017	2017
	Unaudited		Audited
	\$ thousands		
<b>Current liabilities</b>			
Trade payables	294	606	637
Other accounts payable	7,565	8,947	8,937
	<u>7,859</u>	<u>9,553</u>	<u>9,574</u>
<b>Long-term liabilities</b>			
Financial liabilities measured at fair value	866	863	821
	<u>866</u>	<u>863</u>	<u>821</u>
<b>Equity attributable to the Company's shareholders</b>			
Issued capital	9,573	9,573	9,573
Share premium	190,753	190,753	190,753
Capital reserves	5,468	4,759	4,830
Accumulated deficit	(122,653)	(101,928)	(112,500)
	<u>83,141</u>	<u>103,157</u>	<u>92,656</u>
<b>Non-controlling interests</b>	<u>36,094</u>	<u>45,881</u>	<u>33,650</u>
<b>Total equity</b>	<u>119,235</u>	<u>149,038</u>	<u>126,306</u>
<b>Total liabilities and equity</b>	<u><u>127,960</u></u>	<u><u>159,454</u></u>	<u><u>136,701</u></u>

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

\_\_\_\_\_  
Eduardo Elsztain  
Chairman of the Board of Directors

\_\_\_\_\_  
Ari Bronshtein  
Chief Executive Officer

\_\_\_\_\_  
Yaron Elad  
Vice President &  
Chief Financial Officer

Approval date of the interim consolidated financial statements: November 21, 2018

**Consolidated Statements of Income (Loss)**

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	\$ thousands				
	(except for income (loss) per share data)				
<b>Income</b>					
Gain (loss) from disposal and revaluation of investee companies and changes in holdings, net	14,254	12,925	(2,659)	14,779	9,065
Financial income	1,080	2,733	248	475	2,902
	<u>15,334</u>	<u>15,658</u>	<u>(2,411)</u>	<u>15,254</u>	<u>11,967</u>
<b>Expenses</b>					
Research and development expenses	7,512	6,999	2,646	2,384	10,056
Selling and marketing expenses	219	468	14	135	499
General and administrative expenses	5,965	5,928	1,978	1,948	8,740
Equity in losses of associates, net	7,710	14,406	3,683	4,435	19,476
Financial expenses	255	200	115	71	257
Other expenses, net	-	71	-	-	176
	<u>21,661</u>	<u>28,072</u>	<u>8,436</u>	<u>8,973</u>	<u>39,204</u>
Gain (loss) before taxes on income	(6,327)	(12,414)	(10,847)	6,281	(27,237)
Tax benefit (taxes on income)	(997)	(1,366)	640	(1,370)	(580)
<b>Net income (loss)</b>	<u>(7,324)</u>	<u>(13,780)</u>	<u>(10,207)</u>	<u>4,911</u>	<u>(27,817)</u>
<b>Attributable to:</b>					
The Company's shareholders	(10,153)	(14,910)	(7,456)	465	(25,482)
Non-controlling interests	2,829	1,130	(2,751)	4,446	(2,335)
	<u>(7,324)</u>	<u>(13,780)</u>	<u>(10,207)</u>	<u>4,911</u>	<u>(27,817)</u>
<b>Net income (loss) per share attributable to the Company's shareholders (in \$):</b>					
Basic and diluted net income (loss) per share	<u>(0.34)</u>	<u>(0.50)</u>	<u>(0.25)</u>	<u>0.02</u>	<u>(0.86)</u>

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

**Consolidated Statements of Comprehensive Income (Loss)**

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	\$ thousands				
Net income (loss)	(7,324)	(13,780)	(10,207)	4,911	(27,817)
<b>Other comprehensive income (loss) (net of tax):</b>					
<u>Amounts that are classified or may be reclassified to profit or loss under certain conditions:</u>					
Foreign currency translation differences for foreign operation	(59)	234	(6)	85	276
<u>Total gain (loss) that would be reclassified to profit or loss under certain conditions</u>	(59)	234	(6)	85	276
<b><u>Total other comprehensive income (loss)</u></b>	(59)	234	(6)	85	276
<b><u>Total comprehensive income (loss)</u></b>	(7,383)	(13,546)	(10,213)	4,996	(27,541)
<b>Attributable to:</b>					
Company's shareholders	(10,212)	(14,676)	(7,462)	550	(25,206)
Non-controlling interests	2,829	1,130	(2,751)	4,446	(2,335)
	(7,383)	(13,546)	(10,213)	4,996	(27,541)

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
	\$ thousands									
<b>Balance at January 1, 2018 (audited)</b>	9,573	190,753	351	(1,192)	102	5,569	(112,500)	92,656	33,650	126,306
Total comprehensive income (loss)	-	-	-	-	(59)	-	(10,153)	(10,212)	2,829	(7,383)
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	7	7
Investment in Pocared by RDC (see Note 3.B)	-	-	-	-	-	697	-	697	(698)	(1)
Investment of non-controlling interests in Pocared (see Note 3.B)	-	-	-	-	-	-	-	-	306	306
<b>Balance at September 30, 2018</b>	<u>9,573</u>	<u>190,753</u>	<u>351</u>	<u>(1,192)</u>	<u>43</u>	<u>6,266</u>	<u>(122,653)</u>	<u>83,141</u>	<u>36,094</u>	<u>119,235</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									
<b>Balance at January 1, 2017 (audited)</b>	9,573	190,753	351	(1,192)	(174)	5,143	(87,018)	117,436	44,155	161,591
Total comprehensive income (loss)	-	-	-	-	234	-	(14,910)	(14,676)	1,130	(13,546)
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	6	6
Investment in Pocared by RDC	-	-	-	-	-	397	-	397	(474)	(77)
Investment of non-controlling interests in Pocared	-	-	-	-	-	-	-	-	1,064	1,064
<b>Balance at September 30, 2017</b>	<u>9,573</u>	<u>190,753</u>	<u>351</u>	<u>(1,192)</u>	<u>60</u>	<u>5,540</u>	<u>(101,928)</u>	<u>103,157</u>	<u>45,881</u>	<u>149,038</u>

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

ELRON ELECTRONIC INDUSTRIES LTD.

