

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

May 27, 2020

**The Israel Securities Authority**  
**22 Kanfei Nesharim street**  
**Jerusalem 95464**

**Tel Aviv Stock Exchange Ltd.**  
**54 Ehad Ha'am street**  
**Tel Aviv 65202**

**Via Magna**

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**Re: Immediate Report regarding the convening of a special general meeting of the Company's shareholders and an Immediate Report in accordance with the Securities Regulations (Private Offer of Stock of a Registered Company), 5760-2000**

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 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**"), the Companies Regulations (Voting in Writing and Position Statements) 5766-2005 (the "**Voting Regulations**"), Securities Regulations (Private Offering of Stock of a Registered Company) 5760 - 2000 (the "**Private Offering Regulations**"), concerning the convening of a special general meeting of the shareholders of the Company, which will be held on Thursday, July 2, 2020, at 15:00 (Israel time), in the Company's offices At 144 Yigal Alon St., TOHA Tower, Floor 27, Tel Aviv (the "**Company's Offices**"), the agenda of which meeting shall consist of the issues described in this Report below.

**Part A – details regarding the summoning of the General Meeting**

**1. The Matter on the Agenda and a Summary of the Proposed Resolution**

The following is a summary of the matter and proposed resolution on the agenda of the General Meeting.

**1.1. Approval of the CEO's Terms of Office and Employment.**

For further details regarding this resolution see Part B of this Report below.

**Form of Proposed Resolution:** To approve Mr. Yaron Elad's terms of office and employment as the Company's CEO (the "**CEO**"), with effect from March 1, 2020, as further detailed hereinbelow.

## 2. **Record Date**

The record date for the purpose of a shareholder's entitlement to participate in and vote at the Meeting and an Adjourned Meeting, pursuant to Section 182 of the Companies Law and Regulation 3 of the Voting Regulations, is the end of the trading day on the Tel Aviv Stock Exchange occurring on Thursday, June 4, 2020 (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**

3.1. A legal quorum shall be constituted upon the presence, either 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 one half hour of the time scheduled for the opening of the Meeting (the "**Legal Quorum**"). If legal quorum is not present at the general meeting at the end of one half hour from 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 ("**Adjourned Meeting**"), namely on Thursday, July 9, 2020 at 15:00. If no legal quorum is present at the Adjourned Meeting one half hour 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.

3.2. A General Meeting at which a Legal Quorum is present is entitled to resolve to postpone the Meeting for another date and place that will be determined. At the Adjourned Meeting, no matter that was on the agenda for the original meeting and with respect to which no resolution was passed, shall be raised.

## 4. **Required Majority**

4.1. The majority required for adoption of the proposed resolution on the agenda set forth in Section 1.1 above is a simple majority of the shareholders entitled to vote and participating in the vote, in person or by an attorney (including by a voting card) provided that one of the following is fulfilled:

- (1) The majority vote count at the general meeting will include a majority of all votes of shareholders who are neither the controlling shareholders at the Company nor have any personal interest in the approval of the resolutions, participating at the vote; the vote count of such shareholders shall exclude the abstaining votes; The provisions of Section 276 of the Companies Law, shall apply, mutatis mutandis, to a shareholder who has a personal interest.
- (2) The total dissenting votes from among the shareholders specified in Section (1) above does not exceed two percent of the total voting rights in the Company.

It should be noted that the Company's Board of Directors may approve the terms of office and employment of the CEO even if the General Meeting opposes its approval, insofar as the Compensation Committee and the Board of Directors will decide, on the basis of detailed reasons and after they re-discuss the CEO's terms of office and employment and the grant of Options to the CEO, that its approval, notwithstanding the objection of the General Meeting, is for the benefit of the Company.

The Company is not a "public granddaughter company", as such term is defined in Section 267 A (c) of the Companies Law.

- 4.2. The Controlling Shareholder of the Company, Discount Investments Corporation Ltd ("DIC") does not hold the majority required to pass the resolution set forth in Section 1.1 above.

## 5. Manner of Voting

5.1 A shareholder of the Company at the Record Date, is entitled to participate in the Meeting and vote, in person or to appoint a proxy or through a ballot within the meaning thereof in Section 87 of the Companies Law, in accordance with the Company's Articles of Association, the provisions of the Companies Law and as detailed below. A shareholder under Section 177(1) of the Companies Law, that is, a shareholder in whose favor a share is registered with a member of the TASE and that share is included among the shares registered in the shareholders' register (Hereafter: "**Unregistered Shareholder**"), may also vote via an electronic ballot that will be sent to the Company through the electronic voting system that operates under Article B' of Chapter G2 of the Securities Law (hereinafter: the "**Electronic Voting**", "**Electronic Voting System**" and "**Electronic Ballot**", respectively).

