

**Elron Electronic Industries Ltd.**  
(the "Company")

**November 22, 2021**

**Israel Securities Authority**  
**22 Kanfei Nesharim Street**  
**Jerusalem 9546434**  
(Via Magna)

**Tel Aviv Stock Exchange Ltd.**  
**2 Ahuzat Bayit Street**  
**Tel-Aviv 6525216**  
(Via Magna)

**Re: Immediate Report on the Convening of a Special and Annual General Meeting of the Shareholders of the Company**

An immediate report is hereby made (the "**Report**") in accordance with the Israel Companies Law, 5759-1999 (the "**Companies Law**"), the Israel Securities Law, 5728-1968 (the "**Securities Law**"), the Israel Securities Regulations (Immediate and Periodic Reports), 5730-1970 (the "**Report Regulations**"), the Israel Companies Regulations (Notice and Announcement of General Meetings and Class Meetings in a Public Company and the Addition of an Issue to the Agenda), 5760-2000 and the Israel Companies Regulations (Voting in Writing and Position Statements) 5766-2005 (the "**Voting Regulations**"), concerning the convening of a special and annual general meeting of the shareholders of the Company, which will be held on **December 27, 2021**, at 15:30 (Israel time), in the Company's offices at ToHa Tower, 114 Yigal Alon St., 27<sup>th</sup> Floor, Tel Aviv, Israel, whose agenda shall consist of the items described in this Report below.

1. **Issues on the Agenda and Summary of the Resolutions Proposed Thereon:**

1.1. Item 1 - **Election of Directors Who Hold Office at the Company (and Are Not External Directors)**

It is proposed to re-appoint the following directors, in addition to the external directors who hold office at the Company: Dan Hoz (chairman), Doron Haim Cohen, Michal Joseph Salkind, and Shalom Turgeman (independent director), as directors of the Company for an additional term to commence on the date their appointment is approved by the general meeting being convened according to this Report, and to end on the date of the Company's next annual general meeting.

It should be noted that vote for re-appointment regarding each nominee director stated above, shall be voted for separately regarding each director.

The nominees to be directors at the Company, as listed above, have provided the Company with declarations in accordance with Section 224B of the Companies Law, of which copies are attached as **Annex A** to this immediate report.

### **Details of the directors nominated for re-appointment**

For details on the nominees Doron Haim Cohen and Shalom Turgeman in accordance with Regulation 36B(a)(10) of the Report Regulations, see Regulation 26 of Part IV (additional information about the corporation) of the Periodic Report for 2020 that was published by the Company on March 15, 2021 (ISA ref. no. 2021-01-035361) (the “**Periodic Report for the Year 2020**”), the details of which are hereby incorporated by reference. As of the date of this report, there has been no change in the details presented in said periodic report, except as detailed below:

-Mr. Doron Haim Cohen serves as a director and CEO of Property and Building Ltd. In addition, he serves as Chairman of Mehadrin Ltd and Epsilon Underwriting and Offerings Ltd and serves as a director of RDC Rafael Development Corporation Ltd.

-Mr. Shalom Turgeman also serves as an advisor to the Israeli foreign ministry from 2018 to the date of this report.

<b>Name:</b>	<b>Dan Hoz</b>
<b>ID No:</b>	027860824
<b>Date of Birth:</b>	10.07.1970
<b>Address for service of process:</b>	Hahita 8, Bnei Atarot
<b>Citizenship:</b>	Israeli
<b>Membership on board of directors' committees:</b>	No
<b>Is he/she an external director or an independent director:</b>	No
<b>Accounting and financial expertise; professional competency or an expert external director:</b>	Yes
<b>Director is an employee of the Company, any subsidiary, associate company of the Company or of a related party:</b>	No
<b>Date in which became director:</b>	14 November 2021
<b>Education:</b>	BA in Accounting and Economics and MBA from Ben Gurion University. MBA from Ben Gurion University

<b>Occupation over the last 5 years:</b>	Since 2017, serves as VP at Siemens Digital Industries Software.
<b>Serve as a Director in other companies:</b>	Alpha Vee
<b>A family member of other related party in the Company</b>	No

<b>Name:</b>	<b>Michal Joseph Salkind</b>
<b>ID No:</b>	022972020
<b>Date of Birth:</b>	18.4.1967
<b>Address for service of process:</b>	HaGderot 53, Savyon
<b>Citizenship:</b>	Israeli
<b>Membership on board of directors' committees:</b>	No
<b>Is he/she an external director or an independent director:</b>	No
<b>Accounting and financial expertise; professional competency or an expert external director:</b>	No
<b>Director is an employee of the Company, any subsidiary, associate company of the Company or of a related party:</b>	No.
<b>Date in which became director:</b>	24.6.21
<b>Education:</b>	BA in Business Administration from Boston University, USA. MBA in Business Administration from Columbia University, USA.
<b>Occupation over the last 5 years:</b>	Co-Director and Co-CEO of Elco Ltd.; Chairman of the Board of Directors of Electra Ltd; and a director of companies of the Elco Ltd group.

<p><b>Serve as a Director in other companies:</b></p>	<p>Discount Investment Corporation Ltd.; Cellcom Israel Ltd.; Property and Building Corporation Ltd., Mehadrin Ltd., Electra Real Estate Ltd., Electra Consumer Products (1970) Ltd. (and private companies from this group), Supergas Energy Ltd. (and private companies from this group), J. Salkind Ltd., Michael and Mercy Salkind Holdings (1997) Ltd., Dream Theater Ltd., Meet Inn Place Inc., Elco Hospitality Ltd. and private companies of the Elco Ltd group. Until August 2020 a director at Golan Telecom Ltd.</p>
<p><b>A family member of other related party in the Company</b></p>	<p>No</p>

For details regarding compensation, insurance arrangement and exemption and indemnification arrangements for directors of the Company who are candidates for re-appointment see section 8.2 of the fourth part of the Periodic Report for the Year 2020 and note 18d of the consolidated financial statements attached to the Periodic Report for the Year 2020, the details of which are incorporated herein by reference.

1.2. Item 2 – **Report to the Annual General Meeting on the Auditor's Fees for 2019, Reappointment of the Company's Auditors and Authorization of the Company's Board of Directors and Audit Committee, Insofar Required, to Determine the Fees Thereof and Report to the Annual General Meeting on the Auditors' Fees for 2020**

It is proposed to approve the reappointment of the accounting firm Kesselman & Kesselman (PwC) as the Company's auditor for an additional term until the Company's next annual general meeting, and to authorize the Company's Board of Directors and Audit Committee, insofar required, to determine their fees as auditor. In addition, it will be reported to the annual meeting on the fees of the auditors for 2020.

The audit committee (which is also the committee for examining financial statements) of the Company recommended to the Company's Board of Directors regarding the reappointment of the auditor, following a discussion in connection with the auditor's work and after consultation with the Company's management regarding the ongoing interface with the auditor. In this context, the auditor's expertise, his experience in auditing corporations in the field that the Company operates in, his commitment to quality of the audit and inputs devoted the audit process, the size of the Company, the audit risks that have been identified by the auditor and the auditor's ability to address these risks, were discussed among others. In accordance with the committee's recommendation, the Company's Board of Directors decided to approve the re-appointment of the auditor.

**The proposed Resolution: To approve the re-appointment of the accounting firm Kesselman & Kesselman (PwC) as the Company's auditor for an additional term until the Company's next annual general meeting, and to authorize the Company's Board of Directors and Audit Committee, insofar required, to determine their fees as auditor.**

1.3. Item 3 – **Discussion on the Company's Annual Reports for 2020**

Discussion (without decision) in the financial statements of the Company for December 31, 2020 and the Board of Director's report on the Company's affairs for the period of twelve months ending on December 31, 2020 as published by the Company in its immediate report from March 15, 2021 (ISA ref. no. 2021-01-035361).

1.4. Item 4 – **Approval of the Company's Officers' Compensation Policy**

For details see Part B to this report below.

**The proposed Resolution: To approve the proposed compensation policy in the form attached as Annex B to this report (the "Compensation Policy") in accordance with Section 267A to the Companies Law.**

1.5. Item 5 – **Change of Company's Name and Amendment of the Company's Articles of Association accordingly**

**The proposed Resolution: To change the Company's name to "Elron Ventures Ltd.", or such other name as shall be approved by the Corporations Authority/Registrar of Companies, and to authorize the Company's management to approve a similar name, and to amend the Company's Articles of Association accordingly.**

2. **Record Date**

The record date entitling a shareholder to participate in and vote at the general meeting, in accordance with Section 182 of the Companies Law, is on November 29, 2021 (henceforth: the "**Record Date**"). If there is no trading on the Record Date, the record date will be the last trading day preceding such date.

3. **Legal Quorum and Adjourned Meeting**

A legal quorum shall be constituted when at least two shareholders, holding collectively more than 33.3% of the issued shares conferring voting rights in the Company, are present in person or by proxy, within half an hour from the time set for the meeting to begin. If a quorum is not present in the general meeting within half an hour from the time set for the meeting to begin, the meeting shall stand adjourned to next week (3 January 2022) on the same day at the same time and place. If a legal quorum is not present at the adjourned meeting within half an hour from the time set for the meeting, then one shareholder, holding at least 25% of the

issued share capital of the Company, present in person or by proxy, shall constitute a legal quorum.

#### 4. **Required Majority**

- 4.1. The required majority for the approval of the proposed resolutions set forth in Sections 1.1 and 1.2 above is a majority of the shareholders who are entitled to vote and who voted at the meeting, in person or by proxy (including via ballot) or through the internet voting system.

To the best of the Company's knowledge, as of the date of this Report, the Company's controlling shareholder, Discount Investment Corporation Ltd., a public company whose shares are traded in the Tel Aviv Stock Exchange Ltd and which information is available to the public<sup>1</sup>, holds approximately 60.08% of the Company's outstanding share capital and voting rights, a holding percentage that confers the controlling shareholder the required majority for the approval of the issues set forth in Sections 1.1 and 1.2 on the agenda.

- 4.2. The majority required for adoption of the proposed resolution no. 4 on the agenda, set forth in Section 1.4 above, is a majority of the shareholders entitled to vote and participating in the vote, in person or by a proxy (including via ballot) provided that one of the following is fulfilled:

4.2.1. The majority vote count at the general meeting will include a majority of all votes of shareholders who are not controlling shareholders in the Company or have personal interest in approving the approval of the compensation policy; The vote count of such shareholders shall not take into account abstaining votes; The provisions under Section 276 of the Companies Law, *mutatis mutandis*, shall apply to a shareholder having a personal interest.

4.2.2. The total dissenting votes from among the shareholders specified in Section 4.2.1 above, does not exceed two percent (2%) of the total voting rights in the Company.

It shall be noted that, pursuant to Section 276A(c) of the Companies Law, the Company's Board of Directors is entitled to resolve the proposed resolution no. 4 on the agenda, even if the general meeting of the shareholders shall object its approval, insofar as the compensation committee followed by the Board of Directors, will resolve, based on detailed reasons and after re-discussing the Company's officers' compensation policy, that the approval of the compensation policy, notwithstanding the objection of the general meeting of the shareholders, is in the interest of the Company.

A shareholder participating in the vote for resolution no. 4 on the agenda shall notify the Company, prior to the vote at the meeting, or if the vote is via ballot – on the ballot, in respect of each resolution in which he votes, if he is a controlling shareholder in the Company or if he has a personal interest in approving the resolution or not; If a shareholder fails to so notify, he shall not vote and his vote

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<sup>1</sup> For additional details regarding the holdings of Discount Investments Corporation Ltd., see immediate report on the related parties' and senior officers' holdings, published by the Company on October 7, 2021 (ref. no. 2021-01-085627)

shall not be counted.

- 4.3. The majority required for adoption of the proposed resolution no. 5 on the agenda, set forth in Section 1.5 above, is a special majority of at least sixty-seven percent (67%) of the shareholders entitled to vote and participating in the vote, without taking into account the abstaining votes.

