

**Elron Electronic Industries Ltd.**

(the “Company”)

**May 29, 2018**

**Israel Securities Authority**

**Tel Aviv Stock Exchange Ltd.**

(Via Magna)

(Via Magna)

**Re: Immediate Report on the Convening of a Special General Meeting of the Shareholders of the Company and an Immediate Report in accordance with the Securities Regulations (Transactions between a Company and the Controlling Shareholder thereof), 5761-2001**

An immediate report is hereby made (the “**Report**”) in accordance with the Companies Law, 5759-1999 (the “**Companies Law**”), the Securities Law, 5728-1968 (the “**Securities Law**”), the Securities Regulations (Immediate and Periodic Reports), 5730-1970 (the “**Immediate Report Regulations**”), the Securities Regulations (Transactions between a Company and the Controlling Shareholder thereof), 5761-2001 (the “**Controlling Shareholder Transaction Regulations**”), the Companies Regulations (Voting in Writing and Position Statements) 5766-2005 (the “**Voting Regulations**”), and in accordance with the 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 (the “**Notice and Announcement Regulations**”), concerning the calling of a special general meeting of the shareholders of the Company, which will be held on July 4, 2018, at 15:30 (Israel time), in the Company’s offices at 3 Azrieli Center, the Triangular Tower, Floor 42, Tel Aviv, the agenda of which meeting shall consist of the issue described in this Report below.

1. **Issues on the Agenda and Summary of the Resolution Proposed thereon:**

To approve the Company’s engagement in a D&O insurance policy commencing as of July 1, 2018 (the date the existing policy insurance will lapse) through Clal Insurance Company Ltd. (“**Clal**”, the “**Commencement of the First Insurance Period**”) for a period of 18 months (the “**First Insurance Period**”) and to approve in advance the Company’s engagement in an insurance policy as set forth in this Section following the lapse of the First Insurance Period, including by way of extending the existing policy and/or purchasing new policies, and which will apply to directors and officers, as shall serve in the Company and in held companies from time to time, including officers who are controlling shareholders or their relatives or that the controlling shareholders have personal interest therein, subject to the terms specified in the Report. This resolution will be in effect for a period of three years from the Commencement of the First Insurance Period; and further to approve the ability to extend the policy, whether during the First Insurance Period or thereafter, in the event that due to changes in the Company’s operations and/or the stock exchanges on which the Company is traded, there shall be a need to extend the events and/or the coverage covered by the policy, subject to the terms set forth under Section 12.4 of this Report and subject

further to the approval of the compensation committee and of the board of directors. For additional details, see part B to this Report below.

2. **Record Date**

The record date for the purpose of a shareholder's entitlement to participate in and vote at the meeting, in accordance with Section 182 of the Companies Law, is the end of the trading day on Tel Aviv Stock Exchange Ltd. (TASE) occurring on June 6, 2018 (the "**Record Date**"). In the event that no trading is carried out on the Record Date, the Record Date shall be the last trading day preceding such date.

3. **Legal Quorum and Adjourned Meeting**

A legal quorum shall be constituted upon the presence, in person or by proxy, of at least two shareholders holding, in total, more than 33.3% of the issued shares conferring voting rights in the Company, within 30 minutes of the time scheduled for the opening of the Meeting. If a legal quorum is not present at the general meeting 30 minutes after the time scheduled for commencement of the meeting, the general meeting shall be adjourned to the same day the following week, at the same time and location. If no legal quorum is present at the adjourned meeting 30 minutes after the time scheduled for the meeting, then one shareholder holding at least 25% of the issued share capital of the Company, who is present in person or by proxy, shall constitute a legal quorum.