- 5.1. Proxy - A document appointing a proxy for voting (the "**Letter of Appointment**"), as well as an original power of attorney by virtue of which the Letter of Appointment was signed (if any), must be signed by the appointer or by the person authorized in writing, and if the appointer is a corporation, the Letter of Appointment shall be prepared and signed in a manner which is binding upon the corporation and deposited at the Company's registered office at least 48 hours before the time scheduled for the meeting. The Company has the right to require that it shall be handed over with a confirmation in writing, confirming, to its satisfaction, the authority of the signatories to bind the corporation. The Letter of Appointment shall state both the full names of the principal and of his proxy, as appears at the Registrar of Companies or in the I.D. card (as the case may be), their number at the Registrar of Companies or their I.D. numbers (as the case may be), and the place of their incorporation or their passport country (as the case may be).

## 6. Confirmation of Ownership

- 6.1. Pursuant to the Companies Regulations (Proof of Share Ownership for the Purpose of Voting at the General Meeting), 5760-2000 ("**Confirmation of Ownership Regulations**"), a shareholder in whose favor a share is registered with a TASE member, who wishes to vote at the Meeting, will provide the

Company with confirmation regarding his ownership of the share on the Record Date, which must be received from the TASE member with which his right to the share is registered, as required by the Confirmation of Ownership Regulations (“**Confirmation of Ownership**”).

- 6.2. A shareholder whose shares are registered with a TASE member may receive confirmation of the ownership from the TASE member through which he holds his shares, at a branch of the TASE member or by mail 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 Confirmation of Ownership Regulations, an electronic message approved under Section 44K5 of the Securities Law, concerning the data of users of the electronic voting system – is deemed a confirmation of ownership for every shareholder included therein.

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

- 7.1. According to the Voting Regulations, a shareholder may vote at the Meeting on the proposed resolution that is on the agenda, as detailed in Section 1 above, by a voting card as specified below. The language of the voting card and position statements in respect of the Meeting may be found on the Distribution 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 <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 Distribution Website of the Israel Securities Authority to any shareholder who is not registered in the shareholders’ register of the Company, 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 prior to the Record Date.
- 7.3. The vote shall be cast on the second part of the voting card, as posted on the Distribution Website of the Israel Securities Authority, which is stated above.
- 7.4. The (non-electronic) voting card of a non-registered shareholder will be provided to the Company together with the Confirmation of Ownership, such that the voting card will reach the Company's registered office **no later than four hours before the time of convening the meeting** (i.e. – no later than Thursday, July 2, 2020 at 11:00). In this respect, the delivery time is the time on which the voting card and its attachments have reached the Company’s Offices.
- 7.5. A shareholder who is registered in the shareholders' register, will deliver to the Company the voting card together with a photocopy of an identity card or a photocopy of the incorporation certificate, such that the voting card will reach the Company's Registered Office **up to six hours before the time of**

**convening of the general meeting** (i.e. – until Thursday, July 2, 2020, at 09:00).

7.6. A shareholder may approach the Registered Office of the Company and after proving his identity, may withdraw his voting card and Confirmation of Ownership up to 24 hours prior to the time of the Meeting.

7.7. **A shareholder participating in a vote with respect to a resolution on the agenda, will provide the details required as specified in Section 10 below, insofar as the provisions of the section are relevant to him.**

7.8. A voting card to which a Confirmation of Ownership is not attached (or alternatively, a confirmation of ownership has not been submitted via the electronic voting system) or with regard to a record shareholder, his identity document, passport, or certificate of incorporation, as applicable, has not been attached, will be invalid.

## 8. **Voting through the electronic voting system**

8.1. As provided hereinabove, a shareholder may vote on the resolutions that are on the agenda also via a voting card to be transmitted via E-Voting Card.

8.2. A shareholder in whose favor a share is registered with a member of Tel Aviv Stock Exchange Ltd. (TASE) 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 secure identification process, will be able to vote through the electronic voting system. A shareholder voting via the 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 the electronic voting system will end **6 hours before the time of the Meeting** (i.e., on Thursday, July 2, 2020 at 09:00), at which time the electronic voting system will be locked.

8.4. The electronic voting may be modified or revoked until the electronic voting system is locked and may not be modified through the electronic voting system after such time. If a shareholder shall have voted by more than one method, 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 response of the Board**

9.1. The last date for delivery of position statements to the Company is **up to ten (10) days before the date of the Meeting.**

9.2. The last date for delivery of the board response to position statements, if and to the extent position statements of shareholders shall be submitted and the board shall elect to submit its response to the said position statements, is no later than **five (5) days before the date of the Meeting.**

**10. Notice of personal interest and disclosure regarding the manner of vote**

10.1. According to Section 276 of the Companies Law, a shareholder participating in a vote regarding the proposed resolutions on the agenda whether himself or by proxy, will notify the Company before the vote at the meeting, or if the vote is by a voting card – on the voting card by an indication on Part B of the voting card in the space designated therefor, if he is considered a controlling shareholder of the Company and/or has personal interest in the approval of the resolutions on the Meeting's agenda or not, and the description of the relevant personal interest, and shall also indicate it in Section 10.3 below.