## 5. **Manner of Voting**

- 5.1. A shareholder of the Company is entitled to vote in person, to appoint a proxy, who may participate in the general meeting and vote on such shareholder's behalf (in accordance with the Company's Articles of Association) and is entitled to vote via ballot or through the internet voting system.
- 5.2. A document appointing a proxy ("**Letter of Appointment**") as well as an original power of attorney authorizing the execution of the Letter of Appointment (if any), must be deposited in the Company's registered offices at least 48 hours prior to the Record Date. The Letter of Appointment must specify the full names of the appointing shareholder and the proxy voting on such shareholder's behalf as they appear in the Registrar of Companies or Identity Card (as applicable), their corporation number or identification number (as applicable), and their place of incorporation or country of passport issue (as applicable).
- 5.3. In accordance with the Israel Companies Regulations (Proof of Share Ownership for Voting at the General Meeting), 5760-2000, a shareholder whose share is registered with a TASE member and such share is included in the Company's Shareholders Register in the name of the nominee company, who wishes to vote at the meeting, will provide the Company with proof of ownership of the share as of the Record Date, obtained from the TASE member with whom the share is registered, as required by said regulations.

## 6. **Confirmation of Ownership**

A shareholder whose shares are registered with a TASE member is entitled to receive ownership confirmation from such TASE member, at the TASE member's branch or via post to his address, upon request, provided such request was made in advance for a specific securities account. According to the Voting Regulations, an authorized electronic message according to Section 44K5 of the Securities Law which concerns the data of the internet voting system's users, is tantamount to a confirmation of ownership regarding every shareholder included therein.

## 7. **Voting by Ballot and Position Statements**

- 7.1. A shareholder is entitled to vote at the meeting on the proposed resolutions on the agenda via ballot, as detailed below. The ballot and position statements with respect to the meeting are available on the distribution website of the Israel Securities Authority at <https://www.magna.isa.gov.il> (the "**Distribution Website**") and on the website of the Tel Aviv Stock Exchange Ltd. at <https://maya.tase.co.il> (the "**TASE Website**"). A shareholder may request the ballot and position statements directly from the Company, free of charge.
- 7.2. A TASE member will send, free of charge, via email, a link to the ballot and

position statements on the Distribution Website to every shareholder who is not registered in the Company's Shareholders Register and whose shares are registered with the TASE member, unless such shareholder notified the TASE member that he wishes to opt out, and provided that the notice was given regarding a specific securities account and on a date prior to the Record Date.

- 7.3. Votes should be cast on Part Two of the ballot published on the Distribution Website.
- 7.4. The ballot (if non-electronic) of a non-registered shareholder should be delivered to the Company along with the confirmation of ownership, such that the ballot will arrive at the Company's registered offices **no later than four hours prior to the time set for the meeting** (i.e., no later than **December 27, 2021 at 11:30**).
- 7.5. A shareholder registered in the shareholders register should deliver the ballot to the Company, along with a photocopy of his identity card or passport or certificate of incorporation, such that the ballot will arrive at the Company's registered offices **up to six hours prior to the time set for the general meeting** (i.e., by **December 27, 2021 at 09:30**).
- 7.6. A shareholder's ballot will be valid in accordance with Section 177(2) of the Companies Law only if accompanied by a photocopy of his identity card, passport or certificate of incorporation.
- 7.7. A shareholder may appear in person at the Company's registered offices and after providing proof of his identity, retract his ballot and proof of ownership / photocopy of identity card or passport or certificate of incorporation, up to 24 hours prior to the time set for the meeting.

## 8. **Voting via the Internet Voting System**

- 8.1. A non-registered shareholder may also vote on the resolutions on the agenda by submitting a ballot via the internet voting system as defined in the Voting Regulations (henceforth: "**Electronic Ballot**").
- 8.2. A shareholder whose share is registered with a TASE member is entitled to receive an identifying number and access code as well as additional information related to the meeting from the TASE member, and following a secure identification process may vote via the internet voting system. A shareholder who votes by Electronic Ballot is not required to provide the Company with a certificate of ownership in the manner specified above.
- 8.3. The Electronic Ballot will open for voting at the end of the Record Date. Voting via the internet voting system will close **6 hours prior to the time set for the meeting** (i.e., by **December 27, 2021 at 09:30**), at which time the internet voting system will be closed.
- 8.4. The electronic voting may be amended or cancelled up until the internet voting system is closed, after which it will not be possible to change it via the internet voting system. Should a shareholder vote via more than one method, the later vote will be counted. In this regard, a vote cast in person or by proxy will be considered to have been cast later than a vote cast by Electronic Ballot.

9. **Position Statements and the Board of Directors' Response**

9.1. The deadline for submitting position statements to the Company is up to ten (10) days prior to the date set for the meeting.

9.2. The deadline for submitting the board of directors' response to position statements, insofar as shareholders have submitted position statements to the board of directors and the board of directors has elected to submit a response to such position statements, is no later than five (5) days prior to the time set for the meeting.

10. **Notice of a Personal Interest**

A shareholder participating in the vote for resolution no. 4 on the agenda as set forth in Section 1.4 above, shall notify the Company, prior to the vote, or if the vote is via ballot – by marking on the ballot (a marking space can be found in part B of the ballot), if he or she has a personal interest in the resolution on the agenda and describing the nature of personal interest. If a shareholder fails to so notify or fails to so mark in respect of any of the resolutions, his vote shall not be counted for same resolution.

In addition, in accordance with the Voting Regulations and the ISA directive of November 30, 2011 regarding the disclosure of the manner of voting in general meeting by interested parties, senior officers and institutional bodies (the "Directive"), a related party, senior officer and an institutional investor, as defined in the regulations and the Directive, voting at the general meeting, will deliver to the Company, in the framework of their vote for resolution no. 4 on the agenda as specified in section 1.4 above, the required details in accordance with the Voting Regulations and section 2(b) of the Directive, and if he voted via proxy, the voter or proxy holder will also deliver the proxy details. In addition, details shall be given with respect to any relation between the voter or the proxy (who does not have a personal interest) and the Company or any of its controlling shareholders or any of its senior officers, including employer-employee relations, business relations etc., while specifying their nature.

11. **Changes in the agenda; the deadline for submission of a request to add an issue to agenda by a shareholder**

After the publication of this Report, there may be changes in the agenda, including adding an issue to the agenda. In such a case, it will be possible to review the latest agenda and position statements in the Company's reports that will be published on the Distribution Website and on the TASE Website.

A shareholder's request under section 66(b) of the Companies Law to include an issue in the agenda of the General Meeting shall be furnished to the Company up to seven (7) days after the general meeting is convened. If such a request is made, the issue may be added to the agenda and its details will appear on the Distribution Website. In such a case, the Company will publish a revised convening report no later than seven days after the deadline for the submission of a shareholder's request to include an issue on the agenda, as stated above.

## 12. **Inspection of Documents**

A copy of this Report, the relevant documents pertaining to the resolutions on the agenda, and the proposed resolutions are available for inspection at the Company's offices at ToHa Tower, 114 Yigal Alon St., 27<sup>th</sup> Floor, Tel Aviv, Israel after prior coordination with the Company's secretariat, at 972-3-6075555, Sunday through Thursday (excluding holidays and the eves of holidays) between 09:00 and 16:00, until the date of the meeting, as well as on the Distribution Website and on the TASE Website.

In addition, this English translation of this Report will appear also on the Company's website at:

<https://www.elron.com>.

**Part B – Details Regarding the Resolution Proposed in Item 4, that is Specified in Section 1.4 Above on the Agenda – Approval of the Company’s Compensation Policy**

**1. The Company’s Compensation Policy Approval Procedure**

- 1.1 On March 12, 2020, the meeting of the Company’s shareholders approved a Compensation Policy for the Company’s Officers (reference no.: 2020- 01-020689) for a period of three years commencing from the date of its approval (hereinafter: the “**Previous Compensation Policy**”), following receipt of the approval of the Company’s Board of Directors and recommendations of the Compensation Committee on the matter. Additionally, on March 2, 2021, the general meeting of the Company’s shareholders approved the update to the Previous Compensation Policy regarding the terms of engagement for insuring the liability of the Directors and Officers in the Company, in the form published by the Company on January 26, 2021, in Section 19 of Part B of the Immediate Report Regarding the convening of a General Meeting (reference no.: 2021-01-010717), which is incorporated herein by reference.
- 1.2 The proposed Compensation Policy, which is attached as **Annex B** to this convening report (marked against the Previous Compensation Policy), is presented for the general meeting’s approval, in accordance with Section 267A of the Companies Law. The proposed Compensation Policy, subject to the general meeting’s approval, will remain in effect for three (3) years commencing from the date of its approval by the meeting of the shareholders.
- 1.3 The Compensation Policy, including its various components, was discussed at the Compensation Committee, and thereafter, the Board of Directors discussed the recommendations of the Compensation Committee relating to the Compensation Policy and approved it. It shall be noted that the Terms of Office and Employment of the Officers in the Company at this time comply with the principles of the proposed policy. However, it shall be noted that the provisions of the Previous Compensation Policy and the decisions that were made pursuant thereto shall continue to apply in any event with respect to 2021 and the Officers’ Annual Bonuses therefor, and that the provisions of the new Compensation Policy with respect to Annual Bonuses shall apply commencing from 2022.
- 1.4 In the framework of the said meetings, the considerations required in order to formulate a compensation policy pursuant to the Companies Law, including the criteria specified in the First Schedule to the Companies Law, parts A (matters which must be addressed in a compensation policy) and B (provisions which must be determined in a compensation policy), were, *inter alia*, reviewed and examined.
- 1.5 The considerations which guided the Compensation Committee and the Board of Directors of the Company when determining the policy are the promotion of the Company’s goals, its work plan and its policy from a long-term perspective; the creation of appropriate incentives for Officers in the Company, considering, *inter alia*, the Company’s risk management policy and its dynamic nature as a company that invests in the research and development stages; the Company’s size (considering, *inter alia*, its equity, the scope of its assets and the scope of the average annual investment in the Company Group); the character of the Company as a holding company, as specified above, and the complexity of its activity; the

reinforcement of the identity of interests between the Officers in the Company and its shareholders; the possibility that the Company shall also engage in managing dedicated investment funds in its fields of activity and the desire that Officers in the Company shall hold positions in these funds, if and to the extent they shall be established and shall contribute to their success; and, with respect to Terms of Office and Employment that include variable components – the granting of discretion to take into consideration the Officer's contribution towards achieving the Company's targets and maximizing its profits, over time, all from a long-term perspective, and in accordance with the Officer's position.

1.6 The company is not a "Public Granddaughter Company", as defined in section 267A(c) of the Companies Law.

1.7 The members of the Compensation Committee who participated at the Committee meeting in which the Committee's recommendation to the Board of Directors regarding the Compensation Policy was approved, are: Barak Mashraki (External Director), Lee-Bath Nelson (Chairperson of the Committee) and Shalom Turgeman (Independent Director).

1.8 The members of the Board of Directors who participated in the meeting of the Board of Directors in which the Compensation Policy was approved are: Dan Hoz (Chairman of the Board of Directors), Michael Joseph Salkind, Doron Haim Cohen, Barak Mashraki (External Director), Lee-Bath Nelson (External Director) and Shalom Turgeman (Independent Director).

**2. Alongside the reasons which were presented in the framework of the Compensation Policy, the Board of Directors' additional reasons for approving the Compensation Policy, after discussing the Compensation Committee's recommendations, are as follows:**

2.1 The Compensation Policy, which regulates the Terms of Office and Employment of the Officers in the Company, is intended to facilitate the recruitment and retention of high-quality executive manpower in senior executive positions for the long term, which the Company needs for its continued business development and success.

2.2 The recommendation to approve the Company's Compensation Policy was adopted after examination of regulatory changes which applied since the date the Previous Compensation Policy was adopted, of the experience accumulated since the implementation of the Previous Compensation Policy and of the impact of developments that occurred, on the Company's condition.

2.3 The proposed Compensation Policy was formulated with emphasis on keeping the compensation mechanism simple, so it shall be clear and understandable to the Company, the Officers and the Company's shareholders.

2.4 The Compensation Policy is intended to strengthen behavioral patterns which the Company is interested in cultivating and to shape the organizational culture that the Company views desirable.

