
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015
Commission File No. 0-11456

ELRON ELECTRONIC INDUSTRIES LTD.

(Exact name of Registrant as Specified in Its Charter and Translation of Registrant's Name Into English)

ISRAEL

(Jurisdiction of Incorporation or Organization)

3 Azrieli Center, 42nd Floor, Tel-Aviv, Israel 6702301
(Address of Principal Executive Offices)

Yaron Elad, Vice-President & Chief Financial Officer
Telephone: (972) 3-607-5555, Facsimile: (972) 3-607-5556
3 Azrieli Center, 42nd Floor, Tel-Aviv, Israel 6702301

(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act: **None**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Title of each class

Ordinary shares, nominal value 0.003 New Israeli Shekels per share

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report 29,743,767

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Introduction

As used in this annual report on Form 20-F (this "Annual Report"), the terms "we," "us," "our," the "Company" and "Elron" refer to Elron Electronic Industries Ltd. unless otherwise indicated.

For the purpose of this Annual Report, the terms "group companies" and "companies in our group" collectively refer to subsidiaries, associates and other companies in which we have direct or indirect holdings through our wholly-owned subsidiaries, Elbit Ltd., or Elbit, and DEP Technology Holdings Ltd., or DEP, including DEP's 50.1% subsidiary, RDC Rafael Development Corporation Ltd., or RDC, and RDC's wholly owned subsidiary, R.D. Seed Ltd., or RDSeed. Our ownership interests in our group companies reflected in this Annual Report represent our beneficial ownership interests in the outstanding shares of these companies as of December 31, 2015 unless otherwise expressly indicated. Our outstanding beneficial ownership interests in the preferred shares of these companies are represented on an as-converted-basis, unless otherwise indicated. Except where expressly otherwise stated herein, our beneficial ownership interests do not take into account dilution due to the exercise of options or other convertible instruments and accordingly are subject to change as a result of the exercise of such options. Furthermore our fully diluted holdings do not take into account options or convertible loans when the amount of shares to be received upon their exercise or conversion, as applicable, is not known in advance. We have also indicated our direct holding and our share in the holding of RDC and RDSeed in a group company where applicable. The references in this Annual Report to the Statement of Financial Position items are as of December 31, 2015 unless otherwise indicated.

Please be advised that in order to make our disclosure more consistent with the information disclosed in our previous Annual Report and with our annual report in Hebrew prepared in accordance with Israeli securities laws and regulations, being filed simultaneously with this Annual Report (see also "Item 4.A – History and Development of the Company"), certain information not required by this Annual Report on Form 20-F has been included.

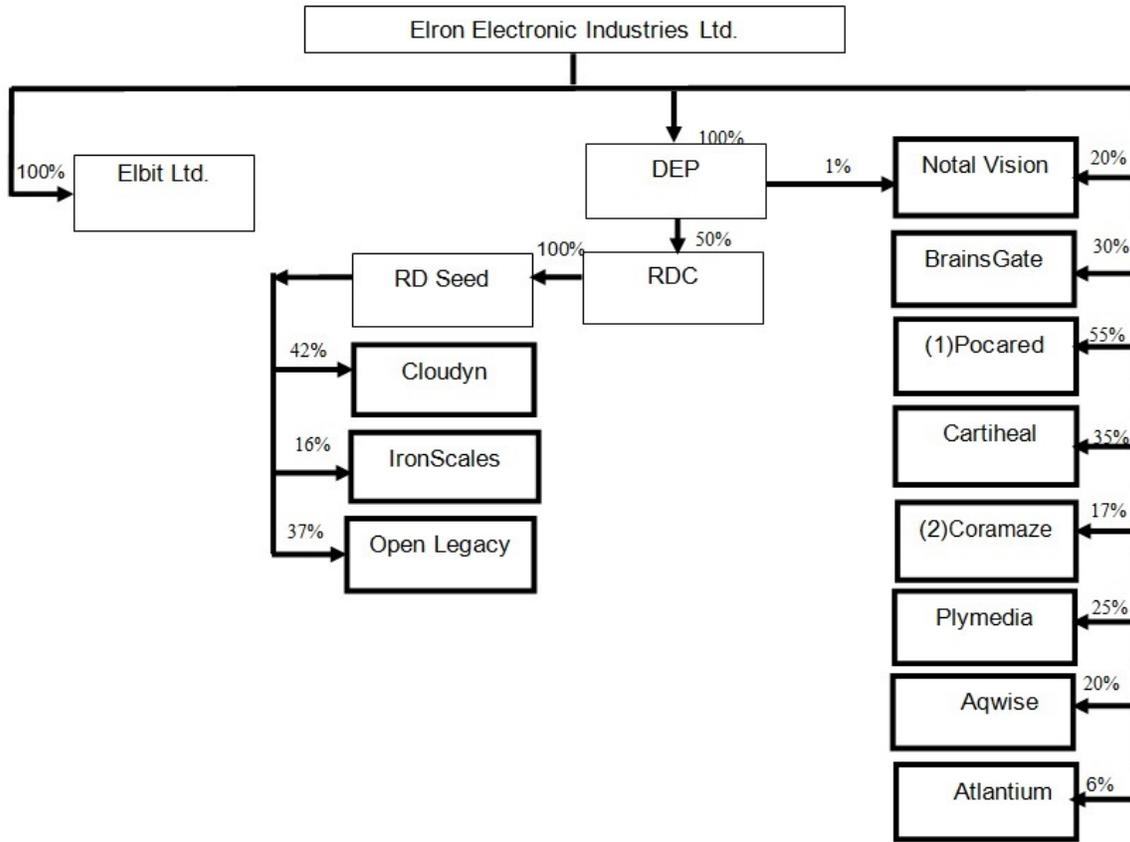
Cautionary Note Regarding Forward-Looking Statements

This Annual Report includes certain "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and within the meaning of Section 32A of the Israeli Securities Law, 1968. The use of the words "projects," "expects," "may," "plans" or "intends," or words of similar import, identify a statement as "forward-looking." There can be no assurance, however, that actual results will not differ materially from our expectations or projections. Factors that could cause actual results to differ from our expectations or projections include the risks and uncertainties described in this Annual Report under "Item 3 – Key Information – Risk Factors," as well as those discussed elsewhere in this Annual Report and in our other filings with the United States Securities and Exchange Commission (the "SEC").

Any forward-looking statements contained in this Annual Report speak only as of the date of this Annual Report, and we caution investors and potential investors not to place undue reliance on these statements. We undertake no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the risk factors in "Item 3 – Key Information – Risk Factors" of this Annual Report.

Group Companies Holdings Diagram

The following is a diagram of our holdings in our group companies as of December 31, 2015, including the group operating companies held through our subsidiaries, DEP, RDC and RDSeed directly indicating our percentage interests in the outstanding share capital of those of our group companies in which the aggregate amounts invested by us are at least \$1 million (reflecting our holdings in ordinary shares and preferred shares on an as converted basis and not on a fully diluted basis):



(1) In January 2016, we and other shareholders of Pocared invested in Pocared an amount of \$5 million (our share was approximately \$4.5 million). As a result, our holding in Pocared's outstanding shares increased to 58%.

(2) With the completion of the second installment of our investment in Coramaze, our holding in Coramaze is expected to increase to approximately 28%.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following selected financial data for the years ended and as of December 31, 2011, 2012, 2013, 2014 and 2015 are derived from our audited consolidated financial statements, of which the Consolidated Statements of Financial Position as of December 31, 2011, 2012, 2013, 2014 and 2015, and the Consolidated Statements of Income, for each of the years ended December 31, 2013, 2014 and 2015 appear later in this Annual Report and have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRS. You should read the following selected financial data together with "Item 5 – Operating and Financial Review and Prospects" of this Annual Report, "Item 8 – Financial Information" of this Annual Report and our consolidated financial statements together with the notes thereto included elsewhere in this Annual Report. Please see Note 18 to our consolidated financial statements with respect to the computation of basic and diluted net earnings (loss) per ordinary share.

Item 3. Key Information (Cont.)**Consolidated statements of income**

(in thousands of U.S. Dollars ("U.S. Dollars", "U.S. \$" or "\$"), except share and per share data)

	2011	2012	2013	2014	2015
Income					
Income from sales	14,103	-	97	374	889
Gain from disposal and revaluation of investee companies and changes in holdings, net	34,605	39,426	8,416	176,095	40,590
Financial income	1,758	1,241	684	887	1,112
	<u>50,466</u>	<u>40,667</u>	<u>9,197</u>	<u>177,356</u>	<u>42,591</u>
Cost and Expenses:					
Cost of sales	5,823	-	59	124	267
Research and development, net expenses, net	18,184	6,869	3,929	2,113	13,129
Selling and marketing expenses	5,672	905	545	1,324	2,008
General and administrative expenses	10,474	7,190	7,193	7,057	7,556
Equity in losses of associates, net	10,374	8,357	11,868	15,840	8,566
Amortization of intangible assets	313	-	-	-	-
Financial expenses	4,173	2,052	561	3,393	650
Other expenses (income), net	9,560	(282)	(3,487)	793	22
	<u>64,573</u>	<u>25,091</u>	<u>20,668</u>	<u>30,644</u>	<u>32,198</u>
Income (loss) before taxes on income	(14,107)	15,576	(11,471)	146,712	10,393
Taxes on income (tax benefit)	602	(262)	(28,401)	45,326	(3,348)
Net income (loss)	<u>(14,709)</u>	<u>15,838</u>	<u>16,930</u>	<u>101,386</u>	<u>7,045</u>
Net income (loss) attributable to Elron's shareholders	(8,417)	4,357	17,935	85,494	2,451
Net income (loss) attributable to non-controlling interest	(6,292)	11,481	(1,005)	15,892	4,594
Net income (loss)	<u>(14,709)</u>	<u>15,838</u>	<u>16,930</u>	<u>101,386</u>	<u>7,045</u>
Net income (loss) per share attributable to shareholders:					
Basic gain (loss) per share	(0.34)	0.09	0.54	2.87	0.08
Weighted average number of ordinary shares used in computing basic gain (loss) per share (in thousands)					
	<u>29,660</u>	<u>29,664</u>	<u>29,743</u>	<u>29,744</u>	<u>29,744</u>
Diluted gain (loss) per share	(0.34)	0.09	0.54	2.87	0.08
Weighted average number of ordinary shares used in computing diluted gain (loss) per share (in thousands)					
	<u>29,660</u>	<u>29,664</u>	<u>29,744</u>	<u>29,744</u>	<u>29,744</u>

Item 3. Key Information (Cont.) Consolidated Statement of Financial Position

(in thousands of U.S. Dollars ("U.S. Dollars", "U.S. \$" or "\$"), except share and per share data)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Cash, cash equivalents and short-term and long term investments	40,078	47,541	32,291	159,914	150,184
Assets held for sale	3,155	-	108,735	-	-
Investments in associate companies and in other companies and long term receivables	134,237	140,624	34,870	33,858	34,924
Total assets	208,329	197,082	212,902	197,728	214,869
Total current liabilities	4,994	42,842	7,701	4,951	6,363
Long term loans from banks and others	3,288	4,000	-	-	-
Total equity	194,083	184,919	199,815	192,777	206,402
Equity attributable to Elron's shareholders	173,609	162,040	180,783	155,879	158,207
Capital stock	191,481	190,414	194,160	202,392	203,411

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Specific Risks Affecting Elron

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

If our cash resources are insufficient to finance our operations, we may be unable to obtain alternative sources of financing and consequently may be unable to invest in existing and new companies. Our financial resources are dependent upon the proceeds of realization of our holdings in our group companies. In the absence of sufficient amounts of such financial resources, there is no assurance that we will be successful in raising additional capital for our activities and continued support of and investment in our existing and new companies.

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

We believe that we were characterized as a passive foreign investment company for U.S. federal income tax purposes in 2014 and 2015, and, as a result, our U.S. shareholders may suffer adverse tax consequences.

Generally, if for any taxable year, after applying certain look-through rules (i) 75% or more of our gross income is passive income, or (ii) at least 50% of our assets (averaged quarterly over our taxable year) are held for the production of, or produce, passive income, then we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes.

U.S. shareholders of a foreign corporation that is a PFIC may suffer adverse tax consequences, including having gains realized on the sale of ordinary shares taxed at ordinary income rates, rather than capital gain rates. Similar rules apply to distributions that are classified as "excess distributions". In addition, both gains upon disposition and amounts received as excess distributions could be subject to an additional interest charge by the United States Internal Revenue Service, or IRS. If a foreign corporation is a PFIC, the price and marketability of such corporation's shares could also be adversely affected.

We believe that we were a PFIC in 2015. As a result, we also believe that we were a PFIC in 2014. While we believe that we did not satisfy the income and asset tests in 2014, we would not have been treated as a PFIC in 2014 if we qualified for a change in business exception. In order to qualify for the change of business exception to PFIC status in 2014, we generally had to satisfy the following requirements: (1) we were never classified as a PFIC prior to 2014, (2) substantially all of our passive income for 2014 was attributable to proceeds from the disposition of one or more active trades or businesses and (3) we are not classified as a PFIC in 2015 and 2016. We believe that it was likely that we satisfied requirements (1) and (2) above with respect to 2014. However, as we believe that we were a PFIC in 2015, we cannot satisfy requirement (3). Thus, if we were a PFIC in 2015, we were also a PFIC in 2014.

Since we believe we were a PFIC in 2015 and therefore also in 2014, our U.S. shareholders may suffer adverse tax consequences, including having gains realized on the sale of our ordinary shares taxed at ordinary income rates, rather than capital gain rates. Similar rules apply to distributions that are classified as "excess distributions". In addition, both gains upon disposition and amounts received as excess distributions could be subject to an additional interest charge by the United States Internal Revenue Service, or IRS. The determination that we are a PFIC could also have an adverse effect on the price and marketability of our ordinary share.

U.S. holders that own our ordinary shares may be able to avoid (or minimize) the adverse tax consequences described above if they can, and do, elect to apply one of two alternative taxing regimes – the "qualified electing fund" ("QEF") and "mark-to-market" regimes, which are described below in Item 10 – Additional Information – Taxation – U.S. Federal Income Tax Considerations – Tax Consequences If We Are a Passive Foreign Investment Company. In general, a U.S. holder may make a QEF election so long as we provide U.S. holders with a PFIC Annual Information Statement (described below in Item 10 – Additional Information – Taxation – U.S. Federal Income Tax Considerations – Tax Consequences If We Are a Passive Foreign Investment Company), which contains information as to (or enables a U.S. holder to compute), inter alia, the U.S. holder's pro rata share of our ordinary earnings and net capital gain under U.S. tax principles. We prepare our financial statements and data in accordance with IFRS and do not separately compute income and loss in accordance with U.S. federal income tax principles and accordingly, we do not intend to provide U.S. holders with a PFIC Annual Information Statement. As a result, U.S. holders may not be able to make a QEF election. In general, a U.S. holder may make a mark-to-market election if our ordinary shares are considered "marketable stock." A class of stock is "marketable stock" if it is "regularly traded" on a "qualified exchange or other market" (within the meaning of Treasury Regulation Section 1.1296-2(c)). Our ordinary shares are currently traded on the OTC Pink in the United States and on the Tel Aviv Stock Exchange in Israel. We do not believe that the OTC Pink would be considered a "qualified exchange or other market" for this purpose. While it is not entirely clear, we believe that the Tel Aviv Stock Exchange should be considered such a "qualified exchange or other market."

Even if U.S. holders are able to make a QEF election or mark-to-market election, U.S. holders that owned our ordinary shares in 2014 may have additional negative consequences from making either a QEF election or mark-to-market election with respect to 2015.

Unless a QEF election or mark-to-market election is made with respect to our ordinary shares, the determination that we are a PFIC in a taxable year generally will cause such PFIC status to apply with respect to a U.S. holder who held our shares in such year to all future taxable years in which such holder continues to own our shares, notwithstanding that we may not be a PFIC in such other taxable years.

U.S. holders of our shares are urged to review "Item 10 – Additional Information – Taxation – U.S. Federal Income Tax Considerations – Tax Consequences If We Are a Passive Foreign Investment Company" and consult with their tax advisors regarding the potential application and effects of the PFIC rules to their acquisition, ownership and disposition of our ordinary shares.

It may be difficult to serve process or to enforce a U.S. judgment against us, our directors and our officers. Since all of our directors and officers reside outside the United States, it may be difficult to effect service of process on us, our directors or officers within the United States. Furthermore, because most of our assets are located outside the United States, it may not be possible to enforce any judgment obtained in the United States against us or the aforementioned individuals in the United States. There is doubt as to the enforceability of civil liabilities under the U.S. Securities Act of 1933 and the Exchange Act in original actions instituted in Israel.

Our principal shareholder, Discount Investment Corporation Ltd. (TASE:DISI), or DIC, has the ability to direct our business and affairs. As of December 31, 2015, DIC beneficially owned an aggregate of approximately 50.32% of our ordinary shares and is our controlling shareholder. As of the date of publication of this Annual Report, DIC has the power to elect a majority of the members of our board of directors and accordingly, DIC has the ability to direct our business and affairs subject to the provisions of the Promotion of Competition and Reduction of Centralization Law, 5774-2013 ("Concentration Law") requiring that a majority of the board of directors be independent. Furthermore, we entered into a Services Agreement with DIC pursuant to which we receive substantially all of our managerial and administrative services through a staff employed by DIC. Also, a vice president of DIC serves as our Chief Executive Officer. For more information see "Item 7 – Major Shareholders and Related Party Transactions – Major Shareholders". In addition, DIC's control over us may impose various regulatory restrictions on our activities. See risk factors below regarding anti-trust regulations, Bank of Israel regulations on borrowing from Israeli banks, and regulatory and contractual restrictions. Due to the Israeli Law for Increasing Competitiveness and Reducing Market Concentration, DIC will be permitted to continue to control us until December 2019. For more information see "Risks Affecting Us and the Companies in Our Group".

We voluntarily delisted from the Nasdaq Global Select Market and may in the future seek to terminate our Exchange Act registration. In view of the significant costs associated with maintaining a U.S. listing, our relatively limited number of U.S. holders of record and the fact that a substantial majority of the trading of our shares then occurred on the Tel Aviv Stock Exchange, or TASE, we voluntarily delisted our shares from the Nasdaq Global Select Market, or Nasdaq, on January 6, 2010. As a result of our delisting, we are required to comply with reporting requirements in accordance with both Israeli and applicable U.S. securities laws. To the extent that we comply with one of the deregistration conditions required under the applicable U.S. securities laws, it will be possible for us to effect a deregistration. The foregoing actions may have an adverse impact on the market price for our ordinary shares. If we are successful in terminating our Exchange Act registration, we will no longer be obligated to file reports with or furnish reports to the SEC, including annual reports on Form 20-F and reports on Form 6-K. After deregistration under the Exchange Act, we will continue to be governed by disclosure requirements under applicable Israeli law and regulations. Since the time we voluntarily delisted and until today, the conditions for deregistering have not been met. For more information see "Item 4.A – History and Development of the Company".

Risks Affecting Us and the Companies in Our Group

We compete with other entities for acquisition and investment opportunities. As part of our overall strategy, we pursue opportunities for acquisitions of, and investments in, Israeli companies and Israel-related technology companies. The success of a number of Israeli companies has prompted potential investors to seek investment opportunities in Israel, which has allowed many Israeli high-technology companies to gain direct access to Israeli and foreign public securities markets and financial and strategic acquisition potentials. We compete for acquisition and investment opportunities with other established and well-capitalized entities such as strategic investors (large technology companies which invest in their field of activity or tangential fields), venture capital funds, private equity funds and other investors. There can be no assurance that we will be able to identify acquisition or investment opportunities upon favorable terms. Our failure to effect further acquisitions or investments in the future may hinder our ability to grow and could harm our business, financial condition and results of operations

Global and local economic conditions may adversely affect our and our group companies' results and financial condition and could lead to impairment charges. Developments in the global markets and particularly in the Euro zone and in the United States, which include securities' prices and currencies' exchange rate fluctuations, as well as domestic developments, in the past have affected and in the future may affect our and our group companies' results of operations, liquidity, value of equity, value and exit potential of assets, business (including the demand for our group companies' products), financial covenants, ability to distribute dividends, ability to raise financing as required for day-to-day, long-term and R&D operations, allocation of resources, and availability and terms of financing from financial institutions and banks.

Our financial results and financial condition are principally impacted by the results of operation of, and the value of our holdings in, our group companies. We are exposed to the volatility of the value of our holdings in these companies. If our group companies experience difficulties in the future, or if there are adverse changes in their fair value, we may need to write-down or write-off the carrying value of our holdings and our business and financial results and/or the value of our assets will be adversely affected. In addition, changes in the value of our holdings in our group companies may have an adverse effect on our market value. We regard the changes described herein as being in the ordinary course of our business.

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

We may face difficulties in our ability to dispose of our shares in companies in our group. We are subject to regulatory limitations, including lock up periods according to applicable securities laws, anti-trust laws, as well as contractual limitations, all of which may limit the possibilities for disposing of our holdings in our group companies. Rights of first refusal, tag-along, bring along, veto rights and similar rights which may restrict transfer of shares may limit our ability to dispose of our shares in our privately held group companies. Furthermore, due to the limitations of U.S. and Israeli securities laws, material non-public information in relation to publicly traded companies to which we may become exposed because of service of our members of personnel on the boards of directors of companies in our group, and contractual and legal limits on the tradability of the shares we own or control, may create difficulties in our ability to dispose of our shares in these companies in our group at a time and in a manner we deem suitable.

Our ability to invest in companies or conclude exit transactions may be adversely affected and/or prevented by anti-trust regulations both in Israel and abroad. The Israeli and international anti-trust laws may adversely affect and even prevent our or our group companies' ability to invest in companies or to effect exit transactions. Certain of these transactions may be subject to the approval of the General Director of the Israeli Anti-Trust Authority, or the General Director, which approval may be denied or given with certain conditions. Due to the fact that IDB Development Corporation (TASE: IDBD), or IDBD, holds, indirectly through DIC, more than 50% of our shares, any enquiry as to whether an investment transaction needs to be reported to or to receive the consent of the General Director is extensive in its scope, taking into account other companies within the IDBD group of companies. In addition, since our group companies may become involved in or be the subject of cross border transactions, foreign anti-trust approvals in countries in which the parties to the transaction operate, such as the United States and Europe, may also be required, which may in turn delay or prevent such transactions from taking place.

The Concentration Law may adversely affect our business. In December 2013, the Concentration Law was published and some of the provisions apply to us, namely in the following respects:

- a. According to the Concentration Law's provisions, "reporting corporations" (generally speaking, corporations whose securities are held by the public) structured as pyramids are restricted to two tiers of reporting corporations (while a company lacking a controlling shareholder will not count as a first-tier company). This means that as of the date of publication of this Annual Report, we are considered a third-tier company and a significant "real entity" as such term is defined under the Concentration Law. So long as we are considered a third-tier company according to the Concentration Law, we are entitled to continue controlling reporting companies that are under our control as of the Concentration Law's publication, for up to four years after the publication of the Concentration Law. As of the date of publication of this Annual Report, there are no reporting companies under our control. Our controlling shareholder, DIC, is considered as of the publication of this Annual Report a second-tier company that is entitled to continue controlling us for up to six years after the Law's publication.
- b. As long as we are considered at least a third-tier company according to the Concentration Law, our board of directors will be required to consist of a majority of independent directors, and the number of our external directors will be required to constitute at least half of our board members, less one (rounded up) and will include no less than two external directors. As of the date of publication of this Annual Report, our board of directors meets these requirements.

The above may materially adversely impact us, taking into account, among others, the restrictions on our holding structure, our ability to acquire control in public companies traded in Israel, the value of such holdings, and our ability to take public in Israel companies which we control. In addition, this law may impact on our control structure.

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

We have indemnification obligations which survive exit transactions and may not receive the entire proceeds due to us from exit transactions of our group companies. During the execution of exit transactions, we, as shareholders of our group companies, and/or our group companies are often called upon to make representations and warranties to the acquirer about the relevant group company and to, under certain circumstances, indemnify the acquirer for damages should such representations or warranties prove to be inaccurate. In addition, a portion of the sale proceeds is often held in escrow as security for the indemnification obligations, which may expose us to the risk of ultimately not receiving all or part of such portion of the proceeds should the representations and warranties prove to be inaccurate. Also, certain proceeds may be contingent upon future performance of such companies following the exit transaction and over which we have no control and accordingly, there is no assurance that such proceeds will be ultimately paid to us in full or at all. Should we not receive the entire proceeds due to us from exit transactions of our group companies in the circumstances described above, it may affect our results of operations and financial condition. Regarding representations and deposit of moneys in escrow in connection with the sale transactions of Medingo Ltd. ("Medingo"), Wavion, Sync-Rx, Kyma and Jordan Valley see "Item 4.A – History and Development of the Company" below. In addition, representations were given by our group companies in the past and by us in the framework of the sale of other companies previously sold by us.

The market price of our ordinary shares is subject to fluctuations. The market price of our ordinary shares has fluctuated significantly over time. The following factors, among others, may significantly impact the market price of our ordinary shares:

- any slowdown of the global economic condition;
- low trading volume of our ordinary shares, which decreased following our delisting from Nasdaq and may further decrease;
- announcements by our group companies (or by us regarding our group companies), their competitors or other third parties of technological innovations, new products, regulatory developments, new clinical data regarding current or future products or earnings or losses;
- delays or failures in the development of products of our group companies;
- periodic variations in results of operations of our group companies;
- factors that generally affect the market for stocks of medical device and other companies;
- political, economic or other developments affecting Israel and its region; and
- quarter-to-quarter fluctuations in our financial results.

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

Bank of Israel regulations limit our and our group companies' ability to borrow from Israeli banks. Bank of Israel regulations limit the ability of Israeli banks to extend credit in excess of certain levels to companies and individuals considered to be in an associate group, which effectively limit the amount available to companies within such group for borrowing from such banks. We and our group companies are part of the IDBD group of affiliated companies, which is one of the largest groups of affiliated companies in Israel. The IDBD group includes many Israeli companies that may require, or that hold ownership interests in companies that may require, extensive credit facilities from Israeli banks for the operation of their businesses. These regulations may result in difficulties for us and our group companies in obtaining or increasing bank financing, if required, from Israeli banks, and may affect our and their ability to make investments for which bank credit is required or to invest in companies that received large credit facilities from certain Israeli banks as well as their ability to conduct certain business activities in cooperation with parties who received such credit facilities.

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

There is no assurance that our subsidiary, RDC, will be able to continue to develop technologies and/or new companies. Our wholly-owned subsidiary, DEP, holds 50.1% of the outstanding shares and voting rights of RDC, which was established by DEP together with the predecessor of Rafael Advanced Defense Systems Ltd., or Rafael, pursuant to an agreement entered into in 1993. RDC has first rights to commercialize certain technologies of Rafael for the development of products for use in non-military markets. For more information, see "Item 10C – Additional Information – Material Contracts." Our ability to continue to grow and develop and to build new companies within RDC could be harmed, and our business, financial condition and results of operations could be adversely affected, if we are unable to realize the full potential value of RDC's agreement with Rafael as a result of any of the following:

- Rafael does not cooperate with RDC in the realization of RDC's rights under the agreement;
- Rafael or RDC does not identify existing technology, or Rafael does not develop new technology, that is identified suitable for being commercialized in non-military markets;
- RDC does not reach agreement with Rafael on the terms of the use of technology for commercial purposes;
- RDC is unable to obtain continued financing from its shareholders or otherwise, if and when required.

Most of our group companies are dependent upon proprietary technology, which may be infringed by, or may infringe upon, the proprietary technology of others. Most of our group companies depend significantly on their proprietary technology for their success. Like many other technology companies, most of these companies rely on a combination of protection laws within the field of patents, copyrights and trademarks together with non-disclosure agreements, confidentiality clauses in their agreements, including employment agreements, and technical measures to establish and protect proprietary rights in their products. However, these legal means may not adequately protect our group companies' rights or permit them to acquire or maintain any competitive advantage. The process of issuing a patent may sometimes be lengthy and may not always result in patents issued in a form that will be advantageous to our group companies, or at all, and patents and applications for patents may be challenged, invalidated or circumvented by third parties. The life time of a patent is usually fixed for 20 years from the date of the filing of the application for registration of the patent. During the protection period, the patent holder is required, in certain countries, to pay periodic fees to maintain the rights in the patent. In some countries, there are special arrangements with respect to patents, in the framework of which the patent holder may, subject to the conditions set forth in the relevant legislation, apply for an extension of the patent period for an additional period of time over and above the original patent period. An extension application usually entails payment of fees and additional costs. There is no certainty that in the countries that allow an extension, it will indeed be granted at the end of the proceedings defined in the laws of such countries. In addition, there is no certainty that applications for the registration of a patent that shall have been filed by our group companies shall result in the registration of a patent and/or that there will be no attempts by third parties to challenge those patents registered by the companies, and even sue for the revocation thereof. In addition, the mere fact of a patent being registered does not prevent competitors of our group companies from manufacturing products which are identical to products of our group companies, but rather entitles patent holders to sue such infringing competitors for infringement of their registered patents.

Our group companies may not be able to enforce their proprietary rights under the laws of certain jurisdictions. Our group companies may not be able to successfully protect their technology because of, among other reasons:

- Some foreign countries may not protect their proprietary rights as fully as do the laws of the United States;
- Competitors of our group companies may be issued patents that will prevent our group companies from using technologies, designs or methods that our group companies would like to integrate into their products;
- Enforcing their rights may be time consuming and costly, thereby diverting management's attention and company resources;
- Measures such as entering into non-disclosure agreements afford us and our group companies only limited protection;
- Unauthorized parties may attempt to copy aspects of our group companies' products and develop similar products or to obtain and use information that they regard as proprietary; and

- Competitors may independently develop products that are substantially equivalent or superior to our group companies' products or that circumvent their intellectual property rights.

In addition, others may assert infringement claims against our group companies, which could have a material adverse impact on the group companies. In addition, the cost of responding to infringement claims could be significant, regardless of whether the claims are valid.

If our group companies do not adequately protect their intellectual property, their competitors or other parties could make similar products and compete more efficiently with our group companies.

If our group companies do not adequately protect their intellectual property as described above, it could materially adversely affect their business, their financial condition and their results of operations and as a result, this could materially adversely affect our financial position and results of operations.

The technological fields within which our group companies operate involve a high level of risk and uncertainty. Penetration into the technological fields within which our group companies operate involves a high level of risk and uncertainty and requires the investment of considerable sums of money and time. Our group companies may fail in either the development of their products including additional products or new applications based on developed platforms, expansion of the pipeline of products, manufacturing of the products, or obtaining the necessary approvals for commercializing the products and selling their products in significant quantities directly or through strategic partnerships or license agreements and maintaining a competitive advantage over time. The research and development of each product in its respective technological field within which our group companies operate, particularly companies in the medical device field, takes many years and requires the employment of high quality development personnel. Every product development project entails many scientific and engineering complexities and extensive technological know-how is required for the development of the product. The absence of technological and business know-how and suitable technological infrastructure may lead to a delay or failure in the product development. In addition, there is also the risk that after completion of the development and approval processes, a competitor may have developed superior technology, which gives it a competitive advantage. Furthermore it is difficult to transition from development stage to marketing and manufacturing stage operations, including establishing commercial manufacturing capabilities and establishing sales and marketing infrastructure. The ability to penetrate markets in circumstances where there is no competing product is also dependent on the ability of our group companies to educate their potential customers of the possibilities for the use of the product and its advantages. Delays, difficulties or failures associated with developing, manufacturing, or marketing products, or associated with new product introductions or product enhancements, could materially adversely affect the financial condition and results of operations of these companies and, as a result, our financial condition and results of operation.

Many of our group companies experience intense competition. Many of our group companies experience competition from companies with significantly greater financial, technical, marketing and public relations resources, who have easier market access, better operational infrastructure, longer operating histories, larger installed client bases, greater name recognition, more established relationships and alliances in their industries and offer a broader range of products and services. As a result, these competitors may be able to respond more quickly to new or emerging technologies or changes in clients' requirements, benefit from greater purchasing economies, offer more aggressive products and services pricing or devote greater resources to the promotion of their products and services. If our group companies are unable to successfully compete, their businesses, financial condition and results of operations could be seriously harmed, and as a result could also negatively affect our financial condition and results of operations.

Israeli government programs in which certain of our group companies participate may be terminated or reduced in the future and may be restrictive in their terms. Certain of our group companies participate in programs of the Office of the Israeli Chief Scientist, or, the OCS, and the Israel Investment Center, from which they receive grants of between 20% and 50% of the research and development expenses and other benefits for the financing of a portion of their research and development expenditures in Israel. In consideration for receiving a grant from the OCS, the company receiving the grant, or, the Recipient Company, is obligated to pay the OCS royalties from the revenues generated from the sale of products (and related services) or services developed (in all or in part) according to, or as a result of, a research and development program funded by the OCS (at rates which are determined under the Israeli Encouragement of Industrial Research and Development Law, 5744-1984 and related regulations, or the R&D Law), up to the aggregate amount of the total grants received by the OCS, plus annual interest (as determined in the R&D Law). Following the full payment of such royalties and interest, there is generally no further liability for royalty payment. Nonetheless, the restrictions under the R&D Law (as generally described below) will continue to apply even after the Recipient Company has repaid the full amount of royalty payable pursuant to the grants. Any intellectual property developed using the OCS grants and any right derived therefrom must be fully and originally owned by the Recipient Company unless transfer thereof is approved in accordance with provisions of the R&D Law.

The terms of such OCS programs may restrict the ability of our group companies which received funds from the OCS to manufacture products and/or transfer know-how or technologies outside of Israel (as further detailed below). The benefits available under these programs depend on our group companies meeting specified conditions. There is no assurance as to availability or the level of the OCS grants in the future.

The Recipient Company is subject to certain obligations under the R&D Law. The pertinent obligations are as follows:

- **Local Manufacturing Obligation:** Products developed as a result of OCS funded R&D must, as a general matter, be manufactured in Israel. The transfer of manufacturing capacity outside of Israel, in whole or in part, is subject to the OCS's prior written approval (except for the transfer of less than 10% of the manufacturing capacity in the aggregate which requires merely a notice) and the payment of royalties at an increased rate (usually 1% in addition to the standard rate and increased royalties CAP (between 120% and 300% of the amount of the grant (depending on the manufacturing volume that is performed outside of Israel). A company also has the option of declaring in its OCS grant application an intention to exercise a portion of the manufacturing capacity abroad, thus avoiding the need to obtain additional approval and pay the increased royalties CAP.

- Know-How transfer limitation: Approval of the transfer of OCS funded Know-How to another Israeli company may be granted only if the recipient abides by all the provisions of the R&D Law and related regulations, including the restrictions on the transfer of know-how and manufacturing capacity outside of Israel. In addition, the R&D Law restricts the ability to transfer know-how funded by the OCS outside of Israel. Transfer of OCS funded know-how outside of Israel requires prior OCS approval and is subject to certain payment to the OCS calculated according to formulae provided under the R&D Law. The OCS approval to transfer know-how created, in whole or in part, in connection with an OCS-funded project to a third party outside Israel where the transferring company remains an operating Israeli entity is subject to payment of a redemption fee to the OCS calculated according to a formula provided under the R&D Law that is based, in general, on the ratio between the aggregate OCS grants to the company's aggregate investments in the project that was funded by these OCS grants, multiplied by the transaction consideration considering amortization mechanism and less royalties already paid to the OCS. The transfer of such know-how to a party outside Israel where the transferring company ceases to exist as an Israeli entity is subject to a redemption fee formula that is based, in general, on the ratio between aggregate OCS grants received by the company and the company's aggregate R&D expenses, multiplied by the transaction consideration. The R&D Law establishes a maximum payment of the redemption fee paid to the OCS under the above mentioned formulas and differentiates between two situations: (i) in the event that the company sells its OCS funded know-how, in whole or in part, or sells it as part of an M&A transaction, and subsequently significantly reduces its R&D activity in Israel, the maximum redemption fee under the above mentioned formulas shall be no more than 6 times the amount received (plus annual interest) for the applicable know-how being transferred, or the entire amount received from the OCS as applicable; (ii) in the event that following the transactions described above (i.e. asset sale of OCS funded know-how or transfer as part of an M&A transaction) the company continues to conduct its R&D activity in Israel (for at least three years following such transfer and keeps on staff at least 75% of the R&D employees it retained for the six months before the know-how was transferred), then the company is eligible for a reduced cap of the redemption fee of no more than 3 times the amounts received (plus annual interest) for the applicable know-how being transferred, or the entire amount received from the OCS, as applicable.

It should be noted that there is no assurance that our group companies will receive the required approvals from the OCS for any proposed transfer outside of Israel of technology and/or know-how developed with OCS funding, if such will be required.

In the event that the applicable company from our group companies which received grants from the OCS, will request to manufacture OCS funded products outside Israel or to transfer their OCS funded know-how or a part thereof to a non-Israeli entity, including within the framework of the sale of that company or its assets, then the approval of the OCS will be required and this will involve additional payments to the State of Israel.

The restrictions, among others, may limit the ability of our group companies that receive grants to conclude transactions with international companies, including "exit" transactions. In addition, if our group companies fail to comply with the conditions imposed by the OCS, they may be required to refund the grants received immediately together with interest and penalties, and if they violate the provisions of the R&D Law, they may also be subject to criminal charges. In addition, the Government of Israel may from time to time audit sales of products which it claims incorporate technology funded through OCS programs and this may lead to additional royalties being payable on additional products. This may materially adversely affect the financial condition and results of operations of our group companies and as a result, our financial condition and results of operations may be materially adversely affected.

In addition, the OCS is in the process of exploring the possibility of promulgating regulations, including the consideration due to the State of Israel for the granting of licenses to use know-how developed as a result of research financed by the OCS. Such regulations may have an effect on us and our group companies receiving OCS grants, in respect of the amount of their payments to the OCS for the grant of sub-licenses to third parties. As of the date of publication of this Annual Report, we are unable to assess the effect, if any, of the promulgation of such regulations on our group companies.

On July 29, 2015, the R&D Law was amended ("Amendment number 7"). Pursuant to Amendment number 7, the National Authority for Technological Innovation ("NATI"), a statutory corporation, will be established and will replace the OCS. Pursuant to Amendment number 7, the current restrictions under the R&D Law will be replaced by new arrangements in connection with ownership obligations of know-how (including with respect to restrictions on transfer of know-how and manufacturing activities outside of Israel) as well as royalties obligations associated with approved programs, which will be promulgated by NATI. The commencement date for Amendment number 7 was January 1, 2016. However, in the interim, until new arrangements are adopted by NATI, the R&D law as it existed prior to the amendment continues to be in effect. NATI should be constituted no later than July 28, 2018, and new arrangements should be adopted no later than one year thereafter. As of the date of filing of this Annual Report, we are unable to assess the effect, if any, of the promulgation of such arrangements on us and our group companies.

We and our group companies may have difficulty retaining key employees. Our success and the success of our group companies depends, in large part, on a limited number of key personnel in the management, scientific, technological and technical fields. In addition, future success will depend, in part, on attracting and retaining highly qualified personnel and with respect to us, personnel who can also serve effectively as directors of our group companies. There can be no assurance that our group companies will be able either to retain present personnel or to acquire additional qualified personnel as and when needed. The loss of the services of key personnel of our group companies and the failure to attract highly qualified personnel may materially adversely affect our group companies' financial condition and results of operation and as a result, our financial condition and results of operation may be materially adversely affected.

We also depend, inter alia, on attracting and retaining highly qualified personnel. There can be no assurance that we will be able to retain or attract optimally qualified personnel to provide such services to us, which could have a negative impact on our financial conditions and results of operation.

Certain of our group companies depend on international operations. The products of most of our group companies are designated for sale to customers outside of Israel. As a result, negative changes in international, political, economic or geographic events could result in significant shortfalls in orders or revenues. These shortfalls could cause the business, financial condition and results of operations of these companies to be harmed and as a result negatively impact on our financial condition and results of operations. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;
- international geographical events;
- fluctuation of the New Israeli Shekel / U.S. Dollar representative rate of exchange;
- inability of our group companies and their subcontractors to obtain export licenses;
- imposition of tariffs and other barriers and restrictions;
- burdens of complying with a variety of foreign laws;
- political and economic instability;
- changes in diplomatic and trade relationships; and
- acts of terror.

Some of these factors, such as the ability to obtain export licenses and changes in diplomatic relations, may be affected by Israel's overall political situation. See "Conditions in Israel may affect our operations and the operations of our group companies." In addition, the economic and political stability in the countries where our group companies' major customers and suppliers are located may also impact our group companies' business.

Conditions in Israel may affect our operations and the operations of our group companies. We and most of our group companies conduct principal operations in Israel, and therefore are directly affected by the political, economic, and military conditions affecting Israel and the Middle East. In particular, we could be adversely affected by:

- any major hostilities involving Israel;
- increasing tension with Iran;
- a full or partial mobilization of the reserve forces of the Israeli army;
- the interruption or curtailment of trade between Israel and its present trading partners;
- a significant downturn in the economic or financial condition of Israel;
- a significant downgrading of Israel's international credit rating;
- labor disputes and strike actions; and
- political instability.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel, including among others, periodic disruption of day-to-day civilian activity in different parts of Israel. Armed conflicts in recent years with both Hezbollah, a Lebanese Islamist Shiite militia group, and Hamas, a Palestinian Islamic Resistance Movement, have further strained relations between Israel and the Palestinians. Any further escalation in these hostilities or any future armed conflict, political instability or violence in the region could have a negative effect on our and our group companies' business and financial condition, harm our and our group companies' results of operations and adversely affect our share price. No predictions can be made as to whether or when a final resolution of the region's problems will be achieved or the nature thereof and to what extent the situation will impact Israel's economic development.

Our and our group companies' operations could be disrupted as a result of the obligation of personnel in Israel to perform military service. All non-exempt male adult permanent residents of Israel under a specified age, as a general rule, are obligated to perform military reserve duty and may be called to active duty under emergency circumstances. Our operations and those of our group companies could be disrupted by the absence for a significant period of one or more of our or our group companies' personnel. While we and our group companies have operated effectively despite these conditions in the past, we cannot assess what impact these conditions may have in the future, particularly if emergency circumstances arise.

The results of operations of our group companies may be harmed by foreign currency exchange rate fluctuations. To the extent that our group companies are based in Israel and have international operations, or operate only in Israel but conduct their business in different currencies, their revenues, expenses, assets and liabilities, are not necessarily in the same currency, and therefore they are exposed to foreign exchange rate fluctuations. In particular, our functional currency, as well as that of most of our group companies, is the U.S. dollar. However salaries and related expenses of our expenses as well as expenses related to the DIC Service Agreement (See "Item 7 – Related Party Transactions – Major Shareholders") and other operating expenses are denominated in NIS. If the NIS strengthens against the U.S. dollar, it will harm our and our group companies' results of operations and cash resources. We hold a significant portion of our cash balances in dollars; however, in the future, changes may take place from time to time in the amounts of these balances, in how we maintain our cash, and the portion of cash we hold in each currency, based on business developments and future decisions.

Product liability claims could adversely affect the business results of our group companies, especially those operating in the medical device industry. Product liability is an inherent risk for our group companies operating in the medical device industry. A product liability claim, regardless of its merit or eventual outcome, could result in substantial costs to a group company and a substantial diversion of management attention. A product liability claim or any product recalls could also harm a group company's reputation and result in a decline in revenues. Substantial damages awards have been made in some jurisdictions against medical device companies based upon claims for injuries allegedly caused by the use of their products. There can be no assurance that a future product liability claim or series of claims brought against our group companies would not have a material adverse effect on their financial condition or the results of operations, or that coverage limits of product liability insurance would be adequate. This in turn could have a material adverse effect on our financial condition and results of operations.

Product regulation may adversely affect the ability of our medical device group companies to bring new products to market or to continue to supply existing products to the market. Our medical device group companies are subject to strict government controls on the development, manufacture, labeling, distribution and marketing of products, including with regard to financial arrangements and kickbacks to financial institutions and healthcare officials and with regard to obtaining and maintaining regulatory approval for their products from regulatory agencies before products may be sold in a particular jurisdiction. Each regulatory authority may impose its own requirements and delay or refuse to grant approval, even though a product has been approved in another country. Regulatory delays, the inability to successfully complete clinical trials, claims and concerns about safety and efficacy, new discoveries, patents and products of competitors and related patent disputes and claims about adverse side effects are only a few of the factors that could adversely affect the realization of product registration. Compliance with regulatory requirements involves significant time and money resources. In addition, noncompliance with applicable regulatory requirements can require the investment of more time and resources in the development of products, stop product development and result in enforcement action which may include recalling products, ceasing product marketing, paying significant fines and penalties, and similar regulatory actions which could limit product sales, delay or halt product shipments and/or delay new product clearances or approvals, any of which may thereby materially adversely affect such group companies' businesses. This in turn could have a material adverse effect on our financial condition and results of operations.

Because the medical device industry is litigious, our medical device group companies are susceptible to intellectual property suits that could cause our medical device group companies to incur substantial costs or pay substantial damages or prohibit them from selling their products. There is a substantial amount of litigation over patent and other intellectual property rights in the medical device industry. Whether or not a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. Infringement and other intellectual property claims, with or without merit, can be expensive and time-consuming to litigate and can divert management's attention from the concerned company's core business as well as result in the payment of damages or even prevent the concerned company from selling its products and accordingly could materially adversely affect our group companies' financial condition and results of operation and as a result this could also materially adversely affect our financial condition and results of operations.

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

The development of products by our group companies in the medical device field is dependent upon the success of clinical trials. The continued development of many of the products being developed by our group companies engaged in the medical device field is dependent upon the performance of clinical trials and subject to, and contingent upon, the success of such trials at each one of the regulatory stages. The performance of clinical trials is dependent upon a variety of factors, including the ability to recruit appropriate candidates for such trials. A slower than expected pace of recruiting and/or a delay in recruiting candidates for the trials may derive from various factors, such as low incidence of patients meeting the trial's criteria, competition between companies over the participation of trial candidates, a change in candidates' readiness to volunteer for the trial and lack of funds. Furthermore, the need for the consent of various clinical research bodies for the performance of the trials, receipt of the regulatory approvals for performance of the trials, and the structure of the trials (trial protocol, manner of analysis of results etc.), regulatory changes, as well as the possibility of unexpected side effects of the group companies' products may all constitute obstacles in the path to successful completion of the clinical trials, and may delay or even stop the continued performance of the clinical trials and lead to postponement of receipt of the approvals and permits as aforesaid. Therefore, it is impossible to know when clinical trials will be completed, if at all. Accordingly this could materially adversely affect our group companies' financial condition and results of operation and as a result could also materially adversely affect our financial condition and results of operations.

Our medical device companies experience significant uncertainty at the research and development stage. Most of our medical device companies are in the research and development stage. In light of the uncertainty that they will succeed in developing their various products, in demonstrating their products efficiency, safety, and cost-benefit, and/or in penetrating relevant markets, in the event of the failure in the technological development of products of our group companies and/or the failure to obtain the required approvals from the authorized regulatory authorities in order to market their products and/or successfully penetrate into the relevant market, our investment in these companies may ultimately be lost and as a result could materially adversely affect our financial condition and results of operations.

Below is a table grading the influence of the above described risk factors on the Company:

	Risk Factor Influence on the Company		
	Major Influence	Medium Influence	Minor Influence
Specific Risks Affecting Us			
<i>Our financial results and our cash reserves are directly impacted by our ability to conclude "exit" transactions at significant values</i>	✓		
<i>If our cash resources are insufficient to finance our operations, we may be unable to obtain alternative sources of financing and consequently may be unable to invest in existing and new companies.</i>			✓
<i>We may be deemed to be an investment company under the U.S. Investment Company Act of 1940.</i>			✓
<i>If we are characterized as a passive foreign investment company for U.S. federal income tax purposes, our U.S. shareholders may suffer adverse tax consequences.</i>		✓	
<i>It may be difficult to serve process or to enforce a U.S. judgment against us, our directors and our officers.</i>			✓
<i>Our principal shareholder, Discount Investment Corporation Ltd. or DIC, has the ability to direct our business and affairs.</i>			✓
<i>We voluntarily delisted from the Nasdaq Global Select Market and may in the future seek to terminate our Exchange Act registration.</i>			✓
Risks Affecting Us and the Companies in Our Group			
<i>We compete with other entities for acquisition and investment opportunities.</i>	✓		
<i>Global and local economic conditions has adversely affected and may continue to adversely affect our and our group companies' results and financial condition and could lead to impairment charges</i>	✓		
<i>Our financial results and financial condition are principally impacted by the results of operation of, and the value of our holdings in, our group companies.</i>	✓		
<i>Our financial results significantly depend on the results of operations of our group companies, which continue to invest heavily in their development and have generated losses.</i>	✓		
<i>We may face difficulties in our ability to dispose of our shares in companies in our group.</i>	✓		
<i>Our ability to invest in companies or conclude exit transactions may be adversely affected and/or prevented by anti-trust regulations both in Israel and abroad.</i>			✓
<i>The Israeli Promotion of Competition and the Reducing of Concentration Law may adversely affect our business</i>	✓		
<i>We and our group companies are subject to regulatory requirements and restrictions in Israel and various other countries</i>		✓	

	Risk Factor Influence on the Company		
	Major Influence	Medium Influence	Minor Influence
<i>We have indemnification obligations which survive exit transactions and may not receive the entire proceeds due to us from exit transactions of our group companies.</i>			✓
<i>The market price of our ordinary shares is subject to fluctuations.</i>		✓	
<i>Many of our group companies may face difficulties in obtaining future financing on favorable terms or at all.</i>	✓		
<i>Bank of Israel regulations limit our and our group companies' ability to borrow from Israeli banks.</i>			✓
<i>Our results, and the value of our investments, are affected by volatility in the securities markets.</i>			✓
<i>There is no assurance that our subsidiary, RDC, will be able to continue to develop technologies and/or new companies.</i>			✓
<i>Most of our group companies are dependent upon proprietary technology, which may be infringed by, or may infringe upon, the proprietary technology of others.</i>	✓		
<i>The technological fields within which our group companies operate involve a high level of risk and uncertainty.</i>	✓		
<i>Many of our group companies experience intense competition.</i>		✓	
<i>Israeli government programs in which certain of our group companies participate may be terminated or reduced in the future and may be restrictive in their terms.</i>			✓
<i>We and our group companies may have difficulty retaining key employees.</i>	✓		
<i>Certain of our group companies depend on international operations.</i>			✓
<i>Conditions in Israel may affect our operations and the operations of our group companies.</i>			✓
<i>Our and our group companies' operations could be disrupted as a result of the obligation of personnel in Israel to perform military service.</i>			✓
<i>The results of operations of our group companies may be harmed by foreign currency exchange rate fluctuations.</i>			✓
<i>Product liability claims could adversely affect the business results of our group companies, especially those operating in the medical device industry.</i>			✓
<i>Product regulation may adversely affect the ability of our medical device group companies to bring new products to market or to continue to supply existing products to the market.</i>	✓		

	<i>Risk Factor Influence on the Company</i>		
	<i>Major Influence</i>	<i>Medium Influence</i>	<i>Minor Influence</i>
<i>Because the medical device industry is litigious, our medical device group companies are susceptible to intellectual property suits that could cause our medical device group companies to incur substantial costs or pay substantial damages or prohibit them from selling their products.</i>	✓		
<i>If our medical device group companies are unable to obtain reimbursement coverage from third-party healthcare payors for procedures using their products, or if reimbursement is insufficient to cover the costs of purchasing their products, demand for their products may be adversely affected.</i>		✓	
<i>The development of products by our group companies in the medical device field is dependent upon the success of clinical trials.</i>	✓		
<i>Our medical device companies experience significant uncertainty during the research and development stage</i>	✓		

Item 4. Information on the Company

A. History and Development of the Company

We are an operational holding company that focuses on building and enhancing technology companies, mainly in the field of medical devices. Our current group companies include companies at different stages of development and business maturation, operating in various technology fields such as medical device and other fields.