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

10.3. Furthermore, according to the Voting Regulations and according to the directive of the ISA as of November 30, 2011, on the issue of disclosure regarding the manner of voting of interested parties, senior officers and institutional bodies in meetings ("**Directive**"), an interested party, a senior officer and an institutional investor (the "**Voters**") as defined in the Regulations and in the Directive, who are voting at the meeting on resolutions on the agenda, will provide to the Company, within their vote, the details required according to the Regulations and Section 2(b) of the Directive, and if they voted by proxy, then the voter or the proxy shall also provide the details regarding the proxy. In addition, specification shall be provided regarding any relationship between the voter or the proxy (who does not have a personal interest) and the Company or any of the controlling shareholders or the senior officers, including employment 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**

11.1. 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.

11.2. 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 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 Notice Convening the Meeting 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

- 12.1. A copy of this Report and the relevant documents pertaining to the proposed resolution and the language of the proposed resolution are available for inspection at the Company's offices by prior telephone coordination with the Company's secretariat, at 03-6075555, on Sundays – Thursdays (excluding holiday eves and holidays) between 9:00 and 16:00, until the date of convening of the Meeting, and on the Distribution Website of the ISA and on the TASE Website.
- 12.2. In addition, the language of the English translation of this Report will also appear on the Company's website at: <http://elron.com>
- 12.3. The representatives of the Company for handling this Report are Mr. Niv Levy, the Company's CFO and/or Adv. Ofer Hanoh and Adv. Ortal Naftali of the firm of Gross, Kleinhendler, Hodak, Halevy, Greenberg & Co. whose address is Azrieli Center 1 (the Round Tower, 39<sup>th</sup> floor), Tel Aviv, Tel. 03-6074510, Fax. 03-6914164.

### **Part B – Further details regarding Resolution 1.1 on the agenda – Approval of the Terms of Office and Employment of Company's CEO**

## 13. Background

- 13.1. On February 3, 2020, the Company's Board of Directors unanimously approved Yaron Elad's (the "CEO") appointment as the Company's CEO, and he serves in this position as of March 1, 2020 (the "**Commencement Date**"). Prior to his appointment as the Company's CEO, the CEO served as the Company's CFO from January 2010 until February 2020.
- 13.2. On May 26, 2020, the Company's Board of Directors approved (further to the approval and recommendation of the Company's Compensation Committee), the CEO's terms of office and employment, as detailed hereinbelow.

Accordingly, the CEO's terms of office and employment, which shall be in effect as of the Commencement Date (except for the annual bonus which is proposed to apply as of the beginning of 2020, since he is in any event entitled to an annual bonus also for his service as the Company's CFO), are being brought to the general meeting for approval. The terms of office and employment comply with the Company's compensation policy approved by the General Meeting on March 12, 2020 (see Report regarding the convening of a General Meeting dated February 3 2020. Ref. no. 2020-01-010882) (the "**Compensation Policy**").

#### 14. Details of the CEO's Education and Experience

14.1. The CEO has a Bachelor of Arts degree in Accounting and Economics from Tel Aviv University and a Masters of Science degree in Finance from Tel Aviv University.

14.2. The CEO is a licensed CPA since 2004. From 2001 to 2007, the CEO served as a manager in the auditing and professional practice department of BDO Ziv Haft Israel. Between July 2007 and December 2009, he served as the Company's controller. As aforementioned, as of January 2010, the CEO served as the Company's CFO.

14.3. The CEO serves as a director in the Company's held companies.

15. The CEO is not a family member of an interested party in the Company.

16. Description of the Position and the matters dealt in its framework: The position is CEO position, including performing of all CEO roles under law (including service as an officer in the Company's held companies) and in accordance with the decisions of the Board of Directors.

17. Below is a description of the CEO's proposed terms of office and employment:

17.1. The CEO shall serve in a full time position.

17.2. The CEO's employment agreement is for an indefinite period of time, commencing from March 1, 2020 and as long as Mr. Yaron Elad serves as a CEO in the Company, whereas for the period until February 29, 2020, his terms of employment as the Company's CFO applied. Either party shall have the right to notify, at any time, of its intention to terminate Mr. Elad's employment as CEO, providing 3 months' prior notice.

17.3. Salary

The CEO shall be entitled to a monthly salary (in this report, "monthly salary" or "monthly payment" or "gross salary" means the monthly salary for social benefits (meaning, excluding the employer's portion of social benefits, related benefits, grants, equity compensation and other benefits) in the amount of NIS 85,000, fully linked (upwards only) to the consumer price index (the "**Index**") in comparison to the March 2020 Index. In the event of an Index decrease, the monthly salary shall not be affected until the increase in the Index offsets the decrease in the Index.