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									
<b>Balance at July 1, 2018</b>	9,573	190,753	351	(1,192)	49	5,794	(115,197)	90,131	39,163	129,294
Total comprehensive loss	-	-	-	-	(6)	-	(7,456)	(7,462)	(2,751)	(10,213)
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	1	1
Investment in Pocared by RDC (see Note 3.B)	-	-	-	-	-	472	-	472	(472)	-
Investment of non-controlling interests in Pocared (see Note 3.B)	-	-	-	-	-	-	-	-	153	153
<b>Balance at September 30, 2018</b>	<u>9,573</u>	<u>190,753</u>	<u>351</u>	<u>(1,192)</u>	<u>43</u>	<u>6,266</u>	<u>(122,653)</u>	<u>83,141</u>	<u>36,094</u>	<u>119,235</u>

	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									
<b>Balance at July 1, 2017</b>	9,573	190,753	351	(1,192)	(25)	5,540	(102,393)	102,607	41,434	144,041
Total comprehensive income	-	-	-	-	85	-	465	550	4,446	4,996
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	1	1
<b>Balance at September 30, 2017</b>	<u>9,573</u>	<u>190,753</u>	<u>351</u>	<u>(1,192)</u>	<u>60</u>	<u>5,540</u>	<u>(101,928)</u>	<u>103,157</u>	<u>45,881</u>	<u>149,038</u>

### 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									
<b>Balance at January 1, 2017</b>	9,573	190,753	351	(1,192)	(174)	5,143	(87,018)	117,436	44,155	161,591
Total comprehensive income (loss)	-	-	-	-	276	-	(25,482)	(25,206)	(2,335)	(27,541)
Dividend paid by RDC to non-controlling interests	-	-	-	-	-	-	-	-	(8,822)	(8,822)
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	6	6
Investment in Pocared by RDC	-	-	-	-	-	426	-	426	(503)	(77)
Investment of non-controlling interests in Pocared	-	-	-	-	-	-	-	-	1,149	1,149
<b>Balance at December 31, 2017</b>	<u>9,573</u>	<u>190,753</u>	<u>351</u>	<u>(1,192)</u>	<u>102</u>	<u>5,569</u>	<u>(112,500)</u>	<u>92,656</u>	<u>33,650</u>	<u>126,306</u>

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

**Consolidated Statements of Cash Flows**

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	\$ thousands				
<b>Cash flows from operating activities</b>					
Net income (loss)	(7,324)	(13,780)	(10,207)	4,911	(27,817)
<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	221	299	67	104	475
Finance, net	(653)	(3,977)	(201)	(1,335)	(3,371)
Stock based compensation	7	6	1	1	6
Change in fair value of financial liabilities measured at fair value	(29)	(164)	3	-	(206)
Loss (gain) from disposal and revaluation of investee companies and changes in holdings, net	(14,254)	(12,925)	2,659	(14,779)	(9,065)
Equity in losses of associates, net	7,710	14,406	3,683	4,435	19,476
Taxes on income (tax benefit)	997	1,366	(640)	1,370	580
Other	(31)	(6)	(13)	-	(9)
	<u>(6,032)</u>	<u>(995)</u>	<u>5,559</u>	<u>(10,204)</u>	<u>7,886</u>
<u>Changes in Assets and Liabilities:</u>					
Decrease (increase) in other accounts receivable	271	(68)	79	(160)	(195)
Increase (decrease) in trade payables	(343)	166	(116)	80	197
Increase (decrease) in other accounts payable	(1,347)	478	(19)	104	1,254
	<u>(1,419)</u>	<u>576</u>	<u>(56)</u>	<u>24</u>	<u>1,256</u>
<u>Cash paid and received during the period for:</u>					
Taxes paid	(33)	(35)	(9)	(35)	(35)
Interest received	784	647	170	185	1,054
	<u>751</u>	<u>612</u>	<u>161</u>	<u>150</u>	<u>1,019</u>
<b>Net cash used in operating activities</b>	<u>(14,024)</u>	<u>(13,587)</u>	<u>(4,543)</u>	<u>(5,119)</u>	<u>(17,656)</u>

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

**Consolidated Statements of Cash Flows (Cont.)**

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	\$ thousands				
<b>Cash flows from investment activities</b>					
Purchase of property and equipment	(89)	(421)	(3)	(2)	(466)
Investment in associates and other companies	(20,790)	(7,508)	(7,080)	(2,121)	(11,362)
Proceeds from sale of associates and other companies	18,006	18,026	-	15,543	18,266
Sale of other investments in securities, net	4,394	5,742	1,890	2,027	5,742
Taxes paid as a result of sale of investments in companies	(989)	(821)	-	(821)	(821)
Withdrawal (investment) of deposits, net	21,536	(4,824)	-	(7,579)	7,079
<b>Net cash provided by (used in) investment activities</b>	<u>22,068</u>	<u>10,194</u>	<u>(5,193)</u>	<u>7,047</u>	<u>18,438</u>
<b>Cash flows from financing activities</b>					
Dividend paid by RDC to non-controlling interests	-	-	-	-	(8,822)
Investment of non-controlling interests in Pocared	378	1,319	189	-	1,404
<b>Net cash provided by (used in) financing activities</b>	<u>378</u>	<u>1,319</u>	<u>189</u>	<u>-</u>	<u>(7,418)</u>
<b>Exchange rate differences in respect of cash and cash equivalents</b>	<u>(67)</u>	<u>2,058</u>	<u>(7)</u>	<u>1,076</u>	<u>992</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>8,355</u>	<u>(16)</u>	<u>(9,554)</u>	<u>3,004</u>	<u>(5,644)</u>
<b>Cash and cash equivalents as of beginning of the period</b>	<u>21,532</u>	<u>27,176</u>	<u>39,441</u>	<u>24,156</u>	<u>27,176</u>
<b>Cash and cash equivalents as of end of the period</b>	<u>29,887</u>	<u>27,160</u>	<u>29,887</u>	<u>27,160</u>	<u>21,532</u>