Our primary goal is to create value for our shareholders by enhancing and realizing our holdings, whether through exit transactions or public offerings, while seeking new investment opportunities, such as medical device companies with significant exit potential. For this purpose, we strive for significant holdings in companies and act towards enhancing their value through involvement in their management and direction. We are involved in the management of our group companies by means of active membership on their boards of directors and board committees and providing active assistance to management. We are directly involved in matters of policy guidance, strategic planning, marketing, selecting and manning senior management positions, determining the business plan, approving investments and budgets, development and operational guidance, assistance in creating strategic partnerships, and the overall ongoing monitoring of our group companies' performance.

Within our business strategy framework, and with the intent to continue investing in new companies, we examine a broad range of proposals for investment and strategic cooperation in a broad range of technology fields, including through RDC, which has first rights to commercialize military technologies developed by Rafael in civilian markets. We hold 50.1% of the issued and outstanding shares and voting rights of RDC and Rafael holds the remaining 49.9%. RDC seeks to identify technological projects and invest in companies in diverse fields that will either commercialize Rafael's military technologies or which will be benefited by Rafael's technology and know-how. For details about the agreement with Rafael, see Item "Item 10C – Additional Information – Material Contracts" below, and for more information about RDC, see "Item 4.B – Business Overview" below.

Both our legal name and our commercial name is Elron Electronic Industries Ltd. We were incorporated in Israel in 1962. The principal legislation under which we operate is the Israeli Companies Law, 1999, the Companies Law. Our shares are publicly traded under the symbol "ELRN" on the TASE and in the over-the-counter market in the United States under the symbol "ELRNF". Our corporate headquarters and registered office is located at 3 Azrieli Center, 42nd Floor, Tel-Aviv 6702301, Israel, Tel. 972-3-607-5555, Fax. 972-3-607-5556, e-mail: info@elron.com. Our web site address is www.elron.com. Information contained on our website is not part of this Annual Report.

The following are significant transactions and events, together with follow-on investments, which we and our group companies have completed or which took place in 2013, 2014, 2015 and through the date this Annual report, by company in reverse chronological order.

Sale of Jordan Valley

- In October 2015, Bruker Scientific Israel Ltd, a wholly-owned indirect subsidiary of Bruker Corporation, signed a definitive agreement with Jordan Valley Semiconductors Ltd. or Jordan Valley and its shareholders for the acquisition of the entire outstanding share capital of Jordan Valley for up to approximately \$53 million, which includes purchase price in the amount of \$30 million plus the cash balance of Jordan Valley (the "Immediate Consideration") and additional payments of up to \$15 million which are contingent upon Jordan Valley achieving certain revenue milestones and gross margin threshold in each of the 2016 and 2017 calendar years (the "Contingent Consideration"). The acquirer is entitled to certain indemnities in connection with the transaction, as is customary in transactions of this type, from the selling shareholders. Out of the Immediate Consideration, we received an amount of approximately \$12 million of which an amount of approximately \$1.3 million was deposited in escrow for a period of 18 to 30 months, mainly in order to secure certain indemnification obligations of the selling shareholders to the acquirer. We may receive an additional amount of up to approximately \$2.2 million out of the Contingent Consideration. As a result of the transaction, we recorded in the third quarter of 2015 a gain in the amount of approximately \$4 million in respect with the increase in the fair value of the investment in Jordan Valley.

Investment in and Sale of Kyma

- In September 2015, ZOLL LifeVest Europe Holdings B.V., a fully owned subsidiary of ZOLL® Medical Corporation, or ZOLL Medical, an Asahi Kasei Group company and a manufacturer of medical devices and related software solutions signed a definitive agreement with Kyma Medical Technologies Ltd., or Kyma, and its shareholders, including RDC, and simultaneously completed the acquisition of Kyma's entire outstanding share capital in consideration for an immediate payment of approximately \$35 million (the "Immediate Consideration") and additional contingent cash consideration in the form of inter alia (a) earn-out payments calculated as a multiple of year-on-year revenue growth from the sale of certain products of Kyma for a period of 4.5 years, and (b) future payments per unit deployed of certain products developed by the acquirer incorporating Kyma's technology, for a period of 5.5 years (together the "Contingent Consideration"), provided however that the Contingent Consideration will be payable if and for such amounts exceeding \$10 million. The acquirer is entitled to certain indemnities from the sellers in connection with the transaction, as customary in transactions of this type. Out of the Immediate Consideration, RDC received an amount of approximately \$18.8 million of which an amount of approximately \$2.2 million was deposited in escrow for a period of 24 months in order to secure certain indemnification obligations to the acquirer. In addition, RDC recognized an asset in respect of the Contingent Consideration valued as of the date of the transaction at the amount of approximately \$5.2 million, the fair value of which was determined with the assistance of an independent appraiser. As a result of the transaction, we recognized a net gain attributable to our shareholders in the amount of approximately \$8.9 million in the third quarter of 2015 (a consolidated net gain in the amount of approximately \$17.8 million).
- In February 2015, Kyma entered into an agreement to extend the 2013 Preferred C shares round with certain of its existing shareholders, raising approximately \$6.2 million in two installments. The first installment of approximately \$4.6 million (including conversion of a loan of \$0.5 million) of which RDC's share was approximately \$1.9 million was invested immediately, following which RDC's holding in Kyma's outstanding shares decreased to approximately 53%. The second installment of approximately \$1.6 million (of which RDC's share was approximately \$0.63 million) was invested immediately prior to the sale of Kyma to ZOLL Medical.

In October 2013, Kyma, RDC and a new investor completed the Preferred C investment agreement in the amount of \$6 million, which was invested in two installments in consideration for Preferred C shares of which RDC's share was approximately \$2 million. In addition, the new investor also received warrants for Preferred C shares, affording the new investor the option to invest in Kyma an additional amount of \$4 million. The first installment of \$3 million (of which RDC invested \$1 million) was invested in October 2013 following which RDC's holding in Kyma's outstanding shares decreased to approximately 64%, and the second installment of \$3 million (of which RDC invested \$1 million) was invested in January 2014 following which RDC's holding in Kyma's outstanding shares decreased to approximately 57.7%. After the first installment, which also brought about a change in Kyma's board of directors, RDC lost control over Kyma and commencing from the fourth quarter of 2013, the investment in Kyma began to be accounted for under the equity method of accounting. As a result, and in accordance with IFRS provisions, we recorded, in the fourth quarter of 2013, a net gain of approximately \$1.7 million attributable to our shareholders (a consolidated net gain in the amount of approximately \$2.8 million).

Investment in Pocared

- In September 2015, Pocared Diagnostics Ltd., or Pocared, signed an investment agreement with us and other of its shareholders to invest \$10 million in Pocared (which included a reorganization of Pocared's share capital) in consideration for Preferred B1 shares and warrants to purchase additional Preferred B1 shares. Our share in the total investment amount was approximately \$9 million. The first installment, in the amount of \$5 million, of which we invested approximately \$4.5 million, was invested immediately. In January 2016, the second installment of \$5 million, of which we invested approximately \$4.5 million, was invested. As a result of the second installment, our holdings in Pocared's outstanding shares increased to approximately 58%.
- In July 2015, some of Pocared's shareholders, including us, granted Pocared a loan in the amount of \$3 million of which our share was approximately \$2.7 million.
- In February 2015, Pocared signed an investment agreement with us and other of its shareholders pursuant to which \$5 million was invested in Pocared in consideration for Preferred G shares and warrants to purchase additional Preferred G shares. Our share in the investment was approximately \$4.5 million. Following the completion of this investment, our shareholding in Pocared increased from approximately 50% to approximately 53% on an outstanding basis and from approximately 44% to approximately 50% on a fully diluted basis. Following this investment, we were granted the right to appoint a majority of the directors serving on the Board of Directors of Pocared. As a result, and beginning February 2015, Pocared became a consolidated group company and accordingly, we recorded a gain in the first quarter of 2015 of \$10.1 million with respect to the re-measurement of the fair value of our shareholdings in Pocared prior to the consolidation (i.e. the fair value of our shareholding in Pocared of \$10.8 million less the value of our previous shareholding as recorded in our books of account in Pocared in the amount of \$0.7 million).

In March 2014, Pocared signed an investment agreement with some of its shareholders, including us, whereby a total amount of \$9.5 million was invested in two installments in consideration for Preferred G shares and of which our share was approximately \$8.5 million. In addition, according to the investment agreement, loans in the amount of approximately \$4.1 million (principal and accrued interest) were converted into Preferred F shares.

In February 2014, Pocared's shareholders, including us, granted Pocared a loan in the amount of \$2 million of which our share was approximately \$1.5 million. In October 2013, Pocared's major shareholders, including us granted Pocared a loan in the amount of \$2 million of which our share was approximately \$0.9 million.

In May 2013, Pocared signed an investment agreement with its major shareholders, including us, whereby a total amount of up to \$3 million was invested (of which our share was \$1.4 million) in consideration for additional Preferred F shares. Our holding in Pocared did not change significantly as a result from this investment agreement.

Investment in Cartiheal

- In December 2015, Cartiheal (2009) Ltd., or Cartiheal, completed a \$14.8 million financing round led by Johnson & Johnson Innovation – JJDC Inc., and with the participation of additional Cartiheal shareholders, including us, of which \$11.8 million was invested in Preferred E Shares and \$3 million was invested in Preferred D Shares pursuant to the exercise of Preferred D warrants. Our share in the financing round was approximately \$5.4 million of which \$4.1 million was invested in Preferred E Shares and approximately \$1.3 million was invested in Preferred D Shares pursuant to the exercise of Preferred D warrants. Following this investment, Elron's holding in Cartiheal's outstanding share capital rose from approximately 34% to approximately 35% (from approximately 28.5% to 28.2% on a fully diluted basis).
- In February 2015, Cartiheal entered into an agreement extending the 2012 round with its principal shareholders, including us, raising approximately \$3 million for preferred D shares and warrants to purchase additional preferred D shares. The investment, of which we invested approximately \$1.3 million, was made immediately upon signing, following which our holding in Cartiheal's outstanding shares increased from 32% to approximately 34%. In September 2013, we, together with the other investors, exercised warrants to purchase additional preferred D shares of Cartiheal in the amount of \$5 million, of which we invested \$2.5 million.

Investment in BrainsGate

- In January 2015 we completed an agreement to invest in BrainsGate Ltd., or BrainsGate, together with Medtronic and additional shareholders of BrainsGate. According to the terms of the investment agreement, approximately \$26 million will be invested in BrainsGate in two installments at a pre-money valuation of approximately \$70 million. Our share of the aggregate investment is expected to amount to approximately \$7.8 million. The first installment of \$11 million was invested immediately, of which our share amounted to approximately \$3.3 million. The second installment in the amount of \$15 million is contingent upon the results of an interim analysis to be conducted by the Data and Safety Monitoring Board after follow up data of 600 patients participating in BrainsGate's clinical trial will be received, and subject to the decision by a majority of BrainsGate's investors. Our share in the second tranche is expected to amount to approximately \$4.5 million. The investment round did not affect our percentage holding in BrainsGate.

Investment in Coramaze

- In August 2015, we entered into our first investment agreement with coramaze technologies GmbH, or Coramaze, and its existing shareholders, in the amount of €4.5 million of which our share is €3.5 million. Coramaze is a German company developing a minimally invasive device to treat functional mitral valve regurgitation. The investment is in two installments in consideration for Preferred A shares. The first installment in the amount of €2.25 million (approximately \$2.5 million), of which our share was €1.75 million (approximately \$2 million), was invested immediately. Following the investment, we hold 17% of Coramaze's outstanding shares. The second installment is due in May 2016. Subsequent to the completion of the second installment, we expect to hold approximately 28% of Coramaze's outstanding shares.

Investment in Cloudyn

- In December 2015, Cloudyn Software Ltd., or Cloudyn, completed an investment agreement in the amount of approximately \$9 million for Series B1 Preferred Shares and warrants for Series B2 Preferred Shares which included a \$6.5 million investment by a new investor and \$2.5 million from current shareholders, including \$1.25 million from RDSeed. Following the completion of the investment, RDSeed's holding in Cloudyn's outstanding share capital decreased from approximately 55% to 42% (and from approximately 52% to 35% on a fully diluted basis including warrants).

Following this investment which resulted in a change in Cloudyn's board of directors, RDSeed ceased to control over Cloudyn and commencing from the fourth quarter of 2015, the investment in Cloudyn is no longer consolidated in our financial statements and is accounted for under the equity method of accounting. As a result, we recognized in the fourth quarter of 2015 a net gain attributable to our shareholders in the amount of approximately \$2.4 million (net of non-controlling interests) (a consolidated net gain in the amount of approximately \$4.7 million), resulting mainly from the revaluation to fair value of RDSeed's investment in Cloudyn, under line item gain from disposal and revaluation of investee companies and changes in holdings, net, in the statement of income.

- In July 2015, RDSeed, an additional investor and Cloudyn signed an Addendum to its Series B Preferred Share Purchase Agreement pursuant to which the Investors invested an aggregate amount of \$1.5 million, in consideration for additional Preferred B shares, under the terms and conditions of the original Series B share purchase agreement. RDSeed's share in this investment was \$0.75 million. Following this investment RDSeed's holding in Cloudyn's outstanding shares decreased to approximately 55%.
- In August 2014, Cloudyn completed an investment agreement in the amount of approximately \$3.5 million which included a \$2 million investment by a new investor and also a conversion of loans in the amount of approximately \$1.5 million granted by RDSeed to Cloudyn in consideration for Series B Preferred Shares. Following the completion of the investment, RDSeed's holding in Cloudyn's outstanding share capital decreased from approximately 61% to 55% (and from approximately 59% to 53% on a fully diluted basis).

Sale of Sync-Rx

- In May 2014, RDC received the full amount from the sale of Sync-Rx Ltd., or Sync-Rx, which was deposited in escrow, as described below. In November 2012, the sale of all the shares of Sync-Rx, a company approximately 87% held by RDC, to Volcano Corporation was completed for an aggregate consideration of approximately \$17.25 million. RDC's share in the consideration amounted to approximately \$15.8 million (of which an amount of approximately \$3.1 million was deposited in escrow for a period of 18 months and already received). As a result, we recorded a net gain (net of non-controlling interest) in the fourth quarter of 2012 of approximately \$8.6 million.

Investment in Notal Vision

- In January 2016, Notal Vision, Inc., or Notal Vision, signed an investment agreement with its major shareholders, including us, in the amount of \$5 million, of which our share was approximately \$1 million, in consideration for additional Preferred C shares and warrants for Preferred C shares. The entire investment amount was invested immediately. This investment agreement did not significantly change our holding in Notal Vision.
- In June 2015, Notal Vision signed an investment agreement with its major shareholders, including us, in the amount of \$3 million, of which our share was approximately \$0.6 million, in consideration for additional Preferred C shares and warrants for Preferred C shares. The entire investment amount was invested immediately. This investment agreement did not significantly change our holding in Notal Vision.
- In June 2014, Notal Vision's major shareholders, including us, exercised the option to participate in the additional installment of its financing round (see below) in the amount of \$5 million, in consideration for Preferred C shares and warrants for Preferred C shares of which our share was approximately \$1 million.
- In July 2013, Notal Vision signed an investment agreement with its major shareholders, including us, in the amount of \$10 million to be invested in two installments out of which our share was approximately \$1.94 million and an option to participate in an additional installment in the amount of \$5 million, in consideration for Preferred C shares and warrants for Preferred C shares. This agreement is an additional extension of the investment agreement signed in October 2010. The first two installments were invested during 2013. Our holding in Notal Vision did not change significantly following the extension of the investment agreement.

Investment in Open Legacy

- In January 2016, RDSeed provided a convertible loan to Open Legacy Technologies Ltd., or Open Legacy, in the amount of \$0.7 million.

- In May 2014, RDSeed completed a new investment in Open Legacy, which is developing an open source based software application for the modernization of Legacy systems, of up to \$2.1 million of which \$1.3 million was initially invested and the balance of which was invested in May 2015 of which RDSeed's share was \$0.7 million. In addition, in May 2015, the investors, including RDSeed agreed to extend a credit line of \$0.5 million available to Open Legacy of which RDSeed's share is \$0.4 million, in consideration for warrants to purchase additional Series A Preferred Shares. In December 2015, the credit line was fully drawn down and RDSeed was granted warrants to purchase additional Series A Preferred Shares, at the same price per share as the original investment. Following this investment, RDSeed holds approximately 37% of Open Legacy on an outstanding basis and approximately 30% of Open Legacy on a fully diluted basis.

Investment in IronScales

- In October 2015 RDSeed signed a Series A Preferred Share Purchase Agreement with IronScales Ltd., or IronScales, to invest a total amount of up to \$1.5 million in two equal installments in consideration for Preferred A shares. The first installment in the amount of \$0.75 million was transferred immediately and the second installment is subject to IronScales' fulfillment of certain milestones, as specified in the agreement. In addition, RDSeed was granted a warrant to purchase additional Preferred A Shares, upon the same terms and conditions. Following the first installment, RDSeed's holding in IronScales' outstanding shares is approximately 16% and following the second installment RDSeed's holding in IronScales' outstanding shares will be approximately 27%. Assuming the full exercise by RDSeed of the warrant, RDSeed shall hold 30% of IronScales' share capital on a fully diluted basis.

Merger of Given Imaging and Covidien

In February 2014, Given Imaging Ltd., or Given Imaging, announced the completion of the acquisition of Given Imaging by a member of the Covidien group for a cash consideration of \$30 per share by way of a reverse triangular merger, or Given Merger. As result of the completion of the Given Merger, we recorded, in the first quarter of 2014, a net gain (after tax) in the amount of approximately \$107 million which includes our share in the gain RDC recorded in respect of the transaction.

Transfer of Shares of RDSeed to RDC

- In July 2013, we transferred our shares in RDSeed, including any rights and obligations in connection therewith to RDC in consideration for \$5 million, subject to adjustments. As a result, RDSeed became an RDC subsidiary.

Enablence Settlement

In September 2013, a settlement agreement was signed between Enablence Technologies Inc., or Enablence, and its debenture-holders, including us for the partial repayment of the debentures. According to the settlement agreement, out of the consideration Enablence paid to the debenture-holders, we received consideration, as follows: approximately \$1.7 million in cash, of which an amount of \$0.4 million was paid in Enablence shares which were purchased for cash by an Enablence shareholder as part of the settlement agreement; and 5,880,104 Enablence shares (constituting approximately 4% of Enablence's outstanding shares). In addition, the debenture-holders, including us, waived the outstanding debt and released Enablence from any claims in connection with the debentures. As a result, we recorded in the third quarter of 2013 a net gain in the amount of approximately \$3.5 million in respect of a partial cancellation of an impairment recognized in 2011.

Elron Distributions

- On March 10, 2016, our Board of Directors resolved to make an application to the Court for a dividend distribution of US \$15 million (constituting an amount of US \$0.504307 per share) not out of our profits. Such dividend distribution is subject to the Court approval pursuant to Section 303 of the Companies Law, and the record date will be determined accordingly. We intend to file an application to the Honorable Court, accordingly. This decision of the Board of Directors was taken after the directors determined that considering the Company's assets and liabilities, the solvency criterion pursuant to the Companies Law has been met, namely that there is no reasonable concern that such dividend distribution would prevent us from meeting our existing and expected obligations, as and when they fall due, and that such dividend distribution is for the benefit of the Company and its shareholders.

It should be clarified that the abovementioned decision of the Board of Directors does not constitute a decision to distribute a dividend, and that a dividend distribution in any amount, shall be subject, in addition to the Court approval as stated herein (which is not assured), to a further separate approval of the Board of Directors in relation to the dividend distribution itself, subject to the Board's full discretion. Accordingly, it should be clarified that as of the date of the publication of this Annual Report, there is no certainty as to the distribution of a dividend or the timing or amount thereof.

- On August 24, 2014, our board of directors declared a dividend in the amount of \$110 million or \$3.69825 per share. The dividend was paid on September 23, 2014.

B. Business Overview

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

Following are details regarding our holdings in our group companies (including, through RDC and RDSeed, in equity and voting), presented in alphabetical order, as of December 31, 2015. In this table, all of RDC's and RDSeed's rights are applied to us. It should be noted that we have holdings in other companies in which we have invested in amounts of less than \$1 million or in which our percentage holdings are small or companies in various stages of liquidation.

Group company name	Business	Basis of presentation in the Financial Statements	Rights to appoint directors	Percentage of shareholdings and voting rights	Fully diluted percentage of shareholding and voting rights	Amount Invested by Elron and in the Aggregate (in \$ million, unless otherwise specified)
AQWISE - WISE WATER TECHNOLOGIES LTD	Development manufacturing and marketing of biological and waste water treatment solutions for industrial and municipal markets	Fair Value	Two directors (out of ten directors)	19.81%	17.94%	Elron: 4.9 Total: 13
ATLANTIUM TECHNOLOGIES LTD	Development manufacturing and marketing of ultra violet based water disinfection solutions	Fair Value	One director (out of seven directors)	6.16%	5.49%	Elron:13.7 Total: 74
BRAINSGATE LTD	Development of a device for the treatment of ischemic stroke within 24 hours	Equity Method	One director (out of five directors)	29.84%	26.69%	Elron: 25 Total: 81
CARTIHEAL (2009) LTD	Development of an implant for repair of cartilage and bone in joints	Equity Method	Two directors (out of nine directors- only one director actually appointed)	35.21%	28.21%	Elron: 12 Total: 30
CLOUDYN SOFTWARE LTD	Development and marketing of a platform for the optimization of cloud service resources	Equity Method	One director (out of five directors)	43.79% of voting rights and 42.20% of shareholdings (by RDSeed only)	36.40% of voting rights and 35.09% of shareholdings (by RDSeed only)	RDSeed:6 Total: 16
CORAMAZE TECHNOLOGIES GmbH ¹	Developing a device for functional mitral valve regurgitation	Equity Method	Two director (out of seven directors)	17.07%	17.07%	Elron: 1.8 million Euro Total: 4.5 million Euro
IRONSCALES	Developing and providing a SaaS solution whose goal is to interactively teach employees how to detect and resist spear phishing attempts	Equity Method	Two directors (out of five directors)	15.63% (by RDSeed only)	20.75% (by RDC only)	RDSeed: 0.8 Total: 0.8
NOTAL VISION INC ²	Development, manufacturing and marketing of systems and services for remote monitoring of AMD patients	Fair Value	One director (out of five directors)	21.48%	18.14%	Elron: 9 Total: 40
OPEN LEGACY ³ TECHNOLOGIES LTD	Development of an open standards based software platform for delivering core enterprise applications (Legacy and On-premise) as digital services (e.g., digital banking)	Equity Method	Two directors (out of five directors)	36.69%	29.69%	RDSeed: 2.2 Total: 2.8
PLYMEDIA ISRAEL (2006) LTD	Development and marketing of advertising exchange services	Equity Method	One director (out of five directors)	25.30%	18.57%	Elron: 2.5 Total: 6
POCARED DIAGNOSTICS LTD ⁴	Development of a microbiological laboratory system performing rapid and automated diagnosis	Consolidated	Five directors (out of Nine directors) -only three directors actually appointed)	55.08%	54.34%	Elron: 49 Total: 90
RDSEED LTD	Invests in early stage companies in cyber, information technology and enterprise software	Consolidated	Four directors (out of four directors)	100% (held by RDC only)	100% (held by RDC only)	RDC & Total: 16.8
RDC – RAFAEL DEVELOPMENT CORPORATION LTD	Incubation and development of companies based on or reliant on Rafael technology	Consolidated	Five directors (out of Nine directors) - only four directors actually appointed)	50.10%	50.10%	Not Relevant

¹ With the completion of the second installment of our investment in Coramaze, our shareholding in Coramaze is expected to increase to approximately 28%.

² In January 2016, we and other shareholders of Notal Vision invested additional \$5 million in Notal Vision (of which our share was \$1million). Our shareholdings did not materially change as a result of this investment.

³ In January 2016, \$0.7 million was invested in Open Legacy (all by RDSeed). RDSeed's shareholdings did not change as a result of this investment

⁴ In January 2016, we and other shareholders of Pocared invested in Pocared an amount of \$5 million (our share was approximately \$4.5 million). As a result, our holdings in Pocared's outstanding shares increased to 58% and on a fully diluted basis to 60%.

Our Group Companies

It should be noted that in the descriptions of our group companies below, we sometimes provide data obtained from outside sources in order to provide an indication of the size of the market in which they operate, and/or (in the case of our medical devices companies) to provide an indication of the healthcare system's need (in their eyes) for their products. These references do not provide any indication of their market potential or suggest that their products target the entire market.

Medical Device Companies – The Process from Idea to Commercialization

Based on our knowledge and the data in our possession as of the end of the period covered by this Annual Report, generally and in principle, companies seeking approval for the marketing of medical devices are required to undergo various stages of development and regulatory approval before marketing the product, including a series of clinical trials, as specified below, it being noted that there may be changes in the steps and/or additional steps in accordance with the specific circumstances of each company and its products:

- (i) Proof of technological feasibility – at this stage, preliminary tests are performed, the purpose of which is to prove the effectiveness of the technology.
- (ii) Prototype design – at this stage, ex-vivo experiments and other experiments are usually performed for the purpose of developing the device and determining its effectiveness.
- (iii) Preclinical studies – at this stage, testing is usually performed on animals, the purpose of which is to examine the safety and effectiveness of the device before testing it on humans. Often these studies lead to changes in features of the device and to additional development activities.

- (iv) Clinical trials – at this stage, trials are performed on humans. For every clinical trial, a detailed protocol is determined in advance including complete details relating to the clinical trial. The trial protocol defines the trial endpoints (primary and secondary), the target population of the trial (sample size and inclusion/exclusion criteria), trial design (controlled, randomized, open label or blinded), definition of trial success, the timing and method of outcome assessment, and other matters. (In a controlled trial, participants are assigned to one of at least two groups – one which receives the treatment under investigation (the trial group), and the other of which (the control group) receives either the standard treatment or a placebo. In a randomized study, participants are assigned to groups of a clinical trial by chance. In an open label trial, all parties involved with the trial know which participants have been assigned which arm. In a single-blinded trial, only the participants are unaware which group the participants have been assigned. In a double-blinded trial, neither party knows which participants have been assigned which group.) The trial protocol requires the pre-approval of a review board and the authorized regulatory authority in the relevant country or territory, as detailed below. The clinical trial stage includes several sub-stages:
- a. Trials for the purpose of completion of development of the device – at this stage trials are performed, whose purpose is to complete the device's development in terms of the device's stability, the consistency of its features and others. At this stage, for the first time, feedback is received on the device from doctors and sample patients making use thereof. As a principle, these trials will be open-label and will include a limited number of subjects.
 - b. Trials for the purpose of proving the safety and efficiency of the device – at this stage, and as part of the regulatory process, trials are performed for the purpose of proving the safety of the device. In accordance with the selected regulatory process and/or in order to ensure that the device will be adopted by the medical community, the company may be required to conduct trials in order to prove the efficiency of the device. As a principle, these trials will be randomized and will include a large number of medical centers and subjects.
 - c. Trials for the purpose of proving cost-efficiency – often, in order to qualify for reimbursement for the cost of the device and/or in order to ensure that the device will be adopted by the medical community, the company may also be required to conduct trials, whose purpose is to establish the device's cost-efficiency.
- (v) The filing of an application for approval to market the device – after receiving positive results in the clinical trials proving the safety and effectiveness of the device (in accordance with the regulatory requirements), the company, at this stage, applies to the relevant regulatory body for approval to market the device, such as the U.S. Food and Drug Administration, or FDA, or the European Union, as described below.

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

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

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

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

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

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

1. *CE Certification ("CE Mark") for the marketing of a medical device in European Union countries* – To the best of our knowledge and in reliance on publicly available information, commercialization of medical devices in member countries of the European Union is regulated by directives adopted by the European Union. The European Union presently requires that all medical products bear the CE mark, an international symbol of adherence to quality management system and demonstrated clinical safety and effectiveness. The extent of evidence that the manufacturer is required to provide in order to be permitted to affix the CE mark on its products is dependent upon the classification of the device. There are four classes, in accordance with the level of risk related to the use of the device. The determination of the level of risk is done in accordance with criteria, which include, *inter alia*: the duration of continued use of the device, the level of body contact of the device, whether the device impacts on biological or chemical makeup of the body liquids, whether the device contains a medicinal substance and other criteria. With respect to a CE Mark for low risk products (Class I), a declaration by the manufacture regarding compliance with the relevant directive requirements is sufficient. For higher risk products, compliance with the Medical Device Directive and the relevant standards, as certified by a recognized European Notified Body, permits the manufacturer to affix the CE mark on its products.
2. *Procedure for receipt of FDA clearance for the marketing of a medical device in the United States* – To the best of our knowledge and in reliance on publicly available information, the FDA is a federal agency in the United States whose role is to protect the American public's health by establishing and enforcing a high product standard and by imposing various regulatory requirements, which will ensure the safety and effectiveness of products such as drugs which are intended for human and veterinary use, biological products and medical devices. FDA requirements include, *inter alia*, the manufacturing of the medical devices in accordance with quality system regulation (QSR), receipt of a scientifically based submission file on the medical device, the appointment of an American agent, and, if required, provision of an opportunity for FDA representatives to supervise the manufacturing procedure at the plant. The FDA classifies medical devices into three categories in accordance with the level of risk involved in their use. The classification level determines the extent of checks and reviews which the company is required to conduct in order to obtain approval to market the medical device. As a principle, the higher the risk, the more tests and regulations are added.

- a. Class I – devices which do not pose any risk or pose a low risk to the health of the public, and therefore, there is no requirement to submit an application to obtain a formal approval, but rather it is sufficient to follow the FDA's instructions (e.g. toothbrushes, band-aids).
 - b. Class II – devices which present a risk to the health of the public, but are not life-threatening (such as an electronic thermometer or contact lenses). This category requires that an application be filed under a Premarket Notification 510(k) proceeding, or 510(k), which is a relatively short proceeding during which it is demonstrated to the FDA that the medical device for which the clearance is sought is substantially equivalent, with respect to intended use, safety and treatment efficiency, to an existing product or "predicate device" – a device that has already been through the approval process and which is not subject to a Premarket Approval, or PMA, proceeding.
 - c. Class III – devices that are intended to help support or sustain life and pose a risk, innovative devices with respect to which the level of danger is unknown, or devices which are not equivalent to a predicate device. Requests for FDA approval of these sorts of devices are filed in a PMA process which is lengthier than the 510(k) process and includes a lengthy scientific review, significantly broader clinical trials and a compulsory examination of the manufacturing site. In the case that a device is classified as Class III device due to the absence of a predicate device and not due to a high level of risk, an application may be made to the FDA to classify the device as Class II through a de novo process and thereby avoid a PMA process.
3. *Procedure for receipt of the approval of the Ministry of Health for the marketing of a medical device in Israel* – To the best of our knowledge, in reliance on publicly available information, a medical device company requires the approval of Israel's Ministry of Health's Unit for Medical Means and Devices, or MOH Medical Devices Unit, to market its medical device in Israel. Medical devices are defined as a device, instrument, chemical substance, biological or technological product, which is used in medical treatment, or which is required for the action of a device or instrument which is used for treatment and which is not intended, in essence, to act as a medicinal measure. The MOH Medical Devices Unit is responsible for granting import permits of various types for medical devices and monitoring the marketing of medical devices in Israel.

1. Our Main Group Companies

A main company is a company that is significant from our perspective because it meets one of the quantitative or qualitative criteria adopted by us as specified below:

- (a) Qualitative criterion – a company which constitutes a main company from our perspective, even though it does not meet our quantitative criterion below, due to our significant investment commitments, significant risks and exposure in connection with our investment, the inherent potential in the investment from management's perspective, or significant value (current or potential).

(b) Quantitative criterion – a company in which the total investment in our Statement of Financial Position exceeds 10% of our equity.

As of the period covered by this Annual Report, RDC, Pocared and BrainsGate meet at least one of the criteria specified above, and are therefore deemed as main group companies. The composition of main companies may change from time to time due to changes arising from the sale of a company, investments in companies, or decreases in their value and change in value of the investment in our financial statements.

BrainsGate

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

We hold approximately 30% of BrainsGate's outstanding share capital and approximately 27% of its fully diluted share capital as of the date of publication this Annual Report. The other principal shareholders of BrainsGate include Pitango, Medtronic, Infinity Group, Cipio Partners, Boston Scientific, Johnson & Johnson and Agate Medical Investments.

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

According to the World Health Organization, 15 million people worldwide suffer a stroke annually. Of these, 5 million people die and another 5 million people are left permanently disabled (see World Health Organization "Global Burden of Stroke" in *The Atlas of Heart Disease and Stroke*, 2004: http://www.who.int/cardiovascular_diseases/en/cvd_atlas_15_burden_stroke.pdf). According to the American Heart Association, in the United States, an estimated 6.8 million people have had a stroke, and each year approximately 795,000 people experience a new or recurrent stroke (*American Heart Association -Heart Disease and Stroke Statistics* report – 2014 update). Projections show that by 2030, an additional 4 million people will have had a stroke, a 20.5% increase in prevalence from 2012 (*Heart Disease and Stroke Statistics* report – 2014).

However, to the best of BrainsGate's knowledge, the current treatment for stroke patients, including treatment with tPA protein, a clot dissolving medicine, is very limited due to the fact that existing treatments are approved for use during a very short time frame following the stroke. This time frame which was only 3 hours was extended to 4.5 hours in 2009 (see "Expansion of the Time Window for Treatment of Acute Ischemic Stroke with Intravenous Tissue Plasminogen Activator", in the journal *Stroke*, August 2009 issue) but it still represents a narrow time frame. Treating a patient outside such time frame increases the risk of brain hemorrhage by ten (see "Guidelines for the Early Management of Patients with Ischemic Stroke" in the journal *Stroke*, April 2003 issue) and accordingly is not approved. In 2015, several multi-center studies assessing the treatment of stroke with neurothrombectomy (a clot-removing catheter) together with tPA were published, and showed that treatment using angioplasty in a limited time window significantly improves the condition of strokes victims. (See, Berkhemer, O. A. et al., (2015); A randomized trial of intraarterial treatment for acute ischemic stroke. *New England Journal of Medicine*, 372(1), 11-20; Campbell, B. C. et al. (2015); Endovascular therapy for ischemic stroke with perfusion-imaging selection. *New England Journal of Medicine*; Goyal, M. et al (2015); and Randomized assessment of rapid endovascular treatment of ischemic stroke, *New England Journal of Medicine*.) Joven T. G, et al (2015). Thrombectomy within 8 hours after symptom onset in ischemic stroke. *New England Journal of Medicine*; Saver JL, et al (2015). Stent-retriever thrombectomy after intravenous t-PA vs. t-PA alone in stroke. *New England Journal of Medicine*; European Stroke Organisation (ESO) Conference 2015. Abstract 82, Abstract 180.)

In practice, most patients arrive at hospitals after the approved time frame. Indeed, research shows that in 2009 only 3.4%-5.2% of stroke patients in the United States received tPA treatment (*Heart Disease and Stroke Statistics* report – 2014). In fact, between 15% to 30% of stroke survivors are left permanently disabled (*Heart Disease and Stroke Statistics* report – 2014). The total cost of stroke in the United States is expected to be \$95 billion in 2015, \$119 billion in 2020 and \$148 billion in 2025 and \$185 billion in 2030. The lifetime cost per person of a stroke is \$140,048 and includes hospitalization, rehabilitation, and follow up treatment (*American Heart Association Heart Disease and Stroke Statistics* report – 2014 Update. *Circulation*, 258).

87% of strokes are ischemic. (The remaining cases of stroke are hemorrhagic. Hemorrhagic stroke occurs when blood supply to the brain tissue is interrupted, usually as a result of a burst blood vessel (*Heart Disease and Stroke Statistics* report – 2010)). Ischemic stroke occurs when blood supply to the brain is blocked, usually as a result of a blood clot. Symptoms occur suddenly and lead to death of brain tissue in the blocked area. The dead cells in this area release toxic materials causing death of additional brain tissue in the surrounding area, known as the ischemic penumbra. Death of brain tissue in the blocked area occurs within minutes and is inevitable, however, damage in the ischemic penumbra occurs only a few hours thereafter, and thus can be prevented (see the Internet Stroke Center's website: http://www.strokecenter.org/education/ais_pathogenesis/22_ischemic_penumbra.htm). In spite of this, due to the short time frame approved for treatment, to the best of BrainsGate's knowledge, damage in the ischemic penumbra is not prevented in most cases, as most patients, as stated above, arrive for treatment after the treatable time frame. Preventing damage in the ischemic penumbra is the goal of the ISS system being developed by BrainsGate.

BrainsGate's ISS system is designated for use for 8 to 24 hours after onset of stroke. The system operates by electrical stimulation of the SPG through a tiny electrode. The SPG is responsible, inter alia, for regulating blood flow to the brain. Stimulating the SPG using the ISS widens the blood vessels in the brain thus increasing blood flow to the brain, and thus could prevent the death of cells in the ischemic penumbra. The treatment includes activation of the electrode for several hours a day for a few days after the stroke occurs as long as implantation and initial activation take place in a 24 hour post-stroke time frame. As such, the ISS system is supposed to significantly expand the current treatment window compared to tPA and neurothrombectomy. In addition, unlike neurothrombectomy, the ISS system is operated by the neurologist rather than the interventionist.

The development and approval of BrainsGate's product for marketing is subject to the requirements and regulatory approval processes described in this "Item 4B" above.

In 2010, BrainsGate completed a controlled, randomized, double-blinded clinical trial on approximately 300 patients at medical centers worldwide. Analysis of the trial results strengthened the assessment that the ISS has a considerable clinical effect, which is stronger than the effect found in available and approved stroke treatments. BrainsGate indicated that these results only represent an indication and are not sufficient to obtain regulatory approval.

In June 2011, BrainsGate commenced a controlled, randomized, double-blinded clinical trial to prove the ISS's safety and efficacy, which is expected to support BrainsGate's planned PMA submission to the FDA. In April 2014, the Data Safety Monitoring Board or, DSMB, for BrainsGate's study examined the effect and safety results of 350 patients in an interim analysis of the study (BrainsGate was not exposed to these results due to the study being a blinded study). As a result of the interim analysis, the DSMB determined as follows: the measured effect justifies the continuation of the study; there were no safety concerns; and in order to maximize the possibility of success in the study, increasing the sample size from 450 to 800-1000 patients is appropriate. In May 2014, the Board of Directors of BrainsGate discussed the results of the interim analysis performed by the DSMB for BrainsGate's study, and decided as follows: (1) To increase the number of patients in the study by 350-550 patients in accordance with the DSMB's conclusions (such that the number of patients in the study will amount to 800-1000); and (2) To perform an additional interim analysis of the results of the study which will be conducted by the DSMB after receiving follow up data of 600 patients. The purpose of the interim analysis is to support the continuation of the study according to the current format or to cease the study. The DSMB's recommendation will be to continue the trial in the event it has a 20% probability of meeting its endpoints. The recruitment of patients for the interim analysis has ended and the follow-up of these patients is expected to end in April 2016. BrainsGate expects that the examination of the results by the DSMB for the purposes of the interim analysis will take place in the second quarter of 2016 subject to the availability of the DSMB members. BrainsGate is continuing to recruit patients for the study and as of the date of publication of this Annual Report, has recruited approximately 610 patients for the study. Subject to the interim analysis and subject to the final number of patients that will be recruited as stated above, BrainsGate expects to complete patient recruitment for the study during 2017.

BrainsGate is aware that there are several companies currently engaged in its field that compete or may compete with BrainsGate but to the best of BrainsGate's knowledge, they do not operate within the 24 hour post-stroke time frame.

In January 2015, BrainsGate raised approximately \$26 million in two installments, according to a pre-money company valuation of approximately \$70 million. Medtronic participated in this investment round, together with existing investors, including us. Our percentage holding in BrainsGate did not change as a result of the investment. For more details, see "Item 4.A". Since its inception and until the date of publication this Annual Report, approximately \$81 million has been invested in BrainsGate, out of which we invested approximately \$25 million.

BrainsGate has 21 patents and 5 pending patent applications. The patents protect the technology developed by BrainsGate, the potential medical applications of its technology, and the medical technique for placing the electrode and use of the medical technology.

BrainsGate is headquartered in Caesarea, Israel. As of December 31, 2015, BrainsGate had 32 employees.

As previously mentioned, BrainsGate is in the development stages and has not commenced sales.

Pocared

Pocared, a private company incorporated in Israel, was established in 2004 and commenced its activities in 2005. We completed our initial investment in Pocared in 2007.

We hold approximately 58% of Pocared's outstanding share capital and approximately 60% of its fully diluted share capital as of the date of publication this Annual Report.

Pocared is developing a real-time and automated laboratory system for infectious diseases diagnosis. Pocared's diagnostic system uses optical technology and an algorithm for data analysis. The system is designed for use by major microbiological laboratories and hospitals as an alternative to the current microbiological diagnostic method of growing pathogen cultures, which is manual, lengthy, and expensive. The system is designed to diagnose infections in body fluids such as urine, swabs (throat, nasal, and others), blood, sputum, and cerebrospinal fluid. The system's first application is diagnosis of Urinary Tract Infection, or UTI. To the best of Pocared's knowledge, over 125 million urine cultures are performed each year worldwide. Pocared is in the development stage and has not commenced sales.

To the best of Pocared's knowledge, current microbiology practice is a labor intensive process, taking 24-72 hours and requiring formally trained personnel. The procedure involves several stages, including culturing the bacteria for 24-72 hours, and subsequently exposing it to a reagent in order to identify it based on its reaction to the reagent. Therefore, doctors must wait an average of 48-72 hours before they can prescribe evidence-based treatment. As a result, medical treatments (usually antibiotics) are administered in excess, and are often determined post facto to have been unnecessary. To the best knowledge of Pocared, 70% of the urine cultures performed in laboratories in the United States each year return with negative results.

Pocared's system is designed to enable automatic and rapid diagnosis, and to perform a large number of tests simultaneously, thus reducing the average diagnostic time, and significantly increasing output in comparison with current practice. A shortened diagnostic process, in Pocared's estimation, is expected to optimize medical treatment by enabling evidence-based treatment and reducing the amount of unnecessary antibiotics that are prescribed. In addition, Pocared's system is intended to operate without the need for specialized laboratory technicians or use of reagents. The optimization of medical treatment, increased output, and elimination of need for professional staff and use of reagents in Pocared's estimation, are expected to result in cost savings for its potential customers.

Pocared was awarded internal standard authorization ISO 13845 which specifies requirements for quality management systems in the medical industry. In December 2011, Pocared received the CE mark in accordance with the applicable European directive for the manufacturing and marketing of in-vitro diagnostic medical devices. The development and approval for marketing of Pocared's system in the United States is subject to the requirements and regulatory approval processes described in this "Item 4.B" above.

In July 2013, Pocared commenced the collection of urine samples for a diagnostic trial to prove the efficacy of its system's first application, UTI diagnosis. The trial is intended to support its planned FDA submission. In February 2016, upon the completion of the sample collection at three of the four centers at which the trial is taking place, data was received from the three centers and the analysis of the results commenced. From an examination of the results received, it would appear that they do not match Pocared's expectations. Pocared ceased the sample collection in the fourth center and is currently learning the reason for and nature and meaning of the gaps including whether this is due to a technical fault in the systems at these centers. This examination is expected to continue for a few weeks.

To the best of Pocared's knowledge, there are several companies currently engaged in its field that compete or may compete with Pocared.

In February 2015, Pocared signed an investment agreement with its shareholders including us pursuant to which \$5 million was invested in Pocared (including \$4.5 million from us). After completion of this investment, our holding in the issued and outstanding share capital of Pocared increased from 50% to 53% (and from 44% to approximately 50% on fully diluted basis), and for the first time, we were granted the right to appoint the majority of members of the Board of directors of Pocared. From July through September 2015, Pocared raised an aggregate additional amount of \$8 million from its shareholders (including \$7.2 million from us). As a result of these investments, our holding in the issued and outstanding share capital of Pocared increased to 55% (and approximately 54% on a fully diluted basis). In January 2016, Pocared raised an additional amount of \$5 million from its shareholders (including \$4.5 million from us). As a result, our holding in the issued and outstanding share capital of Pocared increased to 58% (and approximately 60% on a fully diluted basis). For more details, see "Item 4.A". Since its inception and until the date of publication this Annual Report, approximately \$95 million has been invested in Pocared, out of which we invested approximately \$53 million.

Pocared has 37 patents, and 43 pending patent applications. These patents protect the technology developed by Pocared, the potential diagnostic applications of this technology and the use of the diagnostic technology. Pocared has a material license agreement with a foreign company for the technology used for pre-analytical sample processing which is material to its operations.

Pocared's headquarters are in Rehovot, Israel. As of December 31, 2015, Pocared had 32 employees. Pocared also has a subsidiary in the United States where it employs 8 employees as of December 31, 2015.

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

RDC

RDC, a private company, incorporated in Israel, was established by DEP together with the predecessor of Rafael pursuant to an agreement entered into in 1993. DEP holds 50.1% of the outstanding shares and voting rights of RDC, while Rafael holds the remaining 49.9%. RDC has first refusal rights to commercially exploit certain technologies of Rafael for the development of products for use in non-military markets. For more information, see "Item 10C – Additional Information – Material Contracts".

RDC seeks to identify technological projects and invest in companies in diverse fields that will either commercialize Rafael's military technologies in the civilian market or which will be benefited by Rafael's technology and know-how. Following identification of such projects, RDC develops the relevant technologies, and in the case of military technologies, adapts them for commercial use, initially by utilizing its own management and funding resources, thereafter by spinning off activities into independent companies and at later stages from external funding. Rafael also grants RDC companies that utilize its technologies licenses to use such technologies in the civilian market.

Following is a brief review of the companies held by RDC, as of the date of publication this Annual Report:

RDSeed

RDSeed is a holding company which invests in early stage companies in cyber, information technology and enterprise software. RDC holds 100% of RDSeed's outstanding share capital.

The young ventures held by RDSeed benefit from RDSeed's support in business development, marketing and sales, technology (via Rafael), and with respect to legal and finance matters. RDSeed's main holdings as of the date of publication of this Annual Report are as follows:

- (1) Cloudyn (approximately 42% held by RDSeed), which is developing solutions for the optimization of cloud computing costs and resources;
- (2) Open Legacy (approximately 37% held by RDSeed) which is developing an open standards based software platform for delivering core enterprise applications (Legacy and On-premise) as digital services (e.g., digital banking);

(3) IronScales (approximately 16% held by RDSeed) which provides a cloud-based (SaaS) solution, which aims to train the employees of an organization take an active part in identifying and preventing targeted email attacks (Spear-Phishing).

In addition, RDC holds shares in certain inactive companies and/or companies in which the investment is negligible or companies under voluntary liquidation.

As of December 31, 2015, RDC had seven employees of which two are part time.

Based on its estimates at December 31, 2015, RDC believes that its existing resources are sufficient to fund its and its group companies' operations, and to fund any investments it may carry out in existing and new companies for at least the next 12 months.

2. Other Group Companies

- Aqwise Wise Water Technologies Ltd., or Aqwise, develops manufactures and provides biological water and wastewater treatment solutions for the industrial and municipal markets. We hold approximately 20% of Aqwise's outstanding share capital and approximately 18% of Aqwise's fully diluted share capital.
- Atlantium Technologies Ltd., or Atlantium, develops, manufactures and provides ultraviolet-based water disinfection solutions. We hold approximately 6% of Atlantium's outstanding share capital and approximately 5% of Atlantium's fully diluted share capital.
- 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. We hold approximately 21% of Notal Vision's outstanding share capital and approximately 18% of Notal Vision's fully diluted share capital. AMD is the leading cause of severe vision loss and blindness in adults over age 50 in the developed world, and destroys sharp, central vision, necessary for common tasks such as facial recognition, driving, reading, and watching television. (See Brown DM, et al. (2006). Ranibizumab versus verteporfin for neovascular age-related macular degeneration. *New England Journal of Medicine*. 355, 1432-1444; Slakter JS and Stur M. (2005). Quality of life in patients with age-related macular degeneration: Impact of the condition and benefits of treatment. *Survey of Ophthalmology*, 50, 263-273; Gehrs KM, et al. (2006). Age-related macular degeneration-emerging pathogenetic and therapeutic concepts. *Annals of Medicine*, 38, 450). There are two types of AMD, dry (non-neovascular) and wet (neovascular). Wet AMD accounts for 90% of the vision loss associated with AMD. (See Ferris FL, et al. (1984). Age-related macular degeneration and blindness due to neovascular maculopathy *Archives of Ophthalmology*, 102(11), 1640-1642). Notal Vision's product enables early identification of the onset of wet AMD and as a result, early treatment and preservation of eyesight. In the United States, there are approximately 9 million dry AMD patients who are at risk of developing wet AMD. Notal Vision began marketing its system in the United States and also received two current procedural terminology, or CPT, codes in the United States which came into effect in January 2015. During 2015, Notal Vision received reimbursement coverage approval from a regional Medicare carrier for use of its system. The approval covers the entire United States. The reimbursement amounts to \$74 per month per patient. At this stage, dry AMD patients are at high risk of developing wet AMD who received a doctor's prescription are eligible for insurance coverage. Notal Vision estimates this population at approximately 2.5 million people in the United States. The insurance coverage came into effect at the beginning of 2016. The insurer is expected to issue an update to doctors regarding the coverage by the end of the first quarter of 2016.

