

Elron Electronic Industries Ltd.

(the “Company”)

Translation of Immediate Report Filed by Elron on November 21, 2018 with the
Israeli Securities Authority

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

1. General

- 1.1. The Company hereby announces that on November 21, 2018, the Board of Directors decided, after approval of the Compensation Committee on November 11, 2018, on the grant of non-tradeable options to four officers of the Company who are not directors or the CEO of the Company (In this Report, the “**Offerees**”) exercisable into ordinary shares of the Company, nominal value NIS0.003 each, at a value and in the amount stated in Section 2 below (“**Option Awards**” or “**Options**”)
- 1.2. It should be pointed out that in parallel with the resolution of the Board of Directors regarding the allotment of Options to the Offerees, the Board of Directors approved the allotment of Options to the CEO, subject to the approval of the shareholders meeting of the Company. For additional details in this regard, see the notice convening the general meeting of shareholders including in accordance with the Private Offering Regulations that the Company published in parallel to this Immediate Report (Ref:2018-01-112128) (“**Report Convening the Meeting**”).
- 1.3. The Options will be granted within the framework and in accordance with the provisions of the option plan under the capital gains route with a trustee in accordance with the provisions of Section 102 of the Income Tax Ordinance (new version), 5721-1961 (hereinafter: the “**Option Plan**” or “**Plan**”), approved by the Board of Directors on November 21, 2018. For further details regarding the trust arrangement and the tax of the Offerees, see Section 12.2.11 of the Report Convening the Meeting, incorporated herein by reference.
- 1.4. The Options will be granted in accordance with the provisions of the Company's compensation policy approved by the general meeting of the Company's shareholders on February 27, 2017, following the approval of the Company's Board of Directors and the Compensation Committee (hereinafter:

the "**Compensation Policy**")¹ including the grant of options in lieu of the share return index provided that additional Offerees who are Company's officers waived the receipt of that component for the period for which the Options were granted. In accordance with the Compensation Policy, the allotment of Options to the Offerees will be done in lieu of the annual bonus component in respect of the share return index for 2019. The grant to the Offerees shall be made with reference to the bonus year. The financial value of the Options to be allocated to the Offerees, on the date of approval of the issuance by the Board of Directors, in respect of the bonus year of 2019 (on a linear and not an accounting basis) shall be equal to 6 times the value of the officer's monthly compensation cost, which is the maximum value available for the annual bonus for 2019 in respect of the share return component.

- 1.5. The grant of the Options is a private offering which is neither extraordinary nor material pursuant to the Private Offering Regulations.
- 1.6. The offerees are not an "interested party", do not include a "material shareholder" and will not qualify as a "material shareholder" after the allotment of the Options, as such terms are defined in the Companies Law, 1999.
- 1.7. In accordance with the Bylaws of the Tel Aviv Stock Exchange (TASE) and the guidelines based thereon, the exercised shares will be registered in the name of the Registration Company of Discount of Israel Ltd., subject to the approval of the TASE.
- 1.8. The underlying shares of any options exercised under the Option Plan (hereinafter: the "**Exercised Shares**") shall have rights equal to the rights of Company's shares for all intents and purposes and shall be entitled to any dividend or other benefit, with respect to which the date determining the right to receive them applies on the date of allotment of the Exercised Shares or subsequent thereto.
- 1.9. Subject to receipt of the following approvals required for the grant (and to the extent these approvals will not have been received prior to January 1, 2019, the date of grant shall be set as one business day after the receipt of all said approvals), the grant date shall be January 1, 2019: (a) the submission of the Plan to the Israeli Tax Authority, as required pursuant to Section 102 of the Income Tax Ordinance, provided that in any event the Options shall not be allocated prior to the lapse of at least 30 days from the date of submission of the Plan to the Israeli Tax Authority; (b) receipt of the Tax Authority's ruling, if required; and (c) receipt of the TASE required approvals including the registration of all of the Exercised Shares.

¹ For additional details regarding the Compensation Policy, see Company's immediate report published on February 16, 2017 (Ref. No. 2017-01-016890), incorporated herein by reference, including section 7.5.2 to the Compensation Policy pertaining to the annual bonus component in respect of the share return index.

1.10. Subject to each of the Offerees being an employee or a service provider who is serving as an office holder in the capacity of a service provider in the Company or in a Related Company² on the vesting date (unless the termination of employment in the Company or Related Company was the result of death or Disability (as defined in the Option Plan))³, the following vesting schedule will apply:

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

B. a 1/3 of the Options (hereinafter: the "**Second Tranche**") will vest in the course of the second year in a gradual manner, so that three months after the vesting date of the First Tranche, 1/4 of the Options of the Second Tranche will vest, and every 3 months thereafter an additional 1/4 of the Second Tranche of Options will vest, so that the total number of Options of the Second Tranche will vest within two years of their allocation;

C. a 1/3 of the Options (hereinafter: "**Third Tranche**") will vest in the course of the third year in a gradual manner so that three months after the vesting date of total Second Tranche, 1/4 of the Third Tranche Options will vest, and every 3 months thereafter an additional 1/4 of the Third Tranche of Options will vest, so that the total number of Options of the Third Tranche will vest within three years of their allocation.

For details regarding rounding up of fractional options and circumstances enabling acceleration of the vesting period, see Sections 12.2.7.2 – 12.2.7.5 to the Report Convening the Meeting.