- 2.5 The Compensation Policy is intended to maintain the proper balance between the Company's organization-wide strategy, its targets and business plans, as determined from time to time, and the creation of a system of appropriate incentives for recruiting and retaining high-quality executive manpower in senior executive positions for the long term, which the Company needs for its continued business development and success.
- 2.6 The considerations which guided the Compensation Committee and the Board of Directors in determining the proposed policy are the promotion of the Company's goals, the Company's work plan and its policy, from a long-term perspective; the creation of appropriate incentives for the Officers in the Company, considering, *inter alia*, the Company's risk management policy and its dynamic nature as a company that invests in research and development stages; the Company's size (considering, *inter alia*, its equity, the scope of its assets and the scope of the average annual investment in the Company Group); the character of the Company as a holding company, as specified above, and the complexity of its activity; the reinforcement of the identity of interests between the Officers in the Company and its shareholders; the possibility that the Company shall also engage in managing dedicated investment funds in its fields of activity and the desire that employees and Officers in the Company shall hold positions in these funds, if and to the extent they shall be established and shall contribute to their success; and, with respect to Terms of Office and Employment that include variable components – the granting of discretion to take into consideration the Officer's contribution towards achieving the Company's targets and maximizing its profits, over time, all from a long-term perspective, and in accordance with the Officer's position
- 2.7 With respect to Terms of Office and Employment which include variable components – the Officer's contribution towards achieving the Company's targets and maximizing its profits were also considered in the framework of the Compensation Policy, all from a long-term perspective and in accordance with the Officer's position. The variable component is intended to compensate the Officer for his achievements and for his contribution towards achieving the Company's targets in the Bonus Year, and it also assists in retaining office holders in the Company.
- 2.8 With Regard to the Fixed Compensation
- 2.8.1 The fixed compensation, including its various components, promotes maintaining stability and continuity among the Company's Officers and thus assists in ensuring the existence of a professional, high-quality and efficient management.
- 2.8.2 The Compensation Policy includes caps regarding the fixed compensation, and there have been no changes therein compared to the Previous Compensation Policy.
- 2.8.3 The powers and responsibilities involved in the position, his education, his qualifications, his expertise, his professional experience, his achievements, previous agreements signed with the Officer (if any) and agreements which were signed with the Officer's predecessor in the position and with other

Officers of the Company will be also taken into consideration when determining the fixed compensation for each of the Officers.

- 2.8.4 The Directors' compensation shall be in accordance with the Companies (Rules Regarding Compensation and Expenses for an External Director) Regulations, 5760-2000.

## 2.9 With Regard to the Equity Compensation Component

- 2.9.1 The Compensation Policy includes an equity compensation component, the main objective of which is to increase the identity of interests between the Officers and the shareholders of the Company, as well as to strengthen having the compensation be based on a long-term compensation component.
- 2.9.2 The equity compensation component is based, *inter alia*, on granting securities of the Company or which are convertible thereto, or is based on the Company's share yield component. This component facilitates compensating the Officers as a function of the share's performance. When there is high correlation between the Company's performance and the share's performance, this component of the bonus increases the identity of interests between the Officers and the shareholders. This is evident primarily in a company in the field of activity of the Company, as an operating holding company in the technological field.
- 2.9.3 Additionally, it will be possible to grant equity compensation in relation to the right to success fees that the Company or companies Controlled thereby shall receive from managing funds.
- 2.9.4 A cap has been determined for the equity compensation on the date of grant, which is intended to maintain the maximum ratio between the fixed component and the variable component, which was determined in the Compensation Policy.
- 2.9.5 The total vesting period of the equity compensation shall spread over a period which will be no less than three years from the date of the grant of the equity instrument, and a maximum exercise period has also been prescribed.
- 2.9.6 Equity compensation and/or performance-based compensation shall be granted in such a manner that reflects the Officer's contribution towards achieving the Company's targets and maximizing its profits, from a long-term perspective. The variable component shall be determined in coordination with the Company's performance, the Officer's personal performance and seniority, vis-à-vis the targets defined therefor in the framework of performing his position as per his fields of responsibility and in accordance with the Company's discretion. In this framework, an equity bonus can also be granted instead of a performance-based bonus, as well as a bonus that is not based on complying with quantitative targets or measurable qualitative targets. The main objective of the equity compensation component is to enhance the identity of interest between the

Officers and the shareholders of the Company, as well as to strengthen having compensation be based on a long-term compensation component.

2.9.7 Granting equity compensation serves the best interest of the Company, and the integration of equity compensation components constitutes a managerial tool that the Company possesses to recruit and retain Officers therein over time, to create a correlation between the Officer's compensation and the creation of value for the Company's shareholders and to incentivize the Officer to promote the best interests of Company and its shareholders.

## 2.10 With Regard to the Annual Bonus Component

2.10.1 The Annual Bonus has a Measurable Component and a Discretionary Component.

2.10.2 The Measurable Component shall be calculated in accordance with the compliance of the Company or the Officer with a target or targets that can be measured, such as: increase in the value of the Group's corporations, meeting the budget, raising funds for the Company, investment yields, and the like. The Compensation Policy allows determining the targets each year in order to adapt them to the Company's changing needs and its work plan. It shall be noted, that the Company's Board of Directors, after receiving the Compensation Committee's recommendation, may determine, close in time to the beginning of the Bonus Year, that an Annual Bonus shall not be granted in cash for the Measurable Component for such year to an Officer or to all the Officers in general, that targets shall not be determined for an Officer or for all the Officers in general, and that instead of a cash bonus for the Measurable Component, the Officer shall be able to receive an additional equity bonus as specified in Section 9.6 above.

2.10.3 The Discretionary Component provides the Compensation Committee and the Board of Directors a tool by which they can express their opinion on the Officer's performance during the Bonus Year.

2.10.4 Provisions relating to the return of a variable compensation that was based on data that transpired to be erroneous and were restated in the financial statements were included in the Compensation Policy.

## 2.11 With Regard to Compensation Components That Can Be Deemed Compensation Due to Termination of Employment

2.11.1 The Compensation Policy prescribes caps for the payment components for prior notice and an adjustment/retirement bonus, and there has been no change in them compared to the Previous Compensation Policy. Additionally, the determination of these components takes into consideration the Terms of Office and Employment of the Officers and the term of their employment, their position and their responsibility.

- 2.11.2 The Compensation Committee and the Board of Directors have not found it appropriate to make such compensation contingent upon the Company's performance, since the purposes underlying their grant are unlike and different from the desire to compensate for the Company's results or the Officer's performance, and also due to the relatively limited scope of the components of compensation due to termination of employment that are included in the Compensation Policy. Moreover, appropriate expression of compensation that is contingent upon performance (including in the event of termination of employment) is given in the framework of the provisions of the Compensation Policy addressing the bonus components.
- 2.11.3 However, the period of the Officer's employment, his terms of employment during such period, special non-competition undertaking and the circumstances of the retirement, may be considered, *inter alia*, within the considerations for granting an adjustment/retirement bonus.
- 2.12 The ratio between the fixed component and the variable component in the Officer's terms of employment, as is reflected in the caps that were determined for the various compensation components, is proportionate and balanced.
- 2.13 The Compensation Policy includes provisions regarding insurance, indemnification and exemption, in accordance with accepted practice in public companies.
- 2.14 Reference to the gap between the compensation paid to the Officers of the Company and the compensation paid to employees of the Company, is reflected in the Compensation Policy.
- 2.15 The Compensation Policy includes a possibility to reduce the variable components as per the Board of Director's discretion, for special grounds.
- 2.16 The proposed Compensation Policy supplements and complements the Company's Previous Compensation Policy on issues and subjects with respect to which, with the passing of time since the adoption of the Previous Compensation Policy, it has been discovered that said adaptation is required, including due to updates that occurred with respect to provisions of law or to what is customary and accepted in the market.
- 2.17 The terms of the Compensation Policy are reasonable and accepted in the circumstances of the matter and considering the responsibility imposed upon the Officers of the Company and the Company's scope of activity.
- 2.18 In light of all the aforesaid and in light of the entire data presented to the Compensation Committee and the Board of Directors, the Compensation Policy is appropriate and reasonable, in the circumstances of the matter.
3. **The Main Changes Between the Proposed Compensation Policy and the Previous Compensation Policy and How the Previous Compensation Policy is Implemented**
- 3.1 Update to the definition of the "Group" or the "Company Group" (Section 1 of proposed policy) – The definition of the "Group" or the "Company Group" has

been expanded, such that it also includes partnerships that are held and/or managed by the Company, including dedicated investment fund/s with respect to which the Company and/or corporations from the Company's Group shall hold at least 40% of the issued and paid-up equity of the general partner thereof and/or shall manage it/them.

- 3.2 Addition of the definition "Success Fee" (Section 1 of the proposed policy) – a definition of the term "Success Fee", which constitutes considerations for success/yield to which corporations in the Group will be entitled for granting management services and/or for yield from investment, has been added.
- 3.3 Update to the application to other corporations that are not the Company, including a dedicated investment fund and/or the general partner thereof or its management company (Section 2.1 of the proposed policy) – the Company shall apply the said proposed Compensation Policy to Officers in said corporations, provided that such Officers also serve as Officers in the Company.
- 3.4 Annual Bonus – the Measurable Component (Section 5.4 of the proposed policy) – It has been prescribed that the Company's Board of Directors, after receiving the recommendation of the Compensation Committee, may determine, close in time to the beginning of the Bonus Year, that an Annual Bonus shall not be granted in cash for the Measurable Component for such year to an Officer or to all the Officers in general, and that instead of a cash bonus for the Measurable Component, the Officer shall be able to receive an additional equity bonus as specified in the policy.
- 3.5 Equity Variable Component (Section 7 of the proposed policy) – The equity instruments by which the equity compensation can be granted have been updated so that it will be possible to also grant such compensation by rights to success fees.
- 3.6 Equity Variable Component – Cap for Value of Benefit (Section 7.1.2 of the proposed policy) – In a year during which the Board of Directors of the Company decided to determine that an Annual Bonus shall not be granted in cash for the Measurable Component for a certain year to an Officer or to all of the Officers in general, and that instead of a cash bonus for the Measurable Component the Officer shall be able to receive an additional equity bonus as stated in Section 3.4 above, the cap of the economic value of the equity compensation has adjusted accordingly.

#### 4. **How the Previous Compensation Policy is Implemented**

- 4.1 All the compensation and employment agreements of the Officers in the Company (CEO and VP's) that are in effect, comply with the Previous Compensation Policy and all the payments to Officers commencing from the date of the approval of the Previous Compensation Policy have been made in accordance with its provisions.
- 4.2 For the year 2020, the cost of the Terms of Office and Employment of the Company's CEO amounted to approximately 69% of the cap of the Terms of Office and Employment prescribed in the policy, with the fixed compensation for the CEO amounting to approximately 70% of the cap of the fixed compensation prescribed in the policy, and the Annual Bonus amounting to approximately 67% of the cap of the bonus prescribed in the policy.

**5. The Ratio Between the Terms of Office and Employment of Officers to the Salaries of the Company's Employees<sup>2</sup>**

- 5.1 The ratio between the cost of the Terms of Office and Employment of the Company's CEO and the average cost of salary of an employee in the Company and the cost of the median salary in the Company amounted to approximately 1:3.6 and 1:5.5.
- 5.2 The ratio of the Terms of Office and Employment of all the Company's Officers and the average cost of salary of an employee in the Company and the cost of the median salary in the Company amounted to approximately 1:3.5 and approximately 1:2.3 and 1:3.5 respectively.
- 5.3 After so examining the Terms of Office and Employment of the Officers and the salary paid to the Company's employees, the Compensation Committee and the Board of Directors believe that the gaps between the Terms of Office and Employment paid to the Officers and the Terms of Office and Employment paid to the Company's employees at present does not adversely affect the working relations at the Company.

**6. The Identity of the Controlling Shareholder and the Rights That Give Him Control**

- 6.1 DIC is considered a controlling shareholder of the Company, by virtue of DIC's holdings as of the date of this report at – 60.08% of the issued share capital of the Company and the voting rights in the Company (and approximately 56.14% of such rights on fully diluted basis). DIC is a public company whose shares are traded at the Tel Aviv Stock Exchange Ltd.

**7. The Identity of the Controlling Shareholder and the Rights That Give Him Control**

- 7.1 All members of the Board of Directors may have a personal interest arising from the fact that the remuneration policy also stipulates provisions regarding the terms of office and employment of directors in the Company.

**Sincerely,**

**Elron Electronic Industries Ltd.**

**Identity of the signatories to the report on behalf of the Company and their role:**

**Yaron Elad, CEO**

**Niv Levy, CFO**

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<sup>2</sup> The data in relation to all officers and employees in the Company were taken according to the compensation actually paid to them in respect of the year 2020.

**Annex A – Affidavits of the proposed directors**

**Annex B – The form of the proposed compensation Policy (marked against the Previous Compensation Policy)**

**Annex C - Ballot**

# **Elron Electronic Industries Ltd.**

**(the “Company”)**

## **Compensation Policy**

### **Definitions**

The definitions and terms in this Compensation Policy shall bear the meaning determined therefor in the Companies Law, unless defined otherwise in the Compensation Policy.