- Cartiheal is developing an implant for repairing cartilage and osteochondral defects in loadbearing joints, such as the knee. We hold approximately 35% of Cartiheal's outstanding share capital and approximately 28% of Cartiheal's fully diluted share capital, as of the date of publication this Annual Report. Between 2004 and 2011 approximately 2 million people in the United States underwent some sort of cartilage repair procedure in the knee (See McCormick et al (2014) and approximately 11 million US adults live with symptomatic knee osteoarthritis (See Weinstein et al (2013). Trends in the surgical treatment of articular cartilage lesions in the United States: An analysis of a large private-payer database over a period of 8 years, *Arthroscopy*, 30(2)). The Cartiheal implant has a unique structure, composed of calcium carbonate with hyaluronic acid. The implant biodegrades in the implantation site, and promotes the repair of the cartilage and subchondral bone. Currently, there is no existing treatment which has succeeded in regenerating natural cartilage and bone. Cartiheal is conducting a series of clinical trials at medical centers in Europe to evaluate the safety and efficiency of the implant in the treatment of traumatic and degenerative knee injuries. Trial results to date indicate an improvement in the pain level and repair of cartilage and bone in the implantation site. Through the date of the submission of this Annual Report, approximately 165 patients have been implanted with the Cartiheal implant. Cartiheal's implant is CE marked. During 2016 Cartiheal intends to conduct additional clinical trials in Europe in order to expand the implant's indication to the ankle and great toe.
- Coramaze is developing a minimally invasive device for the treatment of functional mitral valve regurgitation, reverse flow in the left side of the heart due to the expansion of the left ventricle that prevents the complete closure of the mitral valve. We hold approximately 17% of the issued and outstanding shares of Coramaze and approximately 17% on a fully diluted basis. Coramaze's device includes a mitral valve repair implant via catheterization with non-traumatic anchoring.
- Plymedia develops and provides digital advertising exchange platform services and solutions. We hold approximately 25% of Plymedia's outstanding share capital and approximately 19% of Plymedia's fully diluted share capital. Plymedia's revenues in 2015 amounted to \$34 million compared to \$20 million in 2014 and \$11 million in 2013.

C. Organizational Structure

As of December 31, 2015, DIC, an Israeli company, held approximately 50.32% of our total outstanding shares. In March 2009, we and DIC entered into a Services Agreement which agreement has been amended and extended until April 30, 2018. Pursuant to the agreement we receive managerial and administrative services from a staff employed by DIC. The annual services fee is approximately NIS6 million annually (approximately \$1.5 million), linked to the Israeli consumer price index as of 1 May 2016 in accordance with terms of the agreement. For additional information about DIC and the Services Agreement, see "Item 7—Major Shareholders and Related Party Transactions—Major Shareholders." For our holdings in our group companies, see the information in "Business Overview" above.

D. Property, Plants and Equipment

Our corporate headquarters and executive offices are located in Tel Aviv, Israel. These offices, which measure approximately 980 square meters, are leased at an annual rent of approximately \$0.4 million. We have made available a portion of our leased office space and other office facilities to RDC for an annual amount of approximately \$0.1 million.

We believe that our facilities are adequate for our operations as currently conducted. In the event that additional facilities are required, we believe that we could obtain them at commercially reasonable prices.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

Overview

We are an operational holding company actively involved in investing, building and enhancing companies operating in various technology fields, and increasing their value either through exit transactions or public offerings. Founded in 1962, we have been a major force in the development of the Israeli high technology industry by building companies with technologies in the fields of medical imaging, advanced defense electronics, telecommunications, semiconductors and software products and services. Our group companies currently comprise companies at various stages of development that are engaged in a variety of technology fields, such as the development of medical devices and others.

Technology fields in which our group companies operate are characterized by the high degree of risk inherent in their products, their continuous technological innovation and their penetration into world markets, which require investment of considerable resources and continuous development efforts. The future success of our group companies is dependent upon our group companies' (i) technological quality (ii) ability to successfully complete the development of their products and obtain regulatory approval, (iii) ability to successfully transition from development to manufacturing and from manufacturing to marketing, (iv) intellectual property and protection thereof, (v) prices and nature of their products in comparison to their competitors (vi) ability to introduce new products to the markets at the right time, while offering cost effective solutions suitable to their customers' needs (vii) ability to raise financing and the condition of the capital markets .

In order to assess fully the current state of our business, results of operations and capital resources, as well as our ability to realize upon our strategic goal, please see the discussion below regarding the effect on us and our group companies of current global economic developments.

Our goal is to build and realize value for our shareholders through the sale to third parties of a portion or all of our holdings in, or the issuance of shares by, our group companies, while simultaneously seeking opportunities, as appropriate to acquire or invest in new and existing companies at different stages of development including early stage and more mature companies. We believe that this strategy provides the ability to increase shareholder value as well as to create capital to support the growth of our group companies and to invest, as appropriate, in new opportunities. The nature of our business, therefore, may cause volatility in our results of operations, depending on the transactions that occur within a particular period.

Our strategy regarding investments in new and existing companies is based on the following principles:

1. Identifying and exploiting investment opportunities in companies with an innovative technology basis with significant exit potential, mainly in the field of medical devices.
2. Investing over the long term in companies with innovative technologies Focusing on investments which afford us influence and operational involvement.
3. Actively enhancing our group companies' value by taking an active role in their management, by means of the following: active membership on their boards of directors; hands-on assistance to their management; assistance in the advancement of their technology; forming strategic relationships, providing access to capital; providing development and operational guidance; business plan preparation; strategic planning; marketing; planning investments and budgets; finance; manning senior management positions; and overall ongoing monitoring of our group companies' performance.
4. Exploiting opportunities to exit group companies.

Within the framework of these principles and with the intention of continuing to invest in new companies, we examine a broad range of proposals for investment and strategic cooperation in a broad range of technology fields, including through RDC, in order to exploit the technology and/or knowhow and expertise of Rafael; through RDSeed which evaluates investments at early stages in the fields of cyber, information technology and enterprise software and through the cooperation with Incentive Management II Ltd. Recently, we have commenced looking for investments in companies developing cyber solutions. In 2015, we made our first investment in this field, with the investment by RDSeed in IronScales. It should be noted that our strategy allows us to take actions which deviate from the above principles in circumstances where our management believes that the specific circumstances justify such deviation.

Our net income (or loss) in any given period is due, for the most part, to the results of operations of those of our group companies which are accounted by us under the consolidation or equity method of accounting, the changes in fair value of those of our group companies which are accounted by us as investment measured at fair value through profit or loss and dispositions and changes in our holdings of group companies as well as impairment charges and headquarter costs.

As most of our 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, without further exit transactions, we have experienced, and expect to continue to experience, losses in respect of these companies to the extent they are accounted by us under the consolidation or equity method of accounting, as well as impairment charges for those investments in which the carrying amount will exceed the fair value.

Our capital resources in any given period are primarily affected by the extent of our investment in existing and new companies, the realization of certain holdings and available credit lines or loans, as well as the impact of any dividends or distributions to our shareholders and/or from our affiliates. As a holding company, our ability to increase or realize existing holdings or acquire new holdings is affected by the markets in which they operate and capital markets as well as by applicable regulatory limitations with respect to our group companies or companies whose shares we intend to acquire or realize.

The results of operations of our group companies, and consequently, our results of operations and capital resources, are affected by general economic conditions as well as by factors specifically related to the markets in which they operate and capital markets which significantly affect the ability of our group companies to raise financing and our ability to dispose of holdings and realize gains from our holdings.

Venture Capital Industry Status

The ability of our group companies, and our medical device companies in particular, to obtain financing is affected by developments and trends in the venture capital, or VC, industry. Our ability to exit companies, and in particular, medical device companies, is also affected by developments and trends in the VC industry.

The year 2015 was marked by vigorous VC investment activity, both in the U.S. and Israel. In the U.S., \$58.8 billion in venture capital was invested during 2015, making it the second highest full year total in the last 20 years. Likewise, 2015 saw the highest annual amount and number of financing rounds ever recorded in Israel, totaling \$4.43 billion. This heightened investment activity reflects an increase in available capital, that was felt across stage, with deals in all stages enjoying higher investment amounts per deal. In addition, there was an abundance of larger deals during 2015, with the number of megadeals (investments of \$100 million or more) in the U.S. increasing by 48% since 2014, and the number of large deals (investments of \$20 million or more) in Israel increasing by 62% since 2014.

The increase in available capital is partially explained by a more active role played by a more diverse mix of investors. In the U.S., corporate investors, seeking to fund innovation and facilitate their strategic goals, provided 13% of all investments in 2015, and participated in 21% of deals, primarily in early stage and late stage deals, where they were overrepresented. The increased presence of corporate investors was accompanied by strong fundraising activity by VC firms in the U.S., which although down 9% from 2014, was significantly higher than the amounts raised in 2012 and 2013 and higher than the 10-year average. In Israel, foreign investors continued to play a significant role, providing 85% of total capital invested in 2015. That said, Israeli VC funds also contributed to the increase in available capital, reflected in larger investment amounts, and in 18 new funds which together raised over \$1 billion.

Both in the U.S. and Israel, expansion and later stage companies represented about 45% of investment deals in 2015. Whereas in the U.S. early stage deals accounted for over half of all deals and seed stage deals just 6%, in Israel, deals in seed and early stages were equally represented, accounting for 27% and 29% of deals, respectively. In both the U.S. and Israel, first-time investments made up about a third of investments, while the latter were follow-on investments.

The high levels of VC investment activity seen in 2015 were not experienced by the U.S. medical device sector. Investments in this sector have been declining since 2009, and accounted for just 4% of amounts invested in 2015. In addition, and in contrast to the overall strong trend of financing for early stage deals in 2015, Series A financing round deals in this sector were down 43% from 2014. That said, the average deal size in 2015 was the highest in 5 years. These developments have been explained by a dwindling number of sources for investments, being raised by a smaller number of companies in later stages, reflecting, among other things, a desire on part of investors to invest in lower-risk, more established companies. In Israel, VC investment activity in the life sciences sector (which includes medical devices) remained stable in 2015, accounting for 22% of total capital invested.

Hand in hand with the increased investment activity in 2015 was a decline in IPOs, which in the U.S. were down 40% in capital raised compared to 2014. In Israel, IPO proceeds accounted for just 7% of exit proceeds in 2015, while the number of IPOs was down by more than half compared to 2014. This development has been attributed to the high availability of private financing sources at more favorable valuations, alongside a recent trend of companies to stay private longer and go public at more mature stages. The slow IPO activity in 2015 does not seem to have affected the medical device sector to the same degree – the number of IPOs in the U.S. was comparable to 2014, while in Israel proceeds from IPOs in this sector accounted for about a third of all IPO proceeds.

Overall M&A activity in the U.S. was also slow in 2015, which saw the slowest full year period for venture-backed M&A since 2009. By contrast, M&A activity in the U.S. medical device sector was on par with 2014 in terms of number of deals, while the median total deal value grew by almost 20%, mostly attributable to early-stage deals. Time to exit for these fell to a four-year low of 5.5 years, and for the first time since 2009, pre-FDA approved M&As outpaced FDA-approved M&As. While the median total deal value of M&As grew, the median upfront deal value declined, in line with the trend for earlier-stage M&As. Unlike the U.S., M&A activity in Israel grew, with proceeds in 2015 up by 30% from 2014. Over a half of acquirers were from the U.S., while almost a third were Israeli. The life science sector (which includes medical devices) accounted for just 2% of exit proceeds in 2015, compared with 6% in 2014.

[Sources: PwC/NVCA MoneyTree™ Report for 2015, Data: Thomson Reuters; Thomson Reuters & National Venture Capital Venture Association; IVC Research Center Online Database; IVC and KPMG Report: Summary of Israeli High-Tech Company Capital Raising Q4/2015; IVC and KPMG Report: Israeli Venture Capital Fund Raising – 2015; IVC-Meitar High-Tech Exits – 2015 Report; PwC Israel 2015 Hi-Tech Exits Report; Silicon Valley Bank: Trends in Healthcare Investments and Exits 2016; Ernst & Young, Pulse of the Industry: Medical Technology Report 2015]

Critical Accounting Policies

On January 6, 2010, further to the delisting of our shares from the NASDAQ (see above under: "Item 4 – Information on the Company"), we commenced reporting in accordance with the reporting obligations under the Israel Securities Law (1968) applicable to reporting companies in Israel which are not dual-listed. As a result, we changed our financial reporting principles from U.S. GAAP to International Financial Reporting Standards, as issued by the International Accounting Standards Board, or IASB (IFRS). As permitted under the Exchange Act and the regulations promulgated thereunder our consolidated financial statements were prepared in conformity with IFRS (without reconciliation to U.S. GAAP).

The preparation of our consolidated financial statements for the year ended December 31, 2009 were our first consolidated financial statements prepared in accordance with IFRS. Our significant accounting policies are more fully described in Note 2 in "Item 18 – Financial Statements".

Certain accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at that time. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Principles of accounting for holdings in group companies – basis of consolidation, equity method of accounting
- Business combinations and fair value adjustments
- Impairment of investments in group companies and financial assets

- Impairment of intangible assets
- Accounting for income taxes
- Provisions
- Financial assets including financial assets measured at fair value
- Fair value measurement of contingent consideration

Principles of Accounting for Holdings in Group Companies – basis of consolidation, equity method of accounting

Consolidation.

Companies over which we have control are accounted for under the consolidation method of accounting. Control is achieved when we are exposed, or have rights, to variable returns from our involvement with the investee and have the ability to affect those returns through our power over the investee. Potential voting rights are considered when assessing whether we have control, only when it is substantive. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Under the consolidation method, a controlled company's assets and liabilities are included within our consolidated statement of financial position and its income items, expense items and other comprehensive income items are included within our consolidated statement of income and consolidated statement of other comprehensive income. Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position. A transaction with the non-controlling interests which does not result with a loss of control, whether a sale or an acquisition, is accounted for as an equity transaction.

In a business combination achieved in stages, equity rights in the acquiree that had been previously held by the acquirer prior to obtaining control are measured at the acquisition date at fair value and included in the acquisition consideration by recognizing the gain or loss resulting from the fair value measurement, including amounts whose recognition in other comprehensive income was deferred. For every business combination the Company examines whether to measure non-controlling interests and goodwill on the basis of full fair value or according to the proportionate part acquired of the fair value of the identifiable assets, net on the date of acquisition.

When control over a company is lost, we measure and recognize our remaining investment at fair value. Any difference between the carrying amount of the investment in the former company under control as of the date on which control ceases and the fair value of any remaining investment and any consideration from disposal is recognized in profit or loss. If the remaining investment is subject to significant influence, it is treated as an investment in an associate under the equity method.

Equity Method. Companies over which we have significant influence or the ability to significantly influence the financial and operating policies, but not control over their operations as stated above, are considered associates, and are accounted for using the equity method of accounting. Our consolidated financial statements include our share of the income (loss) and other comprehensive income (loss) of associates, after adjustments required to align the accounting policies with those of ours, from the date that significant influence commences until the date that significant influence ceases or until the investment in associate is classified as held for sale in accordance with IFRS 5. When our share of losses exceeds our interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that we have an obligation to support the associate or have made payments on behalf of the associate, or have granted it loans or guarantees. When the Group loses its significant influence in an associate previously treated at equity, the remaining investment is revalued to its fair value on the date when significant influence is lost and is accounted for as an investment measured at fair value. The Group recognizes in profit or loss any difference between the fair value of any retained investment and any proceeds from disposing of the part interest in the associate, and the carrying amount of the investment at the date when significant influence is lost.

In circumstances where we invest in associates through a preferred security or other senior security, we recognize our share in the associate's gains or losses based on the ownership level of the particular associate's security or loan held by us to which the equity method is being applied.

For further discussion regarding our investments, see "Impairment of Investments in Group Companies" below. For further discussion regarding financial assets measured at fair value, see "Financial assets" below.

Business Combinations and Fair Value Adjustments

Business combinations are accounted for using the purchase method of accounting, under which the total purchase price is allocated to interest in the acquired company's assets and liabilities based on their estimated fair values, and the remainder, if any, is attributed to goodwill.

The aggregate purchase price of any investment accounted for under either the consolidation or the equity method of accounting is allocated to identifiable net assets, intangible assets other than goodwill, such as In-Process Research and Development, or IPR&D, and the residual value is allocated to goodwill. The amortization of amounts allocated to finite-lived intangible assets other than goodwill is calculated in accordance with the expected economic benefit from the assets in each period, on the basis of the estimated useful life of each group of assets.

Estimating the fair value of certain assets acquired and liabilities assumed is judgmental in nature and often involves the use of significant estimates and assumptions, mainly with respect to intangible assets. While there are a number of different methods for estimating the value of intangible assets acquired, the primary method we use is the discounted cash flow approach. Some of the more significant estimates and assumptions inherent in the discounted cash flow approach include projected future cash flows, including their timing, a discount rate reflecting the risk inherent in the future cash flows and a terminal growth rate. Another area which requires judgment that can impact our results of operations is estimating the expected useful lives of the intangible assets. To the extent intangible assets are ascribed with longer useful lives, there may be less amortization expenses recorded in any given period. As we and our group companies operate in industries that are rapidly evolving and extremely competitive, the value of the intangible assets, their respective useful lives and the investments in companies is exposed to future adverse changes that can result in a charge to our results of operations (see "Impairment of Investments in Group Companies and Financial Assets Carried at Amortized Cost" below).

Impairment of Investments in Group Companies and Financial Assets Carried at Amortized Cost

At the end of each reporting period, we assess whether there is any objective evidence of impairment of an investment in a group company that is not consolidated. This evaluation is judgmental in nature. Whenever events or changes in circumstances indicate that the carrying amount of the investment is not recoverable and the carrying amount of the investment exceeds its recoverable amount, the investment is written down to its recoverable amount by a charge to our results of operations. The recoverable amount is the higher of fair value less costs of sale and value in use.

An evaluation of fair value is dependent upon specific facts and circumstances. Factors that are considered by us in this determination include financial information (including, among others, budgets, business plans, projections and financial statements), the value at which independent third parties have invested or have committed to invest, and independent appraisals, if available. Evidence of impairment may include, among others, general market data, a decline in stock market prices, recurring operating losses, failure of research and development efforts, extremely negative deviation from the business plan, specific conditions affecting the investment, such as in the industry, and subsequent rounds of financing at an amount below the cost basis of the investment. This list is not all inclusive, and we weigh all quantitative and qualitative factors in determining if any objective evidence of impairment of an investment exists and a decline in value of an investment has occurred. As we operate in industries that are rapidly evolving and extremely competitive, it is possible that our estimates could change in the near term and there can be no assurance that an additional write-down or write-off of the carrying value will not be required in the future.

Examination of impairment in value of an investment in associates is made based on the overall investment. Accordingly, a loss recognized from impairment in value of an investment is not allocated specifically to goodwill included in the investment but, rather, it is allocated to the entire investment. Therefore, the full amount of the loss from impairment in value may be cancelled if the conditions required for cancellation exist.

In 2015 and 2014 we did not record any impairment charge. In 2013 we recorded income from a partial reversal of impairment with respect to our holdings in Enablene debentures in an amount of approximately \$3.5 million.

Impairment of Intangible Assets

Intangible assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its net selling price (fair value less selling expenses). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For purposes of testing impairment of identifiable assets, the assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, or the cash-generating unit. An impairment loss is recognized if the carrying amount of an asset or the cash-generating unit to which it relates exceeds the estimated recoverable amount. In the valuation of fair value we use judgment as to which is the most appropriate method to use for measuring fair value and as to what assumptions to use in implementing the methodology chosen. As we operate in industries that are rapidly evolving and extremely competitive, changes in the assumptions and estimates may affect the carrying value of the intangible assets, and could result in an additional impairment charge to our results of operations. As of December 31, 2015, consolidated intangible assets amounted to approximately \$17.4 million (approximately \$3.4 million and \$4.5 million as of December 31, 2014 and 2013, respectively).

Accounting for Income Taxes

At the end of each reporting period, we are required to estimate our income taxes. This process requires us to estimate our actual current tax liabilities and make an assessment of temporary differences resulting from differing treatment of items for tax and accounting purposes. In order to recognize deferred tax assets we must assess the likelihood that our net deferred tax assets will be realized through future taxable income to the extent we believe that realization is probable. Management judgment is required in determining our provision for income taxes and our deferred tax assets and liabilities and tax exposures. Our judgment as to the probability to realize our net deferred tax assets is largely based upon interpretations of certain tax laws and estimates and assumptions mainly with respect to our control over realization and returns on investments in our group companies in the near future.

The balance of total tax liabilities as of December 31, 2015 was \$3.3 million, as of December 31, 2014 was \$1.8 million (under line item other accounts payable in the statement of financial position), and as of December 31, 2013 was \$5.4 million. The tax liability as of December 31, 2013 includes a tax liability recorded by RDC in the amount of approximately \$4.1 million in respect of the temporary difference from RDC's investment in Given and in respect of the sale of Medingo attributed to RDC. This liability was partially set off by a deferred tax asset in the amount of approximately \$3.5 million in respect of RDC's carryforward losses that were expected to be utilized in 2014, due to the Given Merger.

In 2013, as a result of the Given Merger (see also Item 4.A), we recorded a deferred tax asset in the amount of \$29.0 million in respect of the temporary difference from the investment in Given Imaging and in respect of carryforward losses that were expected to be utilized in 2014, due to the gain from this transaction. In 2014, the entire deferred tax asset was accordingly utilized. As of December 31, 2015 and as of December 31, 2014 we did not recognize any deferred tax asset with respect to carryforward tax losses.

As of December 31, 2015, we and our subsidiaries had carryforward losses in Israel of approximately \$234 million in the aggregate.

Provisions

A provision is recognized when we have a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount of the obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

Financial assets

Initial recognition. Financial instruments are recognized initially at fair value plus any directly attributable transaction costs, unless they are subsequently measured at fair value.

Subsequent measurement. After the initial recognition, we measure our financial assets at amortized cost or at fair value, as follows:

Financial assets measured at amortized cost. In subsequent periods, a financial asset is measured at amortized cost, using the effective interest method while deducting any impairment losses, if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value. Financial assets that are equity instruments are measured in subsequent periods at fair value and the changes will be recognized in the statement of income or in other comprehensive income, in accordance with the election of the accounting policy on an instrument-by-instrument basis. If the equity instruments are held for trading, they must be measured at fair value through statement of income. Fair value of investments in equity instruments of private companies is usually measured using the Discounted Future Earnings Method, Company Security Transaction Method ("CSTM") and Option Pricing Model ("OPM"), see Note 7 in "Item 18 – Financial Statements".

With regard to financial assets measured at fair value through other comprehensive income, gains, losses and impairment are not recognized in the statement of income, even upon disposal. Changes in fair value of these assets are credited to "Reserve from financial assets measured at fair value through other comprehensive income". When we sell these assets, we classify the gain or loss in respect with the asset sold from the capital reserve into accumulated deficit.

Financial assets that are debt instruments, which are not measured at amortized cost, are measured in subsequent periods at fair value and the changes will be recognized in the statement of income.

Fair value measurement of contingent consideration. Fair value of contingent consideration from sale of a business which is expected to be received upon occurrence of certain future events or future revenues from certain products is initially recorded at fair value and is classified as a financial asset in accordance with IFRS 9. The contingent consideration is measured at fair value and subsequent changes in the fair value are recorded at profit or loss. Such fair value requires assumptions with respect to the occurrence and timing of future events and respective inflows, which may not be within our control. In 2015 we recorded financial assets in respect with the fair value of the contingent consideration in the amount of approximately \$6.2 million, which is expected to be received from the sale transactions of Kyma and Jordan Valley (see Note 7.C in "Item 18 – Financial Statements").

Basis of Presentation

Consolidation. Our consolidated financial statements include the accounts of Elron and the accounts of all of our direct or indirect (through DEP, RDC and RDSeed) controlled subsidiaries. The following are our main subsidiaries:

Year ended December 31,		
2015	2014	2013
RDC	RDC	RDC
RDSeed	RDSeed	SmartWave
Pocared ¹	Cloudyn ²	RDSeed
	POSE ³	Cloudyn ²
		POSE ³

¹ Consolidated since we obtained control in February 2015.

² Until we lost control in December 2015.

³ Consolidated since we obtained control in July 2013 and until we lost control in July 2015.

Equity Method. Our main group companies held by us or through DEP, RDC and RDSeed accounted for under the equity method of accounting include:

Year ended December 31,					
2015		2014		2013	
BrainsGate	Cloudyn ²	BrainsGate	Kyma ⁶	BrainsGate	PLYmedia
Cartiheal	Open Legacy ³	Cartiheal	Open Legacy ³	Cartiheal	Kyma ⁶
Coramaze ¹	IronScales ⁴	Pocared ⁵		Pocared ⁵	
PLYmedia		PLYmedia			

¹ Since initial investment in August 2015.

² Since we lost control in December 2015.

³ Since initial investment in May 2014.

⁴ Since initial investment in October 2015.

⁵ Until obtaining control in February 2015.

⁶ Until we sold the investment in September 2015.

Other investments measured at fair value:

Year ended December 31,		
2015	2014	2013
Aqwise	Aqwise	Aqwise
Atlantium	Atlantium	Atlantium
Notal Vision	Enablence ¹	Enablence ¹
	Jordan Valley ²	Jordan Valley ²
	Notal Vision	Notal Vision

¹ The entire share balance was sold during 2015.

² Until we sold the investment in November 2015.

A. Operating Results

Year Ended December 31, 2015 compared with Year Ended December 31, 2014 and Year Ended December 31, 2013

The following table sets forth the net results of our operations in the reported periods:

	Year ended December 31,		
	2015	2014	2013
	(millions of \$, except per share data)		
	Audited		
Income attributable to Elron's shareholders	2.5	85.5	17.9
Income per share attributable to Elron's shareholders	0.08	2.87	0.54

The net gain attributable to our shareholders is mainly comprised of: 1. our share in the losses of our group companies, 2. gains and losses from exit transactions, revaluation of investments, and changes in holdings, 3. corporate operating expenses and 4. tax benefit (taxes on income):**

	Year ended December 31,		
	2015	2014	2013
	(millions of \$)		
Losses in respect of group companies:			
Our share in net losses of group companies, net	(18.4)	(15.5)	(10.5)
Excess cost amortization	*	*	(4.0)
Revaluation (impairment) of investments in group companies and financial assets, net	-	(0.2)	3.5
Total	(18.4)	(15.7)	(11.0)
Gain from exit transactions, changes in holdings, and revaluation of investments (net of tax)	27.7	145.5	6.4
Corporate operating expenses	(4.6)	(5.1)	(5.4)
Tax benefit (taxes on income)	(1.7)	(37.6)	28.7
Other	(0.5)	(1.6)	(0.8)
Income attributable to Elron's shareholders	2.5	85.5	17.9

* Represents amount less than \$0.1 million.

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

Losses in respect of group companies:

Our share in the net losses of our group companies. As previously mentioned, most of our 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 intangibles assets as is permitted, according to accounting principles, only when technological feasibility has been established). Therefore, as our group companies increase their investments in order to develop their products and advance their business, they cause us to record greater losses in respect of our share in their losses.

The loss we recorded in 2015 and 2014 in respect of our share in the net losses of our group companies (net of non-controlling interests) resulted mainly from the losses of Pocared, RDSeed, BrainsGate and Cartiheal.

The loss we recorded in 2013 in respect of our share in the net losses of our group companies (net of non-controlling interest) resulted mainly from the losses of Pocared, BrainsGate, Cartiheal and RDSeed and it was partially offset by our share of the net profit of Given Imaging.

Excess cost amortization. We record amortization expenses in respect of excess cost attributed to investments in group companies, which are usually generated upon investment in such companies. Excess cost amortization expenses in 2015 and 2014 were recorded primarily in respect of excess costs attributed to RDSeed's holding in Cloudyn. Excess cost amortization expenses in 2013 were recorded primarily in respect of excess costs attributed to our holding in Given Imaging.

Impairment charges of investments in group companies and financial assets. At each reporting date we examine whether there is any evidence that would indicate that our investment in our group companies and financial assets is impaired.

In 2015 we did not record any impairment charges in respect of investments in group companies and financial assets.

In 2014, we recorded an impairment charge in the amount of approximately \$0.2 million in respect of the technology recognized as an asset when we gained control over POSE P.O.S Ltd. ("POSE").

In 2013, as a result of a settlement agreement with Enablence, we recorded a net gain in the amount of approximately \$3.5 million in respect of a partial cancellation of the impairment recognized in 2011. In 2013 we did not record any impairment charges in respect of investments in group companies and financial assets.

Gain (Loss) from exit transactions, changes in holdings, and revaluation of investments:

Gains and losses from exit transactions, changes in holdings, and revaluation of investments recorded at fair value in 2015 resulted mainly from:

- An approximately \$9.0 million net gain (net of non-controlling interest) from the sale of Kyma (\$10.6 million gain before tax);
- An approximately \$10.1 million gain due to the initial consolidation of Pocared;
- An approximately \$4.0 million gain from the increase in the fair value of the investment in Jordan Valley until its sale;
- An approximately \$2.4 million gain (net of non-controlling interest) due to the loss of control in Cloudyn;

Gains and losses from exit transactions, changes in holdings, and revaluation of investments recorded at fair value in 2014 resulted mainly from:

- An approximately \$144.5 million gain (net of non-controlling interest) from the Given Merger (approximately \$106.8 million gain, net of tax);
- An approximately \$1.9 million gain from an increase in the fair value of the investment in Notal Vision;
- An approximately \$1.4 million loss from a decrease in the fair value of the investment in Jordan Valley;

Gains and losses from exit transactions, changes in holdings, and revaluation of investments recorded at fair value in 2013 resulted mainly from:

- An approximately \$3.4 million gain from an increase in the fair value of the investment in Notal Vision;
- An approximately \$3.3 million gain (net of non-controlling interest) from a decrease in our holding in Given Imaging as a result of options granted to Given Imaging employees having been exercised or having expired;
- An approximately \$1.7 million gain (net of non-controlling interest) from the decrease in holding and the loss of control in Kyma;
- An approximately \$1.8 million loss from a decrease in the fair value of the investment in Jordan Valley.

Corporate operating expenses:

Corporate operating expenses mainly include general and administrative expenses.

The decrease in corporate operating expenses in 2015 as compared with 2014 was mainly due to a decrease in payroll expenses due to the termination of the Company's former chairman's employment and due to a change in the NIS-USD exchange rate. The decrease in the corporate expenses in 2014 compared to 2013 resulted primarily from the decrease in the bonus amounts to our officers in accordance with our compensation policy. See Item 6B – Directors, Senior Management and Employees – "Compensation".

Tax benefit (taxes on income):

Taxes on income in 2015 are attributable primarily to Elron's share in taxes on income recorded by RDC due to the sale of Kyma. Taxes on income in 2014 resulted primarily from the Given Merger and included approximately \$29.0 million with respect to the utilization of the tax asset we recorded in 2013 and approximately \$7.5 million (net of non-controlling interests) with respect to current tax expenses recorded by RDC. Tax benefit in 2013 resulted primarily from recording a deferred tax asset of approximately \$29 million with respect to temporary differences related to the investment in Given Imaging and with respect to tax losses carry forward which were likely to be utilized in 2014, due to the gain from the Given Merger. This amount was partially offset by tax liability recorded by RDC of approximately \$0.6 million with respect to a temporary difference in the investment in Given Imaging for tax and accounting purposes.

The following table summarizes our annual consolidated statements of profit and loss:

	Year ended December 31,		
	2015	2014	2013
	(millions of \$)		
	Audited		
Income from sales	0.9	0.4	0.1
Gain from disposal and revaluation of group companies, and changes in holdings, net	40.6	176.1	8.4
Financial income	1.1	0.9	0.7
Total income	42.6	177.4	9.2
Cost of sales	0.3	0.1	0.1
Research and development expenses, net	13.1	2.1	3.9
Selling and marketing expenses	2.0	1.4	0.5
General and administrative expenses	7.6	7.1	7.2
Equity in losses of associates, net	8.5	15.8	11.9
Financial expenses	0.7	3.4	0.6
Other expenses (income), net	-	0.8	(3.5)
Total costs and expenses	32.2	30.7	20.7
Income (Loss) before taxes on income	10.4	146.7	(11.5)
Tax benefit (taxes on income)	(3.4)	(45.3)	28.4
Net Income	7.0	101.4	16.9
Income attributable to the Company's shareholders	2.5	85.5	17.9
Income (loss) attributable to non-controlling interest	4.5	15.9	(1.0)
Basic and diluted income per share attributable to the Company's shareholders (in \$)	0.08	2.87	0.54

Income

Income from Sales. Income from sales includes revenues of Cloudyn, which increased the number of its customers and the average price it charged its customers in 2015 and 2014.

Gains from Disposal and Revaluation of Group Companies and Changes in Holdings, net. In 2015, gains from disposal and revaluation of group companies and changes in holdings, net, amounted to \$40.6 million, which resulted primarily from: the \$10.1 million gain due to the initial consolidation of Pocared; the \$21.1 million net gain from the sale of Kyma; the \$4.0 million gain from the increase in the fair value of the investment in Jordan Valley, until its sale; the \$4.7 million gain due to the loss of control over Cloudyn; the \$0.3 million gain from the increase in the fair value of the investment in Notal Vision and the \$0.2 million gain from the increase in the fair value of the investment in Aqwise.

In 2014, gains from disposal and revaluation of group companies and changes in holdings, net, amounted to \$176.1 million, which resulted primarily from: the \$175 million from the completion of the Given Merger; the \$1.9 million gain from the increase in the fair value of the investment in Notal Vision; the \$1.4 million loss from a decrease in the fair value of the investment in Jordan Valley and the \$0.5 million gain from the increase in the fair value of the investment in Aqwise.

In 2013, gains from disposal and revaluation of group companies and changes in holdings, net, amounted to \$8.4 million, which resulted primarily from: the \$4.1 million gain from a decrease in our holding in Given Imaging as a result of options granted to Given Imaging employees having been exercised or having expired; the \$3.4 million gain from the increase in the fair value of the investment in Notal Vision; the \$2.8 million gain from the decrease in holding and the loss of control in Kyma; and a \$1.7 million loss from a decrease in the fair value of the investment in Jordan Valley.

Financial Income. The financial income in 2015 amounted to \$1.1 million and resulted mainly from interest income on bank deposits, and debentures. Financial income amounted in 2014 to \$0.9 million and in 2013 to \$0.7 million and resulted mainly from interest income on deposits.

Expenses

Cost of sales. The increase in cost of sales is a result of the increase in Cloudyn's sales.

Operating expenses. Operating expenses were comprised mainly of research and development expenses, net, sales and marketing expenses, and general and administrative expenses of our and our subsidiaries' corporate operations:

	Year ended December 31,		
	2015	2014	2013
	(millions of \$)		
Corporate	4.6	5.1	5.5
RDC	1.7	1.5	1.5
RDSeed ¹	3.8	3.9	1.9
Pocared	12.5	-	-
Other ²	-	-	2.8
	22.6	10.5	11.7

¹ Includes also the operating expenses of RDSeed's consolidated companies.

² In 2013 includes Kyma, which ceased being a consolidated company in the fourth quarter of 2013 and Smartwave Medical Ltd., which ceased its operations in the fourth quarter of 2013.

Corporate: The decrease in the corporate expenses in 2015 compared to 2014 resulted primarily due to a decrease in payroll expenses due to the termination of our former Chairman's employment and due to a change in the NIS-USD exchange rate. The decrease in 2014 compared to 2013 resulted primarily from the decrease in the bonus amounts to our officers in accordance with our compensation policy. See Item 6B – Directors, Senior Management and Employees – "Compensation.

RDC: The increase in 2015 compared with 2014 resulted primarily from an increase in payroll expenses due to changes in RDC's workforce.

RDSeed: The decrease in 2015 compared with 2014 resulted primarily from a decrease in the operating expenses of POSE, whose operations were downsized in 2015 and which ceased being a consolidated company. This decrease was partially offset by an increase in Cloudyn's operating expenses, due to an increase in its operations. The increase in 2014 compared with 2013 resulted primarily from an increase in the operating expenses of Cloudyn due to the increase in its operations and from the operating expenses of POSE, which has been consolidated since the third quarter of 2013. The increase in the operating expenses was partly offset by a decrease in the R&D expenses of Cemmerce, an in-house project in which RDSeed ceased investing during 2013, and a decrease in RDSeed's workforce.

Pocared: The operating expenses for 2015 displayed in the table are Pocared's expenses for the period commencing from Pocared's initial consolidation date (February 2015) and until the end year. Pocared's operating expenses for 2015 in full and for 2014 and 2013 were \$13.7 million, \$10.3 million and \$10.6 million, respectively. The increase in the operating expenses resulted primarily from the progress in its trial and sample collection.

Equity in net losses of associates. Our share of net losses of associates resulted from our holdings in certain investments that are accounted for under the equity method (see above under "Basis Of Presentation"). Our share of net losses of associates amounted to \$8.6 million in 2015 compared with \$15.8 million in 2014 and \$11.9 million in 2013. The decrease in our share in the net losses of associates in 2015 compared with 2014 resulted primarily from the initial consolidation of Pocared's operating results commencing February 2015, instead of recording Pocared's losses based on the equity method of accounting. The increase in 2014 compared with 2013 resulted primarily from an increase in our share in Pocared's losses due to an increase in our share in Pocared's financing. Also, our share in the losses of our associates in 2013 was partially offset by our share in Given's profits, which was sold, and therefore did not contribute to this item in 2014.

We expect that most of our group companies will continue to recognize losses in future periods, as they invest significant resources in research and development and sales and marketing activities and have not yet generated significant revenues, if at all. Our results of operations will therefore be affected by the extent of our share of their net losses (to the extent they are reported under the equity or consolidation method of accounting).

Highlights of the Results of Operations of Our Main Associate:

BrainsGate reported the following operating results (according to IFRS):

	Year ended December 31, 2015 <u>(millions of \$)</u>	Increase (Decrease) <u>%</u>	Year ended December 31, 2014 <u>(millions of \$)</u>	Increase (Decrease) <u>%</u>	Year ended December 31, 2013 <u>(millions of \$)</u>
Loss attributable to shareholders	6.2	3.5	6.0	(6.5)	6.4

BrainsGate is in the development stage and has not yet commenced sales. BrainsGate's loss mainly results from research and development expenses. The increase in loss in 2015 compared with 2014 resulted mainly from an increase in share based payments expenses, due to recapitalization of BrainsGate's equity, as part of the investment agreement from January 2015 (see Note 3.B.4.b) in "Item 18 – Financial Statements") and from currency fluctuations. The change in loss between the years 2014 and 2013 was mainly due to a change in patient recruitment for the FDA trial BrainsGate is conducting.

Highlights of the Results of Operations of Our Subsidiaries:

Income and losses of material consolidated and material associate companies directly held by us, for the year ending December 31, 2015 (with respect to 100% of the applicable companies and not only our shareholding therein)

	<u>Comprehensive income</u>			<u>Interest</u>	
	<u>Income (loss)</u>	<u>Other Comprehen- sive income</u>	<u>Dividend income</u>	<u>Interest income</u>	<u>Date received</u>
	<u>(millions of \$)</u>				
Subsidiaries:					
RDC	15.2	-	-	-	-
Pocared (1)	(13.4)	-	-	0.1	2017
Associates:					
BrainsGate	(6.2)	-	-	-	-
Cartiheal	(2.7)	-	-	-	-
Coramaze (2)	(1.4)	-	-	-	-
Plymedia	0.9	-	-	-	-

(1) In February 2015, Pocared ceased being an associate and became a consolidated company.

(2) In August 2015 we invested in Coramaze for the first time. The data presented in the table is from the date of initial investment.

Income and losses of a consolidated company held through RDC for the year ending December 31, 2015

	Comprehensive income			Interest	
	Income	Other Comprehen- sive income	Dividend income	Interest income	Date received
	(millions of \$)				
RDSeed	0.8	-	-	-	-

Income and losses of material associate companies held through RDSeed for the year ending December 31, 2015

	Comprehensive income			Interest	
	Loss	Other Comprehen- sive income	Dividend income	Interest income	Date received
	(millions of \$)				
Associates:					
Cloudyn (1)	(2.9)	-	-	-	-
Open Legacy	(1.8)	-	-	*)	2017
IronScales (2)	(0.2)	-	-	-	-

*) Represents amount less than \$0.1 million.

(1) In December 2015, Cloudyn ceased being a consolidated company and became an associate.

(2) In October 2015 we invested in IronScales for the first time. The data presented in the table is from the date of initial investment

Financial Expenses. Financial expenses amounted in 2015 to \$0.6 million compared with \$3.4 million in 2014 and \$0.6 million in 2013. The financial expenses in 2015 resulted mainly from changes in the fair value of marketable investments measured at fair value and USD exchange rate fluctuations, mainly with respect to shekel financial assets held by RDC. The financial expenses in 2014 resulted mainly from exchange rate fluctuations with respect to shekel bank deposits held by RDC and also commissions with respect to the loan drawn under the credit line agreement with Silicon Valley Bank (the loan was repaid in 2014). The financial expenses in 2013 resulted mainly from interest on the loan drawn down under the credit line agreement with Silicon Valley Bank, and from commissions and other expenses related to this credit line.

Other Expenses (Income), net. Other expenses (income), net, amounted to an immaterial amount in 2015 compared with 0.8 million in 2014 and (\$3.5) million in 2013. Other expenses in 2014 resulted primarily from an impairment charge in the amount of approximately \$0.8 million in respect of the technology recognized as an asset when we gained control over POSE. Other income in 2013 resulted primarily from a gain from the settlement agreement with Enablece.

Taxes on Income (Tax Benefit). Tax expenses in 2015 resulted primarily from the sale of Kyma. Tax expenses in 2014 resulted primarily from the gain that was recorded due to the completion of the Given Merger and included \$29.0 million from the reversal of a tax asset recorded in 2013, and current tax expenses in the amount of \$14.8 million recorded by RDC due to the completion of the Given Merger. Tax benefit in 2013 resulted primarily from recording a deferred tax asset of approximately \$29 million with respect to temporary differences related to the investment in Given Imaging and with respect to tax losses carry forward which were likely to be utilized in 2014, due to the gain from the Given Merger. This amount was partially offset by tax liability recorded by RDC of approximately \$0.6 million with respect to a temporary difference in the investment in Given Imaging for tax and accounting purposes.

Income (Loss) attributable to non-controlling interest. The income attributable to non-controlling interest loss results mainly from the share of the non-controlling interest in RDC's results.

In 2015 the net income attributable to non-controlling interest resulted mainly from the share of the non-controlling interest in the gain from the sale of Kyma, the gain recorded from loss of control over Cloudyn and the current loss recorded by RDC in respect of the losses of its subsidiaries. In 2014 this net income included mainly the share of the non-controlling interest in RDC in the gain RDC recorded due to the completion of the Given Merger.

Quarterly Results

The following tables set forth the net results of our operations in the reported periods:

	Year ended	Three months ended			
	December 31, 2015	March 31, 2015	June 30, 2015	September 30, 2015	
(millions of \$, except per share data)					
	Audited	Unaudited			
Income (loss) attributable to our shareholders	2.5	4.9	(5.2)	6.3	(3.5)
Income (loss) per share attributable to our shareholders	0.08	0.17	(0.18)	0.21	(0.12)

	Year ended	Three months ended			
	December 31, 2014	March 31, 2014	June 30, 2014	September 30, 2014	
(millions of \$, except per share data)					
	Audited	Unaudited			
Income (loss) attributable to our shareholders	85.5	101.8	(4.0)	(4.2)	(8.1)
Income (loss) per share attributable to our shareholders	2.87	3.42	(0.13)	(0.14)	(0.27)

As previously mentioned, the net gain and loss attributable to our shareholders mainly comprises of: 1. our share in the losses of our group companies, 2. gains and losses from exit transactions, revaluation of investments, and changes in holdings, 3. corporate operating expenses and 4. tax benefit (taxes on income):*

	Three months ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
(millions of \$)				
	Unaudited			
Losses in respect of group companies:				
Our share in net losses of group companies, net	(4.0)	(4.9)	(4.9)	(4.6)
Excess cost amortization	**	**	**	**
Impairment of investments in group companies and financial assets, net	-	-	-	-
Total	(4.0)	(4.9)	(4.9)	(4.6)
Gain from exit transactions, changes in holdings, and revaluation of investments	10.1	*	14.4	3.1
Corporate operating expenses	(0.9)	(0.8)	(0.9)	(2.0)
Taxes on income	-	-	(1.6)	(0.1)
Other	(0.3)	0.5	(0.7)	0.1
Income (loss) attributable to our shareholders	4.9	(5.2)	6.3	(3.5)

	Three months ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	(millions of \$)			
	Unaudited			
Losses in respect of group companies:				
Our share in net losses of group companies, net	(3.8)	(4.6)	(3.4)	(3.7)
Excess cost amortization	-	-	**	**
Impairment of investments in group companies and financial assets, net	-	-	-	(0.2)
Total	(3.8)	(4.6)	(3.4)	(3.9)
Gain (loss) from exit transactions, changes in holdings, and revaluation of investments	144.5	1.0	0.9	(0.8)
Corporate operating expenses	(1.1)	(1.0)	(1.1)	(1.9)
Tax benefit (taxes on income)	(37.6)	0.4	0.3	(0.6)
Other	(0.2)	0.2	(0.8)	(0.9)
Income (loss) attributable to our shareholders	101.8	(4.0)	(4.2)	(8.1)

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

** Represents amount less than \$0.1 million.

Our share in the net losses of group companies. The loss we recorded in the fourth quarter of 2015 in respect of our share in the net losses of our group companies (net of non-controlling interest) resulted mainly from the losses of Pocared, RDSeed, BrainsGate and Cartiheal. The loss we recorded in the fourth quarter of 2014 in respect of our share in the net losses of our group companies (net of non-controlling interest) resulted mainly from the losses of Pocared, RDSeed, BrainsGate and Cartiheal.

Impairment charges of investments in group companies and financial assets. In 2015 no impairment charges, or its cancellation, were recorded. In the fourth quarter of 2014, we recorded an impairment charge in the amount of approximately \$0.2 million in respect of the technology recognized as an asset when we gained control over POSE.

Gain (Loss) from exit transactions, changes in holdings, and revaluation of investments. The gains and losses from exit transactions, changes in holdings, and revaluation of investments recorded at fair value in the fourth quarter of 2015 resulted mainly from the \$2.4 million gain (net of non-controlling interest) from the loss of control in Cloudyn, the \$0.2 million gain from the increase in the fair value of the investment in Aqwise and the \$0.3 million gain from a increase in the fair value of the investment in Notal Vision.

The gains and losses from exit transactions, changes in holdings, and revaluation of investments recorded at fair value in the fourth quarter of 2014 resulted mainly from the \$0.5 million gain from the increase in the fair value of the investment in Aqwise and the \$1.4 million loss from a decrease in the fair value of the investment in Jordan Valley.

The following tables summarize our quarterly consolidated statements of profit and loss:

	Year ended	Three months ended			
	December 31, 2015	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
	Audited	Unaudited			
		(millions of \$)			
Income from sales	0.9	0.2	0.2	0.3	0.2
Gain from disposal and revaluation of group companies, and changes in holdings, net	40.6	10.1	0.1	24.6	5.8
Financial income	1.1	0.4	1.6	0.3	0.4
Total income	42.6	10.7	1.9	25.2	6.4
Cost of sales	0.3	*	0.1	0.1	0.1
Research and development expenses, net	13.1	1.6	3.8	4.0	3.7
Selling and marketing expenses	2.0	0.4	0.6	0.5	0.5
General and administrative expenses	7.6	1.5	1.8	1.5	2.8
Equity in losses of associates, net	8.5	3.4	1.8	1.8	1.5
Financial expenses	0.7	0.6	*	1.6	0.1
Other expenses (income), net	*	-	*	*	*
Total costs and expenses	32.2	7.5	8.1	9.5	8.7
Income (loss) before taxes on income	10.4	3.2	(6.2)	15.7	(2.3)
Tax expenses	(3.3)	*	*	(3.1)	(0.2)
Net income (loss)	7.1	3.2	(6.2)	12.6	(2.5)
Income (loss) attributable to our shareholders	2.5	4.9	(5.2)	6.3	(3.5)
Income (loss) attributable to non-controlling interest	4.6	(1.7)	(1.0)	6.3	1.0
Basic and diluted income (loss) per share attributable to our shareholders	0.08	0.17	(0.18)	0.21	(0.12)

	Year ended	Three months ended			
	December 31, 2014	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	Audited	Unaudited			
	(millions of \$)				
Income from sales	0.4	0.1	0.1	0.1	0.1
Gain (loss) from disposal and revaluation of group companies, and changes in holdings, net	176.1	175.0	1.0	0.9	(0.8)
Financial income	0.9	0.1	0.6	0.3	0.2
Total income	177.4	175.2	1.7	1.3	(0.5)
Cost of sales	0.1	*	*	*	*
Research and development expenses, net	2.1	0.4	0.5	0.5	0.7
Selling and marketing expenses	1.4	0.2	0.4	0.3	0.4
General and administrative expenses	7.1	1.5	1.4	1.7	2.4
Equity in losses of associates, net	15.8	3.8	4.5	3.7	3.9
Financial expenses	3.4	0.1	*	2.2	1.5
Other expenses, net	0.8	-	*	-	0.8
Total costs and expenses	30.7	6.0	6.8	8.4	9.7
Income (Loss) before taxes on income	146.7	169.2	(5.1)	(7.1)	(10.2)
Tax benefit (tax expenses)	(45.3)	(45.2)	0.4	0.2	(0.8)
Net income (loss)	101.4	124.0	(4.7)	(6.9)	(11.0)
Income (Loss) attributable to our shareholders	85.5	101.8	(4.0)	(4.2)	(8.1)
Income (Loss) attributable to non-controlling interest	15.9	22.2	(0.7)	(2.7)	(2.9)
Basic and diluted income (loss) per share attributable to our shareholders	2.87	3.42	(0.13)	(0.14)	(0.27)

* Represents amount less than \$0.1 million.