17.4. Social and related benefits

17.4.1. The CEO shall be entitled to social and related benefits as customary and in accordance with law, including a study fund, disability insurance and sick days; annual leave of 24 days; recuperation days per law, as updated from time to time according to the law, and entitlement to

severance pay according to law. Without derogating from the aforesaid, the CEO shall be entitled, in any event, to the release of the severance amount in the managers' insurance or the pension fund (as applicable) in his name (and its yields), which shall be deducted from his aforesaid eligibility.

17.4.2. The Company shall provide the CEO with a Cellular device (including maintenance expenses) and payment for landline telephone expenses, including connection to the internet, including gross up of the value of the benefit for tax purposes; Company car (including maintenance expenses) at a monthly leasing cost which will not exceed NIS 7,000 (or car expenses in lieu of the above leasing cost), including gross up of the value of the benefit for tax purposes; and further reimbursement of expenses related to the fulfilment of his office, with no cap.

17.4.3. The CEO shall be entitled to a letter of exemption and indemnity as is customary in the Company and as issued to its officers. In addition, the CEO shall be included in the Company's D&O policy, in accordance with its terms, as shall be acquired from time to time at the discretion of the Company's corporate organs.

#### 17.5. Bonuses

17.5.1. In accordance with the Company's Compensation Policy, the CEO shall be entitled to an annual bonus in an amount which will not exceed nine (9) times his gross monthly salary, based on the last salary, while the annual bonus shall be comprised of the components specified in the Company's Compensation Policy (as shall be from time to time) and will be subject to the terms thereof<sup>1</sup>. The CEO related goals for 2020 were approved by the Compensation Committee and by the Board of Directors close to the beginning of the bonus year. This section shall be in effect as of January 1, 2020.

17.5.2. For details regarding the possibility to base an insignificant portion of the annual bonus on non-measurable criteria, see Section 5.5.2 of the Company's current Compensation Policy.

17.5.3. The Company's Board of Directors is entitled, following the recommendation of the Compensation Committee, to approve payment of a special bonus in the amount not to exceed six (6) times the gross monthly salary, subject to, in accordance with, and pursuant to, the provisions of the Company's Compensation Policy, as shall be from time to time<sup>2</sup>.

#### 17.6. Equity Compensation

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<sup>1</sup> For details regarding the Company's current compensation policy, see the report for convening a general meeting dated February 3, 2020 (ref. no. 2020-01-010882), included herein by reference, including section 5 to the Compensation Policy regarding the annual bonus.

<sup>2</sup> For additional details see section 6 to the current Compensation Policy regarding the special bonus.

The CEO shall receive Options in accordance with an equity compensation plan as set forth in Section 18 below. Subject to and in accordance with the terms of the Company's current Compensation Policy (and as it shall be from time to time), for a calendar year (or part thereof) in which no equity compensation shall be granted to the CEO, then in lieu of the grant of equity compensation through equity components, a cash bonus, capped pursuant to Section 7.2.2 of the current Compensation Policy, shall be paid for said calendar year (or for such part of the year, for which no equity components were allocated as aforesaid, as the case may be and mutatis mutandis), which cash bonus shall derive from the Company's share yield performance, and the provisions of Section 7.3 of the Company's current Compensation Policy shall apply.

#### 18. Grant of Options to the CEO

18.1. In accordance with the Compensation Policy, throughout the term of the Compensation Policy, the Company is entitled to approve or to act in accordance with plans to grant equity compensation to officers.

18.2. It is proposed to grant the CEO non-tradable options exercisable into Ordinary Shares of the Company of 0.003 NIS par value each, in an amount that will be determined on May 26, 2020, as stated in Section 18.4 below (hereinafter in this Section 18: the "**Options**"), and this as part of the Company's employees and officers option plan approved by the Company's Board of Directors on November 21, 2018, and in accordance with its terms (the "**Option Plan**").

18.3. The allotment of the Options in accordance with the Option Plan shall be implemented as an allocation under the capital gains route through a trustee as defined in Section 102(b)(2) of the Income Tax Ordinance (new version), 5721-1961 (hereinafter: the "**Ordinance**"; the "**Tax Route**"), and subject to Tax Rules (Tax Relief When Allocating Options To Employees), 5763-2003, as updated from time to time (hereinafter: the "**Income Tax Rules**"), and the Options will be granted in accordance with the Company's Option Plan and Compensation Policy.