The following terms in the Compensation Policy shall bear the following meaning, unless explicitly stated otherwise:

- |  |  |
|--|--|
| <b>“Company”</b>   | - Elron Electronic Industries Ltd.;  |
| <b>“Board of Directors” or “Board”</b>                     | - The Company’s board of directors;  |
| <b>“Committee” or “Compensation Committee”</b>             | - The Company’s compensation committee;  |
| <b>“Companies Law”</b>                                     | - The Companies Law, 5759-1999, and the regulations thereunder;  |
| <b>“Compensation Policy”</b>                               | - A policy regarding Terms of Office and Employment of Officers;   |
| <b>“Control”</b>   | As defined in the Companies Law, unless determined otherwise   |
| <b>“Officer”</b>   | - A director, CEO, Deputy CEO, Vice-President, and any and all other officers as defined in the Companies Law, insofar as will be appointed in the Company, and/or a manager who will be appointed and defined as an Officer with regard to the Compensation Policy by the Company’s Board of Directors; |
| <b>“Monthly Salary” or “Monthly Pay” or “Gross Salary”</b> | - The monthly salary is the monthly salary for the purpose of social benefits (i.e. excluding ancillary benefits, social benefits on the part of the Company, bonuses, equity compensation and additional benefits);   |
| <b>“Monthly Cost of Salary”</b>                            | - The cost to the Company in respect of any payment for the employment of an Officer per month which includes the Monthly Salary, social   |

benefits, car and expenses of use thereof, fixed benefits and payments according to law, and any other benefit or payment, with the exception of bonuses and other variable compensation;

- “Group” or “Company Group”** - The Company and/or subsidiaries and/or affiliated companies and/or group companies and/or ~~the~~ controlling shareholder of the Company and/or –partnerships which are held and/or managed by the Company, including dedicated investment fund/s which the Company and/or corporations from the Company Group will hold at least 40% of the issued and outstanding capital of its/their general partner and/or will manage it/them.
- “Success Fee”** - Compensation for success/yield to which corporations in the Group will be entitled for providing management services and/or for yield on investment.
- “Bonus Year”** - The calendar year in respect of which the bonus is paid;
- “Terms of Office and Employment”** - According to the definition of the term in the Companies Law.

## **General**

- 2.1. The purpose of this document is to describe and specify the Company’s policy with respect to compensation of the Company’s Officers, the components thereof and the manner of determination thereof, *inter alia* in accordance with the provisions of the Companies Law. The proposed compensation policy is intended to assist with achievement of goals and the work plans of the Company, in the short- term, the mid-term and the long-term. Although the Company is not obligated to apply the Compensation Policy to ~~subsidiaries~~the entire Group, since the Company’s Officers may hold office as officers also of ~~the subsidiaries~~other enti in the Group which are not the Company (including in a dedicated investment fund or in its general partner or in its management company), the Company is applying the Compensation Policy as aforesaid to officers of ~~the subsidiaries~~other corporations in the Group, provided that such officers hold office as Officers also of the Company. For the avoidance of doubt, the terms of this Compensation Policy shall not apply to persons who are not the Officers of the Company who shall hold office (insofar as shall hold office) as officers of ~~the subsidiaries~~other corporations in the Group which are not the Company (including in a dedicated investment fund or in its general partner or in its management company), *inter alia* since among the private corporations ~~the private companies~~ of the Company Group there are also startup

companies, the compensation structure of which is relevant to ~~companies~~ corporations of this type. The Company may approve that the Officers be employed also at corporations in the Company Group ~~subsidiary~~ and receive the compensation in whole and/or in part also from the corporation in which they will be employed and/or from a different corporation in the Group ~~subsidiary~~, including from RDC Rafael Development Corporation Ltd. (“**RDC**”)

- 2.2. The Company is an operating holding company which focuses on the building of technology corporations and companies that are in various stages of development. Consequently, the Company’s financial results may vary significantly from one year to the next and are significantly dependent on its investments in the group ~~companies~~ corporations and on the disposition of its holdings. In view of the fact that the Company’s investments are in corporations ~~companies~~ which are generally at the research and development stage and consequently record current losses due to R&D expenses, the Company recognizes its share in the losses of the group ~~corporation~~ corporations, in many cases irrespective of the success at the development stages and of the business and clinical progress of the group ~~corporation~~ corporations, and will therefore usually record losses in the years in which no significant disposition transactions are performed.
- 2.3. The principles of the policy were intended to determine rational, proper and fair compensation for the Company’s Officers, which will ensure that the Officers’ compensation is consistent with the best interests of the Company and its organization-wide strategy, and simultaneously will lead to enhancement of the Officers’ sense of identification with the Company and its activity, strengthen the correlation between the scope of compensation for the Officer and maximizing profits from the Company’s operations including operations through corporations from the Company Group, will encourage the Officers to maximize the Group’s performance (and as a result the Company’s performance) and will enhance their satisfaction and motivation and lead to long-term retention of the high-quality Officers of the Company. The Compensation Policy is designed to reinforce patterns of behavior that the Company is interested in cultivating; to shape the desired organizational culture in the eyes of the Company; and to maintain the proper balance between the Company’s overall organizational strategy, objectives and work plans, as determined from time to time, and the creation of an appropriate incentive system for recruiting and retaining quality managerial personnel in senior management positions for the long-term, required for the Company’s further development and business success ~~will enhance their satisfaction and motivation and lead to long term retention of the high quality Officers of the Company.~~
- 2.4. The considerations that guided the Compensation Committee and the Board of Directors of the Company upon determining the policy are promotion of the Company’s goals, its work plan and its policy from a long-term perspective; ~~the importance of determining performance~~

~~based compensation and~~ creating proper incentives for the Company's Officers, considering *inter alia* the Company's risk management policy and its dynamic character as a company that invests in the research and development stage; the Company's size (considering, *inter alia*, its equity, the amount of its assets and the amount of an average annual investment in Company Group companies); the character of the Company as a holding company as specified above and the complexity of its activity; reinforcement of the identity of the interests of the Company's Officers and its shareholders; the possibility that the Company will also deal in management of dedicated investment funds within its areas of activity and the desire that employees and Officers will play a role in such funds if they are established and will contribute to their success; and with regard to Terms of Office and Employment which include variable components, providing discretion to consider the Officer's contribution to achievement of the Company's targets and to maximization of its profits over time, all with a long-term view and according to the Officer's position. The variable component is designed to reward the Officer for his achievements and for his contribution to the achievement of the Company's goals in the grant year and it also helps to retain officials in the Company.

2.5. ~~Equity and/or p~~Performance-based compensation shall be granted in a manner that reflects the Officer's contribution to achievement of the Company's targets and to maximization of its profits, from a long-term perspective. The variable component shall be determined in conformance with the Company's performance and the personal performance of the Officer versus the targets that were defined for him in the framework of fulfillment of his duties according to his responsibilities, and in accordance with the Company's discretion. In this framework, an equity bonus instead of a performance-based bonus, and a grant that is not based on meeting measurable qualitative targets or quantitative targets may be granted. The main purpose of the equity compensation component is to increase the alignment of interests between the Officers and~~In accordance with the Company's Compensation Policy, significant weight is given to the meeting of targets which reflect the Company's goals and/or the Company's strategy, and to the yield for the Company's shareholders, and to strengthen the compensations grounding on a long-term component. Grant of an equity compensation serves the Company's interest, and the combination of equity compensation components constitutes a management tool for the Company to recruit and retain its Officers over time, to create a link between the compensation of Officers and the creation~~

2.6.2.5. ~~The Company's targets express the success of the Company as a whole in realizing its plans, the Officers' contribution to the Company's success, the desire to maximize of value for the shareholders of the Company and to incentivize the Officers to promote the interests of the Company and its shareholders, and the Company's wish to compensate Officers for meeting such targets. The targets shall include measurable~~

~~targets which reflect the Company's goals and its strategy in the short-term and long-term in order to create an identity of interests between the Company, its shareholders and the Officers, and promotion of the Company's goals and its strategy as aforesaid.~~

### **The Officer Compensation Concept**

#### 3.1. General –

Upon determining and examining the compensation terms and conditions of the Company's Officers, the parameters listed below will, *inter alia*, be taken into account:

- 3.1.1 The Officer's education, qualifications, expertise, professional experience, and achievements.
- 3.1.2 The nature of the position and the level of responsibility and the authorities imposed on the Officer due to his position.
- 3.1.3 The Officer's contribution to the Company's performance, profits and stability, and promotion of the Company's goals, its work plan and its policy from a long-term perspective.
- 3.1.4 The Company's need to achieve long-term retention of the Officer in view of his skill, knowledge and/or unique expertise.
- 3.1.5 Previous agreements that were signed with the Officer (if any), and the terms of employment of the Officer who preceded him in the position.
- 3.1.6 The terms of employment that are customary at the Company for other Officers, considering their rank and responsibilities.

#### 3.2 When the Company comes to recruit or appoint a new Officer, preference will be given to the fact that each Officer has achievements and professional experience in the field of the intended position.

3.3 As detailed below, the customary compensation for Officers of the Company can be composed of a fixed component, yearly compensation with a measurable component and a discretionary component, a special compensation at the discretion of the Board of Directors for one-off events, and an equity component (whether by Equity Instruments (as the meaning of such term in section 7.1 below) or by a cash compensation which will derive from the performance of the Company's stock). The overall compensation structure for the Officer, which includes Monthly Salary, social and related benefits and variable components, will be determined, *inter alia*, within the compensation ranges specified below, based on the parameters specified above, and while considering the existing compensation conditions of other Officers of the group, and the accepted compensation conditions for officers in similar positions at public (and private) companies with a similar market value and/or characteristics and size of operations, which engage in sectors that are

as close as possible to the operating sectors of the Company. Such a comparison will be made based on data that are publicly released and/or based on an external research study on the issue, as needed, insofar as the information is available and in the opinion of the Company, is relevant in the circumstances.

3.33.4 It is clarified that wherever ceilings are specified in this policy, the meaning is maximum potential value which may be granted, but the ceilings do not obligate the Company and/or the Board of Directors to any equity compensation component at all and/or of the ceiling amount.

### **The Fixed Component**

This component is intended to compensate the Officer for performance of the position at the Company and for performance of the position's ongoing tasks on a daily basis. In addition, this component is intended to give fair compensation to the Officers and to retain high-quality Officers who are suited to the Company's goals.

- 4.1. Monthly Pay (Gross Salary) – the Monthly Pay shall not deviate from the caps specified below:

<b>Rank</b>	<b>Monthly Pay cap (gross)</b>
CEO of the Company	ILS 120 thousand
Another Officer subject to to the CEO	ILS 90 thousand

- 4.2. The maximum fixed salary for the CEO and for another Officer of the Company is based on a full-time position. In a case where the Officer is employed on a part-time basis, the maximum salary component stated in the table will be adjusted to the actual scope of the position.
- 4.3. The Company shall be entitled to link the Officer's fixed component to the consumer price index (including linkage of the said cap amounts). The Company may determine that the fixed component shall not be reduced due to a decrease in the index, but a decrease in the index shall be deducted from any future increase.
- 4.4. A deviation of up to 10% above the gross salary cap as aforesaid (net of the linkage component) shall not be deemed as a deviation from the provisions of the Compensation Policy.
- 4.5. **Reimbursement of Expenses:**

The Officers shall be entitled to reimbursement of expenses that shall actually be incurred in the context of their position, including expenses for participation in meetings, travel expenses in Israel and overseas, per diem expenses (in and outside of Israel, including payment for housing and accommodation), newspapers, hospitality expenses, fees for membership of professional organizations, professional literature,

against presentation of receipts, all according to the Company's procedures.

4.6. **Social and Related Benefits:**

The Company shall be entitled to grant the Officers social conditions and benefits as determined in the law and, in addition thereto, as is customary at the Company, including:

- 4.6.1. Provisions for provident payments and severance pay<sup>1</sup>; work disability insurance; a study fund; leave and redemption thereof; sick leave; recreation pay.
- 4.6.2. Benefits that are ancillary to the salary as is customary for Officers in similar positions, including through payment of reimbursement of their expenses (such as: car, landline phone and mobile phone, laptop computer, internet connection, subscription to a daily newspaper, comprehensive medical assessment, etc. (including gross-up of benefit attribution value for tax purposes of these components, insofar as required and according to the Company's determination)) in accordance with the Company's procedures.