4. **Required Majority**

4.1. The majority required for adoption of the proposed resolution specified in Section 1 of this Report is a majority of the shareholders who may vote and are participating in the vote, in person or by proxy (including via voting card), provided that one of the following is fulfilled:

- (1) The count of the majority votes at the general meeting shall include a majority of all of the votes of the shareholders who do not have a personal interest in the approval of the aforesaid resolution, who participate in the vote. The count of all of the votes of such shareholders shall exclude the abstaining votes.
- (2) The total of dissenting votes from among the shareholders specified in Subsection (1) above shall not exceed a rate of two percent (2%) of all of the voting rights in the Company.

5. **Manner of Voting**

5.1. A shareholder of the Company may participate and vote in the meeting in person, may appoint a proxy who will be able to participate in the general meeting and vote on his behalf (in accordance with the provisions of the Company's articles of association), or he may vote by means of the electronic voting system.

- 5.2. It is required that a document appointing a proxy (the "**Letter of Appointment**"), as well as the original power of attorney by virtue of which the Letter of Appointment was signed (if any), be deposited with the Company's registered office at least 48 hours before the time scheduled for the meeting. The Letter of Appointment shall also state the full names of the principal and his proxy, as appearing at the Registrar of Companies or on the identity card (as applicable), their number with the Registrar of Companies or their identification numbers (as applicable), and the place of their incorporation or their passport country (as applicable).
- 5.3. In accordance with the Companies Regulations (Proof of Share Ownership for the Purpose of Voting at General Meetings), 5760-2000, a shareholder to whose credit a share is registered with a TASE member and such share is included among the shares registered in the shareholders register in the name of the transfer agent, who wishes to vote at the meeting, will provide the Company confirmation of his ownership of the share on the Record Date, which may be received from the TASE member with which his right to the share is registered, as required by the said regulations.

6. **Confirmation of Ownership and Proxy Card**

- 6.1. A shareholder whose shares are registered with a TASE member is entitled to receive confirmation of ownership from the TASE member by which he holds his shares, at a branch of the TASE member or by postal delivery to his address, if he shall have so requested, provided that a request in this regard shall be made in advance for a specific securities account. According to the Voting Regulations, an electronic message approved under Section 44K5 of the Securities Law which concerns the data of users of the electronic voting system – is deemed a confirmation of ownership for every shareholder included therein.

7. **Voting by means of Voting Cards and Position Statements**

- 7.1. A shareholder may vote at the meeting on the proposed resolution on the agenda by a voting card as specified below. The language of the voting card and position statements in respect of the meeting are available on the distribution website of the Israel Securities Authority (ISA) at <https://www.magna.isa.gov.il> and on the website of Tel Aviv Stock Exchange Ltd. at <http://maya.tase.co.il>. A shareholder may approach the Company directly and receive therefrom, free of charge, the language of the voting card and the position statements.
- 7.2. A TASE member will send, free of charge, via e-mail, a link to the language of the voting card and the position statements on the ISA's 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 the shareholder shall have notified such TASE member that he is not interested therein, provided that the notice

shall have been given with respect to a specific securities account and on a date preceding the Record Date.

- 7.3. The vote shall be indicated on the second part of the voting card, as posted on the aforesaid distribution website of the ISA.
- 7.4. The (non-electronic) voting card of an unregistered shareholder will be delivered to the Company together with the ownership confirmation, such that the voting card will reach the Company's registered office **no later than four hours before the time at which the meeting is convened** (i.e. – no later than July 4, 2018 at 11:30).
- 7.5. A shareholder who is registered in the shareholders register will deliver the voting card to the Company together with a photocopy of an identity card or a photocopy of his passport or a photocopy of the incorporation certificate, such that the voting card will reach the Company's registered office **no later than six hours before the time at which the general meeting is convened** (i.e. – by July 4, 2018 at 9:30).
- 7.6. **A shareholder participating in a vote on a resolution on the agenda shall furnish the required details as specified in Section 10 below, insofar as the provisions of the section are relevant to him.**