18.4. The scope of the allotment, the value and quantity of the Options - In accordance with the Compensation Policy, the allocation to the CEO will be in terms of the bonus year, where the economic value of the Options allocated to the CEO for the years 2020 and 2021 (on a linear basis and not on an accounting basis) shall be equal to 9 times the CEO's gross monthly salary for each bonus year. Accordingly, the total fair value of the Options to be allocated to the CEO is NIS1,530 thousands (hereinafter: the "**Fair Value**"). The calculation regarding the amount of Options will be performed on May 26, 2020 as a derivative of the fair value, based on the financial opinion of an external consultant specializing in senior officers' compensation, using the Black & Scholes model and the assumptions underpinning the Fair Value, as detailed in Section 18.9.13 below.

18.5. The amount of Options to be granted to the CEO, in accordance with the Fair Value, shall be 971,138 exercisable into 971,138 ordinary shares of the Company, constituting 2.21% of the voting rights and issued and outstanding share capital of the Company immediately following the allocation (2.07% on a fully diluted basis)<sup>3</sup>.

18.6. Approval and Allotment date – The allotment to the CEO was approved by the Compensation Committee, the Board of Directors and is subject to the approval of the shareholders meeting by a special majority according to Section 267A of the Companies Law, 1999 (“**Companies Law**”). The date of allotment, as approved by the Compensation Committee and the Board of Directors, will be on May 26, 2020, provided that all the approvals for the allotment have been received (if the latter is not received prior to May 26, 2020, the actual date for allotment shall be determined as one business day following the date of receipt of all said approvals) (the “**Allotment Date**”). The allotment is subject to the receipt of all approvals required by law and the approval of the TASE to list all the shares that will derive from the exercise of the Options.

18.7. The Options will be allocated to the CEO in accordance with the terms of the Option Plan.

18.8. It should be noted that in parallel to the resolution to grant Options to the CEO, the Board of Directors of the Company, resolved, following the approval of the Compensation Committee, to grant Options to other officers in the Company (who are not directors) for the bonus years of 2020 and 2021. For additional details see Company’s immediate report regarding the Non - material private offering in accordance with the Private Offering Regulations, published immediately after this report.

18.9. Details in accordance with Private Offering Regulations

18.9.1. The grant of Options to the CEO constitute a "material private offering" as defined in Regulation 1 of the Private Offering Regulations.

18.9.2. Offeree Identity

Mr. Yaron Elad, CEO of the Company. The offeree is not an "interested party" within the meaning of the term in Section 270 of the Companies Law. The Offeree is an interested party in the Company by virtue of his position, as this term is defined in the Securities Law.

18.9.3. The terms of the securities offered to be issued, their quantity and the percentage they will constitute of the voting rights and the issued and

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<sup>3</sup> It shall be clarified that this is an amount of maximum exercisable shares and maximum shareholding and voting rights percentage in light of a net exercise mechanism. In practice, the shareholding percentage will be lower due to the said net exercise mechanism as set forth in Section 18.9.9 below.

paid up share capital of the Company after the allotment and on a fully diluted basis.

According to the fair value assumptions, the CEO shall be granted with 971,138 Options, which, subject to vesting conditions, shall be exercisable into 971,138 shares constituting 2.21% of the voting rights in the Company and of the issued and paid-up share capital of the Company after the allotment (2.07% on a fully diluted basis)<sup>4</sup>.

As stated above, the number of Options granted to the CEO shall be determined on May 26, 2020, at the fair value thereof in the amount of NIS1,530 thousands and according to the assumptions underlying the fair value, as specified in section 18.9.13 below (including the exercise price, as defined below).

#### 18.9.4. Rights as shareholder

The underlying shares of any Options exercised under the Option Plan (hereinafter: the “**Underlying Shares**”) shall have equal rights to the Company's shares for all intents and purposes and shall be entitled to any dividend or other benefit, such that the date determining the right to receive them applies on the date of allotment of the Underlying Shares or thereafter.

In any event where the offeree is entitled to receive rights and/or bonus shares and/or any other right granted to the offeree by virtue of the Options and/or the Underlying Shares (hereinafter: the “**Rights**”), in accordance with the provisions of the Plan, and provided that on the record date on which the Rights were allocated, the Options and/or the Underlying shares were held by the trustee, then the rights (if any) shall be transferred to the trustee, which shall withhold tax at source according to applicable law, and all the rights shall be allocated to the trustee for the benefit of the offeree and shall be held by the trustee at least until the end of the lock-up period (as defined in section 8.2 to the Option Plan) of the Options with respect to which the rights were granted, and the tax route terms shall apply to these additional rights.

In any event that the Company distributes a cash dividend and on the record date for the dividend distribution, the trustee held Underlying shares for the Offeree, the Company shall pay the dividend to the trustee in respect of such shares. The trustee who receives the dividend in respect of the said shares for each offeree shall deduct tax, if and to the extent that it has not yet been deducted, and shall transfer the dividend it received for each share to the offeree for which it is held, in accordance with the instructions of the administrator; subject to the provisions of the law; to terms of Section 102

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<sup>4</sup> It shall be clarified that this is an amount of maximum underlying shares and maximum shareholding and voting rights percentage deriving from the underlying shares and in light of a net exercise mechanism. In practice, the shareholding percentage will be lower due to the said net exercise mechanism as set forth in section 18.9.9 below.

and to the rules of Section 102 in accordance with the tax authorities guidelines.