B. Liquidity and Capital Resources

Financial Position

	As of December 31,	
	2015	2014
	(Audited)	
	(millions of \$)	
Total assets in the consolidated statement of financial position	214.9	197.8
Current assets	151.1	160.4
Investments in associate companies and other companies	34.9	33.9
Long-term receivables	10.4	-
Intangible assets, net	17.4	3.4
Current liabilities	6.4	5.0
Long-term liabilities	2.1	-
Total liabilities	8.5	5.0
Consolidated equity	206.4	192.8

Shareholders' equity including non-controlling interest at December 31, 2015, was approximately \$206.4 million, representing approximately 96% of the total assets as reflected in the statement of financial position, compared with \$192.8 million at December 31, 2014, representing approximately 97% of total assets as reflected in the statement of financial position. The increase in equity resulted mainly from the gain recorded and the increase in non-controlling interests following the initial consolidation of Pocared, from the gain recorded due to the sale of Kyma and Jordan Valley and from the gain recorded due to loss of control over Cloudyn. This increase was partially offset by Elron's share in losses of associates.

Consolidated working capital at December 31, 2015 amounted to \$144.7 million compared with \$155.4 million at December 31, 2014. The decrease in working capital resulted mainly from the decrease in the liquid resources due to investments in subsidiaries and associates during 2015. The decrease was partially offset by the receipt of the consideration from the sale of Kyma and Jordan Valley.

The increase in intangible assets resulted mainly from a \$14.4 million increase resulting from the initial consolidation of Pocared in February 2015.

The increase in long term receivables resulted mainly from the contingent consideration and escrow deposits received in the sale of Kyma and Jordan Valley.

With respect to the claim against Elron and others in connection with the sale of the shares of Elscint in 1999, and the provision in our financial statements of an immaterial amount in order to cover the financial resources that may be required of us in order to expunge the claim, if any, see note 14.A in "Item 18 – Financial Statements". The costs in connection with litigating the claim are unknown and there is no certainty as to the amount of financial resources which would be required to order to expunge the claim.

Our and RDC's primary cash flows ¹

	Year ended		Three months ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	Audited		Unaudited	
	(millions of \$)			
Investments in our, RDC's and RDSeed's group companies	(30.2)	(15.9)	(8.2)	(0.5)
Proceeds received from disposal of our and RDC's non-current investments	27.7	287.2	10.9	0.1
Taxes paid, net	(1.7)	(19.5)	(1.7)	(1.2)
Repayment of our debt	-	(4.0)	-	-
Dividend distributed by Elron	-	(110.0)	-	-

¹ The amounts presented include RDC's and RDSeed's cash flows in full (100%) in addition to our cash flows, but do not include the cash flows of their subsidiaries.

Liquid resources balance

Consolidated liquid resources at December 31, 2015 amounted to \$150.2 million (including short term bank deposits and other investments in securities in the total amount of approximately \$98.2 million), compared with \$159.9 million at December 31, 2014 (including short term bank deposits in the amount of approximately \$93.9 million).

Elron's and RDC's non-consolidated liquid resources at December 31, 2015 amounted to \$76.2 million and \$69.8 million, respectively (Elron's and RDC's liquid resources as of December 31, 2015 included short term bank deposits and other investments in securities in the total amount of approximately \$62.3 million and \$36.0 million, respectively). Elron's and RDC's non-consolidated liquid resources at December 31, 2014 amounted to \$93.4 million and \$63.1 million, respectively (as mentioned above Elron's and RDC's liquid resources as of December 31, 2014 included short term bank deposits in the amount of approximately \$60.4 million and \$33.6 million, respectively).

Uses of cash

The main uses of cash in 2015 were investments and loans to Group Companies in the amount of \$24.4 million by us, and \$5.8 million by RDC. Also, cash was used to pay corporate and RDC's operating expenses, as detailed above.

The main uses in cash in 2014 were a dividend distribution to the Company's shareholders in the amount of \$110 million, and investments in Group Companies in the amount of \$11.1 million, by us, and \$4.9 million, by RDC. Also, we repaid our entire debt to Silicon Valley Bank in the amount of \$4.0 million and in addition cash was used to pay corporate and RDC's operating expenses, as detailed above under "Operating Results". In addition, during 2014 we and RDC deposited approximately \$60 and \$33.6 million, respectively, in bank deposits for a period of four to fifteen months.

Investments in group companies during 2015 and 2014 are detailed in the following table (for additional details see Note 3 in "Item 18 – Financial Statements"):

	Elron		RDC	
	2015	2014	2015	2014
	(millions of \$)			
	Audited			
Consolidated companies¹				
Pocared ²	11.6	9.9	-	-
	11.6	9.9	-	-
Associates and other investments				
Cloudyn ³	-	-	2.0	1.0
BrainsGate	3.3	-	-	-
Kyma ⁴	-	-	1.6	1.3
Cartiheal	6.7	-	-	-
Notal Vision	0.6	1.0	-	-
Coramaze	2.0	-	-	-
Open Legacy	-	-	1.1	1.0
IronScales	-	-	0.8	-
Other	0.2	0.2	0.3	1.6
	12.8	1.2	5.8	4.9
Total investments	24.4	11.1	5.8	4.9

¹ The amounts exclude RDC's investment in RDSeed in 2015 in the amount of \$4.8 million and in 2014 in the amount of \$5.0 million. These investments do not affect the cash included in the consolidated financial statements.

² Consolidated since we obtained control in February 2015.

³ In December 2015, ceased being a consolidated company and became an associate.

⁴ In September 2015 the sale of Kyma was completed.

On March 10, 2016, our Board of Directors resolved, to make an application to the Court for a dividend distribution of US \$15 million (constituting a figure of US \$0.504307 per share) not out of our profits. Such dividend distribution is subject to the Court approval pursuant to Section 303 of the Companies Law. See "Item 8. Financial Information – Dividend Policy" for more information.

Subsequent to December 31, 2015 and through the date of the filing of this Annual Report, we and RDC invested the following amounts:

	2016	
	Elron	RDC
	(millions of \$)	
	Unaudited	
<u>Consolidated companies</u>		
Pocared	4.5	-
	4.5	-
<u>Associates and other investments</u>		
Open Legacy	-	0.7
Notal Vision	1.0	-
Other	0.2	-
	1.2	0.7
Total investments	5.7	0.7

Proceeds from the disposal of non-current investments

Proceeds we and RDC received from the disposal of non-current investments in 2015 mainly included: proceeds RDC received in the amount of approximately \$15 million (net of tax), in addition to an escrow deposit in the amount of approximately \$2.2 as a result from the sale of Kyma and proceeds we received in the amount of approximately \$11 million, in addition to an escrow deposit in the amount of approximately \$1.3 as a result from the sale of Jordan Valley.

Proceeds we and RDC received from the disposal of non-current investments in 2014 mainly included: proceeds we received in the amount of \$204 million and approximately \$61 million (net of tax), respectively, as a result of the completion of the Given Merger, and; proceeds RDC received in the amount of \$3.1 million from its share in the release of the deposit that was held in escrow in connection with the sale of Sync-Rx Ltd. that was completed in November 2012.

We believe that our existing capital sources will be sufficient to fund our and our subsidiaries' operations, and to fund any investments we may carry out in existing and new companies for at least the next twelve months.

Our main group companies' cash flows¹

	Cash flows used in operating activities for the year ended December 31,		Cash balance as of December 31,		Note in "Item 18 – Financial Statements"
	2015	2014	2015	2014	
	(audited)				
	(millions of \$)				
BrainsGate ²	(5.4)	(6.3)	8.3	2.9	3.B.4.b)
Pocared	(13.0)	(9.7)	2.0	2.4	3.A.3.b)

¹ See "Item 4.B – Business Overview" for details on the criteria for classifying a group company as a main company.

² In accordance with U.S. GAAP.

Qualitative and Quantitative Disclosure About Market Risk

Market risks

Market risks relating to our operations result primarily from changes in interest rates, exchange rates, the consumer price index, and equity prices. In addition, we are indirectly exposed to market risks relating to the operations of our group companies. In order to limit our and our subsidiaries' exposure, we and our subsidiaries may enter, from time to time, into various derivative transactions. We do not use derivative financial instruments for trading purposes. It is our policy and practice to use derivative financial instruments only to limit exposure. The handling of financial exposures, formulation of hedging strategy, supervision over, execution and provision of an immediate response to extraordinary developments in the various markets, is under the responsibility of the Chief Financial Officer, who acts in consultation with the Chief Executive Officer and members of the audit committee and the investment committee. An update regarding the implementation of our policy is presented to the members of the audit committee on a quarterly basis and an investment committee meeting is held at least twice a year. We do not determine the risk management policy for our group companies. We and our subsidiaries did not have material derivatives positions as of December 31, 2015 and December 31, 2014.

Interest Rate Risks. We and our group companies are exposed to market risks resulting from changes in interest rates, relating primarily to our and RDC's deposits. As a part of our risk management, we invest a portion of our liquid resources in U.S. dollar Lybor-linked debentures. As of the date of publication of this Annual Report, we and RDC do not use derivative financial instruments to limit exposure to interest rate risk. At December 31, 2015, we and RDC had no external debt.

Exchange Rate Risk. Since most of our group companies have operations in Israel, our main exposure, if any, results from changes in the exchange rate between the New Israeli Shekel and the U.S. dollar. Our functional currency, as well as that of most of our group companies, is the U.S. dollar. Our policy is to reduce exposure to exchange rate fluctuations by having, to the extent possible, most of our and our group companies' assets and liabilities, as well as most of the revenues and expenditures in U.S. dollars, or U.S. dollar linked. However, salaries and related expenses, as well as expenses related to the DIC Service Agreement (see "Item 7 – Related Party Transactions–Major Shareholders") and other operating expenses are denominated in NIS. In addition, at December 31, 2015 RDC holds deposits in NIS and investments in securities that are NIS-linked. It is our and our group companies' policy to use derivative financial instruments, from time to time, to limit exposure to changes in the exchange rate between the NIS and the U.S. dollar or to keep a portion of our and our group companies' resources in NIS against a portion of its future NIS expenses and against liabilities denominated in NIS. If the NIS should strengthen against the U.S. dollar, it may harm our and our group companies' results of operations. We keep a material portion of our resources in U.S. dollar, however, in the future, changes may take place from time to time in our cash balances, in how we maintain our cash, and the portion of cash we hold in each currency based on business developments and future decisions. In addition, in 2015 we invested for the first time in a company which operates in Germany and its functional currency is the Euro. As of December 31, 2015 we did not have material exposure to the exchange rate between the Euro and the U.S. dollar.

Consumer Price Index (CPI) Risk. We are engaged in a Services Agreement with DIC (described under "Item 7 – Major Shareholders and Related Party Transactions–Related Party Transactions") and we and several group companies of ours are engaged in several lease agreements that are linked to the NIS CPI for various time periods, which are impacted by changes in the CPI. A sharp rise in the inflation rate may lead to an increase in our and our group companies' expenses.

General Market Risks. As we and our group companies hold most of our cash and cash equivalents, short-term and long-term investments and other financial instruments in various financial institutions with high credit ratings, we do not have significant concentrations of credit risk. Our policy is spreading out our cash investments among the various institutions. We believe this represents a conservative investment policy primarily intended to preserve our cash resources.

Price Risk. We are exposed to fluctuations in the fair value of our holdings in our group companies. Changes in the fair value of our private holdings including holdings accounted for under the equity method of accounting or as financial assets measured at fair value (such as Notal Vision) may affect our results of operations and may have a significant effect on our market value. We view the volatility in the fair value of these companies as part of our ordinary course of business. In addition, we are exposed to fluctuations in the market value of our holdings in marketable financial assets measured at fair value.

Sensitivity analyses of sensitive financial instruments included in the consolidated financial statements as of December 31, 2015, in accordance with changes in market factors

The following tables describe sensitivity tests of the fair value of bank deposits included in the Financial Statements that are held by us and RDC, in accordance with changes in market factors.

For details on sensitivity analyses of sensitive of other financial instruments please see Note 19 in Item 18 – Financial Statements.

Sensitivity test of changes in dollar interest rates as of December 31, 2015

Fair value	Gain (loss) from changes in dollar interest rates					
	Increase			Decrease		
	2% Absolute value	10%	5%	0% interest	10%	5%
	\$ millions					
Short term bank deposits	55.3	(0.6)	*	*	0.3	*

* Represents amount less than \$0.1 million.

Sensitivity test of changes in dollar interest rates as of December 31, 2014

Fair value	Gain (loss) from changes in dollar interest rates					
	Increase			Decrease		
	2% Absolute value	10%	5%	0% interest	10%	5%
	\$ millions					
Short term bank deposits	89.0	(1.1)	(0.1)	*	0.4	0.1

* Represents amount less than \$0.1 million.

C. Research and Development

According to our group companies, their aggregate projected investment in R&D activities during 2016 will total approximately \$45.5 million.

The combined R&D costs of all group companies amounted to approximately \$36.3 million in 2015, \$35 million in 2014 and \$62.3 million in 2013. The increase in R&D costs in 2015 as compared with 2014 resulted mainly from an increase in R&D costs of Pocared, as a result of the progress in its trial and sample collection. This increase was partially offset by the fact that Kyma and Jordan Valley were sold during 2015. The decrease in R&D costs in 2014 as compared with 2013 resulted mainly from the fact that in 2013 Given Imaging was a group company and, due to the Given Merger, it was not a group company in 2014.

Our consolidated R&D costs amounted to \$13.1 million in 2015, \$2.1 million in 2014 and \$3.9 million in 2013. The increase in consolidated R&D costs in 2015 as compared with 2014 was primarily due to consolidation of Pocared's operations for the first time in February 2015. The decrease in consolidated R&D costs in 2014 as compared with 2013 was primarily due to the decrease in holding and the loss of control in Kyma in October 2013.

D. Trend Information

See "Global Economic Status" and "Venture Capital Industry Status" above.

E. Off-Balance Sheet Arrangements

There are no off-balance sheet transactions.

F. Tabular Disclosure of Contractual Obligations

At December 31, 2015, we and our subsidiaries had no material contractual obligations which are expected to affect our consolidated cash flow in future periods.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

As of the date of filing of this Annual report, our executive officers and directors are as follows:

Directors

<u>Name</u>	<u>Age</u>	<u>Position</u>
Eduardo Elsztain ⁽⁶⁾	56	Chairman
Saul Zang ⁽⁷⁾	70	Vice -Chairman
Ami Ere ⁽⁵⁾	68	Director
Yehuda Freidenberg ^{(1) (2) (3) (5)}	74	External Director
Sholem (Saul) Lapidot	36	Substitute Director
Lee-Bath Nelson ^{(1) (2) (3) (5)}	50	External Director
Arie Ovadia ^{(1) (3) (4) (5)}	67	Director
Ehud Rassabi ^{(1) (2) (3) (5)}	62	External Director
Gerardo Tyszberowicz	35	Substitute Director

Executive Officers

<u>Name</u>	<u>Age</u>	<u>Position</u>
Ari Bronshtein	46	Chief Executive Officer
Yaron Elad	38	Vice-President & Chief Financial Officer
Zohar Rosenberg	42	Vice-President

- (1) Member of our audit committee.
- (2) External director under the Companies Law.
- (3) Independent Director under the Companies Law.
- (4) Designated "financial expert" under the Sarbanes-Oxley Act of 2002.
- (5) Designated "financial expert" under the Companies Law.
- (6) Appointed Chairman of the board of directors on March 10, 2016
- (7) Appointed Vice-Chairman of the board of directors on March 10, 2016

Mr. Eduardo Elsztein joined Elron as a director in February 2016 and on March 10, 2016 he was appointed as Chairman of the board of directors. He serves as Chairman of IDBD, DIC and Property and Building Corporation Ltd. (TASE:PTBL). In addition, he serves as chairman of IRSA Inversiones y Representaciones S.A. (NYSE:IRS), Cresud S.A.C.I.F. y A. (NASDAQ:CRESY); IRSA Propiedades Comerciales S.A. (NASDAQ:IRCP), Banco Hipotecario S.A. (BASE:BHIP) and Brasilagro Companhia Brasileira de Propedades Agricolas (NYSE:LND), among others. He also serves as director of Dolphin Netherlands B.V., Dolphin Fund Ltd., Austral Gold Limited (ASX:AGD) and other companies. Mr. Elsztein studied Economics (degree incomplete) at the University of Buenos Aires, Argentina.

Mr. Saul Zang joined Elron as a director in February 2016 and on March 10, 2016 he was appointed as Vice-Chairman of the board of directors. He serves as Vice-Chairman of IRSA Inversiones y Representaciones S.A. (NYSE:IRS), Cresud S.A.C.I.F y A (NASDAQ:CRESY) and IRSA Propiedades Comerciales S.A. (NASDAQ:IRCP). He is a founding partner of Zang, Bergel & Vines Abogados. He also serves as a director of IDBD, DIC, Austral Gold Limited (ASX:AGD), Banco Hipotecario S.A. (BASE:BHIP) and other companies. Mr. Zang holds a Bachelors of Law at the University of Buenos Aires, Argentina.

Amiram Erel served as the Chairman of our board of directors from November 1999 through January 2007 and continues to serve as a director of Elron. He also served as our Chief Executive Officer from November 1999 to December 2001. Mr. Erel also served as President and Chief Executive Officer of DIC from 2001 to 2013 as has served as a consultant to DIC since July 2014. From March to December 2007, Mr. Erel also served as the Chief Executive Officer of Netvision Ltd., where he served prior to March 2007 and from 2008 to 2011, as Chairman of the board of directors. From 1997 to 1999, he served as President and Chief Executive Officer of Bezeq – The Israeli Telecommunications Corporation Ltd. Mr. Erel also serves as deputy Chairman of the board of directors of Adama Ltd. (where he served from 2006 and as a director and from January 2011 through October 2011 as Chairman of the board of directors). Mr. Erel also serves as director of Shufersal Ltd., Dan Hotels Ltd and Knafaim Holdings Ltd. Mr. Erel served as the chairman of the executive committee of the Manufacturers Association of Israel from 2005 to 2009 and from 2009 to 2011 he served as the chairman of the Israel Export & International Cooperation Institute. Mr. Erel holds a B.Sc. in electrical engineering from the Technion, Israel Institute of Technology.

Yehuda Freidenberg joined Elron as an external director in October 2014. He serves as a member of our audit committee and our compensation committee and as a member of our investment committee. Mr. Freidenberg is a financial and economics consultant. Mr. Freidenberg has a B.A. (Cum Laude) in Economics and Mathematics from the Hebrew University; an M.A. and a Ph.D. each in Economics from the University of Chicago. Mr. Freidenberg is a certified public accountant in Israel.

Mr. Sholem (Saul) Lapidot joined Elron as a substitute director for Mr. Saul Zang in February 2016. Since January 2016, Mr Lapidot has served as Chief Executive Officer of IDBD and as the substitute Chief Executive Officer of DIC. Mr. Lapidot has served as a director of IDBD since December 2014 (having previously served as a substitute director of IDBD from January 2014 until December 2014) and as a director of DIC since November 2014 (having previously served as a substitute director of DIC from February 2014 until November 2014). He also serves as Chairman of Modiin Energy Management (1992) Ltd and a director of Adama Agricultural Solutions Ltd. Mr. Lapidot served as director and Chief Executive Officer of Cladd SA from 2009 until 2013 and as Chairman of Australtex SA from 2008 to October 2012. Mr. Lapidot has studied Rabbinical Studies and Jewish Philosophy in various institutions in Argentina, Canada and Israel.

Lee-Bath Nelson joined Elron as an external director in October 2014. She serves as a member of our audit committee and our compensation committee and as a member of our investment committee. Since 2013, Ms. Nelson has served as the Vice President of Marketing and Business Development at Make it LEO, a company she co-founded. From 2011 to 2013 she served as Corporate Director of Business Development at Orbotech Ltd, and from 2005 to 2010 Ms. Nelson was a General Partner at Plenus Venture Lending. Ms. Nelson serves as a director at Make it LEO and Tomor Ltd. She also serves on the board of "Ore to Excellence", a non profit organization promoting excellence and volunteerism among teens and children in the periphery. Ms. Nelson has a B.A. and an MSc. each in Computer Science from the Technion, Israel Institute of Technology, and a Ph.D. in Finance from the Graduate School of Business, Stanford University, CA.

Prof. Arie Ovdia joined Elron as a director in March 2007. He serves as chairman of our investment committee and as a member of our audit committee and compensation committee. Prof. Ovdia was approved by the board of directors as having the qualifications of an Independent Director under Israeli law. He serves as Chairman of Giron Development & Building Ltd., Destiny Holdings (1993) Ltd. and Nadlan.com Israel Ltd. and previously served as chairman of Teva Naot Distribution Ltd. and Naot Shoes Cooperative Agriculture Society For Business Ltd. He is a Managing Partner of Shamrock Israel Growth Fund Advisor Ltd. He is a director of Destiny Investments (1993) Ltd. Destiny Assets (1991) Ltd., Israel Petrochemical Ltd., Strauss Group Ltd., Compugen Ltd., I.Q.S Shalev Ltd., (previously served as chairman., Maxtech Technologies Ltd., Maxtech Networks Communication Ltd., Mantisvision Ltd.,... A.A. Consultants Ltd., A.O. Adav Consultants and Managing 2007 Ltd., Aantz Consultants Ltd., and Oil Refineries Ltd. He served previously as a director of Discount Bank Ltd. and Shamrock Cinema City Ltd. He holds a B.A. in Economics and an M.B.A from Tel Aviv University. He also holds a Ph.D. in Economics from the University of Pennsylvania, Wharton School.

Ehud Rassabi joined Elron as an external director in March 2012. He serves as Chairman of our audit and compensation committees, and a member of our investment committee. Mr. Rassabi is an accountant and provides expert opinions in the fields of economics, class actions, valuations and mediations and is also a director of companies. Mr. Rassabi served as Chief Executive Officer of Emed Real Estate Development and Investments Ltd. until March 2011. He serves as an external director of Electra Ltd., Bank Yahav for State Employees (until December 2015), Goldbond Group Ltd., and as a director of Israeli News Company Ltd., Yehuda Reshatot Ltd., RTL Investments and Assets Ltd. and Rabash Accounting and Management Ltd. Mr. Rassabi is Honorary Consul of the Social Democratic Republic of Sri Lanka. Mr. Rassabi serves as Chairman of Ilan – Israeli Foundation for Handicapped Children (on a voluntary basis), Chairman (on a voluntary basis) of the audit committee of the Society for the Friends of Tel Aviv University and President of Lahav Office of Self employed and Businesses in Israel (on a voluntary basis until October 2015) . Mr. Rassabi holds a Bachelor of Arts degree in Accounting and Economics from Tel Aviv University.

Mr. Gerardo Tyszberowicz joined Elron as a substitute director for Mr. Eduardo Elsztain in February 2016. Mr. Tyszberowicz is a consultant who provides advisory services to Dolphin Netherlands, the controlling shareholder of IDBD. From 2012 to 2014, he served as Managing Director at Consultores Assets Management Ltd. In 2002 he started working in the IRSA Group, later acting as a senior advisor to Mr. Eduardo Elsztain in his capacity as Chairman of Cresud S.A.C.I.F y A (NASDAQ:CRESY), IRSA Inversiones y Representaciones S.A. (NYSE:IRS), Austral Gold Limited (ASX:AGD) and Banco Hipotecario S.A. (BASE:BHIP). Mr. Tyszberowicz holds a BA in Economics with specialization in Business at Universidad Torcuato Di Tella, Buenos Aires, Argentina and a Mercantile Expert diploma with a minor in Computer Sciences at ORT Technical School, Buenos Aires, Argentina.

Ari Bronshtein has served as Chief Executive Officer of Elron since June 2010 after serving as co-Chief Executive Officer of Elron since May 2009. Mr. Bronshtein serves as a director of RDC, Pocared and Coramaze and until February 2014, he served as a director of Given Imaging. From March 2006 to April 2009, Mr. Bronshtein served as a director of Elron. In January 2006, Mr. Bronshtein joined DIC as vice president. From 2004 to 2005, Mr. Bronshtein served as vice president and head of the Economics and Business Development division of Bezeq – The Israeli Telecommunications Corporation Ltd. Mr. Bronshtein currently serves as a Mr. Bronshtein currently serves as Chairman of Epsilon Investments house and as a director of CellCom Israel Ltd. and other companies within the IDB group. In 2015, he was appointed to the Governing Body of the Science Museum of Jerusalem. Mr. Bronshtein holds a Bachelors degree in Finance and Management and a Masters degree in Finance and Accounting, both from Tel Aviv University.

Yaron Elad joined Elron in July 2007 as Comptroller and in January 2010 was appointed as Vice President and Chief Financial Officer. From 2001 to 2007, Mr. Elad worked for BDO Israel, a leading Israeli auditing firm, as manager in the auditing and technical department. Mr. Elad is a director of RDC, Chairman of the board of directors of RDSeed, director of Pocared and a director of Pocared, Cloudyn and Open Legacy. From 2001 to 2007, Mr. Elad was a lecturer at Tel Aviv University and other academic institutions. In addition, Mr. Elad lectured at The Institute of Certified Public Accountants in Israel and various Israeli government ministries. Mr. Elad holds a Bachelor of Arts degree in Accounting and Economics from Tel Aviv University (cum laude) and a Masters of Science degree in Finance from Tel Aviv University. Mr. Elad has been a licensed CPA in Israel since 2004.

Zohar Rosenberg joined Elron in January 2016 as Vice President responsible for evaluation of investments in companies developing cyber solutions. Prior to joining Elron, Mr. Rosenberg served for 20 years for the elite 8200 unit of the Intelligence Corps of the Israeli Defence Force and retired with the rank of Colonel. Mr Rozenberg holds a BSc in Electrical Engineering from Tel Aviv University, Master of Business Administration (MBA) from Tel Aviv University, Graduate Training Directors of the Open University.

B. Compensation

During the year ended December 31, 2015, we paid aggregate remuneration of approximately \$872,000 to our directors and officers as a group who served in the capacity of director or executive officer during such year. See "Item 7—Major Shareholders and Related Party Transactions—Related Party Transactions" regarding compensation of directors who are controlling shareholders. This does not include payments by DIC to officers of the Company employed by DIC as part of the Services Agreement (see "Item 7—Major Shareholders and Related Party Transactions—Related Party Transactions").

The following table sets forth the approximate aggregate compensation paid by us during the fiscal year ended on December 31, 2015 to all of our directors and officers.

	Cash and Cash-Equivalent Forms of Compensation (in thousands of U.S. \$)	
	Salaries, Fees, Directors' Fees, Commissions and Bonuses	
2015 ^{(1) (2)}		
All Directors as a group, consisting of 7 persons during 2015	\$	318
All Officers as a group,	\$	554

(1) Does not include payments by DIC to officers of the Company employed by DIC as part of the Services Agreement.

(2) See below – "Payments paid during the period of this Annual Report to the five highest salary recipients amongst our and our subsidiaries officers".

The salary of our officers and the rest of the staff working for us, with the exception of the salary of the former Chairman of our board of directors whose termination was effective as of March 29, 2015 (and with the exception of special bonuses to officers and staff members as aforesaid), is not paid by us but by DIC. In accordance with the Services Agreement with DIC (see "Item 7 – Major Shareholders and Related Party Transactions – Major Shareholders"), we may grant special bonuses to our officers and other staff working for us and who are employed by DIC subject to our compensation policy described below.

Compensation of Officers and Directors

Pursuant to the Israel Companies Law, Israeli public companies are required to establish a compensation committee and to approve a compensation policy regarding the compensation and terms of employment of their directors and officers.

The compensation policy must be approved by a company's board of directors after considering the compensation committee's recommendations. The compensation policy also requires the approval of the general meeting of the shareholders, which approval must satisfy one of the following: (i) the majority should include at least a majority of the shares of the voting shareholders who are non-controlling shareholders or do not have a personal interest in the approval of the compensation policy (abstentions shall not be taken into account), or (ii) the total number of votes against the proposal among the disinterested shareholders does not exceed 2% of the voting rights in the company. The Companies Law provides that the compensation policy must be re-approved every three years, in the manner described above.

The Israel Companies Law stipulates procedures for the approval of compensation arrangements with officers and directors of Israeli public companies, including a requirement to obtain shareholders' approval for any transaction with an "office holder" (as defined below in "Item 10 – Additional Information – Memorandum and Articles of Association") with respect to such office holder's compensation arrangements and terms of engagement, if they are not in accordance with the company's compensation policy, and for any transaction with our CEO with respect to its compensation arrangements.

Our compensation committee comprises the external directors, Messrs. Ehud Rassabi, Yehuda Freidenberg and Ms. Lee-Bath Nelson and our independent director Prof. Arie Ovadia. Mr. Rassabi was appointed as Chairman of the Compensation Committee.

On January 12, 2014, our shareholders approved the adoption of a compensation policy for officers and directors of the Company. The comprehensive policy was published as annex to the Notice convening our special shareholders meeting which was submitted on Form 6K to the Securities and Exchange Commission on December 5, 2013. In addition, following approval of our audit committee and Board of Directors, our shareholders also approved that the provisions of our compensation policy be applied to the residing CEO, Mr. Ari Bronshtein with regard to a bonus plan, in accordance with the conditions set forth in Sections 7-10 and 21 and to any other provision relevant to the variable compensation in our compensation policy.

For details concerning the terms of employment of the CEO and the CFO of the Company and in relation to the annual bonus granted to them for 2015 in accordance with the compensation policy, see further below in this Item 6B.

Payments paid during the period of covered by this Annual Report to the five highest salary recipients amongst our and our subsidiaries' officers

The following are the details required according to Israeli Securities Law regulations regarding compensation paid, to the best of our knowledge, to the five highest salary recipients amongst our and our subsidiaries' officers and the three highest salary recipients amongst our officers.

Information on recipient				Compensation for services (thousands of \$)					Total
Name	Position	Date of employment	Type of Position	Shareholdings (Fully diluted)	Salary	Bonus	Share-based payments	Management fee	
Ari Bronshtein	Chief Executive Officer of Elron	May, 2009	(1)	-	444(2)	358(3)	-	-	802
Yaron Elad	Vice President and Chief Financial Officer	May, 2009	100% (4)	-	251(5)	196(6)	-	-	447
Shmuel Kedmi	Former Chief Executive Officer of RDC	January 2014	100%	-	263(7)	139(7)	-	-	402
Murali Srivathsa (8)	Chief Executive Officer of Kyma	January 2014	100%	-	209	155(9)	9 (10)	-	373
Uriel Weinstein (8)	Chief Technology Officer & General Manager, Israel of Kyma	March 2008	100%	-	154	66(9)	14(10)	-	234
Niv Levy	Controller	September 2009	100% (11)	-	138(12)	38(13)	-	-	176

(1) Mr. Bronshtein is not employed by us, but by DIC, and within the framework of his position, he also serves as our CEO, in accordance with the Service Agreement with DIC.

(2) The amount includes all of the following components that are paid by DIC and not by us: monthly salary linked to the consumer price index, social benefits and related benefits as customary, car allowance (including gross-up) and loss of earning capacity insurance. The engagement between Mr. Bronshtein and DIC shall terminate three months after the date on which either party shall provide the other written notice of its desire to terminate the engagement according to the employment agreement.

(3) According to our compensation policy and the resolution adopted to apply the provisions of the variable compensation thereof to the CEO, including for 2015, Mr. Bronstein is entitled to receive an annual bonus which shall not exceed 12 times the monthly cost of his compensation ("**Bonus Cap**") where the annual bonus is composed of a component based on the annual return on our share price (50% of the Bonus Cap, the maximum threshold determined for this index being a 20% annual return determined in NIS), a component that is based on measurable goals connected with the performance of the Company and its group companies (the "Measurable Goals") (35% of the Bonus Cap) and a discretionary performance evaluation component (15% of the Bonus Cap). Compliance with more than 100% of the maximum threshold of the share return component may grant more than 100% of this bonus component, such that in the case of an excess return of 5% and more above the maximum threshold, which was determined as aforesaid, an additional amount equal to the cost of his compensation for one month shall be given, in addition to the bonus due to him for this component and subject to the Bonus Cap. For 2015, five measurable Goals as aforesaid were determined for all of our officers where meeting the full goal entitles the officer to 100% of the bonus component for this goal and meeting an interim goal entitles the officer to 50% of the bonus component for this goal, as follows

Name of Company	Full Goal	Interim Goal	Goal Accomplishment in 2015
BrainsGate	Recruiting 600 patients for interim analysis for the FDA trial.	Decreasing the misplacements rate to below 5%	Full goal accomplished
Pocared	FDA approval for the UTI diagnosis.	Submission of application for FDA marketing clearance for the UTI diagnosis.	Goal not accomplished
CartiHeal	Commencement of clinical trial for treatment of degenerative injuries	Fulfillment of goals for the trial for the treatment of large traumatic injuries.	Full goal accomplished
Notal Vision	US insurance coverage	Finalizing OTC prototype	Full goal accomplished
Elron	Investments in two new companies by Elron or RDC/RDSeed.	Investment in one new company by Elron or RDC/RDSeed	Full goal accomplished

The CEO's bonus component for discretionary performance evaluation was determined by our compensation committee and board of directors on March 10, 2016. According to the provisions of our compensation policy and since the Company met the threshold conditions set forth in the policy, Mr. Bronstein is entitled to an annual bonus for 2015 in the amount of NIS1,398,000 constituting 9.8 times his monthly compensation cost.

(4) Mr. Elad is not employed by us, but by DIC. Mr. Elad dedicates 100% of his time to fulfilling his capacity of our Vice President and Chief Financial Officer.

(5) The amount includes all of the following components that are paid by DIC and not by us: 12 monthly salaries, social benefits and related benefits as customary, car allowance and loss of earning capacity insurance. The engagement between Mr. Elad and DIC shall terminate three month after the date on which either party shall provide the other written notice of its desire to terminate the engagement according to the employment agreement.

(6) According to our compensation policy and the resolution adopted to apply the provisions thereof to the CFO, Mr. Elad is entitled to receive an annual bonus which shall not exceed 10 times a bonus cap equal to the monthly cost of his compensation in accordance with principles described in Note (3) above. Mr. Elad's bonus component for discretionary performance evaluation was determined by our compensation committee and board of directors on March 10, 2016. According to the provisions of our compensation policy and since the Company met the threshold conditions set forth in the policy, Mr. Elad is entitled to an annual bonus for 2015 in the sum of NIS766,000 which constitutes 9.5 times his monthly compensation cost.

(7) Mr. Kedmi served as RDC's CEO until January 2016. The amount indicated under his salary column includes Mr. Kedmi's salary during 2015. The amount indicated under his "bonus" column includes the expenses involved in the termination of his tenure in RDC.

(8) In September 2015, the sale of Kyma to ZOLL LifeVest Europe Holdings B.V. was consummated. Kyma's officers' salary details refer to the period between January 1, 2015 and September, 2015 ("Closing Date").

(9) The amount indicated under the "bonus" column includes current bonuses which Kyma's officers received.

(10) The amount indicated under the "share-based compensation" column expresses that expenditure made by Kyma in its financial statement for the period between January 1, 2015 and the Closing Date, in accordance with IFRS 2.

(11) Mr. Levy is not employed by us, but by DIC. Mr. Levy dedicates 100% of his time to fulfilling his capacity as our controller.

(12) The amount includes all of the following components that are paid by DIC and not by us: monthly salary, social benefits and related benefits as customary, car allowance and loss of earning capacity insurance. The engagement between Mr. Levy and DIC shall terminate one month after the date on which either party shall provide the other written notice of its desire to terminate the engagement according to the employment agreement.

(13) Mr. Levy is not an officer of Elron, as defined in the Companies Law and the Company's compensation policy for officers is not applicable to him and accordingly he is entitled to a discretionary bonus.

C. Board Practices

None of our directors have service contracts with us or any of our group companies that provide for benefits upon termination of employment. See "Item 6 – Directors, Senior Management and Employees – Agreements & Arrangements with Directors".

Board of Directors

Our Articles of Association provide for a board of directors of not less than five members and no more than fifteen members, including external directors. Currently, we have 7 directors. Each director, other than external directors, is elected to serve until the end of the first annual meeting following their appointment. However, if no directors are elected at such annual meeting, the then-present directors will continue in office. The board of directors may appoint additional directors, provided that the total number of directors does not exceed the maximum number of fifteen as mentioned above. A director appointed as such will serve until the end of the next annual meeting held following his or her appointment, and he or she will be eligible for re-appointment. Notwithstanding any of the above, any director, other than external directors, may be removed from office by an ordinary resolution of a general shareholders' meeting or by two-thirds of the directors. A director need not hold any of our shares to qualify as one of our directors. Our Articles of Association provide that our board of directors may delegate its powers to its committees, subject to limitations determined by the Companies Law. Our Articles of Association and the Companies Law require the Board of Directors to appoint a Chairman from one of its members. During the period, December 28, 2014 until March 10, 2016 when Mr. Eduardo Elsztein was appointed as Chairman, we did not appoint a Chairman of the board of directors.

Independent Directors

An "Independent Director" is defined under the Companies Law as an external director or a director who meets the following conditions: (i) satisfies certain conditions for appointment as an external director (as described below) and the audit committee has determined that such conditions have been met, and (ii) he or she has not served as a director of the company for more than nine consecutive years, with any interruption of up to two years in his or her service not being deemed a disruption in the continuity of such service.

Under the Companies Law's provisions, the audit committee must consist of at least three directors and must include all of the external directors. The majority of the members of the audit committee are required to be "independent". In addition, the quorum required for deliberations and resolutions is a majority of the audit committee's members, the majority of whom must be independent directors, and at least one of whom is an external director. Our directors who qualify as independent directors under the Companies Law are: Ehud Rassabi, Yehuda Freidenberg, Lee-Bath Nelson and Prof. Arie Ovadia, constituting a majority of the members of our audit committee.

Substitute Directors

Under our Articles of Association, any director, other than an external director, may, by written notice to us, appoint another person to serve as a substitute director and may also cancel such appointment at any time. The identity of a substitute director requires the approval of the board of directors. Under the Companies Law, the following persons may not be appointed as a substitute director: (i) any person who is not himself or herself qualified to be appointed as a director; (ii) a person who is already serving as a director; or (iii) a person who is already serving as a substitute director for another director. Nevertheless, a director may be appointed as a substitute director for a committee of the board of directors if he or she is not already serving as a member of the committee. Under the Companies Law, a substitute director may not be appointed as an external director except for a committee of the board of directors as described above, and provided that the substitute director is an external director who has "professional capability" or "financial and accounting expertise", according to the qualification of the relevant external director. We have two substitute directors, namely Mr. Gerardo Tyszbewicz as a substitute director for Mr. Eduardo Elsztein and Mr. Sholem (Saul) Lapidot as a substitute director for Mr. Saul Zang.

The term of appointment of a substitute director may be for one meeting of the board of directors, for a specified period or until notice is given of the cancellation of the appointment. To our knowledge, no director currently intends to appoint any other person as a substitute director.

External Directors

The Companies Law requires Israeli companies with shares that have been offered to the public (i.e. public companies) to appoint at least two external directors. Following a recent amendment to the Companies Law enacted on February 17, 2016, or Amendment 27, any and all of such external directors are no longer required to be Israeli residents. No person may be appointed as an external director if:

- the person is a relative of the controlling shareholder,
- the person or the person's spouse, siblings, parents, grandparents, descendants, spouses' descendants, siblings or parents, or the spouses of any of the foregoing (collectively, a "relative"), partner, employer, anyone that the person is subordinated to directly or indirectly, or any entity under the person's control, has as of the date of the person's appointment as external director, or had, within the two years preceding the date of the person's appointment as external director, any affiliation with the company, the controlling shareholder in the company, a relative of the controlling shareholder, or an entity in which, currently or within the two years prior to the appointment date, the controlling shareholder was the company or the company's controlling shareholder, and additionally, in a company without a controlling shareholder, or without a shareholder holding 25% or more of the voting rights in the company any affiliation, on the appointment date, with the chairman of the board of directors, the chief executive officer, a significant shareholder (a shareholder holding 5% or more of the company's shares or voting rights), or the senior financial officer

The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis, subject to certain exclusions;
- control; and
- service as an "office holder", as defined below in "Item 10 – Additional Information – Memorandum and Articles of Association", excluding service as a director who was appointed to serve as an external director in a company which is going to initially offer its shares to the public.

Without derogating from the above, no person may serve as an external director if the person's position or other business activities create, or may create, a conflict of interest with the person's responsibilities as a director or may otherwise interfere with the person's ability to serve as a director. A director in a certain company may not be appointed as an external director in another company if at the same time a director from the latter serves as an external director in the former. No person may serve as an external director if the person is an employee of the Israeli Securities Authority or of an Israeli stock exchange. Without derogating from the abovementioned, no person may serve as an external director if the person, the person's relative, the person's partner, the person's employer, anyone to whom the person is directly or indirectly subordinated, or any entity under the person's control, has a business or professional relationship with a party with which an affiliation is prohibited, even if the relationships are on an irregular basis, unless the relationships are negligible. No person may serve as an external director if the person received any direct or indirect compensation for the person's service as a director in the company, other than the directors' fees and expenses reimbursement to which the person is entitled. If, at the time an external director is to be appointed, all current members of the board of directors who are not controlling shareholders in the company or their relatives are of the same gender, then the appointed external director must be of the other gender.

Under the Companies Law, a public company is required to appoint as an external director, a person who has "professional capability" or a person who has "financial and accounting expertise," provided that at least one of the external directors must have "financial and accounting expertise." In addition, the board of directors of a public company is required to determine the minimum number of directors with "financial and accounting expertise." The qualifications for "professional capability" and "financial and accounting expertise" are determined by regulations adopted under the Companies Law. In March 2006, we determined the minimum number of directors with "financial and accounting expertise" serving on our board of directors to be two. The following directors have been designated as directors with financial and accounting expertise: Mr. Ami Erel, Mr. Yehuda Freidenberg; Ms. Lee-Bath Nelson, Prof. Arie Ovadia and Mr. Ehud Rassabi.

External directors are to be appointed by a majority vote at a shareholders' meeting, provided that either:

- The majority of shares voted at the meeting, including at least a majority of the shares held by non-controlling shareholders, or by disinterested shareholders (unless the personal interest does not derive from relationships with the controlling shareholder), which voted at the meeting, vote in favor of appointment of the director, without taking abstentions into account. According to the Companies Law, a "controlling shareholder" is a person who has the ability to direct the activities of a company, other than if this power derives solely from his/her position on the board of directors or any other position with the company. A person is presumed to be a controlling shareholder if he or she holds half or more of the following: (i) voting rights in the general meeting, or (ii) rights to appoint directors or the chief executive officer; or
- The total number of shares held by the shareholders mentioned above, which voted against the election of the director, does not exceed two percent of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended for two additional three year periods, if the board of directors proposes the external director's appointment for another term and the appointment is approved by a majority vote at a shareholders' meeting as described above, or if one or more shareholders holding at least one percent of the aggregate voting rights in the company proposes the external director's appointment for another term and the appointment is approved by a majority vote at a shareholders' meeting, provided that:

- The majority of shares voted at the meeting exclude shares held by controlling shareholders, shares held by interested shareholders (unless the personal interest does not derive from relationship with the controlling shareholder), and abstentions.
- The total number of shares which voted for the election of the director which are held by non-controlling shareholders, or by disinterested shareholders (excluding interest that does not derive from a relationship with the controlling shareholder), exceeds two percent of the aggregate voting rights in the company.

There will be additional limitations on the appointment of such external director if proposed by a shareholder as described under the Companies Law, Notwithstanding the above, a company may include a provision in its Articles of Association limiting the aggregate term of an external director to six years. Our Articles of Association do not include such provision.

Mr. Ehud Rassabi is currently serving his second three year term as an external director which ends in March 2018, having been initially appointed in March 2012 and re-appointed for a second term in March 2015. Ms. Lee-Bath Nelson is currently serving her first—three year term as an external director which ends in October 2017, having been initially appointed in October 2014. Mr. Yehuda Freidenberg is currently serving his first three year term as an external director which ends in October 2017, having been initially appointed in October 2014. External directors may be removed only in a general meeting by the same majority vote of shareholders that is required for their election, or by a court, and in both cases, only if the external directors cease to meet the statutory qualifications for their appointment or if they violate their duty of loyalty to the company. Each committee that has been authorized to exercise any of the powers of a company's board of directors must include at least one external director, and all of the external directors must be members of the audit committee.

Under the Concentration Law, as long as we shall continue to be considered at least a third-tier company according to the such law, our board of directors will be required to consist of a majority of independent directors, and the number of our external directors will be required to constitute at least half of our board members after such half is reduced by one, rounded up, and include no less than two external directors. We currently comply with the above requirements. The law also stipulates special appointment provisions for such external directors.

An external director is entitled to compensation in accordance with the regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with the service provided as an external director.

Audit Committee

The Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee include: identifying irregularities in the management of the company's business; approving related party transactions as required by law and determining whether or not they are material and/or extraordinary; determining whether to carry out competitive procedures or other procedures before any engagement in transactions with controlling shareholders or in which a controlling shareholder has a personal interest; determining the approval procedures of transactions with controlling shareholders or in which a controlling shareholder has a personal interest that are immaterial and not negligible, and the types of such transactions that will be subject to the approval of the audit committee; examining the internal audit in the company, the performance of the internal auditor, and if the necessary resources and tools have been made available to the internal auditor considering the company's needs and size; examining the scope and fees of the independent auditor and providing recommendations to whomever approves these fees; determining procedures for handling employees' complaints regarding irregularities in the management of the company's business and providing these employees with the appropriate protection.

An audit committee must consist of at least three directors, including, as mentioned, all of the external directors of the company, and a majority of its members must be independent directors as defined in the Companies Law (see above). The chairman of the audit committee must be an external director. The chairman of the board of directors, any director employed by or otherwise providing services on a regular basis to the company, its controlling shareholder, or a company under the controlling shareholder's control, any director whose main source of income derives from the controlling shareholder, and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the audit committee. The quorum required for deliberations and resolutions is a majority of the audit committee's members, the majority of whom must be independent directors as defined in Israel Companies Law, and at least one of whom is an external director.

The purpose of our audit committee, as stated in the committee's charter, is to oversee, the following on behalf of the Company's board of directors: (i) the integrity of our financial statements; (ii) the appointment, compensation, qualifications, independence and work of our independent auditors; (iii) our compliance with legal and regulatory requirements; and (iv) the performance of our internal audit and controls function. In addition, the committee will be responsible for: (v) determining any deficiencies in our business administration, *inter alia*, by consulting with our internal auditor or independent auditors and making proposals to the board of directors regarding ways of correcting such deficiencies, (vi) resolving whether to approve acts and transactions with related parties requiring the approval of the committee under sections 255 and 268 through 275 of the Companies Law, and (vii) establishing complaint procedures.

All of our external directors, Ehud Rassabi, Yehuda Freidenberg and Lee-Bath Nelson, as well as Prof. Arie Ovadia serve on the audit committee. All members of our Audit Committee meet the definition of independent directors under the SEC Rules. None of them is an associate person of us or has received any consulting, advisory or other compensatory fee from us, other than in their capacity as directors. We believe that Prof. Arie Ovadia qualifies as a financial expert under the SEC Rules. Mr. Ehud Rassabi is chairman of our audit committee.

We have adopted an internal enforcement program in the securities field (i.e., relating to the provisions of the Israel Securities Law, and its accompanying regulations, as well as the provisions of related laws including the provisions of the Israel Companies Law), whose purpose is to ensure and enforce our compliance and the compliance of our directors, other officers, and employees (and also related parties, insofar as the relevant laws apply to them) (the "Employees") to legal requirements in the securities field, including through procedures we have adopted and/or will adopt from time to time, in this field. The program determines arrangements relating, among other things, to the way the procedures are implemented in the Company, the existence of effective supervision, reporting, and monitoring mechanisms, and the determination of ways to handle and draw conclusions from failures and violations (insofar as they arise). The program was formulated based on our unique characteristics as a holding company and our operating environment, among other things, by carrying out a compliance review in the securities field and by mapping our compliance with the provisions of the Israel Companies Law, 1999.

Mr. Yaron Elad, our Chief Financial Officer, and Mr. Paul Weinberg, Adv., our Corporate Secretary, were appointed by our board of directors as internal enforcement officers. The internal enforcement officers' role is to ensure (themselves or through our other personnel) that the program is carried out efficiently and effectively, including by means of monitoring, holding training and absorption sessions, and updating our management and board of directors regarding the program's implementation and unusual events.

The procedures that we adopted and/or will adopt from time to time in the securities field constitute and will constitute an integral part of the enforcement program. These procedures include, among others, procedures relating to a public company's compliance with reporting requirements (including designated procedures for related parties and group companies), maintaining a culture of compliance, preventing fraud and manipulation, restricting the use of inside information, locating related party transactions, regulating the board of director's work and functions, and communicating with parties outside of the Company. We have also required our group companies and may require them from time to time to adopt procedures in various subjects whose purpose is to ensure our and the Employees' compliance with the provisions of the securities field. The procedures regulate activity and behavior norms as well as work processes whose purpose is to address and oversee central processes in the subjects they regulate.