**Variable Compensation – Annual Bonus**

- 5.1. The Company shall be entitled to grant variable compensation to the Officer, in accordance with the principles specified in Sections 2 and 3 above.
- 5.2. The goal of the performance-dependent cash variable compensation is to encourage the Officers to act for the achievement of the Company's goals and targets, while creating an identity of interests between the Officers, the Company and its shareholders. Accordingly, the Officers of the Company will be entitled to an annual bonus according to measurable criteria ("**Measurable Component**"), and non-measurable qualitative criteria ("**Qualitative Component**" or "**Discretionary Component**"), all in accordance with the principles specified below (collectively: the "**Annual Bonus**").
- 5.3. Threshold conditions – the Company shall be entitled to grant an Annual Bonus to Officers in respect of the Measurable Component, as specified in Section 5.45.1 below, for a Bonus Year, subject to the following threshold conditions:
  - 5.3.1. The Company met its financial liabilities in the Bonus Year.

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<sup>1</sup> In accordance with the provisions of the law, including the possibility of release of money accrued in severance pay funds in any case of conclusion of employment, or pursuant to Section 14 of the Severance Pay Law, in accordance with an agreement with the employee, and in accordance with the accepted practice in the Company.

5.3.2. The Company's financial statements do not include a "going concern" qualification for the Company.

5.4. The measurable component – measurable goals related to the Group's performance

5.4.5.4.1. Bonus cap – the entitlement of the Company's Officers to the Annual Bonus in cash for the measurable component will be subject to the following caps:

<b>Rank</b>	<b>Annual cap (in terms of number of salaries, gross)</b>
CEO	<u>96</u>
Another Officer who reports to the CEO	<u>74.5</u>

5.5. The Annual Bonus components ~~the Annual Bonus shall comprise the following components:~~

5.5.1. Measurable targets relating to the performance of the Company and the group companies

5.5.1.1, 5.4.2. This component of the Annual Bonus for each Officer shall be calculated according to the Group or Officer meeting achieving a target or of at least two measurable targets which are measurable by the Company, the group companies or the Officer, such as: increase in the value of the Group's corporations, meeting the budget, sales turnover, gross profit, operating profit, EBITDA or net profit, obtaining resources for the Company, performance of investments in new companies, performance of transactions for disposition of the Company's investments, completion of development milestones, obtaining regulatory approvals, submission or receipt of FDA approval by one of the companies, recruitment of a given number of patients for a trial, etc.

5.5.1.2, 5.4.3. The targets for each Officer or for all of the Officers as a whole (except with respect to the CEO) shall be recommended by the CEO and approved by the Compensation Committee and the Board of Directors. The targets with respect to the CEO shall be approved by the Compensation Committee and the Board of Directors close in time to the beginning of the Bonus Year, and may be similar to those determined with respect to the other Officers.

5.4.4. Subject to the aforementioned, the Company's Board of Directors, after receiving the Compensation Committee's recommendation, will is entitled to determine annually, close in time to the Bonus Year, the components of the targets, their weight in the formula of the bonus out of the bonus cap, the

range of percentage compliance with the targets, including the possibility of determining a minimum and a maximum standard, and the scope of eligibility for the bonus in relation to the percentage range of compliance with the targets and the time required to comply with the various targets. Partial compliance with a particular target may result in the granting of a partial bonus for such target, subject to the minimum standard determined, to the extent determined, while results reflecting excessive performance for a particular target, as applicable, may result in a bonus that exceeds the component attributed to the aforementioned target (subject to the total bonus cap in section 5.4). To the extent weights are not determined for each target, each target shall carry an equal weight.

5.5.1.3, 5.4.5. The Board of Directors of the Company, after receiving the Compensation Committee's recommendation, is entitled to determine near the beginning of the compensation year that yearly cash compensation for the measurable component will not be granted for such year to an Officer or to all Officers in general, that goals will not be determined for an Officer or for all Officers in general, and that instead of a cash compensation for the measurable component the Officer may be able to receive an additional equity compensation as detailed in section 7.1 below.

5.5.2.5.5. Discretionary bonus component

This component of the Annual Bonus shall be based on an evaluation in respect of performance of the Officer's duties and his performance in the Bonus Year, and shall be granted to an Officer of the Company based on the recommendation of the CEO and with the approval of the Compensation Committee and the Board of Directors of the Company, and with respect to the CEO – with the approval of the Compensation Committee and the Board of Directors of the Company. In any event, the discretionary component of the Annual Bonus shall not exceed 3 Monthly Salaries for each Officer, and the granting thereof shall be subject to the Annual Bonus cap stated in Section 5.4 above.

- 5.6. Timing of payment of the Annual Bonus – During a compensation year where ~~T~~the Annual Bonus is paid, it shall be paid to the Officers entitled to a bonus from the Company with respect to each calendar year of their employment period, no later than the date of the first salary due following the date of approval of the Company's consolidated financial statements for the same calendar year. Notwithstanding the aforesaid, for the component of the bonus that depends on measurable objectives relating to the performance of the ~~Group Company and the group companies,~~ if determined for a certain compensation year, the Compensation Committee is entitled to determine that 70% of the bonus

eligibility for this component will be paid at the same time (i.e., the first paycheck payment after the approval of the Company's consolidated financial statements for the same Calendar year) and the remaining 30% will be paid after the Company's distributed consolidated financial statements for the year following the relevant calendar year and only if the Company meets the specified threshold conditions, in the relevant calendar year and the successor calendar year, listed in Section 5.3 above.

- 5.7. Denial of bonuses – If the office of any of the Officers shall end in circumstances in which his right to severance pay may be denied in the case of dismissal, his entitlement to an Annual Bonus and to any parts of an Annual Bonus not yet paid to him, shall be denied. In addition, the Company's Board of Directors will be authorized to cancel payment of the bonus or part thereof to a certain Officer in cases of the Officer's involvement in embezzlement, fraud and/or improper governance.
- 5.8. Reduction of bonuses – The Company's Board of Directors, upon the recommendation of the Compensation Committee, may reduce the bonus amount by up to 30%, considering the examination of the reasonableness of the bonus that was received as a result of the meeting of the targets, the Officer's contribution to the achievement thereof and the Company's financial and business condition.
- 5.9. Calculation of bonuses in the case of partial employment during the Bonus Year – In a case where the employment relationship between the Officer and the Company ends in the course of the Bonus Year after March 31, or in a case where an Officer began his employment in the course of the Bonus Year and shall have completed at least three months of employment, the Annual Bonus amount shall be calculated according to this Compensation Policy at the end of the calendar year, while it is possible to determine that the targets that were fixed will be amended and calculated proportionately according to the period of the Officer's employment in part of such year, as such may be relevant, and the Officer shall be entitled to the portion of the Annual Bonus proportionately to the period of his employment out of the year.
- 5.10. Publication in the Annual Report – Each year (if and insofar as in such year an Annual Bonus was granted to the Company's CEO according to this section) the Company shall publish in the annual report the measurable targets that were set by the Board of Directors for the CEO for the previous Bonus Year.

### **Special Bonus**

- 6.1. The Company's Board of Directors, upon the recommendation of the Compensation Committee, may approve payment of a one-time bonus to an Officer due to his considerable contribution to the leading and closing of a significant transaction for the Company (“**Special Event**”). The amount of the special bonus upon the occurrence of a special event as aforesaid shall not exceed 6 Gross Salaries. For this purpose, the

following shall be deemed as a special event: (1) a sale and/or disposition and/or merger of holdings of the Company and/or RDC in a group company (or its operations, as the case may be) at a value that is at least 3 times the total and nominal aggregate investment that was made in the group company by the Company and/or by RDC and a minimum gross transaction amount (the Company's or RDC's portion of at least \$10 million, or (2) special instances of transactions which the Compensation Committee and the Board of Directors determined that there was an extraordinary contribution by an Officer.

### **Variable Equity Component**

7.1. In the period of the Compensation Policy, the Company will be entitled to approve or act according to plans for the granting of equity compensation to Officers. The granting of equity compensation will take into account the Officer's contribution to the Group, his position, his importance to the Group and the period for which he has been working in the Group. The equity compensation may be granted in restricted stock units (RSU) and/or restricted stock and/or a share-based instrument and/or phantom options or options exercisable for shares of the Company/or for rights to success fee (whereas with respect to rights to success fee, if granted – the grant will be in accordance with a mechanism that will be determined and approved from time to time by the Board of Directors or the Compensation Committee, as applicable, and the value of such rights will be calculated upon their grant by an external valuator who will be determined by the Compensation Committee), or a combination thereof (the "Equity Instruments"). ~~the~~ The allotment and vesting of the Equity Instruments which will be contingent on the provisions specified below and/or in any other arrangement, in the context of a plan pursuant to Section 102 of the Income Tax Ordinance or any provision that shall substitute or modify it (on a capital or ordinary track) or in any other plan (whether with or without a trustee). The Compensation Committee and the Board of Directors are entitled to determine the minimum conditions for the release of the restrictions of restricted stock units (RSU) and/or restricted stock including at least the minimum conditions set forth in Section 5.3

~~7.2.~~ The principles stated in this policy relating to the variable equity component reflect the main terms of the equity compensation of the Company's Officers. The other provisions pertaining to the allotment of the equity compensation will be determined in the compensation terms and conditions or in the equity compensation plan, including provisions regarding conditions with respect to entitlement to dividends and the vote of shares that are included in the equity compensation; accepted adjustments (including by way of changing the allotted quantity, changing the exercise price, as the case may be, compensation in cash, etc.), which include adjustments in respect of a dividend, stock dividends, changes in capital (consolidation, split, etc.), a rights offering, a restructuring of the Company (such as: split, merger, etc.); a

right of first refusal in the transfer of securities; the rights of the Officer in connection with restricted stock units and/or restricted stock and/or phantom and/or stock options; taxation matters; manner of exercise of the options; acceleration of the equity compensation upon conclusion of office, change of control, ceasing trading etc. The Compensation Committee and the Board of Directors may determine additional provisions in connection with the equity compensation, and update, from time to time, the conditions and provisions thereof.

~~7.2.1.7.1.1.~~ Vesting period – The total vesting period of the equity compensation shall be spread out over a period which shall be no less than three years from the date of ~~the grant~~ of the Equity Instrument. It will be possible to determine that the equity compensation will vest in installments in the framework of the said total vesting period, provided that the first installment shall vest no earlier than the lapse of one year from the date of the grant. The vesting of the equity compensation shall be contingent on the continued employment or office of the Officer at the Company and/or at a company corporation of the Company Group at the time of the vesting of each installment.

7.1.2. Cap on the value of the benefit – In general, ~~The~~ ~~the~~ ceiling economic value of the equity compensation that shall be granted, insofar as granted, on the date of the grant, ~~in respect of for~~ a bonus year (which will be calculated on a linear basis and not on an accounting basis);

7.1.2.1. \_\_\_\_\_.

7.1.2.2. In a year in which the Board of Directors decided that an annual cash compensation for the measurable component will be granted for such year to a certain Officer or to all Officers in general as set forth in section 5.4.4 above such shall not exceed an amount equal to 9 times the Monthly Pay (Gross Salary) for ~~any-an~~ Officer to which a cash compensation is granted for such year.

~~7.2.2.7.1.2.3.~~ In a year in which the Board of Directors decided that an annual cash compensation for the measurable component will not be granted for such year to a certain Officer or to all Officers in general as set forth in section 5.4.4 above, the ceiling value of the equity compensation will increase accordingly, such that it will be 9 times the Monthly Pay (Gross Salary) plus the ceiling value of the annual cash compensation for the measurable component (as set forth in section 5.4.1 above) for such Officer. ~~In any event, the Company will not grant, during the period of the compensation policy, an award as aforementioned for more than three bonus years, but it will be possible to grant an award for up to three bonus years even at one time~~

7.2.3-7.1.3. Exercise price – Upon the granting of options, the exercise price of each option shall be no less than the average price of the Company’s stock on the stock exchange in the 30 trading days preceding the date of the grant, or than the price of the Company’s stock on the date of the option grant, as shall be determined on the date of the grant.

7.2.4-7.1.4. Duration - Any installment of the equity compensation in an exercise dependent Equity Instrument, shall be exercisable within a period to be determined on the date of the grant and which shall not exceed 8 years from the date of the grant.