#### 8. **Voting by means of the Electronic Voting System**

- 8.1. A shareholder may vote on the resolution on the agenda also via a voting card to be transmitted through the electronic voting system, as defined in the Voting Regulations (the “**E-Voting Card**”).
- 8.2. A shareholder to whose credit a share is registered with a TASE member is entitled to receive from the TASE member an identifying number and an access code as well as additional information with respect to the meeting, and - after a secured identification process - will be able to vote through the electronic voting system. A shareholder voting via an E-Voting Card is not required to furnish the Company with a confirmation of ownership in the manner specified above.
- 8.3. The E-Voting Card will be available for voting at the end of the Record Date. Voting by means of the electronic voting system will end **6 hours before the time of the meeting** (i.e., on i.e. – by July 4, 2018 at 9:30), at which time the electronic voting system will be locked.
- 8.4. An electronic vote may be modified or revoked until the electronic voting system is locked and will not be alterable by means of the electronic voting system thereafter. If a shareholder votes by more than one means, his later vote shall be counted. For this purpose, the vote of a shareholder in person or by proxy shall be deemed later to a vote via an E-Voting Card.

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

- 9.1. The last date for the delivery of position statements to the Company is up to ten days before the date of the meeting.
- 9.2. The last date for the delivery of the Board of Directors' response to position statements, if and insofar as shareholders' position statements are submitted and the Board of Directors chooses to submit its response to such position statements, shall be no later than five days before the date of the meeting.

10. **Notice of Personal Interest**

- 10.1. According to Section 276 of the Companies Law, a shareholder participating in the vote regarding the proposed resolution specified in Section 1, whether in person or by proxy, will notify the Company before voting at the meeting, or – if the vote is via voting card – on the voting card by indicating on Part B of the voting card, in the space designated therefor, whether or not he is deemed a controlling shareholder of the Company and/or has a personal interest in the approval of the resolution specified in Section 1 on the agenda of the meeting, and will describe the relevant connection.

The vote of a shareholder who fails to indicate the existence or absence of personal interest and/or his being a controlling shareholder of the Company (or indicates that he has personal interest but fails to specify the nature thereof), shall not be counted.

- 10.2. Furthermore, according to the Voting Regulations and according to the ISA Directive of November 30, 2011 regarding disclosure of the voting manner of interested parties, senior officers and institutional bodies at meetings (the “**Directive**”), an interested party, a senior officer and an institutional investor (the “**Voters**”), as defined in the Regulations and in the Directive, voting at the meeting on the proposed resolution specified in Section 1 of the agenda, will provide the Company, in the context of their vote, with the details required under the regulations and Section 2(b) of the Directive, and if voting by proxy, the Voter or the proxy shall also provide the details with respect to the proxy. In addition, details will be given with respect to any relation between the Voter or the proxy (who has no personal interest) and the Company or any of the controlling shareholders, including employment relations, business relations etc., while specifying the nature thereof.

11. **Inspection of documents**

A copy of this Report, the language of the proposed resolution and the statements of the candidates for the office of directors are available for inspection at the Company's offices at 3 Azrieli Center (Triangular Tower, Floor 42), Tel Aviv, after prior coordination with the Company's secretariat, by telephone: +972-3-6075555, Sundays through Thursdays (excluding

holiday eves and holidays), between the hours 9:00 and 16:00, until the date of convening of the meeting, and also on the distribution website which address is : <https://www.magna.isa.gov.il> and on the TASE website at : <http://www.maya.tase.co.il>

In addition, this Report will also be available on Company's website at: <http://www.elron.com> .