The program is also subject to a periodic review of its suitability and to being updated, as necessary. We will continue to set and adopt additional procedures and update existing procedures, as necessary, in order to regulate additional processes, and to codify everyday practices and formulate additional procedures. Following Amendment 27, a company whose audit committee's composition meets the requirements set for the composition of a compensation committee (as further detailed below) may have one committee acting as both audit and compensation committees.

Financial Statements Committee

The Companies Law requires public companies to appoint a financial statements committee whose function is to examine the company's financial statements and provide its recommendations to the board of directors before the latter approves them. On December 27, 2010, our board of directors appointed the audit committee to serve as our financial statements committee. The financial statements committee is the organ in charge of the oversight of the financial statements, and the board of directors is the organ in charge of approval of the financial statements.

All members of the financial statements committee comply with the rules set forth in the Companies Law, including being able to read and understand financial statements, and have provided us with declarations to that effect. In determining that the committee members are able to read and understand financial statements, we considered, inter alia, their education, experience, qualifications and knowledge on business-accounting matters and financial statements.

Prior to the independent auditor's audit, the committee conducts a discussion at which the independent auditor presents the annual financial statements audit plan. The committee holds discussions and makes recommendations to the board of directors regarding the approval process of the financial statements, and delivers its recommendations to the board of directors reasonably sufficient time prior to the approval of the financial statements by the board of directors, and reports thereto on any deficiency or problem, if any, having arisen during the examination. Our independent auditor is invited to and attends the committee's meetings, as well as the board meetings at which the financial statements are discussed and approved, at which he addresses the audit performed. In addition, the internal auditor attends the committee's meetings.

The committee examines, inter alia, through a detailed presentation by our officers and other company personnel, including our CEO and CFO, the following issues, and makes recommendations thereon to the board of directors: the material issues in the financial reporting, including transactions outside the ordinary course of business (if any), the material estimates and critical assessments used in the financial statements, the valuations, including their underlying assumptions and estimates, on which data in the financial statements are based, the integrity and appropriate disclosure in the financial statements, the reasonableness of the data, the accounting policies adopted and any changes therein, implementation of the principle of due disclosure in the financial statements and related information, the internal controls over the financial reporting and their effectiveness, and various aspects of risk control and management, both such that are reflected in the financial statements (such as the report on financial risks), and such that affect the reliability of the financial statements. If necessary, the committee requests comprehensive reviews on issues of particularly material impact.

The approval of the annual financial statements involves at least three meetings: Two of the financial statements committee, prior to the board of directors' meeting, for a comprehensive, in-principle discussion of the material reporting issues and the formulation of recommendations to the board of directors, and the third – of the board of directors, for discussion and approval of the financial statements.

Compensation Committee

Under the Companies Law, an Israeli public company has to nominate a compensation committee which has to be comprised of at least three directors including all of the external directors.

All of our external directors, Ehud Rassabi, Yehuda Freidenberg and Lee-Bath Nelson, as well as Prof. Arie Ovadia serve on the compensation committee. Mr. Ehud Rassabi is chairman of our compensation committee.

The role of the compensation committee is to recommend on a compensation policy for directors and officers and necessary updates; to approve certain terms of office and employment of directors and officers specified in the Companies Law; and to decide whether to exempt approval of terms of office for a CEO from shareholders' approval, in certain circumstances.

On November 26, 2013 our compensation committee approved, a compensation policy for officers of the Company, which was later approved by the company's Board of Directors and by the Company's shareholders.

Internal Auditor

Under the Companies Law, the board of directors of public companies must appoint an internal auditor, nominated by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and with orderly business procedure. Under the Companies Law, the internal auditor may be an employee of the company but not an office holder (as defined below in "Item 10 – Additional Information – Memorandum and Articles of Association"), an interested party, a relative of an office holder or an interested party, and he or she may not be the company's independent accountant or its representative. According to the Companies Law, an "interested party" is defined as a shareholder who holds 5% or more of the outstanding share capital or voting power, a director, a general manager or a shareholder who has the right to appoint at least one director or the general manager.

Doron Cohen, a partner of Fahn Kanne Control Management Ltd, a member of Grant Thornton International, is our internal auditor. Mr. Cohen's appointment as our internal auditor was approved by our audit committee in January 2004, and by our board of directors in March 2004, effective from February 1, 2004, after taking into consideration his education, qualifications and experience in internal audits, and the type, scope and complexity of our activity. Mr. Cohen holds a Bachelor's degree in business administration from the College of Management Academic Studies, specialty in accounting. Since 1998, Mr. Cohen has held the position of internal auditor in public and private companies, government bodies, and local authorities. Mr. Cohen is not an interested party or office holder of ours, or their relative, nor is he our independent auditor or anyone working on his behalf. Mr. Cohen does not fill any position in the Company apart from that of internal auditor. To the best of our knowledge, Mr. Cohen does not hold another position outside of the Company which creates or may create a conflict of interest with his position as our internal auditor. To the best of our knowledge, Mr. Cohen does not hold any of our shares or shares of our affiliates, nor does he have material business relations or other material ties with us or any of our affiliates. The chairman of our audit committee is designated to be in charge of our internal auditor.

Internal auditor's work plan: Our internal auditor's work plan is a three-year plan, and is based on an update of a risk survey which was conducted by us dated January 21, 2007 and updated in 2015. Each year the three-year audit plan, including that year's plan, is updated and approved. The plan is updated and approved following deliberations that are held with our management and members of our audit committee, such that within 4 years most of the risk factors will be audited. The internal auditor is authorized to deviate from such plan subject to reporting to our audit committee and receiving its consent for the proposed change. In addition, the audit committee is authorized to direct the internal auditor to deviate from the audit plan during the year.

Audits abroad or of subsidiaries: We have no overseas activity other than the holding of certain corporations outside of Israel. The annual internal audit plan addresses whether or not internal audits have been carried out in our material group companies, but does not address their activity in Israel or abroad.

Scope of employment: Approximately 500-700 hours per year according to the work plan, while in 2015, the internal auditor invested approximately 700 hours. In the opinion of our board of directors, the internal audit's work plan as well as the scope of employment which was determined to execute such plan are appropriate for our needs. Insofar as required, we are able to expand the aforesaid scope of employment.

Conducting the internal audit: The audit was conducted according to accepted professional standards, in accordance with the Israeli Internal Audit Law and the standards issued by the Institute of Internal Auditors. The audit committee and the board of directors relied on the internal auditor's reports pertaining to his compliance with professional standards according to which he conducts the audit.

Access to information: The internal auditor and his employees have access to information as provided in the Israeli Internal Audit Law, including continuous and direct access to our information systems and those of our group companies which are audited, including financial data.

Internal auditor's reports: Our internal auditor's reports are submitted in writing. The internal auditor's reports are distributed to our management and our audit committee. During the period covered by this Annual Report, one internal audit report was submitted in respect of the 2014 work plan and three reports were submitted in respect of the 2015 work plan. The reports were distributed prior to the audit committee meetings at which these reports were discussed, on March 3, 2015, May 11, 2015, July 29, 2015, November 5, 2015. An additional report in respect of the 2015 work plan was distributed prior to the audit committee meeting at which this report was discussed on March 1, 2016.

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

Remuneration: Our internal auditor is paid based on actual hours worked. The cost of our internal auditor's employment in 2015 was approximately NIS 150,000 (approximately \$40,000). In the opinion of the board of directors, the compensation paid to the internal auditor does not influence the exercise of his professional discretion.

Supervising Organ of the Internal Auditor: The Chairman of the Board was in charge of the internal auditor prior to the termination of the former Chairman of the Board, Mr. Aric Mientkavitch on December 28, 2014. Since then, in the absence of a Chairman of the Board of Directors, the Board of Directors authorized the Chairman of the Audit Committee to serve as the supervisor of the internal auditor and the internal auditor reports to the Audit Committee on a professional level.

D. Employees

In accordance with the Services Agreement entered into with DIC, we receive managerial and administrative services through staff employed by DIC and as a result, we do not employ any personnel.

Other than the CEO and CFO who are to be appointed by us subject to the approval of DIC and our board of directors, and except the comptroller, general counsel and corporate secretary who are proposed and appointed by us subject to the approval of DIC, the management services we receive from DIC are performed by persons designated by DIC, all of whom are employed or otherwise engaged by DIC. We are entitled to obligate DIC to terminate the engagement of any of the DIC employees engaged in our business. For more information, see "Item 7—Major Shareholders and Related Party Transactions—Related Party Transactions."

In March 2015, Mr. Ehud Rassabi was appointed as an external director for a second three-year term. In December 2014, Mr. Arie Mientkavitch's term as Chairman of our Board ended and his employment terminated with effect from March 29, 2015. Commencing as of January 2016, Mr. Zohar Rosenberg was appointed as our Vice-President responsible for evaluation of investments in companies developing cyber solutions.

The following table sets forth, for the last three financial years, the number of our employees:

As of December 31,	2015	2014	2013
Management and Administration	-	1*	1*

* As of March 1, 2016, 13 persons are employed by DIC and provide services to us through the Services Agreement entered into with DIC. The employment of the former Chairman of our board of directors was terminated effective as of March 29, 2015.

Israeli Employment Law and Practices

Israeli employment laws, and extension orders based upon provisions of the collective bargaining agreements between the Histadrut (i.e., the General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Associations), are applicable to employees in Israel. These provisions concern principally the length of the work day, minimum wages, procedures for dismissing employees, determination of severance pay and other conditions of employment.

Israeli law generally requires payment of severance pay, upon the retirement or death of an employee or termination of employment under certain circumstances. The severance pay amounts to approximately one month salary for each year of employment. The severance pay may be funded through monthly allocations by the employer to a pension plan, as described below. Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration. Such amounts also include payments for national health insurance. In addition, Israeli law requires employers to make mandatory pension payments on behalf of their employees.

Under the Israeli Law, the contribution of certain additional funds on behalf of employees to a pension plan (of which there are two main types: Managers' Insurance and Pension Fund, some employees combine between the two types) is required. A Pension Plan provides a combination of savings plan, insurance and severance pay benefits to the employee. As general practice, each employee contributes an amount equal to 5% of his or her salary, and the employer contributes between 13.3% and 15.8% of the employee's salary which also includes the mandatory pension payments required by applicable law and allocations to severance pay.

Pursuant to the Services Agreement, except for the former Chairman of our board of directors, all of our staff are employed by DIC. Accordingly, except as provided otherwise in the Services Agreement, DIC shall determine the practices applicable to such employees.

E. Share Ownership

The number of our ordinary shares beneficially owned by each of our directors, and by our directors and officers as a group, as of February 29, 2016, is Nil. This excludes shares beneficially owned by DIC, IDBD or IDBH.

Stock Option Plans

During May 2003, our board of directors adopted the 2003 Option Plan which was subsequently ratified by our shareholders on November 30, 2003. The 2003 Option Plan provides that the exercise price per share shall be reduced by an amount equal to the amount of any dividend per share distributed. The optionees are entitled to exercise 25% of the amount granted, each year, commencing on first anniversary of the date of grant and expiring five years after the date of grant. In granting the options, the board of directors selected the capital gains tax track pursuant to the Israeli tax legislation which came into effect on January 1, 2003. As of date of publication of this Annual Report, there are no options to purchase our ordinary shares granted to our officers and employees outstanding. For more details see "Item 10—Additional Information—Taxation—Employee Stock Options."

Phantom Options

In February 2012, we granted to the former Chairman of our board of directors and another recipient phantom options in relation to our Pocared shares, namely the right to receive the benefit of the increase in value of certain of our Pocared shares, representing 0.7% of Pocared's share capital as of December 31, 2015. For details regarding the phantom options granted to the former Chairman of our board of directors, see "Item 6B" above.

Item 7. Major Shareholders and Related Party Transactions**A. Major Shareholders**

The following table sets forth, as of December 31, 2015 unless otherwise specified, the number of our ordinary shares beneficially owned by all shareholders known to us to beneficially own more than 5% of our ordinary shares, based on notifications provided to us shortly before the date of publication of this Annual Report. The voting rights of our major shareholders do not differ from the voting rights of other holders of our ordinary shares. As of February 22, 2016, there were a total of 296 holders of record of our ordinary shares, of which 188 were registered with addresses in the United States. We believe that the number of beneficial owners is substantially greater than the number of record holders, because a large portion of our ordinary shares is held of record in broker "street names." As of February 22, 2016, United States holders of record held approximately 16.7% of our outstanding ordinary shares.

Name and Address	Number of Ordinary Shares	Percent of Outstanding Ordinary Shares	Percent of Ordinary Shares on a fully diluted basis
Discount Investment Corporation Ltd. (1) Tel Aviv, Israel	14,966,339	50.32%	50.32%

The above table does not include the following holdings: (i) 1,611,641 of our ordinary shares (approximately 5.41% of our outstanding and fully diluted share capital) held for members of the public through, among others, provident funds, mutual funds and pension funds managed by subsidiaries of Meitav Dash Investment House Ltd. Meitav Dash Investment House Ltd disclaims beneficial ownership of such shares and (ii) 2,819,328 of our ordinary shares (approximately 9.47% of our outstanding and fully diluted share capital) held for members of the public through, among others, provident funds, mutual funds and pension funds managed by subsidiaries of Yelin Lapidot Holdings Ltd. Yelin Lapidot Holdings Ltd. disclaims beneficial ownership of such shares and (iii) 1,697,938 of our ordinary shares (approximately 5.69% of our outstanding and fully diluted share capital) held for members of the public through provident funds, mutual funds and pension funds managed by Migdal Insurance and Financial Holdings Ltd. Migdal Insurance and Financial Holdings Ltd. disclaims beneficial ownership of such shares; and (iv) any of our ordinary shares that may be deemed to be beneficially owned by directors by virtue of their affiliation with DIC. Each of our directors who is affiliated with DIC disclaims beneficial ownership of such shares.

(1) As of February 29, 2016, IDBD held approximately 73.92% of the issued and outstanding shares and voting rights of DIC. IDBD is a public company whose securities are listed for trade on the Tel Aviv Stock Exchange. We have been advised that the controlling shareholders of IDBD are: Mr. Eduardo Elsztain, the Chairman of our board of directors, who holds shares of IDBD through the following companies that he controls: Dolphin Netherlands B.V. ('Dolphin Netherlands'), Dolphin Fund Ltd ('Dolphin Fund'), and Inversiones Financieras Del Sur S.A. ('IFISA') (hereinafter, jointly: 'the Dolphin companies'). We have been advised that as of February 29, 2016, the Dolphin companies directly hold approximately 80.72% of the issued share capital and the voting rights in IDBD, as follows: Dolphin Fund– 0.02%; Dolphin Netherlands – 48.98%; IFISA – 31.72%.

By reason of the control of IDBD by Mr. Elsztain, as set forth above, Mr. Elsztain may be deemed beneficial owner of, and to hold the power to vote and dispose of, our Ordinary Shares owned beneficially by IDBD and DIC.

DIC's address is 3 Azrieli Center, 44th floor, Tel Aviv 6702301, Israel.

B. Related Party Transactions**Classification of related party transactions as negligible transactions**

On January 14, 2010, we announced our policy determining the guidelines and rules for the classification of a transaction by us or by a company consolidated by us with a related party in which our controlling shareholder has a personal interest as a negligible transaction, as stipulated in Israel Securities Regulations. These rules and guidelines will also be used to examine the extent of disclosure in our immediate reports, annual reports and prospectuses (including shelf offering reports) pursuant to the Israeli Securities Law regarding a transaction by us, a corporation under our control and any associate company, with our controlling shareholder or in which our controlling shareholder has a personal interest in the approval thereof, as stipulated the applicable Israeli Securities Regulations.

In our ordinary course of business, we and our consolidated and associate companies conduct or may conduct transactions with related parties, and we or they have or may have commitments to conduct said transactions, including transactions of the types and with the characteristics set out below: transactions for the receipt of banking and financial services from banks and financial institutions (including management of provident funds and education funds contributed to by employers and employees); transactions for the purchase or sale of products and services (such as communications products and services, food products, paper products, tourism services, elementary insurances, vehicle leasing services, legal services); transactions for the lease of real estate assets.

In the absence of any special qualitative considerations given the specific circumstances, a transaction that is not extraordinary (in other words – it is conducted in the ordinary course of business, under market conditions, and does not have a material impact on us), it will be considered a negligible transaction, if the relevant criteria calculated for the transaction (one or more, as set out below) is less than one percent (1%) of our equity according to our most recent consolidated financial statements published by us, and if the transaction amount does not exceed \$1.2 million.

In respect of any related party transaction involved with a personal interest of our controlling shareholder, the relevant criteria for classifying it as a negligible transaction shall be calculated as follows: (A) in the purchase of a fixed asset (which is presented in our financial reports as an "asset that is not a current asset") – the amount of the transaction; (B) in the sale of a fixed asset (which is presented in our financial reports as an "asset that is not a current asset") – the profit/loss from the transaction; (C) in the incurrence of a monetary liability – the amount of the transaction; (D) in the purchase/sale of products (with the exception of a fixed asset) or services – the amount of the transaction.

In cases which, according to our discretion, all of the aforementioned quantitative criteria are irrelevant in determining whether the related party transaction is a negligible transaction, the transaction shall be evaluated based on other relevant criteria set by us, provided that the relevant criterion calculated for the transaction is lower than one percent (1%).

Compensation of directors who are controlling shareholders

The payment of compensation for holding the office as a director of ours and for participating in meetings of our board of directors and its committees, is in accordance with the provisions set forth in the Companies Regulations (Rules on Compensation and Expenses of an Outside Director), 5760-2000, including with regard to companies whose securities have been offered to the public or are traded outside of Israel.

On March 10, 2016, our compensation committee, audit committee and board of directors authorized the compensation to our directors who are controlling shareholders and/or whose relatives are controlling shareholders and/or with respect to whom the controlling shareholders have a personal interest, including where said compensation for their service as directors is granted to our controlling shareholder, whose directors serve as company's directors at the date of said resolution or who shall serve from time to time, an annual remuneration in the amount of NIS 73,200, and fee for participation in board meetings in the amount of NIS 2,820 per meeting. For written consents in lieu of meetings and for resolutions via other means of communication, a participation fee equal to the rate set forth in the Companies Regulations (Rules for Compensation and Expenses for External Director), 5760-2000 including for public companies or companies traded outside Israel ("**Compensation Regulations**"). In addition, said directors shall be entitled to expense reimbursement as set forth in Regulation 6 to the Compensation Regulations. Said amounts shall be linked to the consumer price index in accordance with Regulation 8 to the Compensation Regulations, commencing from April 1, 2008. For convenience, as of the date hereof, the annual remuneration is set at NIS 84,684 and the fee for participation in meetings is NIS 3,262. Amounts are exclusive of applicable VAT. We may pay said directors' compensation for certain of our serving directors, to our controlling shareholder, DIC, and/or to its indirect controlling shareholder, IDBD. This decision shall be valid for a three years period commencing from March 10, 2016.

Of the sum of \$ 318,000 which we paid towards Directors' fees of 7 directors in total for the year 2015, a sum of approximately \$29,000 was paid to DIC for the service of a director of ours and sum of approximately \$ 28,000 was paid to IDBD for the service of a director of ours.

Bonuses granted to directors and officers

For details regarding bonuses granted to directors and officers, see "Item 6B" above.

Services Agreement with DIC

On April 19, 2015, the Services Agreement with DIC was extended for an additional three year period from May 1, 2015, and the annual service fee was increased to NIS 6 million (equivalent as of December 31, 2015 to approximately \$1.5 million). Pursuant to the Services Agreement, effective from May 1, 2009, we receive managerial and administrative services through staff employed by DIC that include providing us with personnel to discharge the functions of our CEO, CFO, comptroller, general counsel, corporate secretary, junior employee and administration employee services

The services are provided by persons designated by DIC, certain of whom are appointed subject to our approval (our Chief Executive Officer and Chief Financial Officer are to be appointed by us following our proposal of such officers, and their approval by DIC and our board of Directors, and our comptroller, general counsel and corporate secretary are to be appointed by us following our proposal of such officers, and their approval by DIC) and all of whom are employed or otherwise engaged by DIC, at its expense. We are entitled to require DIC to terminate the engagement of any employees of DIC providing services to us. The term of the Services Agreement is three years, subject to either party having the right to terminate it on at least 120 days prior notice if DIC is no longer our largest shareholder.

Pursuant to the Services Agreement, we have agreed to indemnify DIC for any amounts DIC will be required to pay as a result of any legal or administrative proceeding initiated by any third party (other than persons engaged in performing the services on behalf of DIC) seeking to impose liability on DIC arising from any act or omission in performing the services, unless such act or omission amounted to gross negligence or was done other than in good faith. Moreover, DIC will not be responsible for any act or omission of any person engaged by it in performing the services unless such act or omission was made pursuant to the express instructions of DIC. In addition, we provide to persons engaged by DIC in performing functions of officers, indemnification letters with respect to liabilities to which they will become exposed by virtue of performing such functions. Such indemnification letters are provided by us as customarily provided by us to our officers prior to the date of the Services Agreement.

IT Support Agreement with IDBD

In July 2010, following approval of our audit committee and board of directors, our shareholders approved an agreement between us and IDBD pursuant to which we would receive effective from January 1, 2010 IT support services from IDBD's IT support center in consideration for our and RDC's pro rata portion of the support center's costs in connection therewith, calculated pro rata to the number of users receiving IT support from the IDB support center. On October 29, 2014, following approval of our audit committee and board of directors, our shareholders approved the extension of the above mentioned agreement until August 7, 2017.

Grant of Letters of Exemption and Indemnification to Officers and Directors

In 2001, following the approval of our audit committee, board of directors and shareholders, and in accordance with the provisions of the Companies Law, we granted letters of indemnification to our directors and officers. The aggregate indemnification shall not exceed 25% of our shareholders equity according to our consolidated financial statements for the year ended December 31, 2000 amounting to approximately \$70 million, for all persons and cases to be indemnified. In addition, we exempted our directors and officers, to the extent permitted by law, from any liability towards us for any damage caused or that may be caused to us by them, if caused following a breach of their duty of care towards us. We continue to grant letters of exemption to our directors and officers who are not and/or whose relatives are not controlling shareholders and/or in the granting of which our controlling shareholders do not have a personal interest, in accordance with the above terms.

Following approval of our audit committee, board of directors and shareholders, commencing from February 2012, we grant amended letters of indemnification to all of our directors and our officers, including those who are and/or whose relatives are controlling shareholders and/or in the granting of which our controlling shareholders may have a personal interest. The indemnification amount that we shall pay to all of our officers, in the aggregate, including officers who serve or will serve, at our request, as officers of other companies, according to all of the amended letters of indemnification that shall be issued to them by us shall not exceed, in the aggregate, 25% (twenty five percent) of our equity (in U.S. dollars) according to our latest financial statements (annual or quarterly) that are known before actual payment of the indemnification. The letters of indemnification that were granted to officers and directors with respect to which our controlling shareholders may have a personal interest shall remain in effect until February 2021, with the exception of letters of indemnification that were granted to directors and to officers who and/or whose relatives are controlling shareholders, which remained in effect for three years until February 2015.

Our indemnification obligation to our other directors and officers will remain in effect even after the end of the term of their service, provided that the actions with respect to which the indemnification is given were and/will be performed during the term of service, or during the period in which the indemnification was in effect, as applicable. The provisions of the amended indemnification letter approved in February 2012 will prevail over any previous undertaking or consent, whether written or oral, between us and the said directors / officers on the matters stated in the amended letter of indemnification, also in relation to events that occurred prior to grant of the amended indemnification letter, and before indemnification was requested from us in relation to such events, as long as the previous indemnification, if any, continues to apply and to be valid, subject to any law, in relation to any such event (even if the indemnification was requested from us after the amended letter was granted) if the terms and conditions of the amended indemnification letter worsen the terms and conditions of the indemnification in relation to such event.

Directors and Officers Insurance Policy

On June 24, 2015, following approval of our audit committee and board of directors, our shareholders approved in advance our engagement in a directors' and officers' liability insurance policy from July 1, 2015 (the date of expiration of our current policy) through Clal Insurance Company Ltd. or through another insurer, for a period of 18 months until December 31, 2016 ("Initial Insurance Period"), and to approve, in advance, our engagement in an insurance policy after expiration of the Initial Insurance Period, all including by way of extension of the present policy and/or through the purchase of new policies, and which shall apply with respect to our directors and officers, as shall serve from time to time, including officers who or whose relatives are controlling shareholders. The engagement in such insurance policies is subject to our audit committee and board of directors having determined that no material changes occurred in the terms and conditions of the insurance compared with those of our current policy, and that the increase in the sum of the insurance premium shall not exceed 50% relative to the insurance premium paid for our current policy. This approval will remain in effect for three years from July 1, 2015. Our shareholders also approved the possibility to expand the policy, whether during the Initial Insurance Period or thereafter, in the event that as a result of changes in the Company's business and/or stock exchanges on which it is traded, the need shall arise for the expansion of the events and/or the scope covered by the policy, subject to the fulfillment of the conditions specified in Section 2.4 of the proxy statement and subject to the receipt of the approvals of the compensation committee and the board of directors. The terms of the Policy are as follows:

- (1) The coverage under the Policy was limited to \$30 million per claim and in the aggregate during the policy period.
- (2) The premium amounts to \$150,000 for a period of 18 months (i.e. an annual premium of approximately \$100,000).

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Our consolidated financial statements and other financial information are incorporated herein by reference to "Item 18 – Financial Statements" below.

Legal Proceedings

Investors' Claim

In November 1999, a number of shareholders of Elscint filed a claim in the District Court of Haifa, together with a request to approve certain causes of action set out in the claim, as a class action on behalf of the public shareholders of Elscint, and a request for certain causes of action to be treated as a derivative action against various defendants, including Elscint, Elbit Imaging, Elron and Europa Israel to which Elron sold its holdings in Elbit Imaging in May 1999, and certain officers in the defendant companies. The claim alleges, mainly, that Elbit Imaging is duty bound to make a tender offer for the shares of Elscint held by the public and that it unlawfully refuses to do so and, in addition, it raises allegations of preference of the interests of the defendants over those of Elscint and its public shareholders with respect to a number of transactions involving Elscint that the plaintiffs allege discriminated against Elscint's public shareholders.

In June 2007 the plaintiffs submitted to the Haifa District Court an updated statement of claim and request to approve the claim as a class action. The updated claim claimed compensation for damages sustained due to the alleged failure to effect the tender offer, but no longer sought an order compelling the tender offer. The updated statement of claim does not specify the monetary amount claimed, but did include various allegations relating to the manner of determining the damages claimed.

The Haifa District Court dismissed the plaintiffs' request to approve the claim as a class action but the plaintiffs appealed and in May 2012 the Supreme Court handed down a judgment in which it partially accepted the appeal filed by the plaintiffs regarding the District Court's rejection of the motion to approve their claim as a "class action" against the various defendants including the Company. In the said judgment, it was determined, inter alia, that the motion for approval of the claim as a "class action" was accepted with some modifications and directions as to the conduct of the proceeding as detailed in the judgment and the case was returned to the District Court to conduct the claim as a "class action" against all of the defendants, including the Company and its former officers as detailed in the said judgment. The main cause of action alleged against the Company is minority oppression of the minority shareholders of Elscint, such that control of Elscint was sold to someone who is anticipated to exploit the assets of the company in an unequal manner ("Sabotage Sale"). The Company denies the allegations against it in the action.

On February 9, 2016, a request was submitted to the District Court pursuant to which agreement was reached on a partial settlement agreement (between all the plaintiffs and all the defendants except the Company and the group of directors on its behalf). The actual settlement agreement has not been submitted to the District Court since, according to the above application, the parties are required to exhaust other approval proceedings regarding the participation of the insurers. The position of the plaintiffs as presented to the District Court by their legal representatives after the submission of the above request is that the cause of action against the Company and the group of directors on its behalf is separate from the causes of action against the other defendants and therefore - as long as the Company and the group of directors on its behalf do not join the settlement, the plaintiffs are continuing the proceedings between the plaintiffs and the Company and the group of directors on its behalf.

We have made a provision in our financial statements of an immaterial amount, which according to the estimation of our management, based, inter alia, on the opinion of our legal advisors, is sufficient to cover the financial resources that may be required of us in order to expunge the claim, if any.

Other than the above matters, neither we nor our subsidiaries are a party to any material litigation.

Dividend Policy

Currently, we do not have any fixed dividend policy. The declaration of dividends is determined by the board of directors, subject to applicable law and taking into consideration our financial status, profitability, realization of assets and investment requirements.

In accordance with Companies Law, a company is permitted to distribute dividends out of its profits, provided additional conditions are satisfied. "Profits" are defined, for this purpose, as the higher of the retained earnings or the retained earnings accumulated over the previous two year period in accordance with the financial statements which in our case, is the latter. In accordance with Companies Law, in the absence of "Profits", a company can make a distribution with the approval of the court.

As of December 31, 2014, following the distribution of the abovementioned dividend, we do not have accumulated profits available for distribution for the purposes of the "profits" test according to Section 302 of the Companies Law

On March 10, 2016, our Board of Directors resolved, to make an application to the Court for a dividend distribution of US \$ 15 million (constituting an amount of US \$ 0.504307 per share) not out of our profits. Such dividend distribution is subject to the Court approval pursuant to Section 303 of the Companies Law, and the record date will be determined accordingly. We intend to file an application to the Honorable Court, accordingly. This decision of the Board of Directors was taken after the directors determined that considering the Company's assets and liabilities, the solvency criterion pursuant to the Companies Law has been met, i.e. there is no reasonable concern that such dividend distribution would prevent us from meeting our existing and expected obligations, as and when they fall due, and that such dividend distribution is for the benefit of the Company and its shareholders.

It should be clarified that the abovementioned decision of the Board of Directors does not constitute a decision to distribute a dividend, and that a dividend distribution in any amount, shall be subject, in addition to the Court approval as stated herein (which is not assured), to a further separate approval of the Board of Directors in relation to the dividend distribution itself, subject to the Board's full discretion. Accordingly, it should be clarified that as of the date of the publication of this Annual Report, there is no certainty as to the distribution of a dividend or the timing or amount thereof.

In July 2012, the Israeli Securities Authority published the company regulations (Other Amounts Included in Shareholders' Equity that Will be Considered Retained Earnings), 2012 which neutralizes part of the impact of the adoption of IFRS 9 at the time of application of the "profits test" for the purposes of the distribution and determines that if the company had an investment in an equity instrument, which according to IFRS 9, changes in its fair value would be reflected in company's other comprehensive income, then the positive and negative amounts included in the shareholders equity of the company with respect to changes in the fair value of such investment will also be considered "retained earnings" provided that according to IAS 39, these amounts are reflected in the net income.

Donations and Assistance to the Community

We regard charitable contributions and assistance to the community in Israel as a very important and integral part of our overall activities. On August 10, 2011, our board of directors approved a donation policy, according to which up to 0.5% of our gains in respect of exit transactions shall be allocated to the donation budget ("the Budget Fund"), in effect as of the sale of Medingo in 2010, to be utilized over the course of several years. The budget fund not utilized during an exit year will be available for use in the ensuing years. The board of directors authorized the Chairman of our audit committee as the Chairman of donations committee, who is the person responsible for decisions made in regard to allocating donations in accordance with our Budget Fund.

During 2015, we donated approximately NIS 74,000 (\$19,000), mainly to Israeli military "188" unit.

B. Significant Changes

Except as otherwise disclosed in this Annual Report, no significant change has occurred since December 31, 2015.

Item 9. The Offer and Listing**A. Offer and Listing Details****Markets and Share Price History**

Our ordinary shares are traded on the TASE and were traded on the Nasdaq Global Select Market until January 6, 2010 under the symbol "ELRN." Since January 7, 2010, our Ordinary shares have been traded in the over-the-counter market in the United States under the symbol "ELRNF." The following table sets forth, for the periods indicated, the high and low reported sales prices, which reflect the distribution of a dividend of \$3.00 per share in 2005, a dividend of approximately \$0.5057 per share in 2012 and a dividend of \$3.69825 per share in 2014, of our ordinary shares on the U.S. market (in U.S. Dollars) and on the TASE (in NIS). The historical price per share of our ordinary shares on the U.S. market was adjusted manually as prices reflecting the automatic adjustment was not publicly available:

Period	U.S. High (U.S. \$)	U.S. Low (U.S. \$)	TASE High (NIS)	TASE Low (NIS)
Annually				
2011	5.51	2.89	18.02	11.09
2012	5.08	2.69	19.74	11.04
2013	8.62	4.41	30.27	16.51
2014	5.88	3.96	20.68	15.00
2015	5.22	4.06	20.29	16.12
Quarterly				
First Quarter 2014	5.57	4.97	19.87	17.81
Second Quarter 2014	5.88	5.09	20.68	17.76
Third Quarter 2014	5.30	4.69	18.66	16.76
Fourth Quarter 2014	4.56	3.96	17.12	15.00
First Quarter 2015	5.00	4.06	19.62	16.12
Second Quarter 2015	5.00	4.46	20.22	16.99
Third Quarter 2015	5.10	4.28	19.84	16.70
Fourth Quarter 2015	5.22	4.14	20.29	16.67
Most recent six months				
September 2015	4.94	4.58	19.33	17.57
October 2015	4.71	4.14	18.26	16.67
November 2015	5.14	4.54	20.10	17.87
December 2015	5.22	5.00	20.29	19.39
January 2016	5.10	4.67	20.11	19.03
February 2016	5.00	4.64	19.59	16.89
March 1, 2016 (through March 9, 2016)	4.55	4.30	17.78	17.00

B. Plan of Distribution

Not applicable

C. Markets

As noted above, our ordinary shares are traded on the TASE under the symbol "ELRN" and over-the-counter in the United States under the symbol "ELRNF."

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Articles of Association; Companies Law

Set forth below is a summary of certain provisions of our Memorandum of Association and our Articles of Association. This description is qualified in its entirety by reference to the full text of our Memorandum of Association and our Articles of Association, which are incorporated by reference as exhibits to this Annual Report.

On October 20, 1961, we were registered as a company with the Registrar of Companies in Israel. Our registration number with the Registrar of Companies is 52-0028036.

Our shareholders approved the adoption of our Articles of Association in March 2001 and adopted certain amendments thereto in December 2006 and on February 1, 2012. Our objective as stated in our Articles of Association and in our Memorandum of Association is to engage in any lawful activity. The amended Articles of Association including all amendments to date is being filed with this Annual Report as Exhibit 1.1.

We have currently outstanding only one class of securities, our ordinary shares, par value NIS 0.003 per share. No preferred shares are currently authorized. Holders of ordinary shares have one vote per share and are entitled to participate equally in the payment of dividends and share distributions and, in the event of our liquidation, in the distribution of assets after satisfaction of liabilities to creditors. According to our Articles of Association, any modification of the Articles of Association requires the approval of a special majority at a general meeting. A special majority is defined in our Articles of Association as at least a majority of 67% of the shareholders who voted at the general meeting, without taking abstaining votes into account.

The Companies Law and our Articles require that we hold our annual general meeting of shareholders each year no later than 15 months from the last annual meeting, at a time and place determined by the board of directors. Under Israeli law and regulations and our Articles of Association, notice of the meeting is required to be published in two widely distributed daily newspapers published in Hebrew. The Companies Law requires us to issue a voting instrument in order to enable shareholders to vote through a voting instrument, if certain matters are on the agenda of the meeting. Under the Companies Regulations (Voting Slip and Position Notices), 2005, (the "Voting Slip Regulations") if the agenda of the general meeting includes, among others, one of several types of resolutions such as the appointment and discharge of directors; approval of certain acts or transactions; approval of a merger and other fundamental issues, then generally, the shareholders may vote at the general meeting by means of a voting slip.

Pursuant to Amendment No.53 to the Securities Law, as of June 17, 2015, a new internet voting system, developed by the Israeli Securities Authority, began operating. The main purpose of this system is to encourage shareholders, bondholders, owners of option warrants and participation units to exercise their voting rights in meetings: the Voting Regulations stipulate that the voting system would confirm their ownership automatically, and they will not have to obtain or submit any proof of ownership obtained from the stock exchange member.

Under our Articles of Association, no business may be commenced until a quorum of two or more shareholders holding at least one-third of the voting rights are present in person or by proxy. The Israeli Companies Regulations provides that the record date for the participation of shareholders of a company, such as us, whose shares are traded or registered outside of Israel may be no more than 40, but no less than 4, days prior to the meeting, provided that notice for the meeting is given prior to the record date provided however that if the agenda of the general meeting includes a resolution which can be voted on by a voting slip in accordance with the Voting Slip Regulations, no less than 28 days before the date of the general meeting. Resolutions regarding the following matters must be passed at a general meeting of shareholders:

- amendments to our Articles of Association and our Memorandum of Association;
- appointment or termination of our auditors;
- appointment and dismissal of directors (in addition to the board of directors' authority to appoint directors in certain circumstances);
- approval of interested party actions and transactions requiring general meeting approval as provided in sections 255 and 268 to 275 of the Companies Law due to a personal interest of a controlling shareholder or a director or on certain matters related to compensation of our officers, directors and our controlling shareholders;
- increase or reduction of our authorized share capital and alterations of our share capital;
- a merger as provided in section 320(a) of the Companies Law;
- the exercise of the board of directors' powers by a general meeting, if the board of directors is unable to exercise its powers and the exercise of any of its powers is vital for our proper management, as provided in the Companies Law; and
- any matter that is required to be adopted by resolution of a general meeting pursuant to the law or in accordance with our Articles of Association.

An extraordinary meeting of our shareholders will be convened by the decision of the board of directors, or at the request of any two directors or one-quarter of the officiating directors, or by request of one or more shareholders holding at least 5% of the issued capital and at least 1% of the voting rights in our Company, or one or more shareholders holding at least 5% of the voting rights in our Company. Shareholders requesting an extraordinary meeting must submit their proposed resolution with their request. Within 21 days of receipt of the request, the board of directors must convene an extraordinary meeting and send out notices setting forth the date, time and place of the meeting.

The Companies Law codifies the fiduciary duties and duty of care that office holders owe to a company. An office holder under the Companies Law includes the positions of director, general manager, chief business manager, deputy general manager, vice general manager, executive vice president, vice president, any other person assuming the responsibilities of any of the forgoing positions without regard to such person's title, and manager directly subordinate to the general manager. Each person listed in the table in "Item 6—Directors, Senior Management and Employees—Directors and Senior Management" above is an office holder.

The Companies Law requires that a controlling shareholder and an office holder of a company promptly disclose, and no later than the first board meeting in which such transaction is discussed, any personal interest that he or she may have, and all related material information or document known to him or her, in connection with any existing or proposed transaction by the company. The duty to disclose shall not apply if the personal interest derives solely from a personal interest of a relative in an ordinary transaction. An extraordinary transaction is defined as a transaction not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities. Under the Companies Law, the audit committee shall determine if a transaction with a controlling shareholder or with an office holder or in which one of them has a personal interest, is an extraordinary transaction or is an ordinary transaction. The audit committee may determine criteria for transactions of this type once a year.

In the case of a transaction with an office holder or a transaction with another person in which an office holder has a personal interest, that is not an extraordinary transaction, after the office holder complies with the above disclosure requirement, board of directors' approval is required unless the Articles of Association of the company provide otherwise. Our Articles of Association provide that a transaction with one of our office holders or a transaction, in which an office holder has a personal interest which, in each case, is not regarded as an extraordinary transaction, requires the approval of our board of directors or our audit committee or such other body or person empowered by our board of directors for such purpose. Our policy, as approved by our board of directors, is that any such transaction with a value of less than \$1 million requires approval by our audit committee, and any such transaction with a value in excess of \$1 million requires the additional approval of our board of directors. If the transaction with the office holder or in which an office holder has a personal interest is an extraordinary transaction, then, that transaction must be approved by our audit committee and by the board of directors.

Separate and special rules were stipulated the Companies Law, with regards to the compensation of office holders. Generally, public companies, like us, were required to adopt a compensation policy addressing, among others, the compensation of its directors and officers. The compensation policy must be determined by the company's board of directors after considering the recommendations made by the company's compensation committee and it is subject to the final approval of the company's shareholders.

In all matters in which a person has a personal interest, including matters of his/her terms of employment, he/she will not be permitted to vote on the matter or be present in the audit committee or board of directors meeting in which the matter is considered. An office holder, who has a personal interest, may attend the abovementioned meetings in order to present the transaction, if the chairman of the audit committee or the chairman of the board of directors, as applicable, determined that the office holder is essential for the presentation. However, should a majority of the members of the audit committee or of the board of directors have a personal interest in the matter, then:

- (a) all of the directors are permitted to vote on the matter and attend the meeting in which the matter is considered; and
- (b) approval of the shareholders at a general meeting is required if the majority of the board of directors have a personal interest in the matter.

The term "controlling shareholder" for these purposes, however, also includes shareholders that hold 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company.

In general, extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the terms of engagement of the company, directly or indirectly, with a controlling shareholder or his or her relative (including through a corporation controlled by a controlling shareholder), regarding the company's receipt of services from the controlling shareholder, and if such controlling shareholder is also an office holder of the company or an employee, regarding his or her terms of employment, require the approval of the company's audit committee (and on matters relating to terms of tenure and employment – the compensation committee), board of directors and shareholders.

Such shareholder approval must either include at least a majority of the shares held by disinterested shareholders who participate in the vote (without taking abstaining votes into account), or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than 2% of the voting rights in the company. Under specified circumstances, such shareholder approval is not required.

In addition, under the Companies Law, the company must conduct a competitive procedure or other procedure, subject to the audit committee discretion, before any engagement in a transaction with controlling shareholders or in which a controlling shareholder has a personal interest. Furthermore, any such extraordinary transaction whose term is more than three years, requires the abovementioned approval every three years, unless (with respect to transactions not involving receipt of services or compensation) the audit committee approves that a longer term is reasonable under the circumstances.

Under the Companies Law, procedures relating to the approval of executive compensation and the formulation of compensation policies were adopted. See "Item 6B – Compensation" for more information.

Under the Companies Law, if a private placement: (i) entails 20% or more of the voting rights of a company prior to the placement, and all or part of the private placement consideration is not in cash or in public traded securities or is not upon market terms and if as a result of the private placement the holdings of substantial shareholder will increase or result in a person becoming a substantial shareholder; or (ii) results in a person becoming a controlling shareholder, then the allotment must be approved by the board of directors and by the shareholders of the company. A "substantial shareholder" is defined as a shareholder that holds 5% or more of the company's voting rights or outstanding share capital, assuming the exercise of all of the securities convertible into shares held by that person. In order for the private placement to be on "market terms," the board of directors has to determine, on the basis of a detailed examination, that the private placement is on market terms, unless proved otherwise. Any placement of securities that does not fall within the above description may be issued at the discretion of the board of directors.

Under the Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders when exercising his rights and duties and refrain from abusing his power in the company, including, among other things, voting in the general meeting of shareholders and class meetings on the following matters:

- any amendment to the Articles of Association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of interested party acts and transactions that require general meeting approval as provided in sections 255 and 268 to 275 of the Companies Law due to a personal interest of a controlling shareholder or a director or an executive officer of ours.

In addition, any controlling shareholder, any shareholder who knows that it possesses power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or prevent the appointment of an office holder in the company or who has any other power with respect to the company, is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty. The Companies Law requires that specified types of transactions, actions and arrangements be approved as provided for in a company's articles of association and in some circumstances by the audit committee, by the board of directors and by the general meeting of the shareholders. The vote required by the audit committee and the board of directors for approval of these matters, in each case, is a majority of the directors participating in a duly convened meeting.

C. Material Contracts

Policy on determining materiality with respect to whether we are required to file an immediate report in the case of an event or matter not within our ordinary course of business

In January 2010, we announced our policy to determine whether a specific event or matter affecting us and/or a company held by us is material to us in terms of the requirement to file an immediate report thereon pursuant to the applicable Israeli Securities Regulations.

These guidelines and rules were determined according to our characteristics as a holding company. The rules are set out below:

Quantitative examination

The materiality of each such event or matter shall be calculated using the relevant criteria from the following, measured with reference to our latest consolidated financial statements.

- A. Percentage of assets – the assets purchased or sold divided by our total assets presented in our most recent financial reports published by us;
 - B. Percentage of gain – the actual or forecasted gain or loss related to such event or matter divided by the average annual amount calculated according to the statement of income (in absolute terms) for the preceding 12 quarters as presented in our reviewed or audited financial statements that were published by us;
 - C. Percentage of equity – increase or decrease in our equity due to such event or matter divided by our equity presented in our most recent financial reports published by us prior to that event or matter;
 - D. Percentage of liability – the liability being the subject of such event or matter divided by our total equity presented in our most recent financial reports published by us prior to that event or matter.
- Without derogating from the need to decide for each such event or matter, the materiality of which is being evaluated, which of the criteria stipulated in Section A above, are relevant, the following criteria will be considered relevant for the transactions identified: A. Purchase of assets – percentage of total assets; B. Sale of assets – percentage of gain, percentage of total assets; C. Taking a loan – percentage of liability.
 - In the absence of special qualitative considerations as discussed below, an event or matter shall be considered to be material if one of the relevant criteria exceeds 10%.
 - In the absence of qualitative considerations, an event or matter will be deemed not material if all the relevant criteria are less than 5%.
 - Events or matters that are not classified under Sections C or D may be considered material and must be reviewed in qualitative terms with all of the relevant information and circumstances.
 - In examining the materiality of an event or matter that is supposed to take place in the future, the probability of that event or matter materializing is to be determined as well as its expected importance and impact should it materialize.
 - If dealing with an event or matter relating to a subsidiary or associate company of ours, our relative share of the impact of that event or matter is to be examined, in other words, relative to our percentage holding in that subsidiary or associate company, using the aforementioned materiality tests.
 - If the event or matter is not an investment in securities, such as an engagement through financing agreements, engagement through agreements for the receipt of services and the like, the impacts of that event or matter on us must also be examined in terms of other relevant accounting items related to the nature of the subject event or matter.

Qualitative examination

The materiality of each event or matter will be examined in qualitative terms as well. The qualitative examination may differ from the findings of the quantitative examination of whether or not that event or matter is material. As part of the qualitative examination of the materiality of an event or matter, meaning and impacts for us may be considered with respect to one or more of the following:

- The event or matter involves material opportunities or risks and exposures. When examining this aspect, it is important to consider whether and to what extent the risk involved in that event or matter was not reflected in risk factors included in our previous public reports. The question of whether the event or matter is the realization of a risk factor reported to the public of investors prior to the occurrence of that event or matter is to be considered as well;
- As part of the event or matter, we enter a new and important area of activity or exit an existing important area of activity;
- The disclosure of the event or matter may bring about, with reasonable certainty and based on past experience, and evaluation models generally used by investors and analysts, a significant change in the price of our ordinary shares;
- The event or matter may have a special impact on our financial statements such as the reclassification of specific items, etc.;
- The event or matter may impact on our compliance with significant regulatory requirements, significant financial standards that may cause significant difficulty for us, or other significant contractual requirements;
- The event or matter may significantly influence analysts and/or investors when they analyze our activity and results;
- The event or matter is perceived as a significant event by our management and used as the basis for making management decisions.

Without derogating from the generality of the foregoing:

- If our controlling shareholder is required to file an immediate report on an event or matter concerning us or a subsidiary or associate company of ours, we shall also file an immediate report on the same event or matter, even if the aforementioned quantitative rules do not require us to do so.

- With respect to lawsuits (including class action suits) – in an event regarding the filing of a lawsuit, including a class action, against us or any subsidiary or associate company of ours, the materiality of the event shall be examined as follows: A. Quantitative review – will be conducted according to the amount of the claim or class action, multiplied by our percentage holding in the company being sued, if this relates to subsidiary or associate company. If there is an assessment as to the chances of success when materiality is being examined, these chances shall be considered and the expectancy of the claim from our perspective will be calculated. The relevant quantitative criterion to examine the materiality of the lawsuits will be the percentage of gain. The percentage received after performing the calculation will be examined in light of the regular quantitative review procedures specified in above. B. Qualitative examination – the question of whether the filing of the claim or the threat of a lawsuit has a significant impact on all the information used in investment decisions by the public of investors for our ordinary shares will be examined. In this criteria, our relevant considerations such as the following will be taken into account: the identity of the plaintiff; group of plaintiffs; the anticipated effects should the claim be certified as a class action and if it is accepted by court; the existence of similar lawsuits against the company being sued about similar material and the extent of the impact of the additional claim on all the information in the possession of investors; the reference to the class action in our financial statements.
- With respect to administrative or criminal proceedings – in an event relating to a criminal investigation conducted by enforcement agencies, the Israeli Securities Authority or other regulatory authority, against us and/or any of our officers about a matter significant to us, and with respect to events regarding a criminal and/or administrative proceeding against us and/or our officers on a matter significant to us, the qualitative examination of materiality will be given additional weight, and specifically, the manner in which the Event may impact investors and/or analysts when they analyze our activities and results and how investors relate to the manner in which we and/or our officers conduct our business.

Services Agreement with DIC

In April 2009, we entered into the Services Agreement with DIC which was renewed for an additional three years with effect from May 1, 2012. In April 2015, the Services Agreement was extended for an additional three year period from May 1, 2015 and the annual services fee was amended to NIS6 million annually (approximately \$1.5 million), linked to the Israeli consumer price index as of 1 May 2016 in accordance with terms of the agreement. For more information see "Item 7 – Major Shareholders and Related Party Transactions – Service Agreement with DIC" and Exhibit 4.2 attached hereto.