7.2.5-7.1.5. Exercise according to the value of the benefit – The Compensation Committee and the Board of Directors of the Company shall be entitled to determine, in the framework of the granting of Equity Instruments~~the securities~~, that the exercise thereof shall be performed according to the value of the benefit therein (“Cashless”), such that at the time of exercise of the options, the Officer will be entitled to a number of underlying shares that reflects the benefit component only.

7.2.6-7.1.6. Exercise value – The Compensation Committee and the Board of Directors of the Company will be entitled to determine a cap on the exercise value of the Equity Instruments~~variable equity components~~ or not to determine such a cap in the compensation plan and/or in a specific grant.

7.2.7-7.1.7. The Company will be entitled to determine, in plans for the granting of compensation as aforesaid, provisions regarding its right to purchase the shares from the Company’s employees.

### 7.3-7.2. The Company’s stock yield index

7.3.1-7.2.1. In the event that in respect of a calendar year, the Company shall choose not to allot equity components according to Sections 7.1 ~~and 7.2~~ above<sup>2</sup>, then in lieu of the grant of equity compensation through equity components, a cash bonus will be paid for the same calendar year (or for the part of the year with respect to which the aforementioned equity components were not granted, as applicable and mutatis mutandis) which is subject to the cap specified in Section 7.2~~1~~.2 above, which shall be derived from

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<sup>2</sup> Excluding an equity component which is instead of annual cash compensation for the measurable component only.

the performance of the Company's stock yield, as specified below.

7.3.2-7.2.2. The rationale in using the test of the Company's stock yield is that the Company's management has key influence over the Company's results and performance, and consequently over the capital market's confidence in the Company.

7.3.3-7.2.3. This component of the Annual Bonus for each Officer shall be calculated based on the ILS yield of the Company's stock during the Bonus Year, while the minimum yield in respect of which 40% of the bonus cap will be granted for this component is 10% ("Minimum Threshold") and for a 20% stock yield, the Officer shall be granted 100% of the bonus cap which is attributed to this bonus component (the "Maximum Threshold"). The bonus for this component for performance levels between the Minimum Threshold and the Maximum Threshold shall be calculated in a linear manner.

7.3.4-7.2.4. The stock yield shall be calculated as follows: at the beginning of each Bonus Year, the average price of the Company's stock in the 30 trading days preceding January 1 of such year shall be calculated, and at the end of each Bonus Year, the average price of the Company's stock in the last 30 trading days of such year shall be calculated. The calculation of the yield shall include adjustments as is accepted, such as yield to the shareholders for dividend distributions and adjustments to changes in the share capital such as stock combinations, a stock split, the granting of stock dividends, etc.

7.3.5-7.2.5. Calculation of the stock yield index component in the case of partial employment during the Bonus Year – in a case where the employment relationship between the Officer and the Company ends in the course of the Bonus Year after March 31, or in a case where an Officer began his employment in the course of the Bonus Year and shall have completed at least three months of employment, the amount to which the Officer is entitled in respect of the stock yield index component shall be calculated according to this Compensation Policy, at the end of the calendar year, and the Officer will be entitled to part of the Annual Bonus proportionately to the period of his employment out of the year.

7.4-7.3. Equity compensation in group companies that are not controlled by the Company - The Company's Officers sometimes serve as officers and directors of group companies of the Company which have equity compensation plans. In a case where an Officer of the Company either

serves or shall serve as an officer, including as a director, of a group company that is not controlled by the Company, subject to the approval of the Company's Board of Directors, the Officer may be compensated according to the compensation policy of the group company (with respect to the equity compensation), independently of the Company's other compensation components, all in accordance with the compensation policy and the compensation plans of the group company, and the same shall not be deemed as compensation which is granted by the Company.

~~7.5.7.4.~~ Equity compensation in group companies controlled by the Company - The Company's Officers who serve or will serve officers and directors of group companies controlled by the Company may be entitled to equity compensation under an equity compensation plan of such controlled company, subject to the approval of the Compensation Committee and the Board of Directors of the Company, provided that the amount of the equity compensation officers on behalf of the Company as aforesaid shall not exceed 5% of the said controlled company.

#### **Ratio Between a Fixed Component and a Variable Component**

8.1. The maximum variable component paid by the Company according to this Compensation Policy to any Officer shall not exceed 60% of the total annual compensation cost of the Terms of Office and Employment of the Officer<sup>3</sup>. For the avoidance of doubt, for this purpose, equity compensation as stated in Sections ~~7.4-3~~ and ~~7.5-4~~ above shall not be counted.

#### **Compensation for Directors**

9.1. The fixed compensation for directors of the Company shall be annual compensation and per-meeting compensation (including in the case of a written resolution or a telephone conversation) and reimbursement of expenses, to be determined in accordance with the provisions set forth in the Companies Regulations (Rules on Compensation and Expenses of an Outside Director), 5760-2000 (the "**Compensation Regulations**"). Lawful VAT shall be added to the annual compensation and to the per-meeting compensation, insofar as required.

9.2. Considering the nature and size of the Company, as being from time to time, the roles and duties of a director of the Company, the Company may determine that the payments to the directors shall also be according to the provisions that apply to proportionate compensation pursuant to

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<sup>3</sup> For this purpose, "variable component" includes annual bonus, special bonus, ~~and equity~~ compensation in the form of an equity component. For the purpose of calculating the equity compensation, it shall be clarified that it is the economic value of the equity compensation on the date of the grant, as estimated by accepted economic models, and spread out in a linear manner over the vesting period of the equity compensation.

the Compensation Regulations, including with respect to compensation in securities which will comply with Section 7 above.

- 9.3. The aforesaid notwithstanding, in the event that an active Chairman or an active acting Chairman of the Board shall be appointed for the Company, all of the provisions set forth in this document with respect to the rank of CEO shall apply to him, *mutatis mutandis*, in accordance with the approvals required pursuant to law, and as the case may be<sup>4</sup>.

### **Conclusion of Employment Arrangements**

- 10.1. Each one of the Company's Officers shall have a specific severance and retirement package determined for them, which takes into account the terms of the Officer's employment upon his retirement, the Officer's seniority at the Company, his contribution thereto and the circumstances of his retirement. With respect to new employees and Officers, the conditions shall be determined according to the Company's common practice and under similar terms and conditions.
- 10.2. Payment for prior notice – The Company will be entitled to grant the CEO of the Company Officer prior notice for a period not exceeding 4 months and any Other Officer subject to the CEO, not exceeding 3 months, during which the Officer shall undertake to provide the Company with services in practice, in the course of which the employee will be entitled to all of the conditions and benefits and to the bonuses and to the equity component for the period in which he actually worked. The Company shall be entitled to waive the Officer's employment at the Company during the prior notice period and to pay the consideration that is due to him in lieu of the prior notice, plus all of the conditions and benefits or the value thereof, also in the case of immediate termination of employment.
- 10.3. Adjustment/Retirement bonus
- 10.3.1. The Compensation Committee shall have the option of approving an adjustment bonus/retirement bonus for an Officer<sup>5</sup> according to the following provisions:

<b>Position/Bonus</b>	<b>Worked in the Company for more than 3 years and up to 5 years</b>	<b>Worked in the Company 5 years or more</b>
CEO	Up to 4 times Gross Salary	Up to 8 times Gross Salary

<sup>4</sup> It is clarified that as of the date of approval of this Compensation Policy, the Chairman of the Board receives directors' compensation in accordance with the provisions of Section 9.1 of the policy.

<sup>5</sup> Over and above the Officer's rights to severance and prior notice as detailed in the policy

Other Officer subject to the CEO	Up to 3 times Gross Salary	Up to 6 times Gross Salary
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- 10.3.2. The Company may condition payment of the adjustment or re retirement bonus on the Officer's non-compete undertaking during the adjustment period.
- 10.3.3. The considerations for granting an adjustment or retirement bonus may include, *inter alia*, and insofar as they are known at the time of the making of the decision, the period of the Officer's employment, the terms of his employment in such period, the Company's performance in the said period, the Officer's contribution to achievement of the Company's targets and to maximization of its profits, a special non-competition undertaking, and the circumstances of the retirement.
- 10.3.4. The Company may approve an adjustment or retirement bonus as aforesaid for an Officer during the term of his office or upon conclusion of his office, which shall be paid at the time of conclusion of the Officer's office.

### **Insurance, Indemnity and Exemption**

- 11.1. Insurance policy – The Company shall be entitled to acquire each year, including in accordance with Regulation 1B1 of the Companies Regulations (Reliefs for Interested Parties' Transactions), 5760-2000 (the "**Relief Regulations**") and subject to the approval of the compensation committee only, an insurance policy for directors and officers liability, including a run-off policy or an insurance covering a relevant event or action , applying to the Company's and/or its subsidiaries' directors and officers, as will serve from time to time, which insurance shall cover their liability subject to applicable approvals and limitations under law. The Company's compensation committee shall determine the total annual insurance premiums (for these policies) and the deductibles in accordance with the market terms in effect at the time of purchase of the policies.
- 11.2. Advance indemnity – The Company shall be entitled to give an advance indemnity undertaking to each Officer of the Company in his capacity as an officer of the Company or by virtue of his position at other companies in which he was appointed on behalf or at the request of the Company, subject to the restrictions and approvals set forth in the law. The indemnity amount that the Company shall pay to all of the Officers, in the aggregate, including Officers who serve or shall serve, at the

request of the Company, as officers of other companies, under all of the letters of indemnity that shall be issued to them by the Company pursuant to the indemnity resolution, in respect of a monetary liability, shall not exceed, in the aggregate, 25% (twenty five percent) of the Company's equity (in U.S. dollars), according to the Company's last (annual or quarterly) financial statements that are known before actual payment of the indemnity plus amounts that shall be received, if any, from an insurance company in the framework of insurance in which the Company engaged. The aforesaid does not derogate from an indemnity undertaking if and insofar as shall have been approved and/or given in the past by the Company to Officers, and which is valid.

- 11.3. Retroactive indemnity – The Company shall be entitled to indemnify any Officer retroactively in the broadest possible manner according to the Companies Law.
- 11.4. Exemption – The Company shall be entitled to grant the Officers, subject to the provisions of any law, exemption from liability due to any damage caused thereto due to a breach of the Officer's duty of care thereto by his actions in his capacity as an Officer, subject to the provisions of the law and the Company's articles of association. The said exemption shall not apply in relation to an act or omission of an Officer with respect to a resolution or transaction in which the controlling shareholder or any Officer has a personal interest. The said qualification does not apply to Officers who were first appointed prior to approval of the ~~previous~~-compensation policy that was approved at the general meeting of February 27, 2017 (see the notice of meeting report of February 16, 2017, Ref. No.: 2017-01-016902) and who are entitled to exemption according to resolutions that were adopted in the past at the Company.
- 11.5. This Compensation Policy does not derogate from resolutions of the Company which were adopted in the past with respect to the giving of advance indemnity and/or an indemnity undertaking and/or an advance exemption from liability, to Officers, as permitted under the Companies Law.

**The ratio between the Terms of Office and Employment of the Officers and the salary of the Company's employees**

- 12.1. Upon determining the compensation conditions of the Company's Officers, an examination shall be made, *inter alia*, of the ratio between the terms of office of each one of the Company's Officers and the salary cost of the Company's other employees and of contract workers retained by the Company, and in particular the ratio to the average and median salary of such employees, considering the nature of the Officer's role, his seniority, the level of responsibility imposed on him and the number of employees at the Company. The Compensation Committee and the Board of Directors of the Company shall examine, from time to time, the reasonableness of this ratio, considering, *inter alia*, the nature of the Company's activity, its size and the manpower mix employed thereby.

In the process of formulating the Compensation Policy specified above and below, the Compensation Committee and the Board of Directors examined the ratio between the present terms of office of the Officers versus the average and median salary of the Company's employees. The Compensation Committee and the Board of Directors determined that the ratio is reasonable and does not adversely affect the working relations at the Company.