For adjustments in respect of the distribution of a dividend prior to exercise of an option, see section 18.9.5 below.

#### 18.9.5. Adjustments

18.9.5.1. Should the Company distribute to its ordinary shareholders, in the option period (as defined in Section 18.9.10 below), bonus shares, the rights of the offeree shall be preserved as follows: immediately after the record date of the distribution of the bonus shares (hereinafter: and for this section the "**Effective Date**"), the number of shares resulting from the exercise of Options shall increase by the number of shares that the offeree would have been entitled to as bonus shares had he exercised the Options (which were not yet exercised) prior to the Effective Date for the distribution of the bonus shares. The exercise price of each option shall not change as a result of the increase in the number of exercise shares to which the offeree is entitled following the distribution of bonus shares.

It is hereby clarified that the number of Underlying Shares to which the offeree is entitled shall be adjusted only in the event of the distribution of bonus shares, as stated in this subsection above, but not in the case of any other offerings (including issuances to interested parties). It is also clarified that the offeree's right to increase the number of shares due to the distribution of bonus shares as aforesaid shall apply in practice only in respect of Options actually exercised by the offeree under the terms of the Plan.

The Company shall maintain a sufficient number of ordinary shares of NIS 0.003 par value in its registered capital, to ensure the execution of the right to exercise the Options offered by it and, if necessary, increase its registered capital. The said provisions shall be subject to a tax ruling of the Tax Authority, if any. It is also clarified that other provisions in the Plan relating to the Underlying Shares shall also apply to the bonus shares added to the Underlying Shares as aforesaid, mutatis mutandis.

18.9.5.2. Unless otherwise determined in accordance with the authority of the Administrator under the Plan, in any case of a merger, split and/or other restructuring of the Company, the Options or the Underlying Shares held by the trustee, which were allotted under the Plan will be canceled and/or sold and/or be exchanged and/or converted in exchange for cash or in exchange for alternative options and/or an alternative share of the Company or of the new company, as the case may be, and following the merger, split and/or other restructuring of the Company as aforesaid, an action and/or adjustment shall be made in connection with the Options and/or the Underlying

Shares held by the trustee, and its terms (including the possibility to pay in consideration thereof a certain sum as determined by the Board of Directors), all subject to the absolute discretion of the Company's Board of Directors, subject to the provisions of the Options award letter and to additional approvals as required by law, and without obtaining the consent of the offeree, including with respect to one or more of the following:

- 1) If and how the vesting period of the unvested Options shall be accelerated and if the Options whose vesting period is not accelerated, will be canceled, sold, redeemed by the Company or exchanged in Options of another company, and to accordingly perform changes in the exercise price, if and to the extent required;
- 2) If and how vested Options (including Options whose vesting period has been accelerated as aforesaid) shall be canceled, exercised, exchanged and/or sold by the trustee or the company (as the case may be) for the offeree;
- 3) How the Underlying Shares held for the benefit of the offeree by the trustee shall be exchanged and/or sold and/or converted by the trustee for the offeree; and also
- 4) Prescribe any instruction and carry out any action and/or adjustment in connection with the Options and their terms, to the extent required by its discretion.

18.9.5.3. In the event of a rights issue by the Company to the shareholders, the exercise price shall be adjusted to the rights' benefit component, such that the exercise price will be divided by the rights' benefit component. For this purpose, the "rights benefit component" means: the ratio between the closing price of the share on TASE on the last trading day before the "x" date and the base price of the share "x rights".

18.9.5.4. If the Company distributes a cash dividend to all of its shareholders, and the date determining the right to receive this dividend applies after the date of grant of the Options, but before their actual exercise date, the exercise price of each option not exercised before the end of the above effective date shall be reduced by the full amount of the gross dividend per share which was distributed. It is hereby clarified that if the Company distributes a cash dividend as stated in foreign currency, the gross amount of the dividend per share that will be deducted as aforesaid from the exercise price shall be calculated in the currency in which the exercise price was determined, at the representative rate of the said effective date or alternatively at the representative rate on the payment date of the dividend. For the avoidance of doubt, the exercise price shall in no event be less than the par value of the share.

18.9.5.5. In any event of a split or consolidation of the Company's share capital, the Company will make the necessary changes or adjustments to prevent dilution or an increase in the offeree's rights under the Plan with respect to the number of Underlying Shares in respect of Options not yet exercised by the offeree and not yet expired and/or in relation to the exercise price of each option.