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 a high technology operational holding company that focuses on building technology companies. Elron's investee companies include companies at different stages of development operating in various technology fields, mainly medical devices, cybersecurity, information technology (IT) and enterprise software. The Company is an Israeli-resident company incorporated in Israel, traded on the Tel-Aviv Stock Exchange, its main market. Its registered address is 3 Azrieli Center, Triangle Tower, 42nd 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 holds an 50.32% interest in the Company as of September 30, 2018.

The accompanying consolidated financial statements have been prepared as of September 30, 2018, and for the nine 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, 2017 and the year then ended and accompanying notes ("the annual consolidated financial statements").

**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. Secdo**

Cyber Secdo Ltd. ("Secdo") operates in the field of automatic detection and investigation of cyber events in organizations through a platform that protects endpoints. Prior to its sale (see below), Secdo was held by RDC Rafael Development Corporation Ltd. ("RDC", Elron's 50.1% held subsidiary) and the investment in Secdo was accounted for under the equity method of accounting.

In April 2018, the sale of the entire share capital of Secdo to Palo Alto Networks (Israel) Ltd. (the "Acquirer") was completed (the "Transaction"). Pursuant to the Transaction, RDC received an amount of approximately \$17,900 (of which an amount of approximately \$2,700 was deposited in escrow for a period of 18 months, mainly in order to secure certain indemnification obligations of the selling shareholders to the Acquirer).

As a result, Elron recorded in the second quarter of 2018 a net gain attributable to the Company's shareholders in the amount of approximately \$8,100 (a consolidated net gain in the amount of approximately \$16,200) under line item gain from disposal and revaluation of investee companies and changes in holdings, net, in the statement of income.

**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. Pocared**

Pocared Diagnostics Ltd. ("Pocared"), Elron's subsidiary, 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 48% and 22%, respectively, of Pocared's outstanding share capital.

In June 2018, an investment agreement in Pocared was completed by RDC and other shareholders of Pocared, in an amount of \$1,500, in consideration for preferred B1 shares and warrants to purchase additional preferred B1 shares (RDC's share was approximately \$1,300). The investment amount was invested immediately. The investment agreement was an extension of the investment agreement dated September 2015. Following the completion of this investment, a capital reserve from transactions with non-controlling interests was recognized and recorded in the amount of \$225.

In August 2018, the aforementioned investment agreement was extended in an amount of approximately \$3,700, in consideration for preferred B1 shares and warrants to purchase additional preferred B1 shares (RDC's share was \$3,500). Following the completion of this investment, a capital reserve from transactions with non-controlling interests was recognized and recorded in the amount of \$472.

As detailed in Note 3.A.3.b) to the annual consolidated financial statements, as of December 31, 2017, as part of an annual test, the Company evaluated if there is a need to amortize the IPR&D asset attributed to Pocared, whose carrying amount was \$14,387. The valuation showed that there is no need to recognize an impairment of the IPR&D asset attributable to Pocared.

Due to ongoing development processes being undertaken by Pocared, the Company evaluated again if there is a need to amortize the IPR&D asset attributed to Pocared as of September 30, 2018. The evaluation was conducted with the assistance of an external appraiser based on the forecasted cash flows (income approach) that will derive from Pocared's future revenues resulting from the technology attributed to Pocared's IPR&D, using a 5% royalty rate and a 45% WACC. The value of the IPR&D asset according to the evaluation was determined at approximately \$24,000, therefore no impairment of the IPR&D asset attributable to Pocared was recorded.

**C. 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 29% 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.b) to the annual consolidated financial statements, in January 2018, the April 2017 investment round was increased by an additional \$2,500 from a new investor. At the same time, as stipulated in the agreement, the second installment in the amount of approximately \$12,200 was also invested (Elron's share in the second installment was approximately \$3,500).



**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. SecuredTouch**

SecuredTouch Inc. ("SecuredTouch") develops and provides a solution that profiles users based on their physical behavior with devices, allowing for seamless and persistent identity verification. As of the reporting date, RDC holds approximately 28% of SecuredTouch's outstanding shares and the investment in SecuredTouch is accounted for under the equity method of accounting.

As mentioned in Note 3.B.4.h) to the annual consolidated financial statements, in March 2018, an investment in SecuredTouch in the amount of approximately \$7,400 was completed. This investment was led by a new investor and with the participation of other shareholders of SecuredTouch, including RDC, in consideration for preferred A shares. The investment amount was invested immediately. RDC's share in this investment was \$2,000. In addition, as part of the investment agreement, the balance of convertible loans provided to SecuredTouch by its shareholders in the amount of approximately \$600 was converted into preferred A shares (RDC's share in the convertible loan was \$300). In September 2018, the aforementioned investment agreement was extended in the amount of \$600 by an additional new investor.

**E. Alcide**

Alcide.IO Ltd. ("Alcide") is developing a security solution for emerging data center environments to enable visibility and security policy enforcement for hybrid data centers. As of the reporting date, Elron holds approximately 26% of Alcide's outstanding shares and the investment in Alcide is accounted for under the equity method of accounting.