**Part B – Further Details regarding Resolution No. 1 on the Agenda in  
accordance with the Transaction with Controlling Shareholder Regulations**

**Description of the Engagement and its Main Terms**

**12. Engagement in a D&O Insurance Policy**

- 12.1. It is proposed to approve the Company's engagement in a D&O insurance policy, commencing as of July 1, 2018 (the end date of the Company's Existing Policy) through Klal Insurance Company Ltd. ("Clal", "**the Commencement of the First Insurance Period**"), held by I.D.B Development Company Ltd. ("**IDB**"), which controlling shareholder, Mr. Eduardo Elsztain, is the indirect controlling shareholder of the Company, for a period of 18 months (the "**First Insurance Period**"), and to approve in advance the Company's engagement in the aforesaid insurance policy following the lapse of the First Insurance Period, including by way of extending the existing policy and/or acquiring new policies (whether from Clal or from any other insurance company), and which shall apply to the directors and officers, as shall serve in the Company and held companies from time to time, including officers who are controlling shareholders or their relatives and/or with respect to which the officers in the Company have personal interest, subject to the terms set forth in the report; and further to approve the possibility to extend the policy, whether during the First Policy Period and/or thereafter, in case that as a result of changes in the Company's operation and/or the stock exchanges on which the Company is traded, there shall be a need to expand the events and/or the coverages covered by the policy, subject to the terms set forth in Section 12.4 hereinbelow and further subject to the approval of the Company's Compensation Committee and the Board of Directors.
- 12.2. As of 2005, the Company engaged Clal in a Directors and Officers insurance policy, which applies also to directors and officers who may be considered as controlling shareholders, which policy was renewed from time to time until June 30, 2018 (the "**Existing Policy**")
- 12.3. The main terms of the proposed policy (the "**Proposed Policy**") which also covers the subsidiaries' directors and officers, as defined in the policy, are as follows:
- 12.3.1. The insurance period: from July 1, 2018 until December 31, 2019 (the "**First Insurance Period**").
- 12.3.2. Coverage limit: US\$30,000,000.
- 12.3.3. Deductibles (applies on the company only): for securities claims in the US - \$200,000. For securities claims in other places -\$150,000. For other claims in the US - \$75,000 and for other claims in other places -\$20,000.
- 12.3.4. The premium is set at approximately \$120,000 for a period of 18 months (annual premium of approximately \$80,000). This premium reflects a decrease of approximately 23% as

compared to the premium in the Existing Policy which is in the amount of approximately \$155,000 for a period of 18 months.

- 12.3.5. The policy covers the Company for securities claims with customary exclusions. The policy further covers directors appointed by Company in companies which are not its subsidiaries, based on a list of companies annexed to the policy. The coverage is on top of the coverage given to same directors in the framework of the D&O insurance in the company in which they serve. According to the policy, the rights of the directors and officers to receive indemnification take precedence over the right of the Company.
- 12.4. The Company's engagement in an insurance policy following the lapse of the First Insurance Period and its extension as set forth in Section 12.1 above, including by way of extending the Proposed Policy and/or by purchasing new policies, shall be subject to the following conditions:
  - 12.4.1. The Compensation Committee and the Board of Directors approves the engagement in the policies and determined that there were no significant changes in the insurance terms in compare to the terms of the Existing Policy. In this regard, a change in the insurance coverage as long as the premium is in accordance with the provisions of Section 12.4.2 below, shall not be considered a significant change.
  - 12.4.2. The increase in insurance fees payable during a period of one year, will not exceed 50%, in compare to the insurance fees paid under the Existing Policy during a period of one year.
  - 12.4.3. This resolution will be in effect for a period of three years from the commencement of the First Insurance Period, as defined in Section 12.1 above.
- 12.5. In addition, the proposed resolutions shall constitute a resolution to approve a framework transaction, as such term is defined under the Companies Regulations (Reliefs in Interested Party Transactions), 5760-2000, which shall also enable the renewal of the insurance for directors and officers who are controlling shareholders in the Company or their relatives, as shall be from time to time, and further the purchase of policies from Clal in accordance with the aforementioned terms, as required under applicable law.

13. The Controlling shareholders who has personal interest in the approval of the engagements and the nature of its personal interest.