18.9.5.6. In the event that as a result of the adjustment specified above, the Company is required to allocate fractions of a share, the Company shall not allocate fractions of such share, and the number of rights allocated to the offeree shall be rounded to the nearest whole number (upward or downward, as the case may be).

18.9.5.7. It is hereby clarified that no conversion of Options into shares of the Company on the record date for distribution of bonus shares, dividend distribution, rights offering, capital consolidation, split or capital reduction (each of which shall be called a "**Company Event**") shall take place.

18.9.5.8. Moreover, it is clarified that where the x-day of a Company Event occurs prior to the record date of a Company Event, no conversion shall be made on the x-day as aforesaid.

18.9.5.9. It should be clarified that the aforesaid in Section 18.9.5 above is subject to the instructions of the TASE and of any other stock exchange on which the Company's shares shall be traded, as shall be from time to time.

18.9.6. The price of the offered securities and their price on the TASE of the same series on the day preceding the date of publication of the immediate report, and the ratio in percentages between them

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

18.9.6.2. In accordance with the Compensation Policy and the Compensation Committee's and Board of Directors' resolutions, the exercise price of all Options as set forth in section 18.9.7 below, shall be NIS 6.8409 which is the share price at the end of the trading day on May 26, 2020 (the date of the Board of Directors' resolution), plus a premium of 10% on the said price (the "**Exercise Price**").

18.9.6.3. The closing price of the Company's share on the TASE on May 26, 2020 is NIS 6.2190 (hereinafter: the "**Closing Price**"). The ratio between the Closing Price and the Exercise Price is 1:1.1.

### 18.9.7. Vesting periods

18.9.7.1. Subject to the CEO being an employee or a service provider who is serving as an office holder in the capacity of a service provider in the Company or in a company of the Company's group<sup>5</sup>, on each tranche's vesting date (unless the termination of employment in the Company or in a company of the Company's group was the result of death or disability (as defined in the Option Plan) as mentioned in Section 18.9.8 below)<sup>6</sup>:

- A. 1/3 of the Options will vest after one year of their Allotment Date (hereinafter: "**First Tranche**");
- B. 1/3 of the Options (hereinafter: "**Second Tranche**") will vest after two years of their allocation;
- C. 1/3 of the Options (hereinafter: "**Third Tranche**") will vest after three years of their allocation;

18.9.7.2. The number of Options in every tranche shall be rounded down for each fraction of an option lower than 0.5, and rounded up for each fraction of an option equal to or greater than 0.5.

18.9.7.3. The vesting periods mentioned in section 18.9.7 above are consistent with the provisions of the Company's Compensation Policy with respect to vesting periods of a variable remuneration equity component.

### 18.9.8. Accelerated Vesting

The grant letter to be provided to the CEO shall determine that, without derogating from the powers of the Option Plan's administrator, in the event of a "Change of Control" in the Company, all the Options allotted to the CEO in accordance with the Option Plan and which have not yet vested, will vest.

For the purpose of this Section: "Change of Control" means one of the following:

- A. Any case in which the current indirect controlling shareholder on the Allotment Date (Mr. Eduardo Elsztain) ceases to be the indirect controlling shareholder of the Company. "Control" - as defined in the Securities Law, 5728-1968. Furthermore, if another person who is not the current indirect controlling shareholder at the Allotment Date becomes the largest shareholder in the control group, this will also constitute a Change of Control.

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<sup>5</sup> The "Company's group" is defined in the Company's current Compensation Policy as a company and/or a subsidiary and/or related companies and/or held companies and/or controlling shareholder in the Company. "Control" is defined in the Company's current Compensation Policy as defined in the Companies Law, unless otherwise defined.

<sup>6</sup> In accordance with the provisions of the Option Plan, any period during which the offeree is on unpaid leave (except in cases of maternity leave, illness or absence due to military reserve service) shall be added to the vesting period above, and the vesting dates shall be postponed accordingly.

- B. Merger of the Company with another entity and/or sale of the Company or of most of the Company's assets. "Most of the Company's assets" - an asset and/or assets whose total value constitutes at least 50% of the total balance sheet of the Company based on the last audited financial statements (reviewed or audited) published prior to the said sale.

Furthermore, in the event of the termination of the engagement with the CEO as a result of death or disability, then vesting will be accelerated with respect to all Options granted but yet not vested.

#### 18.9.9. Manner of exercising Options

Options will be exercised by way of net realization (i.e. by the value of the benefit inherent in them "cashless"), so that the exercise price will be theoretical only, for the purpose of calculating the value of the benefit in accordance with the provisions of the Option Plan and not actually paid by the CEO.

#### 18.9.10. Option Period

Unless expired earlier in accordance with the provisions of the Option Plan, each Option granted but not exercised under the Option Plan, including a vested Option, shall be exercisable as of its vesting date and shall expire and be annulled at the end of a period of five (5) years from the Allocation Date (hereinafter: the "**Option Period**"). Subject to receipt of the approvals by law, the administrator may decide, in its sole discretion, that certain circumstances justify an extension of the Option Period, subject to the Compensation Policy.