In April 2018, an investment in Alcide in the amount of approximately \$6,200 was completed. This round was led by a new investor and with the participation of other shareholders of Alcide, including Elron, in consideration for referred A-2 shares (Elron's share was approximately \$1,600). The investment amount was invested immediately.

**F. Nitinotes**

Nitinotes Ltd. ("Nitinotes") is developing a non-invasive endoscopic procedure that mimics gastric sleeve surgery for treatment of obesity. As of the reporting date, Elron holds approximately 31% 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.j) to the annual consolidated financial statements, in March 2018, the September 2016 investment round was increased by an additional \$1,000 from a new investor, in consideration for preferred A shares. At the same time, the third installment in the amount of approximately \$2,100 was invested by Nitinotes's shareholders (Elron's share in this installment was approximately \$1,500).

**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. Nitinotes (Cont.)**

In September 2018, the aforementioned investment round was extended by a new investor, in the amount of \$1,000 in consideration for preferred A-1 shares, to be invested in two installments. Following the completion of the investment, Elron is expected to hold approximately 29% of Nitinotes's outstanding shares.

**G. 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 24% of Cynerio's outstanding shares and the investment in Cynerio is accounted for under the equity method of accounting.

As mentioned in Note 3.B.4.n) to the annual consolidated financial statements, in January 2018, RDC entered into its first investment agreement with Cynerio, together with another shareholder, as part of a financing round of \$3,000 in consideration for preferred A shares. The investment was made in two equal installments in the amount of \$1,500 each (RDC's share in each installment was \$750). The first installment was invested immediately and in June 2018, the second installment was invested.

In November 2018, subsequent to the reporting date, an investment agreement with Cynerio in the amount of \$3,600 was signed. This investment is led by a new investor and with the participation of other shareholders of Cynerio, including RDC, in consideration for preferred A-1 shares. RDC's share in this investment is \$800. As a result, subsequent to the reporting date, RDC's holdings in Cynerio's outstanding shares decreased from approximately 24% to approximately 22%.

**H. Kindite**

Kindite Ltd. ("Kindite") is developing an encryption platform for cloud and other applications that enables search and retrieval of data while maintaining complete end to end encryption. As of the reporting date, RDC holds approximately 28% of Kindite's outstanding shares and the investment in Kindite is accounted for under the equity method of accounting.

As mentioned in Note 3.B.4.o) to the annual consolidated financial statements, in February 2018, RDC entered into its first investment agreement with Kindite, in the amount of \$2,500 in consideration for preferred A shares. In May 2018, the investment agreement was extended by a new investor in the additional amount of \$1,000.

**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. Open Legacy**

Open Legacy Technologies Ltd. ("Open Legacy") develops and markets a platform for integration of information systems in organizations, based on API (Application Programming Interface). As of the reporting date, RDC holds approximately 39% of Open Legacy's outstanding shares and the investment in Open Legacy is accounted for under the equity method of accounting.

In March 2018, Open Legacy entered into a loan agreement with its major shareholders, including RDC, in the amount of approximately \$3,300. RDC's share in the loan was \$1,000 and was granted immediately.

In October 2018, subsequent to the reporting date, a new investment agreement in Open Legacy was completed in the amount of approximately \$16,300, led by a new investor and with the participation of other new investors and Open Legacy's shareholders, including RDC, in consideration for preferred B-2 shares (RDC's share was \$2,000). Additionally, as part of the investment agreement, the balance of the aforementioned loan was converted into preferred B-2 shares. As a result, subsequent to the reporting date, RDC's holdings in Open Legacy's outstanding shares decreased from approximately 39% to approximately 32%.

**J. OzCode**

CodeValue D.T. Ltd. ("OzCode") is developing a simple, rapid and efficient debugging solution for developers.

In September 2018, RDC entered into its first investment agreement with OzCode, in the amount of \$2,500 in consideration for preferred A shares. As a result, RDC holds approximately 27% of OzCode's outstanding shares and the investment in OzCode is accounted for under the equity method of accounting.

**K. Notal**

Notal Vision Inc. ("Notal") provides a system and services for remote monitoring from home of AMD patients at risk of vision loss, for the early detection of important visual changes. As of the reporting date, Elron holds approximately 15% of Notal's outstanding shares. The investment in Notal is accounted for as a financial asset measured at fair value through profit or loss.

As mentioned in Note 7.A to the annual consolidated financial statements, in July 2017, Notal signed an investment agreement with several of its shareholders in the amount of \$20,000, in consideration for preferred C-1 shares. The investment was completed in July 2018.

**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. Notal (Cont.)**

In August 2018, Notal signed an additional investment agreement with some of its shareholders in the amount of \$10,000, in consideration for preferred C-1 shares. As of the reporting date, an amount of \$4,000 was invested in respect of this investment. Elron did not participate in this investment. Following the completion of the entire investment, Elron is expected to hold approximately 14% of Notal's outstanding shares.

Notal's fair value as of September 30, 2018 was determined with the assistance of an independent appraiser, estimated at approximately \$10,200. The significant details included in the valuation of an investment in unquoted shares are as follows:

1. **The value of Notal established in the valuation:** Approximately \$76,400. Accordingly, the value of Elron's interest was determined at approximately \$10,200 (compared with \$11,000 and \$12,000 as of March 31, 2018 and December 31, 2017, respectively). As a result, in 2018 Elron recorded a loss of approximately \$1,800 (\$1,000 loss recorded in the first quarter and \$800 loss recorded in the third quarter) in respect of the change in the value of the investment in Notal, recorded under line item gain (loss) from disposal and revaluation of investee companies and changes in holdings, net in the statement of income.
2. **The valuation model used by the appraiser:**  
The DCF Method was used to determine Notal's value (enterprise value). The Option Pricing Model (OPM), using the Black and Scholes formulas, was used to allocate Notal's value to different classes of shares and to determine the value of Elron's interest accordingly.
3. **The assumptions used:**
  - a. The discount rate (WACC): 18.3%.
  - b. The long term growth rate: 3%
  - c. The terminal value as a percentage of the value determined in the valuation: 40%.
  - d. The standard deviation: The volatility used in the Black and Scholes model was 60.69%.
  - e. The number of comparable items used: four publicly listed companies and their historical volatilities which were calculated based on their market prices.