Agreement with Rafael

In December 2007, we, DEP, RDC and Rafael signed an addendum agreement, or the Addendum, effective as of January 1, 2008 which amended the existing agreement between the parties pertaining to the first exclusive rights granted to RDC to commercialize certain technologies of Rafael. RDC's rights to commercialize certain technologies of Rafael will continue without time restrictions. Rafael undertook not to establish an entity similar to or competitive with RDC and we (together with DEP) undertook not to establish a similar or competing entity to RDC inasmuch as such entity is an Israeli entity engaged in the military-security field and is a competitor of Rafael. We (together with DEP) are committed to make further investments of \$0.75 million in RDC for each company that will be established by RDC based on Rafael's technologies. In addition, RDC granted Rafael an option to receive from RDC 3% of the shares of each new company that would be established by RDC based on Raphael's technologies. DEP will be entitled to receive certain management fees from RDC in respect of each new company that shall be established, insofar as it shall be sold, merged or its securities offered to the public, and upon the fulfillment of certain conditions. Raphael may cooperate with a third party for the purpose of commercialization of military products with an operating partner (which is not a financial body) and for the purpose of commercialization of "mature" products, as defined in the Addendum, outside of the military segment, a significant part of the development of which has been completed by Rafael. Insofar as Rafael shall seek to cooperate with a financial body with respect to "mature" products, it is required to also approach us, together with DEP at the same time. In cases in which Rafael shall cooperate with a third party in connection with the sale or marketing of products in the fields of business of RDC and in respect of which RDC has no rights, we will be able, and alternatively RDC will be able, to participate in approximately 10% of the said cooperation (subject to the third party's consent. In the event that Rafael is approached by a third party financial partner with a proposal for a new project, RDC will be entitled to cooperate with Rafael instead of such third party and will pay Rafael the consideration offered by such third party. If such third party is not a financial partner, RDC will be entitled to cooperate with such third party instead of Rafael and Rafael will be entitled to receive 3% of the shares of the company established. DEP is entitled to assign its rights and obligations in the agreement to any company, which controls, controlled by or in under the common control with DEP as long as we remain liable for our obligations thereunder. This Addendum is incorporated as Exhibit 4.4 hereto by reference to the Annual Report year ended December 31, 2007 filed with the SEC on June 30, 2008.

D. Exchange Controls

The Israeli Currency Control Law of 1978 imposes certain limitations on foreign currency transactions and transactions between Israeli and non-Israeli residents, which limitations may be regulated or waived by the Controller of Foreign Exchange at the Bank of Israel, through "general" and "special" permits. In May 1998, a "general permit" was issued pursuant to which substantially all transactions in foreign currency are permitted. Any dividends or other distributions paid in respect of ordinary shares and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our securities to an Israeli resident are freely repatriable into non-Israeli currencies at the rate of exchange prevailing at the time of conversion, provided that Israeli income tax has been paid on (or withheld from) such payments.

E. Taxation

General

The following is a summary of the material provisions of the current tax law applicable to companies in Israel, with special reference to its effect on us and our group companies. The following also contains a discussion of material Israeli tax consequences to our shareholders and government programs from which we and some of our group companies benefit. To the extent that the discussion is based on tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the tax authorities in question.

The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

General Corporate Tax Structure in Israel

Israeli companies are generally subject to corporate tax. In 2014, the corporate tax rate was 26.5% of company's taxable income. In January 2016 the Israeli Knesset amended the corporate tax rate from 2016 and thereafter to 25%. Furthermore, the effective tax rate payable by a company that derives income from a Preferred Enterprise or a Benefited Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli company are subject to the prevailing corporate tax rate.

Israeli Tax Reform

In July 2002, Israel's tax law has been extensively amended, generally effective January 1, 2003. Among the key amendments were (i) changes which may result in the imposition of taxes on dividends received by an Israeli company from its foreign subsidiaries; and (ii) the introduction of the "controlled foreign corporation" concept according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiary if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or capital gains). An Israeli company that is subject to Israeli taxes on the income of its non-Israeli subsidiaries will receive a credit for income taxes paid/withheld or that will be paid/withheld by the subsidiary in its country of residence, according to the terms and conditions determined in the Israeli Tax Ordinance.

In July 2005, Israel' tax law was significantly amended effective January 1, 2006. This amendment includes, among others, changes in the capital markets tax rate.

Law for the Encouragement of Capital Investments, 1959

From time to time, certain operations of our group companies have been granted Approved Enterprise and/or "beneficiary enterprise" status under the Law for the Encouragement of Capital Investments, 1959, as amended, or the Investment Law.

The Investment Law provides that a capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry and Trade of the State of Israel, or the Investment Center, be designated as an Approved Enterprise. Each certificate of approval for an Approved Enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, e.g., the equipment to be purchased and utilized pursuant to the program. The tax benefits derived from any such certificate of approval relate only to taxable income attributable to the specific Approved Enterprise.

Taxable income of a company derived from an Approved Enterprise is subject to company tax at the rate of up to 25% for a period of time termed the benefit period. The benefit period is a period of seven years commencing with the year in which the Approved Enterprise first generated taxable income. The benefits may be shorter as it is limited to 12 years from the commencement of production of the Approved Enterprise or 14 years from the date of approval, whichever is earlier. Under certain circumstances (as further detailed below), the benefit period may extend to a maximum of ten years from the commencement of the benefit period. A company which operates under more than one approval or that has capital investments which are only partly approved (such a company being designated as a Mixed Enterprise), may have an effective company tax rate that is the result of a weighted combination of the various applicable rates.

A company owning an Approved Enterprise may elect to forego certain government grants extended to Approved Enterprises in return for what is termed an alternative package of tax benefits (referred to as the Alternative Package). Under the Alternative Package, a company's undistributed income derived from an Approved Enterprise will be exempt from company tax for a period of between two and ten years, depending on the geographic location of the Approved Enterprise within Israel. Such company will be eligible for the tax benefits under the Investment Law for the remainder of the benefit period.

Should the percentage of share capital of the companies having Approved Enterprises held by foreign shareholders exceed 25%, future Approved Enterprises of such companies would qualify for reduced tax rates for an additional three years, after the seven years mentioned above.

The company tax rate applicable to income earned from Approved Enterprise programs (currently, for programs on which an application for an approved enterprise status was submitted before December 31, 2004) in the benefit period by a company meeting these qualifications is as follows:

% of Foreign Ownership	Tax Rate
Over 25% but less than 49%	25%
49% or more but less than 74%	20%
74% or more but less than 90%	15%
90% or more	10%

The above benefits are conditional upon the fulfillment of the conditions stipulated by the Tax Burden Law, regulations published there under and the letters of approval for the investments in the approved enterprises, as above. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest. The managements believe that the companies are meeting the aforementioned conditions.

However, there can be no assurance that the provisions of the Investment Law will not change with respect to future approvals, or that the above-mentioned shareholding portion will be reached for each subsequent year.

A company that pays a dividend out of income derived from the Approved Enterprise(s) during the tax exemption period will be subject to deferred company tax in respect of the amount distributed (including the recipient's tax thereon) at the rate which would have been applicable had such company not elected the Alternative Package. This rate is generally 10% to 25%, depending on the extent to which non-Israeli shareholders hold such company's shares.

The dividend recipient is taxed at the reduced rate applicable to dividends from Approved Enterprises (generally 15% as compared to 30% (or compared to 25% if the dividend recipient is not a substantial shareholder – shareholders owning, directly or indirectly, 10% or more of our outstanding voting capital) for individuals or an exemption for companies), if the dividend is distributed during the tax benefit period or within 12 years after this period. However, the limitation does not apply if the company qualifies as a foreign investors' company. This tax must be withheld by such company at the source, regardless of whether the dividend is converted into foreign currency.

Subject to certain provisions concerning income subject to Mixed Enterprises, all dividends are considered to be attributable to the entire enterprise and the effective tax rate on the dividend is the result of a weighted combination of the various applicable tax rates. However, such company is not obliged to distribute exempt retained profits under the Alternative Package, and such company may generally decide from which year's profits to declare dividends.

The benefits available to an Approved Enterprise are conditional upon the fulfillment of certain conditions stipulated in the Investment Law and its regulations and the criteria set forth in the certificate of approval, as described above. In the event that these conditions are violated, in whole or in part, a company with an Approved Enterprise would be required to refund the amount of tax benefits, with the addition of the Israeli consumer price index linkage differences and interest.

Reform (Amendment) of the Encouragement of Capital Investment Law

In April 2005, an amendment to the Investment Law came into force that revamps the Israeli tax incentives for future industrial and hotel investments. A tax "holiday" package can now be elected for up to 15 years for a "Privileged Enterprise" as defined in this amendment, if certain conditions are met, without needing to obtain approval. The extent of the tax benefits available depends mainly upon the level of foreign investment and the geographical location of the "Privileged Enterprise".

Tax payers could, under certain conditions, have claimed Privileged Enterprise status for new and expanded enterprises with respect to 2004 or subsequent years until January 1, 2011, unless the Investment Center granted such taxpayer Approved Enterprise status prior to December 31, 2004.

Subject to certain conditions, various alternative tax-only benefit packages can now be elected with respect to investments in a "Privileged Enterprise." Companies in industry or tourism in Israel may elect between:

- Tax "holiday" package for a "Privileged Enterprise": a tax exemption applies to undistributed profits for two to fifteen years depending on geographical location of the "Privileged Enterprise" and the level of foreign ownership. Company tax rates of between 10% and 25% apply to the distributed exempt profits or profits derived subsequent to the exempt period. The total period of tax benefits is seven to fifteen years; or
- Grant / Reduced tax package for an "Approved Enterprise": Fixed asset grants up to 24% for enterprises in a development area and reduced company tax rates between 0% and 25% for seven to 15 years.

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among others, an amendment to the Investment Law effective January 1, 2011. According to this amendment, the preferred track, the benefit tracks in the Investment Law were modified and a flat tax rate applies to the eligible company's entire preferred income. The eligible company will be able to opt to apply the amendment and from then on it will be subject to the amended tax rates that are: 2011 and 2012 - 15% (in development area A - 10%), 2013 and 2014 - 12.5% (in development area A - 7%) and in 2015 and thereafter - 12% (in development area A - 6%). Dividend recipient from gains under the preferred track by an Israeli Company is exempt and subject to 15% by an individual.

On July 30, 2013 an amendment to the reduced tax rate was approved by the Knesset. Accordingly the reduced tax rate increased to 16% (in development area A - 9%). In addition a dividend attributed from gains under the preferred track by an individual is subject to 20% instead of 15%.

Taxation under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985 (referred to as the Inflationary Adjustments Law) is intended to neutralize the erosion of capital investments in business and to prevent tax benefits resulting from deduction of inflationary expenses. This law applies a supplementary set of inflationary adjustments to the normal taxable profits computed under regular historical cost principles. We and our group companies operating in Israel are taxed under this law.

Under the Inflationary Adjustments Law, results for tax purposes are measured in real terms, in accordance with the changes in the consumer price index. In addition, subject to certain limitations, depreciation of fixed assets and losses carried forward are adjusted for inflation on the basis of changes in the consumer price index.

According to an amendment of the Inflationary Adjustments Law most of the provisions of the law are not valid starting tax year 2008. Pursuant to this amendment, the above mentioned "special tax adjustment" is canceled, depreciation deductions on Fixed Assets (that were classified as fixed assets from 2002-2007) are adjusted for inflation based on the increase in the consumer price index from their original purchase date but not before the beginning of the 1982 fiscal year up to December 31, 2007. Losses carried forward will be adjusted for inflation based on the increase in the consumer price index up to December 31, 2007.

Law for the Encouragement of Industry (Taxes), 1969

Certain of our group companies currently qualify as Industrial Companies within the definition of the Law for the Encouragement of Industry (Taxes), 1969 (referred to as the Industry Encouragement Law). According to the Industry Encouragement Law, an Industrial Company is a company resident in Israel, at least 90% of the income of which in any tax year (exclusive of income from defense loans, capital gains, interest and dividends) is derived from an Industrial Enterprise owned by it. An Industrial Enterprise is defined as an enterprise whose major activity in a given tax year is industrial production activity.

The following preferred corporate tax benefits are available to Industrial Companies: (a) deduction of purchases of know-how and patents over an eight-year period for tax purposes; (b) under certain interpretations, deduction of expenses incurred in connection with a public issuance of securities over a three-year period; and (c) an election under certain conditions to file a consolidated tax return with additional related Israeli Industrial Companies and/or with a company that controls an Industrial Company and a specified percentage of its assets are invested in industrial companies; and (d) accelerated depreciation rates on equipment and buildings. In addition, new regulations which apply mainly to Industrial Companies, allow the depreciation of industrial equipment purchased prior to May 31, 2009 over a period of two tax years.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. No assurance can be given that any of our group companies will qualify and/or continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Capital Gains Tax

Israeli law imposes a capital gains tax on the sale of capital assets. The law distinguishes between the Real Gain and the Inflationary Surplus. The Real Gain is the excess of the total capital gain over the Inflationary Surplus, computed on the basis of the increase of the consumer price index between the date of purchase and date of sale. The Inflationary Surplus accumulated until December 31, 1993 is taxed at a rate of 10% for residents of Israel (reduced to no tax for non-residents if calculated according to the exchange rate of the foreign currency lawfully invested in shares of an Israeli resident company, instead of the consumer price index). Inflationary Surplus accumulated from and after December 31, 1993 is exempt from any capital gains tax, while the Real Gain is added to ordinary income, which effective until December 31, 2002 is taxed at the marginal rate of up to 48% for individuals (in 2014 and 2015) and to corporate tax rate of 26.5% in 2015 and in 2014 for corporations. The capital gains tax rate imposed upon sale of capital assets (including non-traded shares) acquired after that date has been reduced to 25% with respect to individuals in 2014 and 2015 ; capital gains accrued from assets acquired before that date are subject to a blended tax rate based on the relative periods of time before and after the date that the asset was held. In addition to the above since 2013 individuals that their over-all income exceeds the NIS810 thousands threshold are subject to surtax of 2%, or surtax.

Under current law, as of January 1, 2006, the Israeli tax rate applicable to capital gains derived from the sale of shares, whether listed on a stock market or not, is 26.5% in 2015 and 26.5% in 2014 for Israeli individuals, unless such shareholder claims a deduction for financing expenses in connection with such shares, in such case the gain will generally be taxed at a rate of 25%.

Additionally, if such individual shareholder is considered a "Significant Shareholder" at any time during the 12-month period preceding such sale, i.e. such shareholder holds directly or indirectly, including with others, at least 10% of any means of control in the company, the tax rate shall be 30% in 2014 and 2015. However, the foregoing tax rates will not apply to: (i) dealers in securities; and (ii) shareholders who acquired their shares prior to an initial public offering (that may be subject to a different tax arrangement). In such case the taxable real gain will be based on the difference between the adjusted average value of the shares during the last three trading days before January 1, 2003 (or the adjusted original cost if it is higher than the adjusted average value) and the value of the shares at the date of sale. In the event the above mentioned calculation creates a loss, such loss can only be offset against a capital gain from other traded securities according to the provisions of the Israeli law. The amount of the loss is limited to the difference between the adjusted average value and the value of the shares at the date of sale.

Employee Stock Options

Effective from January 1, 2003, the Israeli tax law enables a company to grant options through one of three tax tracks:

(a) the income tax track through a trustee pursuant to which the optionee pays income tax rate (according to the marginal tax rate of the optionee- up to 48% in 2014 and 2015 and surtax since 2013 plus payments to the National Insurance Institute and health tax on the profit gained upon the earlier to occur of the transfer of the options or the underlying shares from the trustee to the optionee or the sale of the options or the underlying shares by the trustee, and the company may recognize expenses pertaining to the options for tax purposes. The options (or upon their exercise, the underlying shares), must be held by a trustee for a period of 12 months commencing from the date of which the options were granted; or

(b) the capital gains tax track through a trustee pursuant to which the optionee pays capital gains tax at a rate of 25% on the capital profit portion and marginal tax rate (including payments to the National Insurance Institute and health tax) on the income portion (in general, the income portion is the profit derived from the difference between the average market value of the share 30 days before the allotment date and the exercise price of the option) upon, the earlier to occur of the transfer of the options or the underlying shares from the trustee to the optionee or the sale of the options or the underlying shares by the trustee. (On the capital profit the optionee is not required to make payments to the National Insurance Institute and health tax.) In this track, on the capital profit, the Company may not recognize expenses pertaining to the options for tax purposes but may do so on the income portion. The options (or upon their exercise, the underlying shares), must be held by a trustee for a period of 24 months commencing from the date of which the options were granted; or

(c) the income tax track without a trustee pursuant to which the optionee pays income tax rate (according to the marginal tax rate of the optionee up to 48% in 2014 and 2015 and surtax since 2013) plus payments to the National Insurance Institute and health tax on the profit at the allotment date, and pays capital gains tax at a rate of 25% on the capital profit upon the sale of the underlying shares, and the company may not recognize expenses pertaining to the capital gain for tax purposes but may recognize expenses pertaining to the profit at the allotment date.

In accordance with the provisions of the Tax Reform Legislation, if a company has selected the capital gains track, the company must continue granting options under the selected capital gains track until the end of the year following the year in which the first grant of options under that trustee track will be made. Notwithstanding the above, the company may at any time also grant options under the provisions of the income tax track without a trustee.

The above rules apply only to employees, including office holders and directors but excluding controlling shareholders.

Controlling shareholders optionees are subject to income tax rate (according to the marginal tax rate of the optionee- up to 48% in 2014 and 2015 and surtax since 2013) on the profit upon the sale of the underlying shares.

U.S.-Israel Tax Treaty

Pursuant to the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income (the "U.S.-Israel Tax Treaty"), the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and who is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty (a "Treaty U.S. Resident") will not be subject to Israeli capital gains tax unless (a) such Treaty U.S. Resident is an individual and was present in Israel for more than 183 days during the relevant taxable year or (b) such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of the voting power of a company during any part of the 12-month period preceding such sale, exchange or disposition. A sale, exchange or disposition of shares by a Treaty U.S. Resident who is an individual and was present in Israel for more than 183 days during the relevant taxable year or who holds, directly or indirectly, shares representing 10% or more of the voting power of a company at any time during such preceding 12-month period would be subject to such Israeli tax, to the extent applicable, unless the following mentioned exemption from capital gain tax for shares listed on the Tel Aviv Stock Exchange applies; however, in case under the U.S.-Israel Tax Treaty and the Israeli tax law a Treaty U.S. Resident will be subject to capital gain tax in Israel, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits.

Taxation of Non-Residents

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel and capital gain as mentioned above. On distributions of dividends other than bonus shares (stock dividends), income tax at the rate of 25% in 2013 and 2014 (30% in 2013 and 2014 in case of, the seller holds directly or indirectly, shares representing 10% or more of the voting power of a company during any part of the 12-month period preceding such sale) is withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. For example, the tax rate would be 12.5% if the non-resident is a company which holds 10% or more of our voting power (during the part of our tax year which precedes the date of payment of the dividend and during the entire prior tax year) pursuant to the U.S.-Israel Tax Treaty. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a resident of the United States will be 25%. However, under the Investment Law, dividends generated by an Approved Enterprise in any case are taxed at the rate of 15%. In addition, if our ordinary shares are traded on the TASE (or listed on a recognized stock exchange outside of Israel), gains on the sale of ordinary shares held by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax.

U.S. Federal Income Tax Considerations

Subject to the limitations described herein, this discussion summarizes the material U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares to a U.S. holder. A "U.S. holder" is a holder of our ordinary shares who is:

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or any political subdivision thereof or the District of Columbia;
- an estate, the income of which may be included in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (i) if, in general, a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. holder (a "**non-U.S. holder**") and considers only U.S. holders that will own the ordinary shares as capital assets (generally, for investment).

This discussion is based on current provisions of the United States Internal Revenue Code of 1986, as amended, or the Code, current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder's particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers or who own directly, indirectly or constructively, 10% or more of our outstanding voting shares, U.S. holders holding our ordinary shares as part of a hedging, straddle or conversion transaction, U.S. holders that acquired our ordinary shares upon the exercise of employee stock options or otherwise as compensation, U.S. holders whose functional currency is not the U.S. Dollar, insurance companies, tax-exempt organizations, financial institutions, grantor trusts, certain former citizens or long-term residents of the United States, real estate investment trusts, regulated investment companies, persons who have elected mark to mark accounting and persons subject to the alternative minimum tax, who may be subject to special rules not discussed below.

Additionally, the tax treatment of persons who are, or hold our ordinary shares through, a partnership or other pass-through entity is not discussed, and such persons should consult their tax advisor as to their tax consequences. The possible application of U.S. federal estate or gift taxes or any aspect of state, local or non-U.S. tax laws are also not considered in this discussion.

You are advised to consult your tax advisor with respect to the specific U.S. federal, state, local and foreign tax consequences to you of purchasing, holding or disposing of our ordinary shares.

Tax Consequences If We Are a Passive Foreign Investment Company ("PFIC")

In general, we will be a PFIC in a taxable year if either (i) 75% or more of our gross income in such taxable year is passive income or (ii) the average percentage (by value) in such taxable year of our assets that produce, or are held for the production of, passive income, is at least 50%. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we will be treated for purposes of the foregoing tests as owning our proportionate share of the other corporation's assets and as directly earning our proportionate share of the other corporation's income.

The determination of whether we are a PFIC for any taxable year is based upon such factual matters as the valuation of our assets and, in certain cases, the assets of companies held by us. There can be no assurance with respect to the position of the IRS or a court of law as to our status as a PFIC. Our PFIC analysis is based upon, among other things, certain assumptions and methodologies with respect to the values that we have used, our percentage ownership (by value), and the appropriate value of our ownership interest, in companies we hold, and the manner in which we have allocated the aggregate value of our assets among our active assets and passive assets. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. As described above, the tests are impacted, by, among other factors, changes in our market capitalization and the value of our group companies which are difficult to predict and the appropriate value of our ownership interest in our group companies.

We believe that we were a PFIC in 2015. As a result, we also believe that we were a PFIC in 2014. While we believe that we did not satisfy the income and asset tests in 2014, we would not have been treated as a PFIC in 2014 if we qualified for a change in business exception. In order to qualify for the change of business exception to PFIC status in 2014, we generally had to satisfy the following requirements: (1) we were never classified as a PFIC prior to 2014, (2) substantially all of our passive income for 2014 was attributable to proceeds from the disposition of one or more active trades or businesses and (3) we are not classified as a PFIC in 2015 and 2016. We believe that it was likely that we satisfied requirements (1) and (2) above with respect to 2014. However, as we believe that we were a PFIC in 2015, we cannot satisfy requirement (3). Thus, if we were a PFIC in 2015, we were also a PFIC in 2014.

U.S. holders that own our ordinary shares may be able to avoid (or minimize) the adverse tax consequences of the excess distribution regime described below if they can, and do, elect to apply one of two alternative taxing regimes – the “qualified electing fund” (“QEF”) and “mark-to-market” regimes, which are described below. In general, a U.S. holder may make a QEF election if we provide U.S. holders with a PFIC Annual Information Statement (described below), which contains information as to (or enables a U.S. holder to compute), inter alia, the U.S. holder’s pro rata share of our ordinary earnings and net capital gain under U.S. tax principles. We prepare our financial statements and data in accordance with IFRS and do not separately compute income and loss in accordance with U.S. federal income tax principles and accordingly, we do not intend to provide U.S. holders with a PFIC Annual Information Statement. As a result, U.S. holders may not be able to make a QEF election. In general, a U.S. holder may make a mark-to-market election if our ordinary shares are considered “marketable stock.” A class of stock is “marketable stock” if it is “regularly traded” on a “qualified exchange or other market” (within the meaning of Treasury Regulation Section 1.1296-2(c)). Our ordinary shares are currently traded on the OTC Pink in the United States and on the Tel Aviv Stock Exchange in Israel. We do not believe that the OTC Pink would be considered a “qualified exchange or other market” for this purpose. While it is not entirely clear, we believe that the Tel Aviv Stock Exchange should be considered such a “qualified exchange or other market.”

A U.S. holder that owns our ordinary shares during any taxable year in which we are a PFIC will be required to file IRS Form 8621 annually (regardless of whether a QEF election or mark-to-market election is made).

Taxation of U.S. Holders of PFIC Shares Generally

A U.S. holder that does not make either the QEF election or the mark-to-market election (each described below) is subject to the excess distribution regime. Under this regime, “excess distributions” are subject to special tax rules. An excess distribution is (i) a distribution with respect to shares that is greater than 125% of the average distributions received by the U.S. holder from us over the shorter of either the preceding three taxable years or such U.S. holder’s holding period for our shares and (ii) gain from the disposition of our PFIC shares (including gain deemed recognized if the PFIC shares are used as security for a loan).

Excess distributions must be allocated ratably to each day that a U.S. holder has held our ordinary shares. A U.S. holder must include amounts allocated to the current taxable year, as well as amounts allocated to taxable years prior to the first taxable year in which we were a PFIC, in its gross income as ordinary income for that year. All amounts allocated to each of the other taxable years would be taxed at the highest tax rate applicable to ordinary income for that taxable year and the U.S. holder also would be liable for interest on the deferred tax liability for such taxable year calculated as if such liability had been due with respect to such taxable year. The portions of gains and distributions that are not characterized as excess distributions are treated as ordinary income subject to tax in the current taxable year under the normal tax rules of the Code.

Unless a QEF election is in effect, a U.S. person who inherits shares in a non-U.S. corporation that was a PFIC in the hands of the decedent (who was not a nonresident alien) is denied the otherwise available step-up in the tax basis of such shares to fair market value at the date of death. Such U.S. holder's basis in such shares is generally equal to the lower of the decedent's basis or the fair market value of such shares on the decedent's date of death unless the decedent's estate recognized gain on the transfer.

Unless a QEF election or mark-to-market election is made with respect to our ordinary shares, the determination that we were a PFIC in 2015 generally will cause such PFIC status to apply with respect to a U.S. holder who held our shares in 2015 to all future taxable years, in which such holder continues to own our shares, notwithstanding that we may not have been, or may not be, a PFIC in such other taxable years.

The QEF Regime

As an alternative to the excess distribution regime, the QEF regime would apply if the U.S. holder elects to treat us as a qualified electing fund, or QEF, for the first taxable year in which the U.S. holder owns our ordinary shares during which we are a PFIC, so long as we provide U.S. holders with a PFIC Annual Information Statement. A PFIC Annual Information Statement contains information as to, inter alia, the U.S. holder's pro rata share of the ordinary earnings and net capital gain (as defined in Treasury Regulation Section 1.1293-1(a)(2)) of the PFIC for the taxable year (or sufficient information to enable the U.S. holder to calculate its pro rata shares of the PFIC's ordinary earnings and net capital gain for that taxable year, as determined in accordance with U.S. federal income tax principles). We prepare our financial statements and data in accordance with IFRS and do not separately compute income and loss in accordance with U.S. federal income tax principles and accordingly, we do not intend to provide U.S. holders with a PFIC Annual Information Statement. As a result, U.S. holders may not be able to make a QEF election.

If we do provide U.S. holders with a PFIC Annual Information Statement, a U.S. holder wishing to make a timely QEF election must attach a completed IRS Form 8621 to a timely filed United States federal income tax return (including extensions). If the QEF regime applies, then in each taxable year that we are a PFIC such U.S. holder will include in its gross income a proportionate share of our ordinary earnings (which is taxed as ordinary income) and net capital gain (which is taxed as long-term capital gain), subject to a separate election to defer payment of taxes, in which case such deferral is subject to an interest charge. These amounts would be included in income by an electing U.S. holder for its taxable year in which our taxable year ends, whether or not such amounts are actually distributed to the U.S. holder. No portion of any such inclusions would be eligible to be treated as "qualified dividend income." A U.S. holder's basis in our ordinary shares for which a QEF election has been made would be increased to reflect the amount of any taxed but undistributed income and decreased by any amounts not included in income when distributed because such amounts were previously taxed under the QEF rules. Generally, a QEF election allows electing U.S. holders to treat gain or loss realized on the disposition of their ordinary shares as capital gain or loss.

If a U.S. holder fails to make a timely QEF election for the first tax year in such U.S. holder's holding period in which we are a PFIC (but we provide U.S. holders with a PFIC Annual Information Statement), the U.S. holder may be eligible to make a retroactive QEF election under certain circumstances. U.S. holders should consult their tax advisors to determine if they are eligible to make a retroactive QEF election.

U.S. holders who do not timely make a QEF election with respect to the first taxable year during their holding period in which we are a PFIC and are not eligible to make a retroactive QEF election may nevertheless make a QEF election for a subsequent year (if we provide U.S. holders with a PFIC Annual Information Statement) together with a deemed sale election for the same taxable year. If a deemed sale election is made, the U.S. holder will be treated as if it had sold our ordinary shares for their fair market value on the last day of the taxable year immediately preceding the taxable year for which the QEF election is made and will recognize gain (but not loss) on such deemed sale and pay tax and an interest charge on such gain in accordance with the excess distribution regime described above.

Once a QEF election is made, the QEF election applies to all subsequent taxable years of the U.S. holder in which it holds our ordinary shares and for which we are a PFIC, and can be revoked only with the consent of the IRS.

U.S. holders that make a QEF election may also be required to make a QEF election with respect to each of our subsidiaries that is a PFIC in order to avoid application of the excess distribution regime with respect to their indirect interest in such subsidiaries. The mark-to-market election described below generally will not be available with respect to any of our subsidiaries that is a PFIC.

The Mark-to-Market Regime

As a second alternative to the excess distribution regime described above, the "mark-to-market" regime may be elected so long as our ordinary shares are considered "marketable stock." A class of stock is "marketable stock" if it is "regularly traded" on a "qualified exchange or other market." A class of stock is "regularly traded" if it is traded on one or more qualified exchanges or other markets, other than in de minimis quantities, on at least 15 days during each calendar quarter. A "qualified exchange or other market" is (1) a national securities exchange that is registered with the Securities and Exchange Commission or the national market system established pursuant to section 11A of the Securities Exchange Act of 1934 or (2) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located and which (A) has trading volume, listing, financial disclosure, surveillance, and other requirements designed to prevent fraudulent and manipulative acts and practices, to remove impediments to and perfect the mechanism of a free and open, fair and orderly, market, and to protect investors; and the laws of the country in which the exchange is located and the rules of the exchange ensure that such requirements are actually enforced and (B) the rules of the exchange effectively promote active trading of listed stocks. Our ordinary shares are currently traded on the OTC Pink in the United States and on the Tel Aviv Stock Exchange in Israel. We do not believe that the OTC Pink would be considered a "qualified exchange or other market" for this purpose. While it is not entirely clear, we believe that the Tel Aviv Stock Exchange should be considered such a "qualified exchange or other market."

Pursuant to the mark-to-market regime, an electing U.S. holder's ordinary shares are marked-to-market each taxable year in which we are a PFIC, and the U.S. holder recognizes as ordinary income or loss an amount equal to the difference as of the close of the taxable year between the fair market value of our ordinary shares and the U.S. holder's adjusted tax basis in our ordinary shares. Losses are allowed only to the extent of net mark-to-market gain previously included by the U.S. holder under the election for prior taxable years. An electing U.S. holder's adjusted basis in our ordinary shares is increased by income recognized under the mark-to-market election and decreased by the deductions allowed under the election.

Under the mark-to-market election, in a taxable year in which we are a PFIC, gain on the sale of our ordinary shares is treated as ordinary income, and loss on the sale of our ordinary shares, to the extent the amount of loss does not exceed the net mark-to-market gain previously included, is treated as ordinary loss. Any loss on the disposition of our ordinary shares in excess of previous net mark-to-market gains is generally considered a capital loss. The mark-to-market election applies to the taxable year for which the election is made and all later taxable years in which we are a PFIC, unless the ordinary shares cease to be marketable stock or the IRS consents to the revocation of the election.

If the mark-to-market election is made by a U.S. holder after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply. For such U.S. holders, a late mark-to-market election is permitted only in accordance with Treasury Regulation Section 301.9100. In all other cases, the excess distribution regime applies to any distributions and dispositions of our ordinary shares in the first year in which the mark-to-market election is made as well as to the amount equal to the difference between the fair market value of our ordinary shares and the U.S. holder's adjusted tax basis in our ordinary shares in the first year in which the mark-to-market election is made.

U.S. holders are urged to consult their tax advisors regarding the application of the PFIC rules, including eligibility for and the manner and advisability of making the QEF election (including a retroactive QEF election), or the mark-to-market election.

Tax Consequences If We Are Not a PFIC

Taxation of Distributions on Ordinary Shares

Subject to the discussion above under "Tax Consequences If We Are a Passive Foreign Investment Company," a distribution paid by us with respect to our ordinary shares to a U.S. holder will be treated ordinarily as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder's tax basis in its ordinary shares to the extent thereof, and then as capital gain from the deemed disposition of the ordinary shares. Corporate holders will not be allowed a deduction for dividends received in respect of our ordinary shares.

The amount of a distribution with respect to the ordinary shares will equal the amount of cash and the fair market value of any property distributed and will also include the amount of any non-U.S. taxes withheld from such distribution as described above under "Taxation of Non-Residents."

Dividends that are received by U.S. holders that are individuals, estates or trusts may be taxed at the rate applicable to long-term capital gains (currently a maximum rate of 20%), provided that such dividends meet the requirements of "qualified dividend income." For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if certain holding period and other requirements are met and either (a) the stock of the non-U.S. corporation with respect to which the dividends are paid is "readily tradable" on an established securities market in the United States or (b) the non-U.S. corporation is eligible for benefits of a comprehensive income tax treaty with the United States which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The IRS has determined that the U.S.-Israel income tax treaty is satisfactory for this purpose. Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend if (i) the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to such ordinary share (or substantially identical securities) or (ii) the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a "passive foreign investment company" (as such term is defined in the Code), or PFIC, for any taxable year, dividends paid on our ordinary shares in such taxable year or in the following taxable year would not be qualified dividends (see discussion of our PFIC status below under the heading "Tax Consequences If We Are a Passive Foreign Investment Company"). In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend will be taxed at ordinary income tax rates.

Dividends paid by us in NIS will be included in the income of U.S. holders at the dollar amount of the dividend (including any non-U.S. taxes withheld therefrom) based upon the exchange rate in effect on the date the distribution. U.S. holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that dollar value. Any subsequent gain or loss in respect of the NIS arising from exchange rate fluctuations will generally be taxable as U.S. source ordinary income or loss.

Subject to the limitations set forth in the Code and the Treasury Regulations thereunder, U.S. holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability the non-U.S. income tax withheld from dividends received in respect of the ordinary shares. The limitations on claiming a foreign tax credit are complex and include, among others, computation rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. In this regard, dividends paid by us generally will be foreign source "passive income" for U.S. foreign tax credit purposes. In addition, a U.S. holder will be denied a foreign tax credit for non-U.S. income tax withheld from a dividend received on the ordinary shares (i) if the U.S. holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date with respect to such dividend or (ii) to the extent the U.S. holder is under an obligation to make related payments with respect to positions in substantially similar or related property. Any days during which a U.S. holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the required 16-day holding period. U.S. holders that do not elect to claim a foreign tax credit may instead claim a deduction for the non-U.S. income tax withheld from a distribution if they itemize deductions. The rules relating to foreign tax credits are complex, and you should consult your tax advisor to determine whether and to what extent you would be entitled to this credit.

Taxation of the Disposition of Ordinary Shares

Subject to the discussion above under "Tax Consequences If We Are a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our ordinary shares (other than in certain non-recognition transactions), a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's tax basis in the ordinary shares. The gain or loss recognized on the disposition of the ordinary shares will be long-term capital gain or loss if the U.S. holder held the ordinary shares for more than one year at the time of the disposition. Long-term capital gains are currently taxable to certain non-corporate taxpayers at a maximum rate of 20%. Capital gain from the sale, exchange or other disposition of ordinary shares held for one year or less is short-term capital gain and taxed as ordinary income (currently up to a maximum rate of 39.6%). The deductibility of capital losses recognized on the sale, exchange or other distribution of our ordinary shares is subject to certain limitations. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

A U.S. holder that uses the cash method of accounting calculates the dollar value of the proceeds received on the sale as of the date that the sale settles. However, a U.S. holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the "trade date" and may therefore realize foreign currency gain or loss. A U.S. holder may avoid realizing foreign currency gain or loss by electing to use the settlement date to determine the proceeds of sale for purposes of calculating the foreign currency gain or loss. In addition, a U.S. holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of sale) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

Medicare Tax

Certain non-corporate U.S. holders may be subject to an additional 3.8% Medicare tax on all or a portion of their “net investment income,” which may include dividends on, or capital gains from the disposition of, our ordinary shares. U.S. holders are urged to consult their own tax advisors regarding the implications of the additional Medicare tax on their investment in our ordinary shares

Non-U.S. Holders of Ordinary Shares

Except as provided below, a non-U.S. holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the receipt of dividends on, and the proceeds from the disposition of, an ordinary share, unless, in the case of U.S. federal income taxes, that item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country which has an income tax treaty with the United States, that item is attributable to a permanent establishment in the United States or, in the case of an individual, a fixed place of business in the United States. In addition, in the case of a disposition of ordinary shares, gain recognized by an individual non-U.S. holder will be subject to tax in the United States if the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Information Reporting and Backup Withholding

A U.S. holder generally is subject to information reporting and may be subject to backup withholding (currently at a rate of up to 28%) with respect to dividend payments and receipt of the proceeds from the disposition of the ordinary shares. Backup withholding will not apply with respect to payments made to exempt recipients, including corporations and tax-exempt organizations, or if a U.S. holder provides a correct taxpayer identification number certifying that such holder is not subject to backup withholding or otherwise establishes an exemption. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a U.S. holder, or alternatively, the U.S. holder may be eligible for a refund of any excess amounts withheld under the backup withholding rules, in either case, provided that the required information is furnished to the IRS. A U.S. holder of ordinary shares who does not provide a correct taxpayer identification number may be subject to penalties imposed by the IRS.

Non-U.S. holders generally are not subject to information reporting or backup withholding with respect to the payment of dividends on, or the proceeds from the disposition of, our ordinary shares, provided that the non-U.S. holder provides its taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption.

Subject to certain exceptions, U.S. holders that directly own PFIC stock (as well as certain U.S. holders that indirectly own PFIC stock) are generally required to file IRS Form 8621 as part of their U.S. federal income tax return to report their ownership in such PFIC. If a U.S. holder is required to file a Form 8621 with respect to more than one PFIC, such holder must file a separate Form 8621 for each PFIC. For any U.S. holder that is required to file IRS Form 8621 and does not file such Form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year will not close until three years after the date that the required information is filed.

Certain U.S. holders (and to the extent provided in IRS guidance, certain non U.S. holders) who hold interests in “specified foreign financial assets” (as defined in Section 6038D of the Code) are generally required to file an IRS Form 8938 as part of their U.S. federal income tax returns to report their ownership of such specified foreign financial assets, which may include our ordinary shares, if the total value of those assets exceed certain thresholds. Substantial penalties may apply to any failure to timely file IRS Form 8938. In addition, in the event a holder that is required to file IRS Form 8938 does not file such Form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. A U.S. holder that properly reports its interest in our ordinary shares on IRS Form 8621 (described above) is not required to report our ordinary shares on Form 8938. Holders should consult their own tax advisors regarding their tax reporting obligations.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are required to file reports and other information with the SEC, under the Exchange Act and the regulations thereunder applicable to foreign private issuers. Reports and other information filed by us with the SEC may be inspected and copied at the SEC’s public reference facilities described below. Although as a foreign private issuer we are not required to file periodic information as frequently or as promptly as U.S. companies, we generally do publicly announce our quarterly and year-end results promptly and file periodic information with the SEC on Form 6-K. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting and other provisions in Section 16 of the Exchange Act.

You may read and copy any document we file with the SEC without charge at the SEC’s public reference room, located at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material may be obtained by mail from the Public Reference Branch of the SEC at such address, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, our filings are available to the public at the SEC’s website at www.sec.gov and in Hebrew at the Israel Securities Authority website at www.magna.isa.co.il. We also generally make available on our own web site (www.elron.com) all our quarterly and year-end financial statements as well as other information. Our website is not part of this Annual Report.

Descriptions of contracts or other documents in this Annual Report are necessarily summaries. If the contract or document described is filed as an exhibit to this Annual Report, you should refer to the exhibit for the complete text of such contract or document.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

For disclosures regarding our market risk exposures, see "Item 5 - Operating and Financial Review and Prospects – Liquidity and Capital Resources – Quantitative and Qualitative Disclosures about Market Risk" above, which is hereby incorporated herein by reference.

Item 12. Descriptions of Securities Other Than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not applicable.

Item 15. Controls and Procedures

a. Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act), as of December 31, 2015. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2015, our disclosure controls and procedures were: (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is accumulated and communicated to our management, including our chief executive officers and chief financial officer, and by others within those entities, as appropriate to allow timely decisions regarding required disclosure, particularly during the period in which this report was being prepared; and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

b. Management's Annual Report on Internal Control over Financial Reporting

Our management, under the supervision of our chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal controls over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) for us and our subsidiaries. Our management has assessed our internal control over financial reporting as of December 31, 2015 based on the criteria for effective internal control over financial reporting established in Internal Control — Integrated Framework (2013), which was issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has excluded Pocared from its assessment of internal control over financial reporting as of December 31, 2015 because it was first consolidated by us during the 2015. Net assets and income of Pocared, which were consolidated in our financial statements for the years ended December 31, 2015, were \$11 million and \$10.9 million respectively

Based on the Company's evaluation, our management, including the CEO and CFO, has concluded that the Company's internal control over financial reporting are effective as of December 31, 2015.

c. Attestation Report of the Registered Public Accounting Firm

The attestation report of our registered public accounting firm is included in page F-3 of our audited consolidated financial statements set forth in "Item 18 – Financial Statements."

d. Changes in Internal Control Over Financial Reporting

No change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) occurred during the year ended December 31, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Prof. Arie Ovadia, an independent director (as defined in the Companies Law), is the "audit committee financial expert" serving on its audit committee.

Item 16B. Code of Ethics

We have adopted a Code of Ethics and Business Conduct that is applicable to our officers and directors and those employees of DIC providing services to us under the Services Agreement. A copy of the Code of Ethics and Business Conduct was filed as an Exhibit 11.1 to our Annual Report on Form 20-F, filed with the SEC on June 29, 2004, and it is also available at our website at www.eldon.com.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the total remuneration that was paid by us and our subsidiaries to our principal accountants Kost Forer Gabbay & Kasierer (a member of Ernst & Young Global) in each of our previous two fiscal years

	2014	2015
	(in thousands of U.S. \$)	
Audit Fees (1)	332	337
Audit-Related Fees	6	20
Tax Fees (2)	157	31
All Other Fees	-	-
Total	495	387

(1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor can reasonably provide, and include statutory audits; consents; and assistance with and review of documents filed with the SEC.

(2) Tax Fees include fees billed for tax compliance services, including the audit of original and amended tax returns and claims for tax refund; tax consultations, such as assistance and representation in connection with tax audits and appeals requests for rulings or technical advice from taxing authority; and tax planning services.

Our audit committee's policy is to pre-approve each audit and non-audit service to be performed by our independent auditors for us and our subsidiaries.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the last two years, there were no purchases of equity securities by us and affiliated purchasers other than shares purchased for members of the public through, among others, provident funds, mutual funds, pension funds, exchange traded funds and insurance policies, which are managed by subsidiaries of Clal Insurance a subsidiary of IDBD

During the last two years, there have not been any investments in our share capital. There are no outstanding obligations to make additional investments in our share capital.

Item 16F. Change in Registrant's Certifying Accountant

Not Applicable.

Item 16G. Corporate Governance

Not Applicable.

Item 16H. Mine Safety Disclosure

Not Applicable.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

Our consolidated financial statements and the report of independent registered public accounting firm in connection therewith are filed as part of this Annual Report and follow the certifications following the signature page of this Annual Report.

Item 19. Exhibits

Exhibit No. Exhibit

- 1.1 Articles of Association (English translation), consolidated version including amendments approved by the Company's shareholders on February 1, 2012 incorporated by reference to Exhibit 1 to the Annual Report on Form 20-F for the year ended December 31, 2011, filed with the SEC on March 13, 2012.
- 1.2 Memorandum of Association of Elron Electronic Industries Ltd., incorporated by reference to Exhibit 1.2 to the Company's Annual Report on Form 20-F for the year ended December 31, 2000, filed with the SEC on June 8, 2001.
- 4.1 Services Agreement dated as of March 19, 2009 by and between the registrant and Discount Investment Corporation Ltd. incorporated by reference to Exhibit 99.2 to Form 6-K, filed with the SEC on March 24, 2009.
- 4.2 Amendment to Services Agreement dated as of April 28, 2015 by and between the registrant and Discount Investment Corporation Ltd.
- 4.3 Joint Venture Agreement, dated as of April 1993, among Discount Investment Corporation Ltd., PEC Israel Economic Corporation, Rafael Armament Development Authority Ltd. and Galram Technology Industries Limited ("Joint Venture Agreement"), incorporated by reference to Exhibit 10.4 to Amendment No. 5 to the Company's Registration Statement on Form F-4, filed with the SEC on March 14, 2002.

- 4.4 Amendment to Joint Venture Agreement, dated December 30, 2007, incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 20F for the year ended December 31, 2007 filed with the SEC on June 30, 2008.
- 8.1 List of subsidiaries.
- 11.1 Code of Ethics, incorporated by reference to Exhibit 11.1 to the Company's Annual Report on Form 20-F, filed with the SEC on June 29, 2004.
- 12.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 13.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 15.1 Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, for Elron Electronic Industries Ltd., dated March 10, 2016.

* This document is being furnished in accordance with SEC Release No. 33-8212 and 34-47551.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Dated: March 10, 2016

ELRON ELECTRONIC INDUSTRIES LTD.

By: /s/ Ari Bronshtein

Name: Ari Bronshtein

Title: Chief Executive Officer

By: /s/ Yaron Elad

Name: Yaron Elad

Title: Vice President & Chief Financial Officer

Elron Electronic Industries Ltd.

Consolidated Financial Statements

**For the Year Ended
December 31, 2015**

Consolidated Financial Statements for the Year Ended December 31, 2015

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Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ELRON ELECTRONIC INDUSTRIES LTD.

We have audited Elron Electronic Industries Ltd.'s (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Pocared Diagnostic Ltd. (the "Entity"), which is included in the 2015 consolidated financial statements of the Company and constituted \$ 1,142 of total net assets, as of December 31, 2015 and \$ 10,892 of net loss, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the Entity.

In our opinion, the Company maintained in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial position of the Company and its subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 and our report dated March 10, 2016 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 10, 2016

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global



Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ELRON ELECTRONIC INDUSTRIES LTD.