**Repayment of Amounts Granted to Officers, to the Company**

- 13.1. In a case where, within 3 years from the date of approval of the Company's consolidated and audited financial statements for the Bonus Year, its financial statements are amended due to data that transpired to be erroneous and were restated in the Company's financial statements, such that, had the bonus amount that was due to the Officer for such year been calculated according to the amended data, the Officer would have received a lower bonus than that which he received in practice, the Officer shall repay the Company the difference between the bonus amount that he received and that to which he was entitled due to the said amendment. The said amounts shall be repaid without linkage. The manner of repayment of the amounts to the Company, including in installments, shall be determined by the Compensation Committee and the Board of Directors of the Company, provided that they are performed within a reasonable time, considering the circumstances.
- 13.2. In a case where the Company's consolidated and audited financial statements for any year are amended due to data that transpired to be erroneous and were restated in the Company's financial statements, such that had the bonus amount which was due to the Officer for such year been calculated according to the amended data, the Officer would have received a higher bonus, the Company shall pay the Officer the difference between the bonus amount to which he was entitled and that which he received due to the said amendment. The said amounts shall be paid without linkage. The amounts to be repaid (whether to the Company or to the Officer) shall be calculated considering mandatory payments according to law that were met by the Officer in respect of the amount that was initially paid to him, and any reimbursement of such mandatory payments that the Officer shall receive in respect of the amount that he repays.
- 13.3. The provisions of this section shall not apply in the event that an amendment to the Company's financial statements is made due to changes in the accounting standards or in legislation, the application of which shall commence after the date on which the Company's Board of Directors shall approve, for the first time, the Company's financial statements for such year.
- 13.4. The Compensation Committee and the Board of Directors will be entitled to determine the repayment dates, such that they shall be

performed within a reasonable period, considering the size of the amount that the Officer is required to repay.

### **An Immaterial Modification of the Employment Terms**

14.1. Pursuant to the provisions of the law, the Compensation Committee (with respect to the CEO) or the Compensation Committee and/or the Company's CEO (with respect to Officers who report to the Company's CEO), as the case may be, shall be entitled to approve an immaterial modification of the employment terms that were approved according to this policy as stated in Section 272(d) of the Companies Law or Section 1B3 of the ~~Relief~~Relaxations Regulations. For this purpose, "immaterial modification" – a modification of up to 10% per year versus the total compensation cost of the Officer that was originally approved by the Compensation Committee and the Board of Directors, and with respect to the CEO, by the general meeting, all subject to the compensation caps set forth in this policy, provided that the modification throughout the period of the Compensation Policy does not exceed 15%.

### **Period of the Compensation Policy**

The Compensation Policy shall be in effect for a period of three years commencing from the date of receipt of the general meeting's approval of the Compensation Policy and/or approval of the Board of Directors, insofar as the Compensation Committee and the Board of Directors shall have approved the policy despite the meeting's objection. For the avoidance of doubt, it is clarified that the provisions of this Compensation Policy with respect to the Annual Bonus shall apply commencing from the Annual Bonus for ~~2020-2022~~ 2022 forth.

### **Miscellaneous**

- 16.1. The provisions of this Compensation Policy apply only to the Officers of the Company.
- 16.2. The Compensation Policy is drafted in the masculine gender for the sake of convenience only, but its provisions shall apply to both women and men, with no difference and with no change.
- 16.3. The Company may pay compensation to the Officer as an independent service provider (including through a company under his control) and not as a salaried employee, in which case, the payment cap for him shall be calculated according to the cost-of-salary cap for a salaried employee of the Company in his position (with the necessary adjustments), and the principles of the Compensation Policy shall apply with respect to him, *mutatis mutandis*.
- 16.4. This document establishes no right (including a right to receive compensation of any type whatsoever) for Officers to whom this Compensation Policy applies and/or any other third party. Insofar as an

Officer is granted lower compensation than the compensation described in this policy with respect to the same kind of officer, the same shall not constitute a deviation from the provisions of this policy.

- 16.5. The Compensation Committee and the Board of Directors shall examine, from time to time, the Compensation Policy and the need for adjustment thereof, and in particular whether a material change has occurred in the circumstances that existed at the time of determination hereof or for other reasons, and the need to determine a compensation plan for Officers of the Company, in consideration of the Compensation Policy.
- 16.6. Subject to the provisions of any law, the Compensation Policy does not derogate from existing agreements, or from Terms of Office and Employment or compensation that were approved prior to the determination of the Compensation Policy.

\* \* \*

**Elron Electronic Industries Ltd. (the "Company")**

**Ballot in accordance with the Israel Companies Regulations (Voting in Writing and Position Statements), 5766-2005 (the "Regulations")**

1. **Name of Company:** Elron Electronic Industries Ltd.
2. **Type of General Meeting, Time and Location for the Convening thereof:**  
Special and Annual General Meeting of the Company's shareholders to be convened on **December 27, 2021, at 15:30 (Israel time)**, at the Company's offices at ToHa Tower, 114 Yigal Alon St., 27<sup>th</sup> Floor, Tel Aviv, Israel.
3. **The Items on the Agenda that May Be Voted on with This Ballot:**

A summary of the items on the meeting agenda that may be voted on with this ballot is set forth below. For additional details regarding the issues on the agenda see the immediate report published by the Company on **November 22, 2021**, on the distribution website of the Israel Securities Authority at [www.magna.isa.gov.il](http://www.magna.isa.gov.il) and on the website of the Tel Aviv Stock Exchange Ltd. at [maya.tase.co.il](http://maya.tase.co.il), to which this ballot is attached (the "**Immediate Report**").

The following items are on the agenda of the meeting:

- 3.1. **Re-appointment of directors who hold office at the Company (who are not external directors)**

Re-appointment of the following directors, in addition to the external directors who hold office at the Company: Dan Hoz (Chairman), Doron Haim Cohen, Michael Joseph Salkind and Shalom Turgeman (independent director) as directors of the Company for an additional term to commence on the date their appointment is approved by the general meeting being summoned by this report and until the Company's next annual general meeting.

Each nominee shall be voted for separately.

The nominees to serve as directors of the Company, as stated above, have provided the Company with declarations in accordance with Section 224B of the Companies Law, copies of which are attached as **Appendix A** to the Immediate Report.

**Details of the directors nominated for re-appointment**

For details on the nominees Doron Haim Cohen and Shalom Turgeman in accordance with Regulation 36B(a)(10) of the securities Regulations (Immediate & Periodic Reports, 1970), see Regulation 26 of Part IV (additional information about the corporation) of the Periodic Report for 2020 that was published by the Company on March 15, 2021 (ISA ref. no. 2021-01-035361), the details of which are hereby incorporated by reference. As of the date of this report, there has been no change in the details presented in said periodic report, except as detailed below:

-Mr. Doron Haim Cohen serves as a director and CEO of Property and Building Ltd. In addition, he serves as Chairman of Mehadrin Ltd and Epsilon Underwriting and Offerings Ltd and serves as a director of RDC Rafael Development Corporation Ltd.

-Mr. Shalom Turgeman also serves as an advisor to the Israeli foreign ministry from 2018 to the date of this report.

<b>Name:</b>	<b>Dan Hoz</b>
<b>ID No:</b>	027860824
<b>Date of Birth:</b>	10.07.1970
<b>Address for service of process:</b>	Hahita 8, Bnei Atarot
<b>Citizenship:</b>	Israeli
<b>Membership on board of directors' committees:</b>	No
<b>Is he/she an external director or an independent director:</b>	No
<b>Accounting and financial expertise; professional competency or an expert external director:</b>	Yes
<b>Director is an employee of the Company, any subsidiary, associate company of the Company or of a related party:</b>	No
<b>Date in which became director:</b>	14 November 2021
<b>Education:</b>	BA in Accounting and Economics and MBA from Ben Gurion University. MBA from Ben Gurion University
<b>Occupation over the last 5 years:</b>	Since 2017 serves as VP at Siemens Digital Industries Software.
<b>Serve as a Director in other companies:</b>	Alpha Vee

<b>a family member of other related party in the Company</b>	
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<b>Name:</b>	<b>Michael Joseph Salkind</b>
<b>ID No:</b>	022972020
<b>Date of Birth:</b>	18.4.1967
<b>Address for service of process:</b>	HaGderot 53, Savyon
<b>Citizenship:</b>	Israeli
<b>Membership on board of directors' committees:</b>	No
<b>Is he/she an external director or an independent director:</b>	No
<b>Accounting and financial expertise; professional competency or an expert external director:</b>	No
<b>Director is an employee of the Company, any subsidiary, associate company of the Company or of a related party:</b>	No
<b>Date in which became director:</b>	24.6.21
<b>Education:</b>	BA in Business Administration from Boston University, USA. MBA in Business Administration from Columbia University, USA.
<b>Occupation over the last 5 years:</b>	Co-Director and Co-CEO of Elco Ltd.; Chairman of the Board of Directors of Electra Ltd; and a director of companies of the Elco Ltd group.
<b>Serve as a Director in other companies:</b>	Discount Investment Corporation Ltd.; Cellcom Israel Ltd.; Property and Building Corporation Ltd., Mehadrin Ltd., Electra Real Estate Ltd., Electra Consumer Products (1970) Ltd. (and private companies from this group), Supergas Energy Ltd. (and private companies from this group), J. Salkind Ltd., Michael and Mercy Salkind Holdings (1997) Ltd.,

	Dream Theater Ltd., Meet Inn Place Inc., Elco Hospitality Ltd. and private companies of the Elco Ltd group. Until August 2020 a director at Golan Telecom Ltd.
<b>A family member of other related party in the Company</b>	No

3.2. **Re-appointment of the accounting firm Kesselman & Kesselman (PwC) as the Company's auditors and to authorize the Company's Board of Directors and Audit Committee, insofar required, to determine their fees and to report to the annual meeting regarding the auditor fees for 2020**

It is proposed to re-appoint the accounting firm Kesselman & Kesselman (PwC) as the Company's auditors for an additional term until the Company's next annual general meeting, and to authorize the Company's Board of Directors and Audit Committee, insofar required, to determine their fees as auditors. In addition, to Report to the annual meeting on the fees of the auditors for 2020.

The audit committee (which is also the committee for examining financial statements) of the Company recommended to the Company's Board of Directors regarding the reappointment of the auditor, following a discussion in connection with the auditor's work and after consultation with the Company's management regarding the ongoing interface with the auditor. In accordance with the recommendations of the committee for examining financial statements, the Company's Board of Directors to approve the reappointment of the auditor.

**Form of proposed Resolution: To re-appoint the accounting firm Kesselman & Kesselman (PwC) as the Company's auditors for an additional term until the Company's next annual general meeting, and to authorize the Company's Board of Directors and Audit Committee, insofar required, to determine their fees as auditors.**

3.3. **Approval of Compensation Policy for Officers of the Company**

Approval of the compensation policy for officers of the Company in the form attached as **Appendix B** to the Immediate Report, in accordance with Section 267A to the Companies Law.

For details see Part B of the Immediate Report.

**Form of proposed Resolution: To approve the proposed compensation policy for officers of the Company in the form attached as Appendix B to the Immediate Report, in accordance with Section 267A to the Companies Law.**

3.4. **Change of Company Name and Amendment of the Company's Articles of Association accordingly**

**Form of proposed Resolution:** To change the Company's name to "אלרון ונצ'רס בע"מ" and in English "Elron Ventures Ltd.", or any other similar name approved by the Corporations authority/Companies registrar, and to authorize the Company's management to approve such similar name, and to amend the Company's articles of association accordingly.

4. **Location and Hours for Inspecting the Proposed Resolutions in Full:**

Copies of the Immediate Report, declarations of director nominees, and proposed resolutions on the meeting's agenda are available for inspection at the Company's offices in ToHa Tower, 114 Yigal Alon St., 27<sup>th</sup> Floor, Tel-Aviv, Israel, after prior coordination with the Company's secretariat, at 972-3-6075555, Sunday through Thursday (excluding holidays and the eves of holidays) between 09:00 and 16:00, until the date of the meeting, as well as on the website of the Israel Securities Authority at <https://www.magna.isa.gov.il> and on the website of the Tel Aviv Stock Exchange Ltd. at <https://maya.tase.co.il>. In addition, this English translation of this Report will appear on the Company's website at <https://www.elron.com>.

5. **The Required Majority for Approval of the Resolutions on the Agenda:**

5.1. The required majority for the approval of the proposed resolutions set forth in Sections 3.1 and 3.2 above is a majority of the shareholders who are entitled to vote and who voted at the meeting, in person or by proxy (including via ballot) or through the internet voting system.

To the best of the Company's knowledge, as of the date of this summoning report, the Company's controlling shareholder, Discount Investment Corporation Ltd., a public company whose shares are traded on the Tel Aviv Stock Exchange Ltd and whose information is available to the public, holds approximately 60.08% of the Company's outstanding share capital and voting rights, a holding percentage that confers the controlling shareholder the required majority for approval of the issues set forth in Sections 3.1 and 3.2 above.