1.11. Options will be exercised by way of net exercise (i.e. by the value of the benefit inherent in them "cashless"), so that the exercise price will be theoretical, only for the purpose of calculating the value of the benefit in accordance with the provisions of the Option Plan and not actually paid by the Offerees. Pursuant to the provisions of the Option Plan, for the purpose of calculating the number of Exercised Shares under the net exercise mechanism, the administrator of the Option Plan ("**Administrator**") is entitled to determine, at the time of allotment of Options, the maximum closing price per share as a price or in relation to the exercise price (with this price adjusted pursuant to the provisions of the Option Plan, mutatis

² "Related Company" defined under the Option Plan as a company under the control of the Company. "Control" or "Controlling shareholder" are defined under the Plan as defined under section 102 of the Income Tax Ordinance.

³ "Disability" – 100% disability recognized by the National Insurance Institute, as a result of which the Offeree cannot work. According to the provisions of the Plan, each term in which the Offeree is in an unpaid leave (except in cases of maternity leave, sickness or absence due to duly reserve), will be added to the vesting period aforementioned, and the vesting date will be postponed accordingly. For additional details regarding provisions pertaining to termination of Offerees' engagement with the Company, see section 12.2.10 to the Report Convening the Meeting.

mutandis) (hereinafter: "**Maximum Price**"). Accordingly, the Compensation Committee and the Company's Board of Directors determined that the Maximum Price in NIS will be 100% of the average stock price in the 30 days of trading preceding January 1, 2019. If the calculation of the average stock price, for the 30 trading days preceding November 15, 2018, the Maximum Price would have been NIS24.98. For additional details regarding the manner of exercise of the Options, the Maximum Price and its adjustments, see section 12.2.8 to the Report Convening the Meeting, incorporated herein by reference.

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

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

2.1. The issued share capital of the Company prior to the allotment specified in this Immediate Report is 29,743,767 ordinary shares of the Company of NIS 0.003 par value each.

2.2. The aggregate fair value of the Options to be granted to the Optionees will be NIS 2,238,000, calculated based on the Black & Scholes formula (the "**Fair Value**"). For the purpose of calculating the number of options deriving from the Fair Value, the company relied on an economic opinion prepared by BDO Ziv Haft (hereinafter: the "**Appraiser**"). For details regarding the assumptions used by the Appraiser to determine the Fair Value, see section 12.2.12.2 to the Report Convening the Meeting, incorporated herein by reference.

2.3. Based on the Fair Value assumptions as detailed under Section 2.2 above, and assuming that November 15, 2018 was the date for calculating the amount of Options (close to the approval of the Board of Directors), 1,348,193 Options would have been allocated to the Optionees, which, subject to the vesting conditions, would have been exercised to up to 606,687 shares, representing 2.00% of the voting rights and of the issued and paid-up share capital of the Company following the issuance (1.98% on a fully-diluted basis)⁴.

The amount of Options to be allocated to the Optionees shall be determined based on the Fair Value and in accordance with the assumptions used for

⁴ It is hereby clarified that this is the maximum number of Exercised Shares and the maximum holding percentage in Company's share capital and voting rights deriving from the Exercised Shares, under the assumption of exercise in the Maximum Price (as detailed under Section 1.11 above) and considering the existence of the net exercise mechanism. The actual holdings are expected to be lower to the extent that the exercise will be done at a lower price than the aforementioned Maximum Price

determining the Fair Value, as detailed under Section 2.2 above, *mutatis mutandis*, as of January 1, 2019.

3. The Terms of the Offered Securities

As set forth under Section 1.8 above, the Exercised Shares shall have rights equal to the rights of the Company's shares for all intents and purposes and shall be entitled to any dividend or other benefit, with respect to which the date determining the right to receive them applies on the date of allotment of the Exercised Shares or subsequent thereto. For additional details regarding the rights of the Optionees as shareholders and the adaptations due to the grant of Options, see Sections 12.2.4 and 12.2.5 to the Report Convening the Meeting, incorporated herein by reference.

4. Prices of the Company's shares on the Stock Exchange

4.1. In accordance with the Compensation Policy and the Compensation Committee and Board of Directors' resolutions, the exercise price of all options shall be equal to the average price of the Company's share on the TASE during the 30 trading days preceding January 1, 2019 (hereinafter: the "**Exercise Price Calculation Date**"), plus a premium of 10% on the said price. It should be emphasized that the exercise price is theoretical only and it shall not actually be paid by the offeree, but rather a calculation will be made of the value of the benefit as detailed in Section 2.2 above (hereinafter: the "**Exercise Price**").

4.2. If the Exercise Price calculation date was on November 15, 2018 (close to the resolution of the Board of Directors), the exercise price for each option allocated to the Optionees as stated in this Report would have been NIS 13.74 (hereinafter: the "**Theoretical Exercise Price**").

4.3. The closing price of the Company's share on the stock exchange on November 20, 2018 (one day prior to publication of this Report) is NIS 11.84 (hereinafter: the "**Closing Price**"). The ratio between the Closing Price and the Theoretical Exercise Price (in accordance with the assumptions stated in section 2.2 above) is approximately 1:1.16.

5. Consideration

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

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

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

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

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

in accordance with the provisions of the Plan and consent to comply with all the provisions of the Plan and the Options award letter;

- C. Any other evidence required by the Administrator in order to establish the right to transfer the Options or the Exercised Shares granted under the Plan and/or any right deriving therefrom, and the validity of the transfer.

Sincerely,

Elron Electronic Industries Ltd.

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

Ari Bronshtein, CEO

Yaron Elad, CFO