We have audited the accompanying consolidated balance sheets of Elron Electronic Industries Ltd. and its subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2015 and 2014, and the consolidated results of its operations, changes in their equity and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and with the provisions of the Israeli Securities Regulations (Preparation of Annual Financial Statements), 2010.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 10, 2016 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
March 10, 2016

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Consolidated Statements of Financial Position as of

	Note	December 31	
		2015	2014
		\$ thousands	
Current assets			
Cash and cash equivalents	4	51,951	65,963
Bank deposits	19	70,188	93,951
Other investments in securities, net	5	28,045	-
Other accounts receivable	6	900	449
		<u>151,084</u>	<u>160,363</u>
Non-current assets			
Investments in associates	3	15,529	6,300
Investments in other companies measured at fair value	7	19,395	27,558
Long-term receivables	8	10,395	-
Property, plant and equipment, net	9	1,028	79
Intangible assets, net	10	17,438	3,428
		<u>63,785</u>	<u>37,365</u>
Total assets		<u>214,869</u>	<u>197,728</u>

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

Consolidated Statements of Financial Position as of

	Note	December 31	
		2015	2014
		\$ thousands	
Current liabilities			
Trade payables		445	152
Other accounts payable	11	5,918	4,799
		6,363	4,951
Long term taxes	16	2,104	-
		2,104	-
Equity attributable to the Company's shareholders	12		
Issued capital		9,573	9,573
Share premium		190,753	190,753
Capital reserves		3,085	2,066
Accumulated deficit		(45,204)	(46,513)
		158,207	155,879
Non-controlling interests		48,195	36,898
Total equity		206,402	192,777
Total liabilities and equity		214,869	197,728

Saul Zang *
Vice Chairman of the Board of Directors

Ari Bronshtein
Chief Executive Officer

Yaron Elad
Vice President &
Chief Financial Officer

Approval date of the consolidated financial statements: March 10, 2016

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

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

Consolidated Statements of Income

	Note	For the year ended December 31		
		2015	2014	2013
		\$ thousands		
		(except for net income per share data)		
Income				
Income from sales		889	374	97
Gain from disposal and revaluation of investee companies and changes in holdings, net	15.A	40,590	176,095	8,416
Financial income	15.E	1,112	887	684
		<u>42,591</u>	<u>177,356</u>	<u>9,197</u>
Expenses				
Cost of sales		267	124	59
Research and development expenses, net	15.B	13,129	2,113	3,929
Selling and marketing expenses	15.C	2,008	1,324	545
General and administrative expenses	15.D	7,556	7,057	7,193
Equity in losses of associates, net	15.F	8,566	15,840	11,868
Financial expenses	15.E	650	3,393	561
Other expenses (income), net	15.G	22	793	(3,487)
		<u>32,198</u>	<u>30,644</u>	<u>20,668</u>
Income (loss) before taxes on income		10,393	146,712	(11,471)
Tax benefit (taxes on income)	16	(3,348)	(45,326)	28,401
Net income		<u>7,045</u>	<u>101,386</u>	<u>16,930</u>
Attributable to:				
The Company's shareholders		2,451	85,494	17,935
Non-controlling interests		4,594	15,892	(1,005)
		<u>7,045</u>	<u>101,386</u>	<u>16,930</u>
Net income per share attributable to the Company's shareholders (in \$)	17			
Basic and diluted net income per share		<u>0.08</u>	<u>2.87</u>	<u>0.54</u>

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

Consolidated Statements of Comprehensive Income

	For the year ended December 31		
	2015	2014	2013
	\$ thousands		
Net income	7,045	101,386	16,930
Other comprehensive loss (after tax)			
<u>Amounts that would never be reclassified to profit or loss:</u>			
Loss from financial assets measured at fair value through other comprehensive income, net	(30)	(421)	(2,111)
Group's share of other comprehensive loss, net of companies accounted for under the equity method	-	-	(16)
Total loss that would never be reclassified to profit or loss	(30)	(421)	(2,127)
<u>Amounts that are classified or may be reclassified to profit or loss under certain conditions:</u>			
Foreign currency translation differences for foreign operation	(93)	-	-
Total loss that would be reclassified to profit or loss under certain conditions	(93)	-	-
Total other comprehensive loss	(123)	(421)	(2,127)
Total comprehensive income	6,922	100,965	14,803
Attributable to:			
Company's shareholders	2,328	85,073	15,810
Non-controlling interests	4,594	15,892	(1,007)
	6,922	100,965	14,803

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders							Total	Non-controlling interests	Total equity
	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			
	\$ thousands									
Balance at January 1, 2015 (audited)	9,573	190,753	351	(2,304)	-	4,019	(46,513)	155,879	36,898	192,777
Total comprehensive income (loss)	-	-	-	(30)	(93)	-	2,451	2,328	4,594	6,922
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	7	7
Non-controlling interests created due to initially consolidated company (Note 3.A.3.b))	-	-	-	-	-	-	-	-	5,434	5,434
Investment of non-controlling interests in consolidated company	-	-	-	-	-	-	-	-	1,073	1,073
Change in non-controlling interests due to loss of control over subsidiaries (Note 3.B.4.f))	-	-	-	-	-	-	-	-	189	189
Sale of financial assets measured at fair value through other comprehensive income (Note 7.D)	-	-	-	1,142	-	-	(1,142)	-	-	-
Balance at December 31, 2015	<u>9,573</u>	<u>190,753</u>	<u>351</u>	<u>(1,192)</u>	<u>(93)</u>	<u>4,019</u>	<u>(45,204)</u>	<u>158,207</u>	<u>48,195</u>	<u>206,402</u>

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders							Non-controlling interests	Total equity
	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 transactions with non-controlling interests	Accumulated deficit	Total		
	\$ thousands								
Balance at January 1, 2014	9,573	190,753	351	(10,513)	3,996	(13,377)	180,783	19,032	199,815
Total comprehensive income (loss)	-	-	-	(421)	-	85,494	85,073	15,892	100,965
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	38	38
Dividend to equity holders of the Company	-	-	-	-	-	(110,000)	(110,000)	-	(110,000)
Investment of non-controlling interests in consolidated company	-	-	-	-	-	-	-	2,000	2,000
Investment in subsidiaries by RDC	-	-	-	-	23	-	23	(64)	(41)
Sale of financial assets measured at fair value through other comprehensive income (Note 7.D)	-	-	-	8,630	-	(8,630)	-	-	-
Balance at December 31, 2014	<u>9,573</u>	<u>190,753</u>	<u>351</u>	<u>(2,304)</u>	<u>4,019</u>	<u>(46,513)</u>	<u>155,879</u>	<u>36,898</u>	<u>192,777</u>

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

Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders									
	Issued capital	Share Premium	Capital reserve for transaction with controlling shareholders	Capital reserve for financial assets measured at fair value through other comprehensive income	Capital reserve from transactions with non-controlling interests	Accumulated deficit from share based payments	Accumulated deficit	Total	Non-controlling interests	Total equity
	\$ thousands									
Balance at January 1, 2013	9,573	190,709	351	(11,326)	1,107	391	(28,765)	162,040	22,879	184,919
Total comprehensive income (loss)	-	-	-	(2,111)	-	-	17,921	15,810	(1,007)	14,803
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	(38)	(38)
Change in non-controlling interests subsequent to the transfer of the investment in RDSeed to RDC (Note 3.A.3.c)	-	-	-	-	2,172	-	-	2,172	(2,172)	-
Non-controlling interests created due to initially consolidated company	-	-	-	-	-	-	-	-	348	348
Change in non-controlling interests due to sale of a subsidiary	-	-	-	-	-	-	-	-	(261)	(261)
Change in non-controlling interests in consolidated company	-	-	-	-	717	-	-	717	(717)	-
Expiration of share-based payments	-	-	-	-	-	(379)	379	-	-	-
Exercise of options into shares of the Company	*)	44	-	-	-	(12)	12	44	-	44
Sale of financial assets measured at fair value through other comprehensive income (Note 7.D)	-	-	-	2,924	-	-	(2,924)	-	-	-
Balance at December 31, 2013	<u>9,573</u>	<u>190,753</u>	<u>351</u>	<u>(10,513)</u>	<u>3,996</u>	<u>-</u>	<u>(13,377)</u>	<u>180,783</u>	<u>19,032</u>	<u>199,815</u>

*) Amount less than \$1 thousand.

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

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2015	2014	2013
	\$ thousands		
Cash flows from operating activities			
Net income	7,045	101,386	16,930
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Adjustment to the profit or loss items:			
Depreciation and amortization	494	251	123
Financial expenses (income), net	(1,329)	3,077	(556)
Stock based compensation and changes in liability in respect of options	7	(201)	(84)
Gain from reversal of impairment of financial assets (see also Note 7.D)	-	-	(3,522)
Impairment of intangible assets	-	814	-
Gain from disposal and revaluation of investee companies and changes in holdings, net	(40,590)	(176,095)	(8,416)
Equity in losses of associates, net	8,566	15,840	11,868
Taxes on income (tax benefit)	3,348	45,326	(28,401)
Other	(13)	(568)	(29)
	(29,517)	(111,556)	(29,017)
Changes in Assets and Liabilities:			
Decrease (increase) in other accounts receivable	(561)	(200)	340
Increase (decrease) in trade payables	252	(24)	(51)
Increase (decrease) in other accounts payable	990	(263)	1,020
	681	(487)	1,309
Cash paid and received during the year for:			
Taxes paid	(24)	-	-
Interest paid	-	(12)	(169)
Interest received	1,167	519	252
	1,143	507	83
Net cash used in operating activities	(20,648)	(10,150)	(10,695)

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

Consolidated Statements of Cash Flows

	For the year ended December 31		
	2015	2014	2013
	\$ thousands		
Cash flows from investment activities			
Purchase of property and equipment	(452)	(39)	(35)
Investment in associates and other companies	(16,631)	(14,531)	(10,239)
Proceeds from sale of property and equipment	-	-	9
Proceeds from sale of investments in subsidiaries net of cash disposed of due to deconsolidation	(1,625)	3,074	1,335
Proceeds from sale of associates and other companies	27,482	283,905	412
Other investments in securities	(28,325)	-	-
Proceeds from repayment of debentures (see also Note 7.D)	-	-	1,698
Proceeds from sale of financial assets measured at fair value	188	203	115
Cash provided from acquisition of investments in subsidiaries	1,893	-	184
Taxes paid	(1,721)	(19,534)	-
Withdrawal (investment) of deposits, net	24,423	(93,628)	912
Net cash provided by (used in) investment activities	5,232	159,450	(5,609)
Cash flows from financing activities			
Dividend paid to the Company's shareholders	-	(110,000)	-
Receipt of government grants	-	-	553
Proceeds from exercise of options	-	-	44
Investment of non-controlling interests in subsidiaries	1,641	2,000	-
Purchase of shares and options from non-controlling interests	-	(44)	-
Repayment of long-term loans	-	(4,000)	-
Net cash provided by (used in) financing activities	1,641	(112,044)	597
Exchange rate differences in respect of cash and cash equivalents	(237)	(3,584)	473
Increase (decrease) in cash and cash equivalents	(14,012)	33,672	(15,234)
Cash and cash equivalents as of beginning of the year	65,963	32,291	47,525
Cash and cash equivalents as of end of the year	51,951	65,963	32,291

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

Notes to the 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 group of companies includes companies at different stages of development operating in various technology fields such as medical devices and other fields. The Company is an Israeli-resident company incorporated in Israel, traded on the Tel-Aviv Stock Exchange and Over-The-Counter market in the United States. 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 approximately 50.32% interest in the Company as of December 31, 2015.

As aforementioned, Elron's ordinary shares are also registered in the U.S. under Securities and Exchange Commission (SEC) rules, and as such, in addition to the reporting requirements under Chapter F of the Israel Securities Law (1968) applicable to reporting companies in Israel, the Company continues to comply with reporting requirements in accordance with U.S. applicable securities laws and regulations, as long as those apply to Elron.

Due to the absence of the Company's Chairman of board of directors, Mr. Eduardo Elsztain, from the meeting at which these statements were approved, as he was abroad, the Company's board of directors authorized Mr. Saul Zang, the vice-chairman of the Company, to sign these financial statements in lieu of the chairman of the board of directors.

These financial statements were approved by the Company's Board of Directors on March 10, 2016.

Definitions

In these financial statements:

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

Group companies/the Group - Elron and companies in which the Company has invested and in whose management the Company is involved, including through the appointment of directors.

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

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

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

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

RDC - RDC Rafael Development Corporation Ltd.

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

Notes to the Consolidated Financial Statements

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

Note 1- General (Cont.)

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

Dollar - The US dollar.

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

Government- Government of the state of Israel.

Note 2- Significant Accounting Policies**A. Basis of presentation of the financial statements****1. Measurement basis**

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

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

2. The preparation format of the financial statements

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

3. Consistent accounting policies

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

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

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

Legal claims

When assessing the possible outcomes of legal claims that were filed against the Company and its investee companies, the companies relied on the opinions of their legal counsel. The opinions of their legal counsel are based on the best of their professional judgment, and take into consideration the current stage of the proceedings and the legal experience accumulated with respect to the various matters. The results of the claims may be different from such estimates. See additional information in Note 14.

Notes to the Consolidated Financial Statements

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

Note 2- Significant Accounting Policies (Cont.)**B. Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements (Cont.)****Determining the fair value of unquoted financial assets and non-controlling interests**

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

Impairment of non-financial assets

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

Valuation of intangible assets

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

C. The operating cycle

The Company's operating cycle is 12 months.

D. Basis of consolidation

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

Notes to the Consolidated Financial Statements

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

Note 2- Significant Accounting Policies (Cont.)**D. Basis of consolidation (Cont.)**

Significant intercompany balances and transactions and gains or losses resulting from intercompany transactions are eliminated in full in the consolidated financial statements.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The accounting policy in the financial statements of the subsidiaries was applied consistently and uniformly with the policy applied in the financial statements of the Company.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent company. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

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

In a business combination achieved in stages, equity rights in the acquiree that had been previously held by the acquirer prior to obtaining control are measured at the acquisition date at fair value and included in the acquisition consideration by recognizing the gain or loss resulting from the fair value measurement, including amounts whose recognition in other comprehensive income was deferred.

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

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

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**E. Associates accounted for using the equity method of accounting**

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

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to zero and the recognition of further losses is discontinued except to the extent that the Group has an obligation to support the investee or has made payments on behalf of the investee, or has granted it loans or guarantees.

In circumstances where the Company's ownership in an associate is in the form of a preferred security or other senior security, the Company recognizes losses based on the ownership level of the particular associate's security or loan held by the Company that grants it the preferred rights, and to which the equity method is being applied.

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

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

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

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

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**F. Functional currency, presentation currency and foreign currency****1. Functional currency and presentation currency**

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

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

Assets and liabilities of a Group company which is a foreign operation, including any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are translated at the closing rate at each reporting date for each reporting date presented. Income and expenses for each period presented in the statement of income are translated at average exchange rates for the presented periods. All resulting translation differences are recognized as other comprehensive income.

2. Transactions in foreign currency

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

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

G. Financial instruments***Financial assets:***

Starting January 1, 2012, the Group has early adopted the first phase of IFRS 9, Financial Instruments, commencing January 1, 2012, without early adopting the final version of IFRS 9, which are detailed in Note 2.U below.

1. Initial recognition

Financial instruments are recognized initially at fair value plus any directly attributable transaction costs, unless they are subsequently measured at fair value.

2. Subsequent measurement

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

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**G. Financial instruments (Cont.)***Financial assets: (Cont.)*Subsequent measurement (Cont.)a) Financial assets measured at amortized cost

In subsequent periods, a financial asset is measured at amortized cost, using the effective interest method while deducting any impairment losses (see also Note 2.K below), if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Financial assets measured at fair value

Financial assets that are equity instruments are measured in subsequent periods at fair value and the changes will be recognized in the statement of income or in other comprehensive income (loss), in accordance with the election of the Company on an instrument-by-instrument basis.

If the equity instruments are held for trading, they must be measured at fair value through profit or loss.

With regard to financial assets measured at fair value through other comprehensive income, gains, losses and impairment are not recognized in the statement of income, even upon disposal. Changes in fair value of these assets are recorded in "Reserve from financial assets measured at fair value through other comprehensive income". When the Company sells these assets, it transfers the gain or loss in respect with the asset sold from the capital reserve into accumulated deficit.

Financial assets that are debt instruments, which are not measured at amortized cost, are measured in subsequent periods at fair value through profit or loss.

A financial asset is derecognized when the Group's contractual rights to the cash flows deriving from the financial asset expire.

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**Cash and cash equivalents**

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

Short term deposits

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

Contingent Consideration

Fair value of contingent consideration from sale of group companies is initially recorded at fair value and is classified as a financial asset in accordance with IFRS 9. The contingent consideration is measured at fair value at each reporting period and subsequent changes in the fair value are recorded at profit or loss.

Financial liabilities:

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

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

Offset between financial assets and financial liabilities

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

H. Fair value measurement

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

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

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

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**I. Property, plant and equipment**

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

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

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

Computers, office furniture and equipment	3-17 years (mainly 3 years)
Lab equipment	7 years

J. Intangible assets**1. Research and development**

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

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

2. Other intangible assets

- a. Intangible assets acquired in a business combination are included at the fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization (other than intangible assets having an indefinite useful life) and any accumulated impairment losses.
- b. Separately acquired intangible assets are measured on initial recognition at cost with the addition of costs directly attributable to the acquisition.
- c. Subsequent expenditures are capitalized as an intangible asset only when they increase the future economic benefits embodied in the specific asset for which they were expended. All other expenditures, including expenditures relating to goodwill and intangibles developed independently, are recognized in the statement of income as incurred (except for development costs which were capitalized).
- d. The amortization period of intangible assets having a finite useful life is determined according to the expected future economic benefits from the assets in each period, on the basis of estimated useful life of each group of assets. As for the testing of impairment, see Note 2.K below.

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)

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

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

*) Mainly technology and development in process acquired in business combinations.

**) As a result of the agreement with Rafael Advanced Defense Systems Ltd. ("Rafael") - see Note 3.A.3.a).

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

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

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

K. Impairment

1. Financial assets carried at amortized cost

The Company assesses at each reporting period whether there is any objective evidence of impairment. There is objective evidence of impairment whenever one or more events has occurred after initial recognition that has a negative impact on the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. In subsequent periods, the previously recognized impairment loss is reversed when the increase in value can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal is credited to the statement of income up to the amount of the previously recognized impairment loss.

2. Non-financial assets

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

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

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**2. Non-financial assets (Cont.)**

The following criteria are applied in assessing impairment of associate:

After application of the equity method, the Company examines whether it is necessary to recognize any additional impairment loss with respect to the investment in associates. The Company examines at each reporting period whether there is objective evidence that the value of the investment in the associate is impaired. Such evidence may include general market data, a decline in the stock market prices, recurring losses, the industry in which the investees operate, failure of research and development efforts, a significant deviation from the business plan, rounds of financing at an amount below the cost basis of the investment and other parameters. The test of impairment is carried out with reference to the entire investment, including excess cost and goodwill attributed to the associate. The loss, or its reversal, is recognized in the statement of income under line item other expenses (income), net.

L. Non-current assets held for sale

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

M. Employee benefits**1. Post-employment benefits**

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

The Group has defined contribution plans pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

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

In 2015, the Group recorded expenses in respect of defined contribution plans in the amount of approximately \$160 (in 2014 and 2013 these expenses amounted to an immaterial amount).

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**M. Employee benefits (Cont.)****2. Short-term benefits**

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

N. Share-based payment transactions

The cost of equity-settled transactions with employees and others is measured at the fair value of the equity instruments granted at grant date.

The fair value of share-based payments on the grant date is recognized as an expense, with a corresponding increase in retained earnings, over the period in which the relevant employees become fully entitled to the award. The amount recognized as an expense, taking the vesting terms into account, consisting of service terms and performance terms other than market terms, is adjusted to reflect the actual number of share options that are expected to vest.

Options granted to employees for the purchase of shares of investee companies are measured at each reporting period at fair value in accordance with the Black and Scholes model. The fair value of the options is recognized as a liability. Any changes in this liability are recognized as an expense or income under line item general and administrative expenses in profit or loss.

O. Provisions

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

P. Revenues

Revenue is recognized in profit or loss when the amount of revenue can be measured reliably, it is expected that the financial benefits will return to the company and the associated costs can be estimated reliably. Revenue is measured at the fair value of the consideration received, net of discounts. Revenue from services is recognized over the period in which the service was provided.

Q. Leases

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term, including the optional period, when on the date of the transaction it was reasonably certain that the option will be exercised.

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**R. Taxes on income**

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

1. Current taxes

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

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

2. Deferred taxes

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**S. Earnings (loss) per share**

Earnings (losses) per share are calculated by dividing the net income (loss) attributable to equity holders of the Company by the weighted number of ordinary shares outstanding during the period. Basic earnings (loss) per share only include shares that were actually outstanding during the period. Potential ordinary shares are only included in the computation of diluted earnings (loss) per share when their conversion has a dilutive effect on the earnings (loss) per share. The Company's share of earnings (loss) of investee companies is included based on the earnings (loss) per share of the investee companies multiplied by the number of shares held by the Company.

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

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

In accordance with the ISA's Position, the Company applies also the "Representative Profit" test (i.e., profit for four quarters, calculated on the basis of average absolute values of the quarterly profit / loss attributable to shareholders of the Company for each of the 12 previous quarters) representing an accepted measurement tool for examining the results of holding companies of the Company's category. Representative Profit measurement assists the Company in examining significance and negligibility also in other contexts.

When an evaluation complies with the quantitative conditions for enclosure, the Company examines whether the evaluation does not qualify as very material for qualitative reasons, and therefore will not be enclosed.

U. Disclosure of new IFRS standards in the period prior to their adoption**IFRS 9 - Financial Instruments**

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 mainly focuses on the classification and measurement of financial assets and it applies to all assets in the scope of IAS 39.

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets should be at fair value.

Notes to the Consolidated Financial Statements

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

Note 2 – Significant Accounting Policies (Cont.)**U. Disclosure of new IFRS standards in the period prior to their adoption (Cont.)****IFRS 9 - Financial Instruments (Cont.)**

The Group adopted in an early adoption IFRS 9's provisions in regards with financial assets, without adopting IFRS 9's other provisions, as detailed below:

According to IFRS 9, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected.

According to IFRS 9, changes in fair value s of financial liabilities which are attributable to the change in credit risk should be presented in other comprehensive income. All other changes in fair value should be presented in profit or loss.

IFRS 9 also prescribes new hedge accounting requirements.

The final version of IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

The Company has not yet evaluated the standard adoption's possible impact on its financial statements.

Note 3- Investments in investees**A. Subsidiaries****1. Additional information about subsidiaries that are held by the Company****Subsidiary with material non-controlling interests (including through fully owned corporate companies)**

	Principal place of business	Equity interest and voting rights of non- controlling interests %
As of December 31, 2015 and December 31, 2014:		
RDC (1)	Israel	49.90

(1) Held through fully owned corporate company, DEP Holding Technology Ltd ("DEP").

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)

A. Subsidiaries

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

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

	<u>Current assets</u>	<u>Non-current assets</u>	<u>Current liabilities</u>	<u>Non-current liabilities</u>	<u>Equity attributable to shareholders of the company</u>	<u>Non-controlling interests</u>
As of December 31, 2015	69,959	21,272	1,022	2,115	88,094	43,755
As of December 31, 2014	63,166	11,393	471	1,160	36,742	36,186

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

Results of the operation in RDC's statements:

	<u>Profit for the year</u>	<u>Profit attributable to non-controlling interests</u>	<u>Other comprehensive income</u>	<u>Total comprehensive income</u>
For the year ended December 31, 2015	15,168	7,569	-	15,168
For the year ended December 31, 2014	36,077	18,002	-	36,077

RDC's cash flows:

	<u>For the year ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Operating activities	(4,138)	(5,014)
Investment activities	8,491	23,536
Financing activities	-	(44)
Increase in cash and cash equivalents	<u>4,353</u>	<u>18,478</u>

3. Significant changes in investments in consolidated companies during the reporting period

a) RDC

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

RDC has first rights to commercialize military technologies developed by Rafael. RDC seeks to identify technology projects and invest in companies that will either commercialize Rafael's military technologies or which will benefit from Rafael's technology, know-how and expertise.

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)**A. Subsidiaries (Cont.)****3. Significant changes in investments in consolidated companies during the reporting period (Cont.)****a) RDC (Cont.)**

In December 2007, Elron, DEP, RDC and Rafael signed an agreement amending the existing agreement between the parties pertaining to the rights granted to RDC to commercialize certain technologies of Rafael (the "Addendum"). Pursuant to the Addendum, RDC's rights to commercialize certain technologies of Rafael will continue without time restrictions. Pursuant to the terms of the Addendum, Elron made a one-time investment in RDC of \$4,000 and is committed to make further investments of \$750 in RDC for each company established by RDC based on Rafael's technologies.

The excess invested in RDC in respect of Elron's investment in RDC's equity was allocated to the agreement with Rafael as an intangible asset with indefinite useful life, and accordingly is not subject to amortization, but rather is reviewed for impairment at least annually or more frequently if indicators of impairment are identified.

As of the reporting date, intangible assets, net, include an amount of approximately \$3,051 in respect of this agreement (see Note 10).

b) Pocared

Pocared, an Israeli company, is developing a real-time and automated system for infectious diseases diagnosis using optical technology. As of the reporting date, Elron held approximately 55% of Pocared's outstanding shares.

In 2014 and 2013, some of Pocared's shareholders, including Elron, granted Pocared with loans in the amount of \$4,000. Elron's share in these loans was approximately \$2,400.

In March 2014, Pocared signed an investment agreement with some of its shareholders, including Elron, in a total amount of \$9,500 in consideration for Preferred G shares (Elron's share was approximately \$8,500). The investment amount was invested during 2014. In addition, according to the investment agreement, the aforementioned loans in the amount of approximately \$4,100 (principal and accrued interest) were converted into Preferred F shares.

Following the completion of this investment agreement, Elron's holding in Pocared's outstanding share capital increased from approximately 41% to 50% and from approximately 37% to 44% on a fully diluted basis. Since, among other things, Elron did not hold a majority in Pocared's board of directors, the investment in Pocared continued to be accounted for under the equity method of accounting, as it was until this investment agreement.

In February 2015, Elron and other shareholders invested in Pocared an amount of \$5,000 in consideration for additional Preferred G shares and warrants to purchase additional Preferred G shares (Elron's share is approximately \$4,450).

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)

A. Subsidiaries (Cont.)

3. Significant changes in investments in consolidated companies during the reporting period (Cont.)

b) Pocared (Cont.)

Following the completion of this investment, Elron's holding in Pocared's outstanding share capital increased from approximately 50.3% to approximately 53.3%, and from approximately 44.3% to approximately 50.1% on a fully diluted basis. As a result, following the aforementioned investment, and for the first time, Elron holds the majority of voting rights in Pocared, taking into account the substantive voting rights as defined in IFRS 10, Consolidated Financial Statements. In addition, and for the first time, Elron was granted the right to appoint the majority of the directors serving on the Board of Directors of Pocared. As a result and beginning February 2015, Pocared became a consolidated company, and accordingly, Elron recorded a gain in the first quarter of 2015 in the amount of approximately \$10,100 with respect to the re-measurement of the fair value of Elron's shareholdings in Pocared prior to its initial consolidation (i.e. fair value, as detailed below, of \$10,800, with the deduction of the carrying amount of the holding in Pocared prior to obtaining control in the amount of \$700). This gain was recorded under line item gain from disposal and revaluation of investee companies and changes in holdings, net, in the statement of income.

The impact on the assets and liabilities in the Company's consolidated statement of financial position as of the date of initial consolidation of Pocared's financial statements was as follows (in fair value):

	Values recognized upon initial consolidation
Cash and cash equivalents	6,345
Other accounts receivable	264
Property, plant and equipment, net	867
Intangible assets	14,387
Trade payables	(209)
Other accounts payable	(981)
Non-controlling interests	(5,434)
Purchase consideration	<u>15,239</u>

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)

A. Subsidiaries (Cont.)

3. Significant changes in investments in consolidated companies during the reporting period (Cont.)

b) Pocared (Cont.)

The fair value of Elron's holdings in Pocared as of the date of initial consolidation was estimated at approximately \$15,250 and included an approximately \$4,450 cash payment as well as an amount of approximately \$10,800, which represents the fair value of the Company's investment on the date control was obtained. The fair value of non-controlling interests was estimated on the date of initial consolidation at approximately \$5,400. As a result, at the time of the business combination, an intangible asset, in the amount of \$14,400, attributed mostly to IPR&D was recognized. The amortization of this asset will commence when sales from the relevant development will start. The rate of depreciation will be determined according to an estimation of the time of sales from this development.

This valuation of Elron's holdings in Pocared on the date of the initial consolidation was determined with the assistance of an independent valuation firm. The significant details included in this valuation are as follows:

1. **The fair value of the investment in Pocared at the date of business combination:**

As of February 12, 2015 approximately \$15,250.

2. **The valuation model used by the valuation firm:**

The fair value of Elron's investment in Pocared was estimated using the Option Pricing Model (OPM), using the value derived from the aforementioned investment agreement in order to determine Pocared's overall value, and using the formulas of Black and Scholes model for allocating Pocared's value to different classes of shares and for determining the value of Elron's interest accordingly.

3. **The key assumptions used in the valuation were:**

- a. The standard deviation: 85.2%
- b. Risk free rate: 0.54%
- c. Dividend yield: 0%

In addition, this valuation included the purchase price allocation to Pocared's assets and liabilities. The estimation of the fair value of the IPR&D asset was conducted using the relief-from-royalties method, employing an estimated royalty rate of 5.1%.

In February 2016, subsequent to the reporting date, Pocared announced that 19,000 samples out of 19,500 samples required to complete the trial it is conducting, have been collected. In addition, Pocared announced that from an examination of the results received, it would appear that they do not match Pocared's expectations. Pocared is currently learning the reason for and nature and meaning of the gaps including whether this is due to a technical fault in the systems used.

As part of an annual test, the Company examined if there is a need to amortize the IPR&D asset as of the reporting date and included, among other things, the developments in Pocared's technology since the valuation from February 2015. The examination was conducted with the assistance of an external appraiser, and showed that there is no need to recognize an impairment of the IPR&D asset attributable to Pocared.

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)**A. Subsidiaries (Cont.)****3. Significant changes in investments in consolidated companies during the reporting period (Cont.)****b) Pocared (Cont.)****3. The key assumptions used in the valuation were: (Cont.)**

The aforementioned examination as of December 31, 2015, was also conducted using the relief-from-royalties method. The key assumptions used in determining the need for impairment of the IPR&D asset were:

- a. Royalty rate: 5.1%
- b. WACC: 35%
- c. Discounted cash flows were computed until the end of the patent's life. The valuation did not use "representative year".

In July 2015, some of Pocared's shareholders, including Elron, granted Pocared a loan in the amount of \$3,000. Elron's share in the loan was approximately \$2,700.

In September 2015, an investment agreement in Pocared, in the amount of \$10,000, was signed by Elron and other shareholders, which also included a reorganization of Pocared's share capital. The investment amount was in two installments in consideration for Preferred B1 shares and warrants for Preferred B1 shares (Elron's share in the total investment amount was approximately \$9,000). The first installment, in the amount of \$5,000, was invested immediately. In January 2016, subsequent to the reporting date, the second installment was invested (Elron's share in each installment was approximately \$4,500). Following the second installment, Elron holds approximately 58% of Pocared's outstanding shares.

In February 2012, the Company approved the granting of phantom options over shares of Pocared held by Elron, to the former Chairman and an additional employee of the Company. These options shall only be cash exercisable and represent approximately 0.7% of Pocared's share capital. The influence of this grant on the Company's profit or loss in 2015 was immaterial (in 2014 and 2013 the Company recorded an income of \$231 and \$47 respectively, in regards with these options).

c) RDSeed

RDSeed Ltd. ("RDSeed"), a subsidiary of RDC, was founded in 2011 and invests in early stage companies in cyber, information technology and enterprise software. Until the date of transfer of the investment in RDSeed to RDC (as detailed below), Elron directly held 85% of RDSeed's outstanding shares and RDSeed's operations were fully financed by Elron.

In July 2013, Elron transferred its investment in RDSeed to RDC in consideration for \$5,000 (the total amount invested in RDSeed by Elron up to this date). As a result, RDSeed became an RDC subsidiary and the Company recognized in 2013 a capital reserve from transactions with non-controlling interests in the amount of approximately \$2,172.

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)

A. Subsidiaries (Cont.)

3. Significant changes in investments in consolidated companies during the reporting period (Cont.)

c) RDSeed (Cont.)

During the years 2015, 2014 and 2013, RDC invested in RDSeed an amount of \$4,750, \$5,000 and \$2,000, respectively.

As of the reporting date, RDC holds 100% of RDSeed's outstanding shares, after it purchased RDSeed's remaining share capital from another shareholder in 2014.

h) Financial data of previously consolidated and initially consolidated companies

	Companies previously consolidated as of the date of deconsolidation		
	2015	2014	2013
Cash and cash equivalents	375	-	635
Current assets (excluding cash and cash equivalents)	240	-	99
Non-current assets	253	-	258
Current liabilities	(1,087)	-	(209)
Non-current liabilities	-	-	(1,272)

	Companies initially consolidated, as of the date of initial consolidation		
	2015	2014	2013
Cash and cash equivalents	6,345	-	184
Current assets (excluding cash and cash equivalents)	264	-	17
Non-current assets	867	-	9
Current liabilities	(1,190)	-	(185)

B. Investments in associates accounted for using the equity method of accounting:

1. Composition

	December 31	
	2015	2014
Carrying amount of the shares and loans in the statement of financial position	15,529	6,300
The carrying amount of the shares and loans includes:		
Allocated excess of cost (*)	4,098	4,264
Goodwill (*)	644	-
	4,742	4,264

(*) See Note 3.B.4.f) below.

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)

A. Subsidiaries (Cont.)

3. Significant changes in investments in consolidated companies during the reporting period (Cont.)

B. Investments in associates accounted for using the equity method of accounting: (Cont.)

1. Composition (Cont.)

According to the Company's accounting policy as described in Note 2.E above, the aggregate equity in losses not recognized by the Company, amounted to a total of approximately \$139 from the date of acquisition until December 31, 2015 (not including companies that as of the reporting date were not held by the Company) (and as for companies held by the Company as of December 31, 2014- approximately \$295 from the date of acquisition through December 31, 2014). In 2015 there was no equity in losses that was not recognized.

See Note 15.F for further details with respect to losses in respect of associates for the years ended December 31, 2015, 2014 and 2013.

2. Summarized data of the financial statements of associates, unadjusted to the Group's percentage of holdings (*)

	<u>Current assets</u>	<u>Non-current assets</u>	<u>Total assets</u>	<u>Current liabilities</u>	<u>Non-current liabilities</u>	<u>Total liabilities</u>	<u>Equity attributable to shareholders of the company</u>	<u>Equity attributable to non-controlling interests</u>	
As of December 31, 2015									
BrainsGate Ltd.	8,436	76	8,512	2,291	1,687	3,978	4,534	-	
As of December 31, 2014									
BrainsGate Ltd.	3,066	116	3,182	2,247	1,207	3,454	(272)	-	
Pocared Diagnostics Ltd. (**)	2,655	888	3,543	1,023	-	1,023	2,520	-	
Total	5,721	1,004	6,725	3,270	1,207	4,477	2,248	-	
	<u>Revenues</u>	<u>Gross profit</u>	<u>Operating loss</u>	<u>Loss from continuing operations</u>	<u>Loss for the year</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>
2015									
BrainsGate Ltd.	-	-	(6,378)	(6,213)	(6,213)	(6,213)	-	-	(6,213)
2014									
BrainsGate Ltd.	-	-	(5,940)	(6,002)	(6,002)	(6,002)	-	-	(6,002)
Pocared Diagnostics Ltd.	-	-	(8,741)	(10,692)	(10,692)	(10,692)	-	-	(10,692)
Total	-	-	(14,681)	(16,694)	(16,694)	(16,694)	-	-	(16,694)
2013									
BrainsGate Ltd.	-	-	(6,533)	(6,416)	(6,416)	(6,416)	-	-	(6,416)
Pocared Diagnostics Ltd.	-	-	(10,572)	(10,697)	(10,697)	(10,697)	-	-	(10,697)
Total	-	-	(17,105)	(17,113)	(17,113)	(17,113)	-	-	(17,113)

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

(**) In February 2015 became a consolidated company, see also Note 3.A.3.b) above.

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

3. Additional information about associates that are held by the Company:

a) General information

	Principal place of business	Equity interest and voting rights (1)	Company's participating in gain (loss) rights (2)
As of December 31, 2015:			
BrainsGate Ltd.	Israel	29.84	29.84
As of December 31, 2014:			
BrainsGate Ltd.	Israel	29.86	29.86
Pocared Diagnostics Ltd.(3)	Israel	50.33	89.06

- (1) Reflects the Company's ownership interests in the ordinary shares and the preferred shares of the investee companies on an as-converted-basis, and does not take full dilution into account.
- (2) In most of the investees the Company invests in the form of a preferred security or other senior security, that grants it the preferred rights over regular shares. Therefore, the Company recognizes losses based on its share in the associate's security or loan held by the Company that grants it the preferred rights, and to which the equity method is being applied, and not based on the Company's equity interests. See also Note 2.E.
- (3) In 2015 Pocared became a consolidated company, see also Note 3.A.3.b) above.

b) Reconciliation to the carrying amount of the Company's interest in material associates:

	BrainsGate		Pocared
	As of December 31,		
	2015	2014	2014
Total equity	4,534	(272)	2,520
Participating share in profit or loss of the associate (*)	30.7%	31.6%	82.8%
	1,392	(86)	2,087
Excess cost	10	10	896
Share in the equity attributable to employee options	(1,562)	(1,341)	(931)
Other adjustments	542	476	(362)
Balance of the investment in the associate	382	(941)	1,690

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

3. Additional information about associates that are held by the Company:

b) Reconciliation to the carrying amount of the Company's interest in material associates: (Cont.)

	BrainsGate		Pocared
	For the year ended December 31,		
	2015	2014	2014
The results of operations of the associates			
Total comprehensive loss	(6,213)	(6,002)	(10,692)
Participating share in profit or loss of the associate (*)	30.7%	31.6%	82.8%
	(1,908)	(1,897)	(8,853)
Other adjustments	(53)	-	-
Company's share in loss of the associate	(1,961)	(1,897)	(8,853)

(*) Represents the weighted average participating rate of Elron in its associates in these years. See also details in Note 2.E above.

For details regarding the participating in Pocared's and BrainsGate's losses, see investment agreements in Note 3.A.3.b) and 3.B.4.b) above.

c) Other associates

The book value of the Company's aggregate share in other associates, as of December 31, 2015 is \$15,147 (as of December 31, 2014- \$5,551). The Company's aggregate share in the loss and in the other comprehensive loss of other associates for the year ended December 31, 2015 is \$6,605 (for 2014- \$5,090).

d) Inclusion of the financial statements of associates accounted for under the equity method of accounting

The Company did not enclose the financial statements of BrainsGate Ltd. ("BrainsGate"), even though the amount included in the profit or loss in respect of the investment in BrainsGate constituted more than 20% of the absolute value of the net income attributed to the Company's shareholders in 2015, as this condition was not met in the previous year and is not expected to be met in the next year.

4. Significant changes in investments in associates during the reporting period

a) Given

Given Imaging Ltd. ("Given") provided minimally invasive diagnostic products for visualization and detection of disorders of the gastrointestinal tract, and was traded on Nasdaq and the Tel-Aviv Stock Exchange (symbol: GIVN), until the completion of the merger, as detailed below. Prior to the completion of the merger, Elron and RDC held approximately 21% and 8% of Given, respectively. Given was accounted for under the equity method of accounting, until its classification as held for sale in December 2013.

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)**B. Investments in associates accounted for using the equity method of accounting (Cont.):****4. Significant changes in investments in associates during the reporting period (Cont.):**a) **Given**

In December 2013, Given signed an agreement with an entity of the Covidien corporation (the "Purchaser") and a subsidiary fully owned by the Purchaser, according to which, by way of merger between the Purchaser's subsidiary and Given, the entire share capital of Given will be transferred to the Purchaser for a cash consideration to Given's current shareholders of \$30 per share (the "Transaction" or the "Given Merger"). The share of Elron and RDC in the consideration, less tax payments and transactions costs, was approximately \$204,000 and \$61,000, respectively. On December 8, 2013, Elron's and RDC's boards of directors decided to vote in favor of the Transaction at the general meeting of Given's shareholders. In January 2014, the general meeting of Given's shareholders approved the Transaction and the necessary regulatory approvals were received, and in February 2014, the Transaction was completed and the aforementioned consideration was received.

In light of the aforementioned, the Company recognized in 2013 a deferred tax asset of approximately \$29,000 in respect of the temporary difference between the cost of investment in Given for tax purposes and the book value of the investment, and in respect of carry forward losses that were expected to be utilized in 2014 due to the expected gain from the said transaction (and a tax liability of approximately \$600 in respect of RDC's holdings in Given). See also Note 16.

In 2014, Elron recognized a net gain attributable to the Company's shareholders in respect of the Transaction, in an amount of approximately \$106,800, including Elron's share in the gain recorded by RDC. The said gain is after tax expenses of approximately \$37,700 (the consolidated net gain, net of tax, is \$129,700).

b) **BrainsGate**

BrainsGate is developing a minimally invasive treatment platform for patients suffering from Central Nervous System diseases. As of the reporting date, Elron holds approximately 30% of BrainsGate's outstanding shares and approximately 27% on a fully diluted basis. BrainsGate is accounted for under the equity method of accounting.

In January 2015, an investment agreement in BrainsGate in the amount of \$26,000 was signed, with the participation of Medtronic and additional shareholders of BrainsGate, including Elron. The investment agreement will be in two installments in consideration for Preferred BB shares and warrants for Preferred BB shares. Elron's share in the total investment amount is approximately \$7,800. The first installment in the amount of \$11,000 was invested immediately (Elron's share in the first installment was approximately \$3,300). The second installment will be invested after follow up data of 600 patients participating in BrainsGate's clinical trial will be received, and subject to the decision by a majority of BrainsGate's investors, as stipulated in the agreement. Elron's holding in BrainsGate's outstanding share capital did not change after completion of the first installment.

In addition, with the completion of the first installment, BrainsGate's equity was re-capitalized such that all outstanding Preferred shares on the date of investment were converted into Ordinary shares of BrainsGate, and all warrants to purchase preferred shares were amended such that the underlying shares shall be Ordinary shares, commencing that date.

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)**B. Investments in associates accounted for using the equity method of accounting (Cont.):****4. Significant changes in investments in associates during the reporting period (Cont.)****c) CartiHeal**

CartiHeal (2009) Ltd. ("CartiHeal") is developing an implant for repair of articular cartilage and osteochondral defects. As of the reporting date, Elron holds approximately 35% of CartiHeal's outstanding shares, and the investment in CartiHeal is accounted for under the equity method of accounting.

In February 2015, CartiHeal entered into an investment agreement with its principal shareholders, including Elron, to extend the investment agreement dated January 2012, in the amount of \$3,000 in consideration for Preferred D shares and warrants for Preferred D shares. The total investment amount was invested immediately in CartiHeal. Elron's share in this amount was approximately \$1,300.

In December 2015, an investment agreement in CartiHeal in the amount of \$12,000 was signed. The investment round was led by Johnson & Johnson Innovation - JJDC Inc., with the participation of additional shareholders of CartiHeal, including Elron, in consideration for Preferred E shares. Elron's share in the investment amount is approximately \$4,100. In addition, as part of this investment agreement, CartiHeal's shareholders, including Elron, exercised the warrants for Preferred D shares, in consideration for \$3,000 (Elron's share was \$1,300). As a result, Elron's holding in CartiHeal's outstanding shares increased from approximately 34% to approximately 35%.

d) Kyma

Kyma Medical Technologies Ltd. ("Kyma") is developing a remote patient monitoring (RPM) solution for Congestive Heart Failure (CHF) patients. Prior to the sale of Kyma, as detailed below, RDC held approximately 53% of Kyma's outstanding share capital and approximately 36% on a fully diluted basis and the investment in Kyma was accounted for under the equity method of accounting.

In October 2013, Kyma, RDC and a new investor completed an investment agreement in the amount of \$6,000 to be invested in two installments in consideration for Preferred C shares (RDC's share in this amount was approximately \$2,000). In addition, the new investor also received warrants for Preferred C shares (which were exercisable from the investment date), which provided the new investor with an option to invest in Kyma an additional amount of \$4,000. The first installment in respect of this investment in the amount of \$3,000 was invested immediately. RDC's share in the first installment was \$1,000. The second installment was invested in January 2014.

After this investment, which also brought about a change in Kyma's board of directors, RDC lost control over Kyma and commencing from the fourth quarter of 2013, the investment in Kyma was accounted for under the equity method of accounting. As a result, and in accordance with IFRS 10's provisions, Elron recognized in the fourth quarter of 2013 a net gain attributable to Elron's shareholders in the amount of approximately \$1,700 (a consolidated net gain in the amount of approximately \$2,800), resulting mainly from the revaluation to fair value of RDC's investment in Kyma, under line item gain from disposal and revaluation of investee companies and changes in holdings, net, in the statement of income.

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)

B. Investments in associates accounted for using the equity method of accounting (Cont.):

4. Significant changes in investments in associates during the reporting period (Cont.)

d) Kyma (Cont.)

In February 2015, Kyma signed an investment agreement with its principal shareholders, including RDC, in the amount of approximately \$6,200 in consideration for Preferred C shares. RDC's share in this amount was \$2,500.

In September 2015, ZOLL LifeVest Europe Holdings B.V., a fully owned subsidiary of ZOLL® Medical Corporation, an Asahi Kasei Group company and a manufacturer of medical devices and related software solutions (the "Acquirer") signed a definitive agreement with Kyma and its shareholders, including RDC, and simultaneously completed the acquisition of the entire share capital of Kyma (the "Transaction").

Pursuant to the Transaction:

- 1) The selling security holders of Kyma (the "Sellers") received a cash consideration in the amount of approximately \$35,000 (the "Immediate Consideration"), subject to certain adjustments. In addition, the Sellers may receive additional contingent cash consideration in the form of inter alia (a) earn-out payments calculated as a multiple of year-on-year revenue growth from the sale of certain products of Kyma for a period of 4.5 years, and (b) future payments per unit deployed of certain products developed by the Acquirer incorporating Kyma's technology, for a period of 5.5 years (together the "Contingent Consideration"), provided however that the Contingent Consideration will be payable to the Sellers if and for such amounts exceeding \$10,000;
- 2) The Acquirer is entitled to certain indemnities from the Sellers in connection with the Transaction, as is customary in transactions of this type.

Out of the Immediate Consideration, RDC received an amount of approximately \$18,800 (of which an amount of approximately \$2,200 was deposited in escrow for a period of 24 months in order to secure certain indemnification obligations to the Acquirer). In addition, at the date of the completion of the transaction, RDC recognized an asset in respect of the Contingent Consideration valued at the amount of approximately \$5,200, which was determined with the assistance of an independent appraiser (the fair value of the contingent consideration as of December 31, 2015 was approximately \$5,700).

As a result of the Transaction, Elron recognized a net gain attributable to the Company's shareholders in the amount of approximately \$8,900 in 2015 (a consolidated net gain in the amount of approximately \$17,800).

e) Coramaze

coramaze technologies GmbH ("Coramaze") is a German company developing a minimally invasive device to treat functional mitral valve regurgitation. As of the reporting date, Elron holds approximately 17% of Coramaze's outstanding shares. The investment in Coramaze is accounted for under the equity method of accounting since, among other things, Elron has the right to appoint over 20% of Coramaze's board members.

Notes to the Consolidated Financial Statements

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

Note 3- Investments in investees (Cont.)**B. Investments in associates accounted for using the equity method of accounting (Cont.):****4. Significant changes in investments in associates during the reporting period (Cont.)****e) Coramaze (Cont.)**

In August 2015, Elron entered into its first investment agreement with Coramaze and its existing shareholders, in the amount of €4,500 thousand (Elron's share in the investment is €3,500 thousand). The investment agreement is in two installments in consideration for Preferred A shares. The first installment in the amount of €2,250 thousand (approximately \$2,500) was invested immediately. Elron's share in the first installment was €1,750 thousand (approximately \$2,000). Subsequent to the completion of the second installment, Elron is expected to hold approximately 28% of Coramaze's outstanding shares.

f) Cloudyn

Cloudyn Software Ltd. ("Cloudyn") provides solutions for the optimization of cloud computing costs and resources. Prior to the completion of the investment agreement in December 2015, as detailed below, Cloudyn was RDSeed's subsidiary. As of the reporting date, Cloudyn is accounted for under the equity method of accounting, whose outstanding shares, are approximately 42% held by RDSeed.

In August 2014, Cloudyn completed an investment agreement in the amount of approximately \$3,500 in consideration for Preferred B shares. The investment agreement included a \$2,000 investment by a new investor and also a conversion of loans in the amount of approximately \$1,500 granted by RDSeed to Cloudyn.

In July 2015, Cloudyn completed an investment agreement in the amount of \$1,500 in consideration for Preferred B shares. RDSeed's share was \$750.

In December 2015, an investment agreement between Cloudyn, its shareholders (including RDSeed) and a new investor, in the amount of \$9,000 in consideration for Preferred B1 shares and warrants for Preferred B2 shares. RDSeed's share was \$1,250. Following the completion of the investment agreement, RDSeed's holding in Cloudyn's outstanding share capital decreased from approximately 55% to 42% (and from approximately 52% to 35% on a fully diluted basis).

After this investment, which also brought about a change in Cloudyn's board of directors, RDSeed lost control over Cloudyn and commencing from the fourth quarter of 2015, the investment in Cloudyn is accounted for under the equity method of accounting. As a result, and in accordance with IFRS 10's provisions, Elron recognized in the fourth quarter of 2015 a net gain attributable to Elron's shareholders in the amount of approximately \$2,400 (a consolidated net gain in the amount of approximately \$4,700), resulting mainly from the revaluation to fair value of RDSeed's investment in Cloudyn, under line item gain from disposal and revaluation of investee companies and changes in holdings, net, in the statement of income. The fair value of the investment, as the purchase price allocation to Cloudyn's assets, was conducted with the assistance of an independent appraiser. Most of the purchase price allocation was attributed to technology and customer relations.

Notes to the Consolidated Financial Statements

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

Note 4- Cash and cash equivalents

	December 31	
	2015	2014
Cash	20,779	4,190
Cash equivalents - short-term deposits (*)	31,172	61,773
	<u>51,951</u>	<u>65,963</u>

(*) The deposits bear interest rate, which is determined based on the deposit period and currency. The interest rate on deposits as of December 31, 2015, is 0.2%-0.9%.

Note 5- Other investments in securities, net

	December 31, 2015
Debentures (A)	23,115
Other securities	4,930
	<u>28,045</u>

(A) Investment in debentures denominated in USD, carrying an interest linked to the Libor. These debentures are financial assets measured at fair value through profit or loss according to the provisions of IFRS 9.

Note 6- Other accounts receivable

As of December 31, 2015 and 2014, other accounts receivable mainly include governmental institutions and prepaid expenses.

Note 7- Investments in other companies measured at fair value

	December 31, 2015		December 31, 2014	
	Unquoted	Quoted	Unquoted	Total
Investment in shares measured at fair value through profit or loss	19,395	-	27,339	27,339
Investment in shares measured at fair value through other comprehensive income	-	219	-	219
Total	<u>19,395</u>	<u>219</u>	<u>27,339</u>	<u>27,558</u>

(*) For a list of investments, see Annex to the consolidated financial statements.

Investments in other companies measured at fair value - unquoted shares

The Company holds interests not entitling significant influence in several private companies. The fair value of these companies' shares has been estimated using:

Notes to the Consolidated Financial Statements

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

Note 7- Investments in other companies measured at fair value (Cont.)

1. Discounted Future Earnings Method - This methodology is used when the investees undergoing evaluation are able to provide projections for their future cash flows. In addition, it was deemed not unreasonable that market participants or other investors would use this methodology to determine the fair value of their rights in these companies.
2. Company Security Transaction Method ("CSTM") - According to the CSTM method, the value of each investee is estimated based upon recent transaction prices in the investee's securities. For these transactions to be relied upon to develop an estimate of fair value, they must be arm's length transactions. Additional factors considered in this analysis include: size, amount and type of shares sold; the timing of the transaction relative to the estimation date; differences in the rights, preferences, marketability, control of the transaction securities, participation of new investors, shareholders who don't participate, volatility in the investee's projections and the volatility of comparable firms.
3. Option Pricing Model ("OPM") - After deriving the investee's fair value, it is generally accepted for market participants to allocate the value of the investee to the different classes of equity. OPM is an option pricing model based on the Black and Scholes formula or based on the Binomial (lattice) model. This model is based upon the concept that the securities of a firm's capital structure can be considered as call options on the value of the firm. The model uses a Black and Scholes option model or a Binomial (lattice) model to estimate the value of the investee between value ranges.

The valuations require management to make certain assumptions about certain parameters, including projections, credit risk and volatility.

A. 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 21% of Notal's outstanding shares and approximately 18% on a fully diluted basis. The investment in Notal is accounted for as a financial asset measured at fair value through profit or loss.

In 2013, Notal signed an investment agreement with its major shareholders, including Elron, in the amount of \$10,000 invested in two equal installments (Elron's share in this amount was approximately \$1,940) and an option to participate in an additional installment in the amount of \$5,000, in consideration for Preferred C shares and warrants for Preferred C shares. In 2013 the first two installments were invested.

In June 2014, Notal's major shareholders, including Elron, exercised the option to participate in the additional installment in the amount of \$5,000, in consideration for Preferred C shares and warrants for Preferred C shares. Elron's share was approximately \$970.

In June 2015, Notal signed an investment agreement with its major shareholders, including Elron, in the amount of \$3,000 (Elron's share in this amount was approximately \$600) in consideration for Preferred C shares and warrants for Preferred C shares. The investment amount was invested immediately.