13.1 To the best of the Company's knowledge, those who may be considered controlling shareholders (as these terms are defined in the Companies Law) in approving the resolution on Section 1 of the agenda are:

- 13.1.1. Discount Investment Corporation. Ltd. (DIC) is considered to be the controlling shareholder of the Company, by virtue of DIC's holdings, as of the date of this Report, of 50.32% of the issued share capital of the Company and of the voting rights in the Company. DIC is a publicly-held company whose shares are traded on the Tel Aviv Stock Exchange.
- 13.1.2. DIC is controlled by Dolphin Netherlands BV (hereinafter: "**Dolphin Netherlands**"), through Dolphin A L Investments Ltd., a company incorporated in Israel that is wholly owned by it ("**Dolphin Israel**").
- 13.1.3. The controlling shareholder of Dolphin Netherlands is Mr. Eduardo Elsztain through corporations under his control. For further details, see Section 2.2 of Part A of the Company's 2017 periodic report published on March 22, 2018 (hereinafter, "**The 2017 Periodic Report**") (reference no. 2018-01-028465).

#### 14. **The Manner in which the consideration was determined**

- 14.1. The consideration was set after a proceeding in accordance with section 117(1b) to the Law was conducted, as approved by the audit committee.
- 14.2. In the framework of such proceeding and after consulting with insurance consultants, the Company approached three insurance companies leading this area of insurance in Israel for the purpose of obtaining D&O insurance engagement offers. In this framework, two of the insurance companies to which the Company approached did not want to submit an offer, and only Clal provided an offer to renew the insurance.
- 14.3. In addition, The Company further held meetings with sub-insurers abroad to receive competitive offers from new sub-insurers in compare to offers from the existing sub-insurers, so to decrease the premium cost, including Clal's portion therein.
- 14.4. The Company obtained an opinion from the insurance advisor who assisted it throughout the proceeding, which opinion included his recommendation to continue the engagement with Clal due to the advantage in keeping the insurant continuity in the Company and due to the competitive terms of the Proposed Policy.
- 14.5. In light of the forgoing, the Audit Committee determined that the proceedings conducted by the Company in this respect are adequate in the circumstances and that the offer received from the Clal is the most beneficial to the Company.

**15. Approvals required for the engagement and the terms determined for the transaction**

- 15.1. The resolution in the matter prescribed in Section 12.1 was approved by the Company's Audit Committee and Compensation Committee on May 17, 2018. And by the Board of Directors on May 29, 2018.
- 15.2. The proposed resolution requires the approval of general meeting of the Company's shareholders, which was convened as detailed in this Report.

**16. Details of transactions similar or of same type of the engagement, between the Company and the controlling shareholder or in which the controlling shareholder has a personal interest, during the past two years**

- 16.1. As detailed above, the Company's first engagement with Clal in the D&O insurance policy was in 2005, and was renewed from time to time until June 30, 2018.
- 16.2. The Company engaged with IDB in an arrangement for the Company's use of technical support services to the computing systems rendered by IDB's support center, for a period of three years commencing from August 8, 2017. For additional details see Company's immediate report of August 29, 2017 (ref. 2017-01-075646).
- 16.3. In May 2009, the Company engaged, for the first time, with DIC, the Company's controlling shareholder, in a services agreement, pursuant to which the Company received from DIC management and administration services which include the services of the CEO, CFO, controller, legal counsel, corporate secretary, non-senior employees and administration employees. The term of the services agreement was twice extended, in 2012 and in 2015, each time for three years. On February 27, 2017, the Company's general meeting of the shareholders resolved, following the approval of the Board of Directors and of the Audit Committee, to terminate the Company's engagement with DIC in the services agreement. For further details, see immediate report of February 16, 2017 (ref. 2017-01-016902).
- 16.4. It shall be noted, for the sake of good order, that on June 30, 2016, the Audit Committee approved the exercise of an option under a certain lease agreement in Azrieli towers, floor 42, with Kanit Hashalom Investments Ltd. (in this section, the "Lessor"), for an additional period of five years. Although this engagement is independent and separate of the Company with the Lessor, for the sake of good order and due to other engagement of the IDB group with the Lessor, the matter was brought to the approval of the audit committee, which determined that this engagement is not an exceptional

transaction and that it is for the benefit of the Company and is fair and reasonable. For further details on this engagement see Section 8.21 under Regulation 22 in Part D of the 2017 Periodic Report.