5.2. The majority required for adoption of the proposed resolution set forth in Section 3.3 above, is a majority of the shareholders entitled to vote and participating in the vote, in person or by proxy (including via ballot) provided that one of the following is fulfilled:

5.2.1. The majority vote count at the general meeting will include a majority of all votes of shareholders participating in the vote who are not controlling shareholders in the Company or have personal interest in approving the appointment, except for a personal interest that is not a result of a relationship with the controlling shareholder. The vote count of such shareholders shall not take into account abstaining votes.

5.2.2. The total dissenting votes among the shareholders specified in Section 5.2.1 above, does not exceed two percent (2%) of the total voting rights in

the Company.

It is noted that, in accordance with section 267A(c) of the Companies Law, the Company's Board of Directors will be entitled to approve the proposed resolution set forth in resolution 4 on the agenda, even if the general meeting will oppose its approval, if the Compensation Committee followed by the Board of Directors resolve, based on detailed grounds and following re-discussions regarding the compensation policy, that their approval, notwithstanding the general meeting's objection, is for the best interests of the Company.

- 5.3. The majority required for adoption of the proposed resolution set forth in resolution 5 on the agenda, detailed in section 3.4 above, is a special majority of at least sixty-seven percent (67%) of the shareholders entitled to vote and participating in the vote, without taking into account the abstaining votes.
- 5.4. A shareholder participating in the vote for resolution 3 on the agenda (issue 6 on the ballot) shall notify the Company, prior to the vote at the meeting, or if the vote is via ballot – on the ballot, in respect of each resolution in which he votes, if he is a controlling shareholder in the Company or if he has a personal interest in approving the resolution or not; If a shareholder fails to so notify, he shall not vote and his vote shall not be counted.

6. **Legal Quorum and Adjourned Meeting:**

A legal quorum shall be constituted when at least two shareholders, holding collectively more than 33.3% (thirty-three-point three percent) of the issued shares conferring voting rights in the Company, are present in person or by proxy, within half an hour from the time set for the meeting to begin. If a quorum is not present in the general meeting within half an hour from the time set for the meeting to begin, the meeting shall stand adjourned to next week on the same day at the same time and place. If a legal quorum is not present at the adjourned meeting within half an hour from the time set for the meeting, then one shareholder, holding at least 25% of the issued share capital of the Company, present in person or by proxy, shall constitute a legal quorum.

7. **Record Date:**

The record date entitling a shareholder to participate in and vote at the general meeting, in accordance with Section 182 of the Companies Law, is on **November 29, 2021** (henceforth: the "**Record Date**"). If there is no trading on the Record Date, the record date will be the last trading day preceding such date.

8. **Manner of Voting and Validity of Ballot:**

- 8.1. A shareholder whose shares are registered with a TASE member (henceforth: "**Non-registered Shareholder**") is entitled to receive confirmation of ownership from such TASE member, at the TASE member's branch or via post to his or her address for the cost of postage only, upon request, provided such request was made in advance for a specific securities account. A Non-registered Shareholder may request to have the ownership confirmation sent to the Company via the internet voting system.

- 8.2. Regarding a Non-registered Shareholder, the ballot (if non-electronic) will be valid only if such confirmation of ownership is provided along with it or if a confirmation of ownership was sent to the Company via the internet voting system. The ballot of a Non-registered Shareholder should be delivered to the Company along with the confirmation of ownership, such that the ballot will arrive at the Company's registered offices **no later than four hours prior to the time set for the meeting** (i.e., no later than **December 27, 2021 at 11:30**).
- 8.3. Regarding a shareholder that is registered in the Company's register of shareholders, the ballot will be valid only if a photocopy of his identity card or passport or in case of a corporation - certificate of incorporation, is provided along with it. A registered shareholder's ballot shall be delivered to the Company, along with a photocopy of his identity card or passport or certificate of incorporation, **up to six hours prior to the time set for the general meeting** (i.e., by **December 27, 2021 at 09:30**).
- 8.4. A ballot in which a shareholder has indicated his manner of voting, which has reached the Company by the deadline set for this as stated above, will be considered present at the meeting regarding the existence of the legal quorum.
- 8.5. Written voting will be done through the second part of this ballot, in which the shareholder will indicate the manner in which he votes on the resolutions on the agenda and will deliver it to the Company or send it by registered mail. In this regard, the "date of service" is the date on which the written ballot and the documents attached to it were received at the Company's offices as detailed below.

9. **Voting via Internet Voting System:**

- 9.1. A Non-registered Shareholder may vote on a resolution that is on the agenda as described above, by submitting a ballot via the internet voting system (henceforth: "**Electronic Ballot**").
- 9.2. The Electronic Ballot will open for voting at the end of the Record Date. Voting via the internet voting system will close **6 hours prior to the time set for the meeting** (i.e., by **December 27, 2021 at 09:30**), at which time the internet voting system will be closed.
- 9.3. The internet voting may be amended or cancelled up until the internet voting system is closed, after which it will not be possible to change it via the internet voting system. Should a shareholder vote via more than one method, the later vote will be counted. In this regard, a vote cast in person or by proxy will be considered to have been cast later than a vote cast by Electronic Ballot

10. **Address for Delivering Ballots and Position Statements:**

The Company's offices at ToHa Tower, 114 Yigal Alon St., 27<sup>th</sup> Floor, Tel-Aviv, Israel.

11. **Deadlines for Submitting Position Statements and the Board of Directors' Response:**

11.1. The deadline for submitting position statements to the Company is **up to ten days prior to the date set for the meeting.**

11.2. The deadline for submitting the board of directors' response to position statements, insofar as shareholders have submitted position statements to the board of directors and the board of directors has elected to submit a response to such position statements, is **no later than five (5) days prior to the time set for the meeting.**

12. **Distribution Website and TASE Website Addresses for Accessing Ballots and Position Statements:**

The addresses of the Israel Securities Authority and TASE websites on which the ballot and position statements may be accessed are as follows: Israel Securities Authority distribution website:

<https://www.magna.isa.gov.il>; TASE website: <https://maya.tase.co.il>.

13. **Receipt of Ballot and Position Statements:**

A Non-registered Shareholder is entitled to receive via email (to the email address in the TASE member's possession), free of charge, a link to copies of the ballot and position statements on the distribution website from the TASE member with whom his shares are registered, unless such shareholder notified the TASE member that he does not wish to receive the link, or wishes to receive ballots by post for a fee. The notification regarding ballots will apply to position statements as well.

14. **Inspection of Ballots:**

One or more shareholders, who on the Record Date hold at least five percent (5%) of all voting rights in the Company, and who hold at least five percent (5%) of the voting rights in the Company that are not held by a controlling shareholder of the Company as defined in Section 268 of the Companies Law ("**Controlling Shareholder**"), is entitled following the general meeting, in person or by proxy, to inspect the ballots at the Company's offices (whose address appears in Section 4 above) during regular business hours, as detailed in Regulation 10(A) of the Regulations.

The number of shares constituting 5% of all voting rights in the Company is 2,596,043 ordinary shares of the Company.

The number of shares constituting 5% of all voting rights in the Company that are not held by a Controlling Shareholder, including through institutional parties under the control thereof, is 1,036,294 ordinary shares of the Company.

15. **Changes in Meeting Agenda:**

After the ballot is published, there may be changes in the agenda, including the addition of an item to the agenda, position statements may be released; the updated

agenda and the position statements released in the Company's filings will be available on the distribution website, whose address appears in Section 12 above.

16. **Deadline for Submitting Amended Ballot:**

A shareholder's request under section 66(b) of the Companies Law to include an issue in the agenda of the general meeting shall be furnished to the Company **up to seven (7) days after the general meeting is summoned**. If such a request is made, the issue may be added to the agenda and its details will appear on the distribution website. In such a case, the Company will publish a revised summon **no later than seven (7) days after the deadline for the submission of a shareholder's request to include an issue on the agenda**, as stated above. The Company will publish an amended ballot on the day the amended summon is published.

**Shareholders should mark their votes on the items on the agenda in Part Two of the ballot.**

## Ballot – Part Two

**Company name:** Elron Electronic Industries Ltd., Corporation Number 520028036.

**Company address (for submitting and delivering ballots):** The Company's offices in ToHa Tower, 114 Yigal Alon St., 27<sup>th</sup> Floor, Tel-Aviv, Israel.

**Time of meeting:** December 27, 2021, at 15:30.

**Type of meeting:** Special and Annual General Meeting.

**Record date for entitling a shareholder to vote at the general meeting:** November 29, 2021 (henceforth: the "**Record Date**"). If there is no trading on the Record Date, the record date will be the last trading day preceding such date.

### Shareholder Information

1. Name of shareholder:

2. I.D. No.:

3. If the shareholder does not have an Israeli identity card –

Passport No.:

Country of issue:

Valid until:

4. If the shareholder is a corporation –

Corporation No.:

Country of incorporation:

5. Related Party, Senior Officer and Institutional Investor: Please indicate if you are:

	Yes*	No
Related Party (as defined in section 1 of the Securities Law, 5728-1968)		
Senior Officer (as defined in section 1 of the Securities Law, 5728-1968)		
Institutional Investor (as defined in regulation 1 of the Companies Regulations (voting in writing and positions statements, 5766-2005)		

\*If the answer is positive – please specify any relationship between the voter (who does not have personal interest) or his proxy and the Company or any of the controlling shareholders or a senior official, including employer-employee relations, business relations, etc. and details of their nature:

\_\_\_\_\_  
\_\_\_\_\_

**Mark Vote:**

	Issues on the Agenda	Mark vote <sup>1</sup>			Regarding Compensation Policy under section 267A – are you a controlling shareholder, have a personal interest in the resolution, a senior official or an institutional investor <sup>2</sup>	
		FOR	ABSTAIN	AGAINST	Yes**	No
1.	To approve the re-appointment of Mr. Dan Hoz (Chairman of the Company’s Board of Directors) as a director of the Company for an additional term of office until the next Annual General Meeting of the Company, as specified in Section 3.1 above.					
2.	To approve the re-appointment of Mr. Doron Haim Cohen as a director of the Company for an additional term of office until the next Annual General Meeting of the Company, as specified in Section 3.1 above.					
3.	To approve the re-appointment of Mr. Michael Joseph Salkind as a director of the Company for an additional term of office until the next Annual General Meeting of the Company, as specified in Section 3.1 above.					

<sup>1</sup> No mark will be considered to have been voted ABSTAIN on the applicable issue.

<sup>2</sup> A shareholder who does not complete this column or who marks "yes" and does not specify, his vote will not be counted.

	Issues on the Agenda	Mark vote <sup>1</sup>			Regarding Compensation Policy under section 267A – are you a controlling shareholder, have a personal interest in the resolution, a senior official or an institutional investor <sup>2</sup>	
		FOR	ABSTAIN	AGAINST	Yes**	No
4.	To approve the re-appointment of Mr. Shalom Turgeman as an (independent) director of the Company for an additional term of office until the next Annual General Meeting of the Company, as specified in Section 3.1 above.					
5.	To approve the re-appointment of the accounting firm Kesselman & Kesselman (PwC) as the Company's auditors for an additional term until the Company's next annual general meeting, and to authorize the Company's Board of Directors and Audit Committee, insofar required, to determine their fees as auditors, as specified in Section 3.2 above.					
6.	To approve the compensation policy of officers of the Company in the form attached as Appendix B to the Immediate Report, in accordance with Section 267A to the Companies Law, as specified in Section 3.3 above.					

	Issues on the Agenda	Mark vote <sup>1</sup>			Regarding Compensation Policy under section 267A – are you a controlling shareholder, have a personal interest in the resolution, a senior official or an institutional investor <sup>2</sup>	
		FOR	ABSTAIN	AGAINST	Yes**	No
7.	To change the Company's name to "אלרון ונצ'רס בע"מ" and in English "Elron Ventures Ltd.", or any other similar name approved by the corporations' authority/companies registrar, and to authorize the Company's management to approve such similar name, and to amend the Company's articles of association accordingly, as specified in Section 3.4 above.					

\*\* If the answer is positive (regarding issue 6 on the agenda) – please specify why you are considered a controlling shareholder or someone on his behalf or why you have a personal interest in the decision:

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**For shareholders who hold shares through a TASE member in accordance with Section 177(1) of the Companies Law – this ballot is valid only if confirmation of ownership is attached or if a confirmation was sent to the Company via the internet voting system.**

**For shareholders registered in the Company's shareholders register – this ballot is valid only if a photocopy of identity card / passport / certificate of incorporation, as applicable, is attached.**

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Signature**