**Notes to the Interim Consolidated Financial Statements**

---

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

**Note 4 – Contingent Liabilities**

- A.** As mentioned in Note 13.A to the annual consolidated financial statements with respect to the legal claim concerning Elscint Ltd., during 2017, the Haifa District Court approved the complementary settlement agreement signed by the plaintiffs, Elron and the group of directors on its behalf, pursuant to which the total amount to be paid is NIS 6,550 thousand (which includes compensation to the plaintiffs, costs and contribution to attorney fees), out of which Elron will pay NIS 4,450 thousand (approximately \$1,270), subject to submitting a notice to the Court correcting the settlement agreement in accordance with what is set forth in the Court's decision. In January 2018, a corrected settlement agreement was submitted to the Court and in March 2018, the Court gave effect of a judgement to this corrected settlement agreement.
- B.** Following Note 10.A to the annual consolidated financial statements concerning the VAT assessment issued to the Company in respect of the years 2011-2016, the Company reached agreements with the VAT authorities over some of their claims. As part of the agreements obtained, the Company committed to pay an amount of approximately \$1,100 bearing interest and linked to the CPI. In June 2018, the Company filed an appeal to the District Court concerning the amount that remains in dispute of \$1,500 bearing interest and linked to the CPI. In September 2018, the Company received a tax assessment in a non-material amount from the VAT authorities regarding the year 2017 and part of 2018. In respect with this assessment, the Company filed an objection to the VAT authorities. The Company believes that the existing provision in its financial statements is sufficient.

## Notes to the Interim Consolidated Financial Statements

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

## Note 5 – 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>
<b>As of September 30, 2018 (unaudited)</b>								
BrainsGate Ltd.	<u>7,564</u>	<u>38</u>	<u>7,602</u>	<u>1,026</u>	<u>3,664</u>	<u>4,690</u>	<u>2,912</u>	<u>-</u>
CartiHeal (2009) Ltd.	<u>19,078</u>	<u>707</u>	<u>19,785</u>	<u>1,011</u>	<u>669</u>	<u>1,680</u>	<u>18,105</u>	<u>-</u>
<b>As of September 30, 2017 (unaudited)</b>								
BrainsGate Ltd.	<u>13,329</u>	<u>60</u>	<u>13,389</u>	<u>2,284</u>	<u>3,737</u>	<u>6,021</u>	<u>7,368</u>	<u>-</u>
CartiHeal (2009) Ltd.	<u>13,230</u>	<u>810</u>	<u>14,040</u>	<u>1,108</u>	<u>506</u>	<u>1,614</u>	<u>12,426</u>	<u>-</u>
<b>As of December 31, 2017 (audited)</b>								
BrainsGate Ltd.	<u>11,873</u>	<u>58</u>	<u>11,931</u>	<u>2,356</u>	<u>3,664</u>	<u>6,020</u>	<u>5,911</u>	<u>-</u>
CartiHeal (2009) Ltd.	<u>10,817</u>	<u>813</u>	<u>11,630</u>	<u>1,321</u>	<u>544</u>	<u>1,865</u>	<u>9,765</u>	<u>-</u>

## Notes to the Interim Consolidated Financial Statements

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

## Note 5 – 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>Loss from continuing operations</u>	<u>Loss for the period</u>	<u>Loss attributable to shareholders of the company</u>	<u>Loss attributable to non-controlling interests</u>	<u>Other comprehensive income (loss)</u>	<u>Total comprehensive loss</u>
<b>For the nine months period ended September 30, 2018 (unaudited)</b>									
BrainsGate Ltd.	-	-	(3,297)	(3,285)	(3,285)	(3,285)	-	-	(3,285)
CartiHeal (2009) Ltd.	-	-	(6,339)	(6,200)	(6,200)	(6,200)	-	-	(6,200)
<b>For the nine months period ended September 30, 2017 (unaudited)</b>									
BrainsGate Ltd.	-	-	(5,596)	(5,244)	(5,244)	(5,244)	-	-	(5,244)
CartiHeal (2009) Ltd.	-	-	(5,954)	(5,928)	(5,928)	(5,928)	-	-	(5,928)
<b>For the three months period ended September 30, 2018 (unaudited)</b>									
BrainsGate Ltd.	-	-	(767)	(764)	(764)	(764)	-	-	(764)
CartiHeal (2009) Ltd.	-	-	(2,337)	(2,291)	(2,291)	(2,291)	-	-	(2,291)
<b>For the three months period ended September 30, 2017 (unaudited)</b>									
BrainsGate Ltd.	-	-	(1,974)	(1,958)	(1,958)	(1,958)	-	-	(1,958)
CartiHeal (2009) Ltd.	-	-	(2,168)	(2,163)	(2,163)	(2,163)	-	-	(2,163)
<b>For the year ended December 31, 2017 (audited)</b>									
BrainsGate Ltd.	-	-	(7,261)	(6,822)	(6,822)	(6,822)	-	-	(6,822)
CartiHeal (2009) Ltd.	-	-	(8,575)	(8,634)	(8,634)	(8,634)	-	-	(8,634)

**Notes to the Interim Consolidated Financial Statements**

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

**Note 6 – 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, investments in other companies measured at fair value, long term receivables, other accounts payable, trade payables and financial liabilities measured at fair value through profit or loss, 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).