In January 2016, subsequent to the reporting date, Notal signed an investment agreement with its major shareholders, including Elron, in the amount of \$5,000 (Elron's share in this amount was approximately \$1,000) in consideration for Preferred C shares and warrants for Preferred C shares. The investment amount was invested immediately. Elron's holdings in Notal's shares did not significantly change following this investment.

Notes to the Consolidated Financial Statements

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

Note 7- Investments in other companies measured at fair value (Cont.)**A. Notal (Cont.)**

Notal's fair value was determined with the assistance of an independent appraiser. The value of this investment as of December 31, 2015 was estimated at \$14,700. The significant details included in this valuation with regards to an investment in unquoted shares are as follows:

1. **The value of Notal established by the Appraiser:** Approximately \$71,000. Accordingly, the value of Elron's interest was determined at \$14,700. As a result, in 2015 there was an increase in the value of Elron's holdings in Notal of approximately \$300 in respect of the change in the value of Notal, recorded under line item gain from disposal and revaluation of investee companies and changes in holdings, net in the statement of income. In addition, the investment increased in an amount of approximately \$600 in respect with the investment in Notal (see above).
2. **The valuation model used by the Appraiser:**
 - a. The DCF Method for determining Notal's value (enterprise value).
 - b. The Option Pricing Model (OPM), using the formulas of Black and Scholes model for allocating Notal's value to different classes of shares and for determining the value of Elron's interest accordingly.
3. **The assumptions used:**
 - a. The discount rate (WACC): 17.5%
 - b. The long term growth rate/ terminal value: Discounted cash flows were computed until the end of the patent's life. The valuation did not use "representative year".
 - c. The standard deviation: The volatility used in the Black and Scholes model was 60.5%.

B. Aqwise

Aqwise – Wise Water Technologies Ltd. ("Aqwise") provides biological water and wastewater treatment solutions for the industrial and municipal markets. As of the reporting date, Elron holds approximately 19.8% of Aqwise's outstanding shares and the investment in Aqwise is accounted for as a financial asset measured at fair value through profit or loss.

The fair value of the investment in Aqwise as of December 31, 2015 was determined with the assistance of an independent appraiser. The value of this investment as of December 31, 2015 was estimated at approximately \$4,500. Accordingly, the Company recognized in 2015 a gain from change in the value of the investment in the amount of approximately \$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 Consolidated Financial Statements

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

Note 7- Investments in other companies measured at fair value (Cont.)**C. Jordan Valley**

Jordan Valley Semiconductors Ltd. ("Jordan Valley") provides metrology solutions for manufacturing process control in the microelectronics industry. Prior to its sale, as detailed below, Elron held approximately 19% of Jordan Valley's outstanding shares and the investment in Jordan Valley was accounted for as a financial asset measured at fair value through profit or loss.

In October 2015, Bruker Scientific Israel Ltd. (the "Acquirer"), a wholly-owned indirect subsidiary of Bruker Corporation, signed a definitive agreement with Jordan Valley and its shareholders for the acquisition of the entire outstanding share capital of Jordan Valley (the "Transaction").

Pursuant to the Transaction, the selling shareholders received proceeds in the amount of up to approximately \$53,000, which includes purchase price in the amount of \$30,000 plus the cash balance of Jordan Valley (the "Immediate Consideration"). In addition, the consideration also includes additional payments of up to \$15,000, which are contingent upon Jordan Valley achieving certain revenue milestones and gross margin threshold in each of the 2016 and 2017 calendar years (the "Contingent Consideration"). The Acquirer is entitled to certain indemnities in connection with the transaction, as is customary in transactions of this type, from the selling shareholders.

Out of the Immediate Consideration, the Company received an amount of approximately \$12,000 (of which an amount of approximately \$1,300 was deposited in escrow for a period of 18 to 30 months, mainly in order to secure certain indemnification obligations of the selling shareholders to the Acquirer). The Company may receive an additional amount of up to approximately \$2,200 out of the Contingent Consideration. The Company recorded an asset in the amount of approximately \$1,000 in respect of the contingent consideration.

As a result, the Company recorded in the third quarter of 2015 a gain in the amount of approximately \$4,000 in respect of an increase in the fair value of the investment in Jordan Valley under line item gain from disposal and revaluation of investee companies and changes in holdings, net, in the statement of income.

D. Enablence

In 2010, Elron received shares and debentures of Enablence Technologies Inc. ("Enablence"), due to the sale of Teledata Networks Ltd. ("Teledata"). Enablence is a foreign company publicly traded on the TSX Venture Exchange. The investment in Enablence shares is accounted for as a financial asset measured at fair value through other comprehensive income and measured according to its market value.

During 2015, 2014 and 2013, all of Enablence's shares were sold in the market, in consideration for approximately \$500. As a result from this sale, the comprehensive loss that was recognized in respect of these shares was classified from capital reserve for financial assets measured at fair value through other comprehensive income into retained earnings.

Debentures:

As of the date the Enablence's debentures received in the sale of Teledata were recorded, their par value was approximately \$3,779 and the investment in these debentures was treated in the financial statements as a financial asset measured at amortized cost. In 2011, due to substantial doubt in Enablence's ability to repay its debt, Elron recognized an impairment of the entire debentures' balance.

Notes to the Consolidated Financial Statements

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

Note 7- Investments in other companies measured at fair value (Cont.)

D. Enableness (Cont.)

In August 2013, Enableness completed a financing round with a new investor in the amount \$15,000 thousand CAD. Simultaneously, a settlement agreement between Enableness and its debenture-holders, including Elron, for the partial repayment of the debt was also completed.

As a result of the settlement agreement, Elron recorded in 2013 a net gain in the amount of approximately \$3,500 in respect of a partial cancellation of the impairment recognized in 2011. This gain is presented under line item other expenses (income), net in the statement of income.

Note 8- Long term receivables

	December 31, 2015
Contingent consideration (A)	6,740
Escrow deposits (B)	3,502
Other	153
	<u>10,395</u>

(A) The Group recorded assets in respect of contingent consideration from the sale of Kyma in the amount of \$5,717 (see Note 3.B.4.d) above) and from the sale of Jordan Valley in the amount of \$1,023 (see Note 7.C above).

(B) According to the sale agreement of Kyma and Jordan Valley, a portion of the consideration was deposited in escrow, in short term bank deposits. An amount of \$2,222 in respect with the sale of Kyma (see Note 3.B.4.d) above). An amount of \$1,280 in respect with the sale of Jordan Valley (see Note 7.C above).

Note 9- Property and equipment

Most of the balance of the property and equipment, net as of December 31, 2015 is attributable to Pocared's property and equipment, which was consolidated for the first time in February 2015 (see Note 3.A.3.b) above).

Note 10- Intangible Assets

	Technology and in-process Development (1)	Agreement with Rafael (2)	Total
Cost			
Balance at January 1, 2014 and at January 1, 2015	1,461	3,051	4,512
Additions due to business combinations (3)	14,387	-	14,387
Decrease due to sale of consolidated company (4)	(1,461)	-	(1,461)
Balance at December 31, 2015	<u>14,387</u>	<u>3,051</u>	<u>17,438</u>
Accrued amortization and impairment			
Balance at January 1, 2014	54	-	54
Amortization recognized during the year	216	-	216
Impairment (5)	814	-	814
Balance at December 31, 2014	<u>1,084</u>	<u>-</u>	<u>1,084</u>
Amortization recognized during the year	197	-	197
Decrease due to sale of consolidated company (4)	(1,281)	-	(1,281)
Balance at December 31, 2015	<u>-</u>	<u>-</u>	<u>-</u>
Amortized cost			
Balance at December 31, 2015	<u>14,387</u>	<u>3,051</u>	<u>17,438</u>
Balance at December 31, 2014	<u>377</u>	<u>3,051</u>	<u>3,428</u>

Notes to the Consolidated Financial Statements

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

Note 10- Intangible Assets (Cont.)

- (1) **The Company examines the need for impairment in regards with these assets at least once a year.**
- (2) **Not systematically amortized – indefinite useful life (see Note 3.A.3.a).** The Company estimated the recoverable amount of the agreement with Rafael as part of RDC as a whole. In accordance with this examination, it was concluded that there was no need to depreciate the carrying amount of the asset in the financial statements. The assets and liabilities of RDC were included in the recoverable amount estimate.
- (3) **As a result of the initial consolidation of Pocared (see Note 3.A.3.b)).**
- (4) **As a result of ceasing consolidation of Cloudyn (see Note 3.B.4.f).**
- (5) In 2014, the operations of **POSE P.O.S Ltd.** were downsized and the Company recorded an impairment in the full amount of the excess cost. The impairment was recorded under line item other expenses (income), net in the income statement.

Note 11- Other accounts payable

	December 31	
	2015	2014
Accrued expenses	2,222	1,390
Liabilities to employees in respect of payroll	1,695	1,420
Governmental institutions	1,299	1,889
Other payables	702	100
	5,918	4,799

Note 12- Equity**A. Composition of share capital:**

	December 31,			
	2015		2014	
	Registered	Issued and outstanding	Registered	Issued and outstanding
	Number of shares			
Ordinary shares of NIS 0.003 par value each	35,000,000	29,743,767	35,000,000	29,743,767

Elron's shares are Quoted on the Tel Aviv Stock Exchange and the over-the-counter market in the United States (see also Note 1.A).

B. Capital management in the Company

The Company's and its subsidiaries' capital management policy is to maintain a strong equity base in order to preserve their ability to ensure business continuity thereby creating a return for the shareholders, to uphold their commitments to other interested parties such as credit givers and employees, and in order to support future development activity.

The Company is not under any minimal equity requirements nor is it required to attain a certain level of capital return.

Notes to the Consolidated Financial Statements

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

Note 12- Equity (Cont.)**C. Dividend**

On March 10, 2016, subsequent to the reporting date, the board of directors resolved to make an application to the Court for a dividend distribution of \$15,000 (constituting an amount of \$0.504307 per share) not out of the Company's profits. Such dividend distribution is subject to the Court approval pursuant to Section 303 of the Israeli Companies Law, 1999 (the "Companies Law") and the record date will be determined accordingly. We intend to file an application to the Honorable Court, accordingly. This decision of the board of directors was taken after the directors determined that considering the Company's assets and liabilities, the solvency criterion pursuant to the Companies Law has been met, namely that there is no reasonable concern that such dividend distribution would prevent the Company from meeting its existing and expected obligations, as and when they fall due, and that such dividend distribution is for the benefit of the Company and its shareholders.

It should be clarified that the abovementioned decision of the board of directors does not constitute a decision to distribute a dividend, and that a dividend distribution in any amount, shall be subject, in addition to the Court approval as stated herein (which is not assured), to a further separate approval of the board of directors in relation to the dividend distribution itself, subject to the Board's full discretion. Accordingly, it should be clarified that as of the date of the publication of these reports, there is no certainty as to the distribution of a dividend or the timing or amount thereof.

On August 24, 2014, the Company declared a dividend in an amount of \$110,000 (approximately \$3.698 per share). In September 2014, the dividend was paid to the Company's shareholders.

Note 13- Operating Segment

A. The Company operates in one segment, namely "Holdings and Corporate Operations". This segment includes corporate headquarters and reflects the operations of the investments in investee companies and their sale.

B. Revenues based on the location of customers, are as follows:

	December 31,		
	2015	2014	2013
USA	630	279	70
Other	259	95	27
	<u>889</u>	<u>374</u>	<u>97</u>

Note 14- Contingent liabilities, pledges and commitments**A. Legal claims**

The amounts of the claims described below are true for the dates on which they were filed, unless otherwise indicated. Details on claims against the Company and its investee companies are included hereunder to the extent that the possible impact of each one of them on the financial results of the Company is significant.

- In November 1999, a number of institutional shareholders of Elscint filed a claim in the District Court of Haifa, together with a request to approve certain causes of action set out in the claim, as a class action on behalf of the public shareholders of Elscint, and a request for certain causes of action to be treated as a derivative action against various defendants, including Elscint, Elbit Imaging, Elron, companies to which Elron sold its holdings in Elbit Imaging in May 1999, and certain officers in the defendant companies. The claim alleges, mainly, that Elbit Imaging is duty bound to make a tender offer for the shares of Elscint held by the public and that it unlawfully refuses to do so and, in addition, it raises allegations of preference of the interests of the defendants over those of Elscint and its public shareholders with respect to a number of transactions involving Elscint that the plaintiffs allege discriminated against Elscint's public shareholders. In June 2007 the plaintiffs submitted to the Haifa District Court an updated statement of claim and request to approve the claim as a class action. The updated claim claims compensation for damages sustained due to the alleged failure to effect the tender offer, but no longer seeks an order compelling the tender offer. The updated statement of claim does not specify the monetary amount claimed, but does include various allegations relating to the manner of determining the damages claimed.

The Court dismissed the plaintiffs' request to approve the claim as a class action, but the plaintiffs appealed, and in May 2012, the Supreme Court handed down a judgment in which it partially accepted the appeal filed by the plaintiffs regarding the District Court's rejection of the motion to approve their claim as a "class action". In the said judgment, it was determined, inter alia, that the motion for approval of the claim as a "class action" was accepted with some modifications and directions as to the conduct of the proceeding and that the case is being returned to the District Court to conduct the claim as a "class action" against all of the defendants, including the Company and its former officers as detailed in the said judgment.

Notes to the Consolidated Financial Statements

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

Note 14- Contingent liabilities, pledges and commitments (Cont.)**A. Legal claims (Cont.)**

The cause of action alleged against the Company is minority oppression of the minority shareholders of Elscint, such that control of Elscint was sold to someone who is anticipated to exploit the assets of the company in an unequal manner ("Sabotage Sale"). The Company denies the allegations against it in the action.

On February 9, 2016, subsequent to the reporting date, a request was submitted to the District Court pursuant to which agreement was reached on a partial settlement agreement (between all the plaintiffs and all the defendants except the Company and the group of directors on its behalf). The actual settlement agreement has not been submitted to the District Court since, according to the above application, the parties are required to exhaust other approval proceedings regarding the participation of the insurers. The position of the plaintiffs as presented to the District Court by their legal representatives after the submission of the above request is that the cause of action against the Company and the group of directors on its behalf is separate from the causes of action against the other defendants and therefore - as long as the Company and the group of directors on its behalf do not join the settlement, the plaintiffs are continuing the proceedings between the plaintiffs and the Company and the group of directors on its behalf.

The Company has provided a provision in its financial statements of an immaterial amount, which according to the estimation of the Company's management, based, inter alia, on the opinion of its legal advisors, is sufficient to cover the financial resources that may be required of it in order to expunge the claim, if any.

2. From time to time, the Company is involved in claims, in addition to the one described above, in the ordinary course of business. The costs that may result from these claims are recognized as provisions only when it is more likely than not that an obligation originating from past events will arise, and the amount of that obligation can be quantified or estimated within a reliable range. The amount of the provisions is based on the estimated risk factor in every claim. Events occurring during legal deliberations may require a renewed valuation of that estimation. The Company's estimation of the risk is based on the legal opinion of its legal consultants as well as the Company's estimation of probable settlement amounts that the Company may pay, providing both parties agree to the settlement's conditions. As of the reporting date, no provision was included in the financial statements in respect of these additional claims.

B. Commitments

1. The Group has commitments in regards with possible indemnification for presentations given in transactions for sale of investee companies, such as Medingo Ltd., which was sold in 2010. For details regarding sale of Group companies during the reporting period, see Notes 3 and 7 above.
2. For details about the Services Agreement with DIC, see Note 18.B.
3. For details about other commitments with related parties, see Note 18.

Notes to the Consolidated Financial Statements

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

Note 15- Supplementary statement of income data

A. Gain from disposal and revaluation of investee companies and changes in holdings, net

	For the year ended December 31		
	2015	2014	2013
Kyma (see Note 3.B.4.d))	21,106	-	2,770
Pocared (Note 3.A.3.b))	10,120	-	-
Cloudyn (Note 3.B.4.f))	4,728	-	-
Given Merger (Note 3.B.4.a))	-	175,019	-
Jordan Valley (see Note 7.C)	4,044	(1,410)	(1,750)
Notal (see Note 7.A)	263	1,858	3,425
Aqwise (Note 7.B)	219	471	(481)
Change in holdings in Given (1)	-	-	4,149
Other	110	157	303
	<u>40,590</u>	<u>176,095</u>	<u>8,416</u>

(1) As a result from exercised and expired options and restricted share units of Given's employees and services providers.

B. Research and development expenses, net

	For the year ended December 31		
	2015	2014	2013
Cost of research and development	13,129	2,113	4,154
Less: government grants	-	-	225
	<u>13,129</u>	<u>2,113</u>	<u>3,929</u>

C. Selling and marketing expenses

	For the year ended December 31		
	2015	2014	2013
Salaries, wages and related expenses	1,083	638	250
Advertising and public relations	176	281	110
Other	749	405	185
	<u>2,008</u>	<u>1,324</u>	<u>545</u>

D. General and administrative expenses

	For the year ended December 31		
	2015	2014	2013
Salaries, wages and related expenses	2,672	2,099	2,527
Services agreement with DIC (*)	1,555	1,712	1,682
Rent and building maintenance	767	741	649
Professional services	860	1,172	1,244
Other	1,702	1,333	1,091
	<u>7,556</u>	<u>7,057</u>	<u>7,193</u>

(*) For further information, see Note 18.B.

Notes to the Consolidated Financial Statements

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

Note 15- Supplementary statement of income data (Cont.)

E. Financial income and expenses

1. Financial income

	For the year ended December 31		
	2015	2014	2013
Interest income from loans, deposits and other receivables	17	48	64
Interest income from bank deposits	1,013	839	239
Income from exchange rate differences, net	-	-	152
Other	82	-	229
Total financial income	1,112	887	684

2. Financial expenses

	For the year ended December 31		
	2015	2014	2013
Interest expenses on financial liabilities measured at amortized cost	27	12	162
Loss from revaluation of financial assets at fair value through profit or loss	321	-	-
Loss from change in exchange rate of foreign currency, net	177	3,329	-
Commissions	43	37	251
Other financial expenses	82	15	148
Total financial expenses	650	3,393	561

3. Financial income (expenses), net, by components

	For the year ended December 31		
	2015	2014	2013
<u>Deposits and receivables</u>			
Bank deposits	837	(2,490)	239
Other deposits and other receivables	17	48	445
<u>Financial assets at fair value through profit or loss</u>	(321)	-	-
<u>Financial liabilities</u>			
Loans from banks	-	(12)	(561)
Other	(71)	(52)	-
Total financial income (expenses), net	462	(2,506)	123

Notes to the Consolidated Financial Statements

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

Note 15- Supplementary statement of income data (Cont.)**F. Equity in losses of associates, net**

	For the year ended December 31		
	2015	2014	2013
Company's share in net losses of associates (1) (2)	8,491	15,840	7,838
Amortization of excess cost in respect of associates	75	-	4,030
Total loss on equity basis, net	8,566	15,840	11,868

(1) Including also the Company's share in the losses of former associates until the date they ceased being associates.

(2) See also Note 3.B above.

G. Other expenses (income), net

	For the year ended December 31		
	2015	2014	2013
Gain from cancellation of impairment of Enablence's debentures (see Note 7.D)	-	-	(3,522)
Impairment of intangible assets (see Note 10)	-	814	-
Other	22	(21)	35
Total other expenses (income), net	22	793	(3,487)

Note 16- Taxes on Income**A. Tax laws applicable to the Group companies***Income Tax (Inflationary Adjustments) Law, 1985:*

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

Notes to the Consolidated Financial Statements

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

Note 16- Taxes on Income (Cont.)**B. Tax rates applicable to the Group**

The rate of the Israeli corporate tax is as follows: in 2013 -25%, in 2014 and 2015- 26.5%. Corporate tax applies on capital gains from the year of sale.

On January 4, 2016, subsequent to the reporting date, the Israeli Parliament's Plenum approved by a second and third reading the Bill for Amending the Income Tax Ordinance (No. 217) (Reduction of Corporate Tax Rate), 2015, which includes a reduction of the corporate tax rate from 26.5% to 25%.

The deferred tax balances included in the financial statements as of December 31, 2015, are calculated according to the tax rates that were in effect as of the reporting date and do not take into account any effects that may result from the reduction in the tax rate. Any such effects will be included in the financial statements that will be issued starting from the date on which the new tax rate was substantially enacted, namely in respect of the first quarter of 2016. The effect of the change in the tax rate on the deferred tax balances as of December 31, 2015 was immaterial.

C. The Company, its corporate companies RDSeed and Pocared, received final, or considered final, tax assessments through 2011. RDC received final tax assessments through 2012.

D. Taxes on income (tax benefit) included in the statements of income

	Year ended December 31,		
	2015	2014(*)	2013(*)
Current taxes	1,244	20,490	-
Deferred taxes	2,104	28,440	(28,362)
Taxes in respect of prior years, net	-	(3,604)	(39)
	<u>3,348</u>	<u>45,326</u>	<u>(28,401)</u>

(*) mainly as a result of Given Merger, see Note 3.B.4.a) above.

E. Long term taxes

As of December 31, 2015, the Group recorded long term taxes in the amount of approximately \$2,100.

Carryforward operating tax losses for tax purposes of the Company and consolidated companies total approximately \$234,000 and capital losses for tax purposes total approximately \$13,000, as of December 31, 2015. Carryforward tax losses in Israel may be set against future taxable income. Deferred tax assets relating to carryforward losses in the amount of approximately \$60,000 were not recognized because their utilization in the foreseeable future is not probable. In addition, the Company does not have tax results carried to other comprehensive income.

Deferred tax assets in the amount of approximately \$10,000 (approximately \$19,000 as of December 31, 2014) have not been recognized in respect of temporary differences associated with investments in investees in the amount of approximately \$36,000 (approximately \$73,000 as of December 31, 2014), because the realization of these investments in the foreseeable future is not expected (which realization is at the Company's discretion), and because the distribution of dividends by these companies is not liable for tax or because of the Company's policy not to initiate dividend distribution which will lead to tax liability.

Notes to the Consolidated Financial Statements

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

Note 16- Taxes on Income (Cont.)

F. Theoretical tax:

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31,		
	2015	2014	2013
Income (loss) before taxes on income	10,393	146,712	(11,471)
Statutory tax rate	26.5%	26.5%	25%
Tax (tax benefit) computed at the statutory tax rate	2,754	38,879	(2,868)
Increase (decrease) in taxes on income (tax benefit) resulting from the following factors:			
Company's share of losses of associates, net	2,270	4,198	2,967
Changes in temporary differences with respect to which deferred taxes were not recognized	(5,186)	(3,847)	(341)
Increase in unrecognized tax losses for which deferred taxes were not recognized	3,565	7,313	279
Deferred taxes recorded in respect of temporary difference in the investment in Given, for which deferred taxes were not recognized in the past	-	-	(7,155)
Deferred taxes recorded in respect of prior periods losses and benefits, for which deferred taxes were not recognized in the past	-	-	(21,285)
Differences in measurement basis (Israeli CPI for tax purposes and foreign currency in the financial statements)	(26)	2,422	-
Non-deductible expenses (exempt income), net	(29)	(35)	41
Taxes in respect of previous years	-	(3,604)	(39)
Taxes on income (tax benefit)	3,348	45,326	(28,401)

Notes to the Consolidated Financial Statements

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

Note 17- Net earnings per share

A. Basic and diluted net earnings per share

1. Details of the income used in the computation of basic and diluted net earnings per share:

	Year ended December 31,		
	2015	2014	2013
Net earnings attributable to ordinary shareholders	2,451	85,494	17,935
Adjustment for Company's share in the basic loss per share of associates (*)	-	-	(1,939)
Income used in computation of basic and diluted net earnings per share	2,451	85,494	15,996

*) Represents adjustments for differences between the Company's share in the income or losses of associates, and the associate's earnings or loss per share multiplied by the number of shares held by the Company.

2. Details of the number of shares used in the computation of basic and diluted net earnings per share:

	Year ended December 31,		
	2015	2014	2013
Balance as of January 1	29,743,767	29,743,767	29,733,767
Effect of options converted into shares	-	-	8,860
Weighted average number of ordinary shares used in the computation of basic and diluted net earnings per share	29,743,767	29,743,767	29,742,627

Notes to the Consolidated Financial Statements

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

Note 18- Balances and transactions with related and interested parties**A. Related parties**

The related parties of the Company are DIC, IDB Development Corporation Ltd. ("IDB"), related parties of DIC and IDB, associates and subsidiaries, directors and key management personnel of the Company, DIC or IDB, and a close member of the family of any of the persons mentioned above. For details regarding holdings in investee companies – see Note 3.

B. Details of transactions with related and interested parties**Classification of transactions as negligible transactions**

The Board of Directors of the Company adopted a policy determining guidelines and rules for the classification of a transaction by the Company or by a consolidated company with a related party in which the controlling shareholder in the Company has a personal interest as a negligible transaction (Negligible Transaction Policy). The following is a summary of these guidelines.

In the absence of any special qualitative considerations given the specific circumstances, a transaction that is not extraordinary (in other words - it is conducted in the ordinary course of its business, under market conditions, and does not have a material impact on the Company), it will be considered a negligible transaction, if the relevant criteria calculated for the transaction (one or more, as set out below) is less than one percent (1%) of the Company's equity according to the Company's last consolidated financial statements, and if the transaction amount does not exceed \$1,200.

In any related party transaction involved with a personal interest of the Company's controlling shareholder that is evaluated and classified as to whether is a negligible transaction, the relevant criteria shall be calculated as follows: (A) In the purchase of a fixed asset ("asset that is not a current asset") - the size of the transaction; (B) In the sale of a fixed asset ("asset that is not a current asset") - the profit/loss from the transaction; (C) In the incurrence of a monetary liability - the size of the transaction; (D) In the purchase/sale of products (with the exception of a fixed asset) or services - the size of the transaction.

Services Agreement with DIC

On March 19, 2009, the Company entered into a Services Agreement with DIC, effective from May 1, 2009 ("the Services Agreement" or "the Agreement"), which was approved by the Company's audit committee and board of directors, and subsequently, by a special meeting of the Company's shareholders. In February 2012, the Services Agreement was amended and extended for a further three year period commencing from May 1, 2012. In March and April 2015 the Company's audit committee, board of directors and the Company's meeting of shareholders approved the Agreement's amendment and extension for a further three year period commencing from May 1, 2015 (the "Revised Agreement").

Notes to the Consolidated Financial Statements

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

Note 18- Balances and transactions with related and interested parties (Cont.)**B. Details of transactions with related and interested parties (Cont.)****Services agreement with DIC (Cont.)**

According to the Agreement, each party has the right to terminate it on at least 120 days prior notice if DIC is no longer the Company's largest shareholder. Pursuant to the Agreement, the Company receives managerial and administrative services from DIC that include CEO, CFO, comptroller, general counsel, corporate secretary, junior employee and administration employee services.

Pursuant to the Revised Agreement, the Company will pay DIC an annual fee equivalent to NIS 6,000,000, CPI-linked commencing from the second year of the Revised Agreement (approximately \$1,540 as of December 31, 2015).

Under the Agreement, the services are provided by persons designated by DIC, subject to the Company's approval (other than the CEO and CFO who are appointed by the Company following its proposal of such officers and approval by DIC and the Company's board of directors, and other than the comptroller, general counsel and corporate secretary, who are appointed by the Company following its proposal of such officers and approval by DIC) and are employed or otherwise engaged by DIC, at its expense ("Staff Persons"). The services do not include chairman of the board services and other headquarter services (such as offices, professional services of third parties etc.).

The Company, at its sole discretion and at its expense, and subject to the approvals required by law, may pay Staff Persons grants for their special contribution to the Company. The payment of bonuses to Staff Persons who serve as officers is regulated by the Company's compensation policy and additional decisions to apply the compensation policy to officers. According to the Services Agreement, DIC is obligated to provide the services through a sufficient number of people with appropriate experience and capabilities. In addition, DIC may designate Staff Persons or other persons to serve on the boards of directors of companies in which the Company has invested, after receipt of the approval of the Company's CEO.

Pursuant to the terms of the Agreement, the Company has agreed to indemnify DIC for any amounts DIC will be required to pay as a result of any legal or administrative proceedings initiated by any third party (other than Staff Persons), seeking to impose liability on DIC arising from any act of omission in performing the services, unless such act or omission amounted to gross negligence or was done other than in good faith. Moreover, DIC will not be responsible for any act of omission of any Staff Person performing the services unless such act or omission was made pursuant to the express instructions of DIC. In addition, the Company provides Staff Persons performing functions of officers, with indemnification letters with respect to liabilities to which they will become exposed by virtue of performing such functions.

Notes to the Consolidated Financial Statements

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

Note 18- Balances and transactions with related and interested parties (Cont.)**B. Details of transactions with related and interested parties (Cont.)****Services agreement with DIC (Cont.)**

The payments made to DIC under the Services Agreement in 2015 are: management fees in the amount of \$1,555. This amount does not include regular payments made to DIC in immaterial amounts, as detailed in Note 18.D.

Loans to Group companies

For details on loans granted by the Company to Pocared, see Note 3.A.3.b).

In addition, as of December 31, 2015, there are loans to associates in the amount of \$680.

The Company's engagement with IDB in an arrangement to receive support center services

On July 21, 2010, following approval by the Company's audit committee and board of directors, the Company's shareholders approved an agreement between the Company and IDB pursuant to which the Company would receive IT support services from IDB's IT support center in consideration for the Company's pro rata portion of the support center's costs in connection therewith, calculated pro rata to the number of users receiving IT support from the IDB support center. On August 8, 2011, the Company's Audit Committee resolved to limit the Company's agreement with IDB providing for the receipt of IT support services to a three-year period commencing on the date of such resolution. On October 29, 2014, following approval of the Company's audit committee and board of directors, the Company's shareholders approved the extension of the above mentioned agreement until August 7, 2017.

Notes to the Consolidated Financial Statements

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

Note 18- Balances and transactions with related and interested parties (Cont.)

C. Composition of balances with interested and related parties

As of December 31, 2015

	<u>Controlling shareholder (parent company)</u>	<u>Other related parties and interested parties</u>	<u>Ultimate parent company</u>	<u>Associates</u>	<u>Key management personnel</u>
Other accounts receivable	-	-	-	63	-
Trade and other accounts payable	(8)	(34)	(24)	-	(166)
Highest balance during the year of loans and current debts	-	-	-	63	-

As of December 31, 2014

	<u>Controlling shareholder (parent company)</u>	<u>Other related parties and interested parties</u>	<u>Ultimate parent company</u>	<u>Associates</u>	<u>Key management personnel</u>
Other accounts receivable	-	-	-	-	-
Trade and other accounts payable	(7)	-	(14)	-	(126)
Highest balance during the year of loans and current debts	-	-	-	15	-

Notes to the Consolidated Financial Statements

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

Note 18-Balances and transactions with related and interested parties (Cont.)

D. Transactions with related and interested parties

Year ended December 31, 2015

	For terms see Note	Controlling shareholder (parent company)	Sister companies	Ultimate parent company	Associates	Key management personnel	Other related parties and interested party
Income (*)		-	-	-	3	-	-
Expenses							
Services Agreement- related expenses	18.B	(1,555)					
Directors' remuneration	18.D.2	(29)	-	(28)	-	(261)	-
Insurance-related expenses		-	-	-	-	-	(105)
Other		-	(9)	(61)	-	-	(115)
		<u>(1,584)</u>	<u>(9)</u>	<u>(89)</u>	<u>3</u>	<u>(261)</u>	<u>(220)</u>

Year ended December 31, 2014

	For terms see Note	Controlling shareholder (parent company)	Sister companies	Ultimate parent company	Associates	Key management personnel	Other related parties and interested party
Income (*)		-	-	-	61	-	-
Expenses							
Services Agreement- related expenses	18.B	(1,712)	-	-	-	-	-
Directors' remuneration	18.D.2	(14)	-	-	-	(310)	-
Insurance-related expenses		-	-	-	-	-	(111)
Salaries, wages and related expenses		-	-	-	-	(804)	-
Other		-	(17)	(63)	-	-	(94)
		<u>(1,726)</u>	<u>(17)</u>	<u>(63)</u>	<u>61</u>	<u>(1,114)</u>	<u>(205)</u>

(*) Mainly interest and participation in directors' remuneration.

Notes to the Consolidated Financial Statements

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

Note 18-Balances and transactions with related and interested parties (Cont.)

D. Transactions with related and interested parties (Cont.)

Year ended December 31, 2013

	For terms see Note	Controlling shareholder (parent company)	Sister companies	Ultimate parent company	Associates	Key management personnel	Other related parties and interested party
Income (*)		8	-	5	143	-	-
Expenses							
Services Agreement-related expenses	18.B	(1,682)	-	-	-	-	-
Directors' remuneration	18.D.2	(13)	-	(28)	-	(362)	-
Insurance-related expenses		-	-	-	-	-	(117)
Salaries, wages and related expenses		-	-	-	-	(742)	-
Other		-	(18)	(59)	-	-	(74)
		<u>(1,687)</u>	<u>(18)</u>	<u>(82)</u>	<u>143</u>	<u>(1,104)</u>	<u>(191)</u>

(*) Mainly interest and participation in directors' remuneration.

Notes to the Consolidated Financial Statements

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

Note 18-Balances and transactions with related and interested parties (Cont.)

D. Transactions with related and interested parties (Cont.)

Compensation of key management personnel employed by the Company* (including directors)

	No. of personnel in	For the year ended December 31, 2014	No. of personnel in	For the year ended December 31, 2013
Short-term employee benefits	1	726	1	702
Termination benefits	1	169	1	58
Share-based payment transactions	1	(91)	1	(18)
Total		804		742

* In 2015, no expense in respect of employees was recorded by Elron directly.

Compensation of key management personnel not employed by the Company (including directors)

	No. of personnel in 2015	For the year ended December 31, 2015	No. of personnel in 2014	For the year ended December 31, 2014	No. of personnel in 2013	For the year ended December 31, 2013
Short-term employee benefits	7	318	10	324	8	403

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period relating to key management personnel.

The amounts disclosed in the table do not include compensation paid to key management personnel of the Company by DIC according to the Services Agreement (see Note 18.B above).

1. Grants:

According to the provisions of the Company's compensation policy, and in accordance with the decision to apply its provisions to the CEO, and since the Company met the threshold conditions set forth in the policy, Mr. Ari Bronshtein, the CEO of the Company, is entitled to an annual bonus for 2015 in the amount of NIS 1,398 thousand. This bonus reflects 9.8 times his monthly compensation cost.

Notes to the Consolidated Financial Statements

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

Note 18-Balances and transactions with related and interested parties (Cont.)

2. Directors' compensation

The payment of compensation for holding the office as a director and for participating in meetings of the board of directors and its committees, is in accordance with the provisions set forth in the Companies Regulations (Rules on Compensation and Expenses of an Outside Director), 5760-2000, including with regard to companies whose securities have been offered to the public or are traded outside of Israel.

Directors' fees which do not exceed the customary remuneration that was paid by the Company for the year 2015 to the directors of the Company during this period, 7 directors in total, amounted to approximately \$318. Of such amount, a sum of approximately \$29 was paid to DIC for the service of a former officer thereof as director of the Company, and a sum of less than \$28 was paid to IDB for the service of an officer thereof as director of the Company.

Note 19- Financial instruments

A. Classification of financial assets and financial liabilities

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IFRS 9 and IAS 39 :

	December 31,	
	2015	2014
Financial assets:		
<u>Financial assets measured at amortized cost:</u>		
Other short term accounts receivable	681	203
Bank deposits	70,188	93,951
Long term receivables	3,502	-
<u>Financial assets measured at fair value through profit or loss:</u>		
Investments in other companies measured at fair value through profit or loss	19,395	27,339
Other investments in securities, net	28,045	-
Long term receivables	6,740	-
<u>Financial assets measured at fair value through other comprehensive income</u>	-	219
<u>Financial liabilities:</u>		
<u>Financial liabilities measured at amortized cost:</u>		
Trade payables and other current liabilities	4,749	3,143

Notes to the Consolidated Financial Statements

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

Note 19- Financial instruments (Cont.)**B. Management of financial risks**

The Group is exposed to various risks resulting from the use of financial instruments, such as:

- Market risk (including currency risk, CPI risk, interest rate risk and other price risk).
- Credit risk.
- Liquidity risk.

The officer responsible for management of the Company's risks is Mr. Yaron Elad, the Company's CFO.

The handling of financial exposures, formulation of hedging strategy, supervision over, execution and provision of an immediate response to extraordinary developments in the various markets, is under the responsibility of the officer responsible for the Company's risk management, who acts in consultation with the Company's CEO, audit committee members and investment committee members. The audit committee is updated as to the implementation of the Company's policy at least on a quarterly basis.

The Group's financial assets include other receivables (current and non-current), and cash and bank deposits that derive directly from its operations. The Company also holds investments measured at fair value.

Market risk

Market prices comprise four types of risk: currency risk, CPI risk, other price risk and interest rate risk. Financial instruments affected by market risk include deposits, investment in debentures and marketable securities, contingent consideration and investments measured at fair value.

1. Currency risk

Since most of the investee companies operate in Israel, the Group's main exposure results from changes in the exchange rate between the New Israeli Shekel ("NIS") and the dollar. Elron's functional currency, as well as that of most of its investee companies, is the dollar. Elron's policy is to reduce exposure to exchange rate fluctuations by having, to the extent possible, most of its and its investee companies' assets and liabilities, as well as most of their revenues and expenditures in dollars, or dollar linked. However, salaries and related expenses, as well as expenses related to the DIC Services Agreement (see Note 18.B) and other operating expenses are denominated in NIS. In addition, as of December 31, 2015 RDC has cash, bank deposits and investment in securities denominated in NIS in the amount of approximately \$29,550. It is the Company's and its investee companies' policy to use derivative financial instruments to protect from changes in the exchange rate between the NIS and the dollar and to keep a portion of the Company's and its investee companies' resources in NIS against a portion of their future NIS expenses and against liabilities denominated in NIS. If the NIS should strengthen against the dollar, it may harm the Company's and its investee companies' results of operations.

In 2015 Elron invested for the first time in a company which operates in Germany, with functional currency of Euro (see also Note 3.B.4.e) above). As of the reporting date, the currency changes of USD-Euro has no material influence on Elron.

The Company holds a material portion of its cash balances in dollars, however, in the future, changes may take place from time to time in the amounts of these balances, in how the Company maintains its cash, and the portion of cash it holds in each currency, based on business developments and future decisions.

Notes to the Consolidated Financial Statements

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

Note 19- Financial instruments (Cont.)

B. Management of financial risks (Cont.)

2. CPI risk

The Company is engaged in a services agreement with DIC (see Note 18.B). In addition, the Company and several group companies are engaged in a number of lease agreements that are linked to the CPI for various time periods, which are also impacted by changes in the CPI.

3. Other price risk

The Company has investments in unquoted financial instruments and in quoted financial instruments that are classified as financial assets measured at fair value, which expose the Company to risk stemming from fluctuations in the security price determined based, among other things, on the stock market prices.

4. Interest risk

The Group is exposed to market risks resulting from changes in interest rates, relating primarily to Elron's and RDC's interest bearing deposits in banks. As part of its risk management, the Company invests a portion of its liquid resources in debentures, denominated in USD and linked to Lybor. As of the approval date of the financial statements, Elron and RDC do not use derivative financial instruments to limit exposure to interest rate risk.

The following table details the interest of the Group's interest-bearing financial instruments:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Fixed rate instruments:		
Financial assets (A)	<u>92,948</u>	<u>148,267</u>
Floating rate instruments:		
Financial assets (B)	<u>34,997</u>	<u>7,457</u>

(A) Comprised of deposits classified as cash equivalents in the amount of approximately \$22,760, short term bank deposits denominated in USD in the amount of approximately \$55,192, which bear interest of 0.6%-1.4% and short term bank deposits denominated in NIS in the amount of approximately \$14,996, which bear interest of 0.2%-0.5%.

(B) Comprised of USD debentures bearing a Lybor-linked interest plus approximately 0.9% in the amount of \$23,115, deposits classified as cash equivalents in the amount of approximately \$8,380 and escrow deposits in the amount of \$3,502 received from sale of Group Companies, deposited for short periods of under 3 months.

Credit risk

The Group is exposed to credit risk from its operating activities and from its financing activities, including deposits with banks and financial institutions, other investments in securities, foreign exchange transactions and other financial instruments.

The Group invests its liquid resources in low-risk vehicles, with the object of earning sufficient returns, while maintaining a good risk-reward ratio. The Company's policy is to spread out its cash investments among various institutions. Most of its cash and cash equivalents, bank deposits and escrow deposits are held in various financial institutions with high credit ratings. In addition, as of December 31, 2015 the Company has approximately \$23,000 invested in investment-grade debentures (mostly with a rating of at least A-).

Notes to the Consolidated Financial Statements

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

Note 19- Financial instruments (Cont.)**B. Management of financial risks (Cont.)****Liquidity risks**

The Group's policy for managing its liquidity is to assure, to the extent possible, that it will have sufficient liquidity to settle its liabilities in a timely manner and to ascertain the existence of the cash balances it requires to meet its financial obligations.

C. Sensitivity tests relating to changes in market factors

In regards with the Company's sensitivity to changes in the exchange rate as of December 31, 2015 and 2014, see section H below regarding linkage terms of assets and liabilities on a consolidated basis.

D. Sensitivity tests relating to price risk

A change in the fair value of financial assets measured at fair value through profit or loss would increase (decrease) the Company's equity and income (loss) in the theoretical amounts presented below.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
5% increase	2,595	1,437	1,273
10% increase	5,057	2,875	2,545
5% decrease	(2,709)	(1,437)	(1,273)
10% decrease	(5,194)	(2,875)	(2,545)

A change in the market interest of financial assets measured at amortized cost would not have significantly changed the Company's equity and income (loss).

E. Fair value of financial instruments

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

F. Classification of financial instruments by fair value hierarchy

The financial instruments presented in the statement of financial position at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

According to the Company's policy, transfers between the fair value hierarchy are considered to have occurred in the date of the event or change in circumstances that caused the transfer.

Notes to the Consolidated Financial Statements

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

Note 19- Financial instruments (Cont.)

F. Classification of financial instruments by fair value hierarchy (Cont.)

Financial assets measured at fair value:

December 31, 2015:

	Level 1	Level 2 (*)	Level 3 (***)
Investments in other companies measured at fair value	-	-	19,395
Other investments in securities, net	4,930	23,115	
Long term receivables (**)	-	-	6,740
	<u>4,930</u>	<u>23,115</u>	<u>26,135</u>

December 31, 2014:

	Level 1	Level 2 (*)	Level 3
Investments in other companies measured at fair value	<u>219</u>	<u>-</u>	<u>27,339</u>

*) Comprised of investment in debentures denominated in USD, carrying an interest linked to the Libor. These debenture are measured at fair value using fair value quotes from several information resources.

**) Includes the contingent consideration due to the sale of Kyma and Jordan Valley, see Note 3.B.4.d) and 7.C above, respectively.

***) See Note 7 above.

Changes in financial assets classified in Level 3:

	Financial assets measured at fair value
Balance as of January 1, 2014	25,453
Total recognized income (loss):	
In profit or loss	919
Investment	967
Balance as of December 31, 2014	27,339
Total recognized income (loss):	
In profit or loss (*)	5,074
Investment	603
Contingent consideration (Notes 3.B.4.d) and 7.C above)	6,157
Sale (Note 7.C above)	(13,038)
Balance as of December 31, 2015	<u>26,135</u>
(*)Total gain relating to assets held at the end of the reporting period	1,066

Notes to the Consolidated Financial Statements

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

Note 19- Financial instruments (Cont.)

G. Liquidity risk

1. Set forth below are the contractual repayment dates of financial liabilities, including an estimate of the interest payments, without amounts with respect to which there are offset agreements:

As of December 31, 2015 the contractual repayment date of all financial liabilities is in 2016, as following: trade payables- \$445, other accounts payable- \$4,304.

As of December 31, 2014 the contractual repayment date of all financial liabilities is in 2015, as following: trade payables- \$152, other accounts payable- \$2,991.

H. Linkage terms of assets and liabilities on a consolidated basis

December 31, 2015:

	NIS (CPI linked)	USD (or USD linked)	NIS (not linked)	Non- monetary item**	Total
Assets *					
Cash and cash equivalents	-	41,867	10,084	-	51,951
Other investments in securities, net	-	23,115	-	4,930	28,045
Other accounts receivable	2	47	677	174	900
Bank deposits	-	55,192	14,996	-	70,188
Investments in associates	-	-	-	15,529	15,529
Other investments measured at fair value	-	-	-	19,395	19,395
Property, plant and equipment, net	-	-	-	1,028	1,028
Intangible assets, net	-	-	-	17,438	17,438
Long-term receivables	-	10,242	153	-	10,395
	2	130,463	25,910	58,494	214,869
Liabilities *					
Trade payables	-	133	312	-	445
Other accounts payable	-	1,741	3,779	398	5,918
Long term taxes	-	-	-	2,104	2,104
	-	1,874	4,091	2,502	8,467

December 31, 2014:

	NIS (CPI linked)	USD (or USD linked)	NIS (not linked)	Non- monetary item**	Total
Assets *					
Cash and cash equivalents	-	41,947	24,016	-	65,963
Other accounts receivable	45	128	204	72	449
Bank deposits	1,234	88,860	3,857	-	93,951
Investments in associates	-	-	-	6,300	6,300
Other investments measured at fair value	-	-	-	27,558	27,558
Property, plant and equipment, net	-	-	-	79	79
Intangible assets, net	-	-	-	3,428	3,428
	1,279	130,935	28,077	37,437	197,728
Liabilities *					
Trade payables	-	23	129	-	152
Other accounts payable	-	562	4,165	72	4,799
	-	585	4,294	72	4,951

*) Non-current assets and liabilities in this table include their current maturities.

**) Including non-financial items.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

A. Details Relating to Investments as of December 31, 2015

	Rate of holdings in equity		Consolidated rate of holdings in equity	Elron's effective rate of holdings in equity (3)	Fully diluted consolidated rate of holdings	Elron's fully diluted effective rate of holdings (3)	Consolidated carrying value of investment December 31, 2015
	Elron (1)	RDC (2)					
			%				\$ thousands
<u>Investments in investee companies</u>							
<u>Subsidiaries:</u>							
Pocared Diagnostics Ltd.	55.08	-	55.08	55.08	54.34	54.34	11,089
<u>Associates:</u>							
BrainsGate Ltd.	29.84	-	29.84	29.84	26.69	26.69	382
Cartiheal (2009) Ltd.	35.21	-	35.21	35.21	28.21	28.21	6,434
coramaze technologies GmbH	17.07	-	17.07	17.07	17.07	17.07	1,707
Cloudyn Software Ltd.	-	42.20	42.20	21.14	35.09	17.58	5,822
M.G. Therapeutics Ltd.	17.00	-	17.00	17.00	24.11	24.11	-
Plymedia Israel (2006) Ltd.	25.30	-	25.30	25.30	18.57	18.57	-
Audioburst Ltd.	16.89	-	16.89	16.89	15.12	15.12	-
Open Legacy Technologies Ltd.	-	36.69	36.69	18.38	29.69	14.87	228
Page 2 Site Ltd.	-	25.45	25.45	12.75	21.83	10.94	281
Bruwz Technologies Ltd.	-	29.32	29.32	14.69	27.16	13.61	-
IronScales Ltd.	-	15.63	15.63	7.83	20.75	10.40	527
SinuSafe Ltd.	21.90	-	21.90	21.90	19.74	19.74	130
<u>Other investments:</u>							
Notal Vision Inc.	21.48	-	21.48	21.48	18.14	18.14	14,700
Atlantium Technologies Ltd.	6.16	-	6.16	6.16	5.49	5.49	130
Aqwise – Wise Water Technologies Ltd.	19.81	-	19.81	19.81	17.94	17.94	4,500

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

(2) Including holdings through RDSeed.

(3) Elron's effective holdings include holdings by RDC and RDSeed multiplied by 50.10%. (Elron's holding rate in RDC).

Exhibit 8.1

The following table sets forth a list of our subsidiaries. Omitted from the table are those subsidiaries which are not significant subsidiaries (as defined in rule 1-02(w) of Regulation S-X of the Securities Exchange Act of 1934, as amended).

Name of Subsidiary	Jurisdiction of Incorporation
Elbit Ltd.	Israel
DEP Technology Holdings Ltd.	Israel
RDC Rafael Development Corporation Ltd.	Israel
Pocared Diagnostics Ltd.	Israel
R.D.Seed Ltd.	Israel

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ari Bronshtein, certify that:

1. I have reviewed this annual report on Form 20-F of Elron Electronic Industries Ltd. (the "Company");
2. Based on my knowledge, this report does 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 this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 10, 2016

/s/ Ari Bronshtein
Ari Bronshtein
Chief Executive Officer
(principal executive officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Yaron Elad, certify that:

1. I have reviewed this annual report on Form 20-F of Elron Electronic Industries Ltd. (the "Company");
2. Based on my knowledge, this report does 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 this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 10, 2016

/s/ Yaron Elad
Yaron Elad
Vice President & Chief Financial Officer
(principal financial officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 20-F of Elron Electronic Industries, Ltd. (the "Company") for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Ari Bronshtein, Chief Executive Officer, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2016

/s/ Ari Bronshtein
Ari Bronshtein
Chief Executive Officer
(principal executive officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 20-F of Elron Electronic Industries, Ltd. (the "Company") for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Yaron Elad, Vice President and Chief Financial Officer, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 10, 2016

/s/ Yaron Elad
Yaron Elad
Vice - President & Chief Financial Officer
(principal financial officer)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statement on Form S-8 (No. 333-111310 and 333-152335) pertaining to the Employees' Stock Option Plans of Elron Electronic Industries Ltd. of our report dated March 10, 2016 with respect to the consolidated financial statements of Elron Electronic Industries Ltd. and the effectiveness of internal control over financial reporting of Elron Electronic Industries Ltd. included in this Annual Report on Form 20-F for the year ended December 31, 2015.

Tel-Aviv, Israel
March 10, 2016

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