- 16.5. It shall be further noted, for the sake of good order, that the Company pays directors' remuneration in consideration for their service as directors on behalf of the controlling shareholders and/or that are otherwise employees and/or officer in IDB and/or DIC.

**17. The Reasons of the Audit Committee, the Compensation Committee and the Board of Directors behind the Approval of the Engagement subject matter of this Report**

The Company's Audit Committee, the Compensation Committee and the Board of Directors unanimously approved the engagement due to the reasons which summary is hereby presented:

- 17.1. D&O insurance is required for the Company's operation to enable the directors and officers to freely operate in favor of the Company, considering the risk involved in the conduct of the officers in the Company's group's areas of operation, its volume and the fact that the Company is a public company and a reporting entity.
- 17.2. D&O insurance is common in companies in same size as the Company, and the terms determined for the extension of the policy or the purchase of new policies are customary in the circumstances.
- 17.3. In light of the experience of the Company since the commencement of the engagement with Clal in a D&O insurance policy, the insurance services rendered by Clal are professional and suitable.
- 17.4. The insurance fees payable by the Company are fair and reasonable, considering the acquired policy and the nature of the Company's business, based on the information provided to the Audit Committee and the Board of Directors and the competitive process conducted by the Company.
- 17.5. There are advantages in continuing the engagement with Clal in order to preserve the insurance continuity with same insurer.
- 17.6. The approval of the engagement shall not be deemed as distribution, as such term is defined under the Companies Law.
- 17.7. Considering all of the above, the Audit Committee and the Compensation Committee and the Board of Directors are in the opinion that the Company's engagement in a D&O insurance policy with Clal, including the insurance fees determined, are in favor of the Company and are fair and reasonable.

**18. The Names of the Directors participated in the discussions in the audit committee, the Compensation Committee and the Board of Directors**

- 18.1. The following directors participated in the Audit Committee's resolution to approve the engagement, of May 17, 2018: Mr. Ehud Rassabi (Chairman of the Audit Committee and External Director), Ms. Lee-Bath Nelson (External Director), Ms. Yael Andorn (Independent Director), Mr. Yehuda Freidenberg (External Director) and Mr. Benjamin Gantz (External Director).
- 18.2. The following directors participated in the Compensation Committee's resolution to approve the engagement, of May 17, 2018: Mr. Ehud Rassabi (Chairman of the Audit Committee and External Director), Ms. Lee-Bath Nelson (External Director), Mr. Yehuda Freidenberg (External Director) and Mr. Benjamin Gantz (External Director).
- 18.3. The following directors participated in the resolution of the Board of directors of May 29, 2018: Mr. Ehud Rassabi (Chairman of the Audit Committee and External Director), Ms. Lee-Bath Nelson (External Director), Ms. Yael Andorn (Independent Director), Mr. Yehuda Freidenberg (External Director) and Mr. Benjamin Gantz (External Director).

**19. Names of the Directors who has a personal interest in the approval of the engagement and the nature of the personal interest**

All directors serving in the Company have personal interest in the engagement as they are insured under the insurance policy. Mr. Eduardo Elsztain, the indirect controlling shareholder in the Company and Saul Zang and Gerardo Tyszberowicz, who serve as directors in the Company on behalf of DIC, the controlling shareholder in the Company, and to Mr. Amiram Erel which, for the sake of good order, due to the fact that he renders services to a related company, may have a personal interest, which derives from the engagement with Clal Insurance Company Ltd.

Sincerely,

**Elron Electronic Industries Ltd.**

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

**Ari Bronstein, CEO**

**Yaron Elad, CFO**

The following annex is attached hereto:

**Annex A - Voting Card**