	<b>As of September 30, 2018</b>		
	<b>Unaudited</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<i>Financial assets measured at fair value:</i>			
Investments in other companies measured at fair value	-	-	17,945
Other investments in securities	-	15,248	-
Other accounts receivable	-	-	1,771
	-	15,248	19,716
Financial liabilities measured at fair value through profit or loss	-	-	866

	<b>As of September 30, 2017</b>		
	<b>Unaudited</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<i>Financial assets measured at fair value:</i>			
Investments in other companies measured at fair value	-	-	19,146
Other investments in securities	-	19,718	-
Other accounts receivable	-	-	6,222
	-	19,718	25,368
Financial liabilities measured at fair value through profit or loss	-	-	863



**Notes to the Interim Consolidated Financial Statements**

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

**Note 6 – Financial instruments (Cont.)**

	<b>As of December 31, 2017</b>		
	<b>Audited</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<i>Financial assets measured at fair value:</i>			
Investments in other companies measured at fair value	-	-	17,145
Other investments in securities	-	19,710	-
Other accounts receivable	-	-	4,229
	-	19,710	21,374
Financial liabilities measured at fair value through profit or loss	-	-	821

*Changes in financial assets classified in Level 3:*

For the nine and three months period ended September 30, 2018:

	<b>Financial assets measured at fair value</b>	<b>Financial liabilities measured at fair value</b>
<b>Balance as of January 1, 2018 (audited)</b>	21,374	(821)
Total recognized income (loss) in profit or loss (1)	(3,551)	29
Investment of non-controlling interests in Pocared	-	(74)
Proceeds from contingent consideration (2)	(587)	-
Investment (3,4)	2,480	-
<b>Balance as of September 30, 2018 (unaudited)</b>	19,716	(866)
<b>Balance as of July 1, 2018 (unaudited)</b>	19,987	(827)
Total recognized loss in profit or loss (1)	(2,671)	(3)
Investment of non-controlling interests in Pocared	-	(36)
Investment (3,4)	2,400	-
<b>Balance as of September 30, 2018 (unaudited)</b>	19,716	(866)

- (1) The entire gain (loss) included in profit or loss relating to assets and liabilities held at the end of the reporting period.
- (2) In April 2018, Elron received contingent consideration in the amount of \$587 due to the full achievement of Jordan Valley Semiconductors Ltd.'s milestones for 2017, as determined in its sale agreement (for further details, see Note 7.C to the annual consolidated financial statements).
- (3) In July 2018, Elron entered into its first investment agreement with Kzen Networks Ltd. ("Kzen"), in the amount of \$900. As a result, 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.
- (4) In August 2018, RDC entered into its first investment agreement with Ndrip Ltd. ("Ndrip"), in the amount of \$1,500. As a result, RDC holds approximately 8% of Ndrip's outstanding shares and the investment in Ndrip 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 6 – Financial instruments (Cont.)**

For the nine and three months period ended September 30, 2017

	<b>Financial assets measured at fair value</b>	<b>Financial liabilities measured at fair value</b>
<b>Balance as of January 1, 2017 (audited)</b>	27,533	(694)
Total recognized income (loss) in profit or loss	(1,894)	164
Investment of non-controlling interests in Pocared Investment	-	(333)
Proceeds from contingent consideration	894	-
Initial measurement of an asset at fair value	(1,615)	-
	450	-
<b>Balance as of September 30, 2017 (unaudited)</b>	<u>25,368</u>	<u>(863)</u>
<b>Balance as of July 1, 2017 (unaudited)</b>	24,918	(863)
Initial measurement of an asset at fair value	450	-
<b>Balance as of September 30, 2017 (unaudited)</b>	<u>25,368</u>	<u>(863)</u>

For the year ended December 31, 2017:

	<b>Financial assets measured at fair value</b>	<b>Financial liabilities measured at fair value</b>
	<b>Audited</b>	
<b>Balance as of January 1, 2017</b>	27,533	(694)
Total recognized income (loss) in profit or loss, net	(5,888)	206
Investment of non-controlling interests in Pocared Investment	-	(333)
Proceeds from contingent consideration	894	-
Initial measurement of an asset at fair value	(1,615)	-
	450	-
<b>Balance as of December 31, 2017</b>	<u>21,374</u>	<u>(821)</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 September 30, 2018

	<u>Rate of holdings in equity</u>		<u>Consolidated rate of holdings in equity</u>	<u>Elron's effective rate of holdings in equity (3)</u>	<u>Fully diluted consolidated rate of holdings</u>	<u>Elron's fully diluted effective rate of holdings (3)</u>	<u>Carrying value of investment September 30, 2018</u>
	<u>Elron (1)</u>	<u>RDC (2)</u>					
	%						<u>\$ thousands</u>
<u>Investments in investee companies</u>							
<u>Subsidiaries:</u>							
Pocared Diagnostics Ltd.	48.09	22.23	70.32	59.23	69.79	56.00	13,227
<u>Associates:</u>							
BrainsGate Ltd.	29.76	-	29.76	29.76	26.61	26.61	296
Cartiheal (2009) Ltd.	29.44	-	29.44	29.44	27.44	27.44	4,389
Coramaze technologies GmbH	36.24	-	36.24	36.24	36.24	36.24	1,605
SixGill Ltd.	21.98	-	21.98	21.98	24.65	24.65	300
SecuredTouch Inc.	-	28.49	28.49	14.27	25.20	12.63	1,839
Alcide IO Ltd.	26.17	-	26.17	26.17	23.42	23.42	1,433
Open Legacy Technologies Ltd.	-	39.32	39.32	19.70	33.75	16.91	3,381
IronScales Ltd.	-	23.76	23.76	11.90	25.13	12.59	692
Nitiniotes Ltd.	31.37	-	31.37	31.37	28.68	28.68	1,673
Lirhot Systems Ltd	-	32.24	32.24	16.15	29.02	14.54	962
Kindite Ltd.	-	27.86	27.86	13.96	24.99	12.52	2,201
CodeValue D.T. Ltd. (OzCode)	-	26.73	26.73	13.39	20.83	10.44	2,500
Cynerio Israel Ltd.	-	24.29	24.29	12.17	22.22	11.13	1,057
SinuSafe Medical Ltd.	21.90	-	21.90	21.90	19.74	19.74	140
Plymedia Israel (2006) Ltd.	21.80	-	21.80	21.80	16.55	16.55	-
Audioburst Ltd.	8.12	-	8.12	8.12	7.08	7.08	-
<u>Other investments:</u>							
Notal Vision Inc.	15.41	-	15.41	15.41	12.83	12.83	10,200
Aqwise – Wise Water Technologies Ltd.	19.73	-	19.73	19.73	17.94	17.94	4,500
Ndrip Ltd.	-	8.15	8.15	4.08	7.15	3.58	1,500
Kzen Networks Ltd.	7.58	-	7.58	7.58	7.20	7.20	900
Azura Ophthalmics Ltd.	7.82	-	7.82	7.82	6.84	6.84	450
Atlantium Technologies Ltd.	6.16	-	6.16	6.16	5.49	5.49	130
Forsight Vision6, Inc.	4.90	-	4.90	4.90	4.14	4.14	200

- (1) Including holdings through Elron's fully-owned subsidiaries.  
(2) Including holdings through RDSeed Ltd. (fully-owned subsidiary of RDC).  
(3) Elron's effective holdings include holdings by RDC multiplied by 50.10%. (Elron's holding rate in RDC).

Elron Electronic Industries Ltd.

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

As of  
September 30, 2018  
Unaudited

Contents

	<u>Page</u>
Special report to the review of the separate interim financial information in accordance with Regulation 38d	2
Special report in accordance with Regulation 38d	3
Data from the Interim Consolidated Financial Statements of Financial Position Attributable to the Company	4-5
Data from the Interim Consolidated Financial Statements of Income (Loss) Attributable to the Company	6
Data from the Interim Consolidated Financial Statements of Comprehensive Income (Loss) Attributable to the Company	7
Data from the Interim Consolidated Financial Statements of Cash Flows Attributable to the Company	8-9
Additional Information	10

-----



**The Shareholders of Elron Electronic Industries Ltd**  
**Azrieli Center, 42 floor**  
**Tel Aviv, 69306**  
**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 September 30, 2018 and for the nine 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 \$22,261 thousand as of September 30, 2018, and the Company's share in their losses amounted to approximately \$10,491 and \$4,501 thousand for nine 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 1 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  
November 21, 2018

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

*Kesselman & Kesselman, Trade Tower, 25 Hamered Street, Tel-Aviv 6812508, Israel,  
P.O Box 50005 Tel-Aviv 6150001 Telephone: +972 -3- 7954555, Fax: +972 -3- 7954556, www.pwc.com/il*

## **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 September 30, 2018, and for the nine 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, 2017 ("Consolidated Financial Statements for 2017") 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

	September 30		December 31
	2018	2017	2017
	Unaudited		Audited
	\$ thousands		
<u>Current assets</u>			
Cash and cash equivalents	5,924	3,279	12,961
Bank deposits	-	2,012	-
Other investments in securities	15,248	19,718	19,710
Other accounts receivable	621	1,110	1,120
	21,793	26,119	33,791
<u>Non-current assets</u>			
Investments in subsidiaries and associates, net	95,793	110,318	96,373
Investments in other companies measured at fair value	16,157	18,858	16,857
Property, plant and equipment, net	19	19	19
	111,969	129,195	113,249
<u>Total assets</u>	133,762	155,314	147,040

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

	September 30		December 31
	2018	2017	2017
	Unaudited	Unaudited	Audited
	\$ thousands		
<u>Current liabilities</u>			
Trade payables	63	190	219
Other accounts payable	3,488	3,589	4,922
	3,551	3,779	5,141
<u>Long-term liabilities</u>			
Other long term liabilities (Note 2)	47,070	48,378	49,243
	47,070	48,378	49,243
<u>Equity attributable to the Company's shareholders</u>			
Issued capital	9,573	9,573	9,573
Share premium	190,753	190,753	190,753
Capital reserves	5,468	4,759	4,830
Accumulated deficit	(122,653)	(101,928)	(112,500)
	83,141	103,157	92,656
<u>Total equity</u>	133,762	155,314	147,040

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

\_\_\_\_\_  
Eduardo Elsztain  
Chairman of the Board of Directors

\_\_\_\_\_  
Ari Bronshtein  
Chief Executive Officer

\_\_\_\_\_  
Yaron Elad  
Vice President &  
Chief Financial Officer

Approval date of the interim consolidated financial statements: November 21, 2018



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

	Nine months ended		Three months ended		Year ended
	September 30		September 30		December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	\$ thousands				
<u>Income</u>					
Financial income (Note 2)	2,490	582	124	547	718
<u>Expenses</u>					
General and administrative expenses	3,105	2,958	1,075	957	4,575
Financial expenses (Note 2)	132	4,066	292	25	4,929
Other expenses, net	-	71	-	-	176
	3,237	7,095	1,367	982	9,680
	(747)	(6,513)	(1,243)	(435)	(8,962)
Gain (loss) from disposal and revaluation of investee companies and changes in holdings, net	(1,650)	(1,590)	(788)	293	(3,029)
Company's share of gain (loss) of subsidiaries and associates	(7,756)	(6,807)	(5,425)	607	(13,491)
Income (loss) attributable to the Company's shareholders	<u>(10,153)</u>	<u>(14,910)</u>	<u>(7,456)</u>	<u>465</u>	<u>(25,482)</u>

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

	<b>For the</b>				
	<b>Nine months ended</b>		<b>Three months ended</b>		<b>Year ended</b>
	<b>September 30</b>		<b>September 30</b>		<b>December 31</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
	<b>Unaudited</b>				<b>Audited</b>
	<b>\$ thousands</b>				
Income (loss) attributable to the Company's shareholders	(10,153)	(14,910)	(7,456)	465	(25,482)
Other comprehensive income (loss):					
<u>Amounts that are classified or may be reclassified to profit or loss under certain conditions:</u>					
Foreign currency translation differences for foreign operation	(59)	234	(6)	85	276
<u>Total income (loss) that would be reclassified to profit or loss under certain conditions</u>	(59)	234	(6)	85	276
Total other comprehensive income (loss) attributable to the Company	(59)	234	(6)	85	276
Total comprehensive income (loss) attributable to the Company's shareholders	(10,212)	(14,676)	(7,462)	550	(25,206)

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

	For the				
	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	\$ thousands				
<u>Cash flows from operating activities</u>					
Income (loss) attributable to the Company	(10,153)	(14,910)	(7,456)	465	(25,482)
<u>Adjustments to reconcile income (loss) to net cash used in operating activities:</u>					
<u>Adjustment to the profit or loss items:</u>					
Company's share of loss (gain) of subsidiaries and associates	7,756	6,807	5,425	(607)	13,491
Depreciation	5	8	1	3	10
Finance, net	(407)	(578)	(104)	(150)	(704)
Loss (gain) from disposal and revaluation of investee companies and changes in holdings, net	1,650	1,590	788	(293)	3,029
Other	272	(565)	(55)	66	(694)
	<u>9,276</u>	<u>7,262</u>	<u>6,055</u>	<u>(981)</u>	<u>15,132</u>
<u>Changes in assets and liabilities of the Company:</u>					
Increase in other accounts receivable	(240)	(404)	(251)	(145)	(93)
Increase (decrease) in trade payables	(156)	(2)	(20)	9	27
Increase (decrease) in other accounts payable	(1,434)	(141)	(115)	11	1,192
Increase (decrease) in other long term liabilities	(2,173)	(26,271)	297	(457)	(25,406)
	<u>(4,003)</u>	<u>(26,818)</u>	<u>(89)</u>	<u>(582)</u>	<u>(24,280)</u>
<u>Cash received during the period for:</u>					
Interest received	475	390	153	126	522
Net cash used in operating activities	<u>(4,405)</u>	<u>(34,076)</u>	<u>(1,337)</u>	<u>(972)</u>	<u>(34,108)</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.)

	Nine months ended September 30		For the Three months ended September 30		Year ended December 31
	2018	2017	2018	2017	2017
	Unaudited				Audited
	\$ thousands				
<u>Cash flows from investment activities</u>					
Purchase of property and equipment	(5)	(2)	(2)	(2)	(4)
Investment in associates and subsidiaries	(7,790)	(8,058)	(1,080)	(971)	(9,061)
Proceeds from sale of investments in associates and subsidiaries	769	2,455	-	-	2,695
Sale of (investment in) other investments in securities, net	4,394	5,742	1,890	2,027	5,742
Withdrawal (investment) of deposits, net	-	(2,000)	-	-	14
Dividend from investees companies	-	30,517	-	-	38,982
Net cash used in provided by (used in) investment activities	<u>(2,632)</u>	<u>28,654</u>	<u>808</u>	<u>1,054</u>	<u>38,368</u>
Increase (decrease) in cash and cash equivalents	<u>(7,037)</u>	<u>(5,422)</u>	<u>(529)</u>	<u>82</u>	<u>4,260</u>
Cash and cash equivalents as of beginning of the period	<u>12,961</u>	<u>8,701</u>	<u>6,453</u>	<u>3,197</u>	<u>8,701</u>
Cash and cash equivalents as of end of the period	<u><u>5,924</u></u>	<u><u>3,279</u></u>	<u><u>5,924</u></u>	<u><u>3,279</u></u>	<u><u>12,961</u></u>

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 September 30, 2018 and for the nine 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 2017, the Company's Interim Consolidated Financial Statements and accompanying notes.

2. Other long term liabilities

Other long term liabilities include liabilities towards Elbit Ltd. which is a fully owned subsidiary of Elron. The balance is comprised of non-interest bearing and unlinked NIS capital notes. Exchange rate differences related to these capital notes are included under line item financial income or financial expenses in the statement of income (loss).

-----

# **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 September 30, 2018**

**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. Ari Bronshtein, CEO;
2. Mr. Yaron Elad, 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 June 30, 2018 (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, 2018 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, Ari Bronshtein, declare that:

- (1) I have examined the quarterly report of Elron Electronic Industries Ltd. (the "**Corporation**") for the third quarter of 2018 (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.

November 21, 2018

Ari Bronshtein, CEO

\_\_\_\_\_



## Declaration of the Principal Financial Officer pursuant to Regulation 38C(d)(2):

### Managers' Declaration

#### Declaration of Principal Financial Officer

I, Yaron Elad, 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 third quarter of 2018 (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.

November 21, 2018

Yaron Elad, CFO

**English Translation of Liabilities report of the Company by repayment date**

Section 36a to the Israel Securities Law (1968)

Report as of September 30, 2018

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 September 30, 2018 (1 USD = 3.627 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	0	0	0	0
Total	0	0	0	0	0	0	0

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)

76,790  
223,339