#### 18.9.11. End of Engagement

In the event of termination of employment of, or service by, the offeree to the Company for any reason (hereinafter: "**End of Engagement**") that is not explicitly described in this Section 18.9.11, then:

18.9.11.1. The right of the offeree to exercise Options granted to him under this Option Plan shall only be for the Options that the right to exercise has been vested until the date of termination of the employment or service and they may be exercised, if they have not expired earlier, on the earlier of: (a) 90 days from the date of termination of the employment or service, as the case may be; or (b) the expiration date of the Option Period. The offeree's entitlement to the remaining Options granted to him shall expire.

#### 18.9.11.2. End of engagement as a result of death or disability

In the event of termination of the employer-employee relations between the offeree and the Company or with one of its affiliated companies as a result of disability (where the

definition of an offeree as suffering from disability shall be made at the absolute discretion of the administrator) or in the event of death of an offeree, the offeree or his heirs shall be entitled to exercise within a period of 12 months from the occurrence of the said disability or death, or until the end of the Option Period, whichever is earlier (hereinafter: the “**Additional Period**”), the Options that the offeree was entitled to exercise by himself at any point in time in the Additional Period, which is not later than the end of the Option Period, as well as to receive the Underlying Shares from the trustee. The entitlement to the remaining Options allotted in favor of the offeree shall expire at the time of the end of the employer-employee relationship. In the event of transfer of the Underlying Shares to the heirs of the offeree, the heirs shall be subject to taxation pursuant to applicable law. Options that the offeree or heirs of the offeree were entitled to exercise under this section, and which were not exercised by the end of the Additional Period, shall expire at the end of this period or at the end of the Option Period, whichever is earlier.

18.9.11.3. Termination of employment or service for Cause

The administrator may prescribe limitations on the exercise of Options, including provisions regarding cancellation of grant of Options, whether vested or not, granted to the offeree, if his employment by or service to the Company (or any related company, as the case may be) is terminated for Cause<sup>7</sup>.

18.9.11.4. Change of place of employment

Unless otherwise determined by the administrator, the offeree's right to the Options granted to him under the Option Plan or the right to its vesting shall not end or expire only as a result of the fact that the offeree has relocated to serve as an employee or officer or service provider at the Company and/or a related company or vice versa or from a related company to another related company.

18.9.11.5. Exceptions

In exceptional cases relating to the end of employment relations between the Company or a related company to a specific offeree or events related to the Company itself, the administrator may, at its sole discretion, extend the periods specified in Sections 18.9.11.1 to 18.9.11.4 above.

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<sup>7</sup> "Cause" - in connection with the termination of an employer-employee relation of an offeree or termination of service or tenure of an offeree at the Company or at a related company - cause or basis for termination of such employment or service or tenure, for an act or omission that denies severance pay in accordance with the provisions of the law, including but not limited to: dishonesty towards the Company or a related company, malice, breach of fiduciary duty, disclosure of confidential information about the business of the Company or a related company, behavior that harms the business of the Company or a related company, and material breach by the offeree of: (1) the employment or service agreement, (2) any other obligation to the Company or the related company.

#### 18.9.12. The Trust Arrangement and the Offeree's Taxation

18.9.12.1. The Options shall be allocated to the offeree in accordance with the provisions of Section 102 of the Income Tax Ordinance, 5721-1961 (hereinafter: the "**Ordinance**") and the rules thereof according to the capital gains through a trustee tax track, as defined in section 102(b)(2) to the Ordinance. According to the Company's Option Plan and Compensation Plan, including the provisions under Section 8.2 of the Option Plan regarding the provisions pertaining to the grant through trustee tracks, the Options shall be allotted to a trustee who shall hold in trust for the offeree the Options and the Underlying Shares following the exercise of the Options.

18.9.12.2. The lock-up period of the Options for the purposes of the tax provisions, and without derogating from the provisions of Section 18.9.7 above, shall be 24 months from the date of allotment of the Options to the trustee for the benefit of the offeree or for a different period, as shall be determined in any amendment to Section 102 of the Ordinance and the rules that shall apply to the offeree (hereinafter "**Trust Period**" or "**Lock-up Period**").

18.9.12.3. During the Trust Period and subject to the terms of Section 102 and to the rules, an offeree shall not be able to receive from the trustee Options or Underlying Shares granted and/or exercised pursuant to the Option Plan by the offeree, sell such Options or Underlying Shares, or to perform any action with the Options or with the Underlying Shares as aforesaid, including following their vesting period, unless an appropriate approval has been received from the tax authorities, including confirmation of the continued application of the exemption under section 102 of the Ordinance with regard to the said Options and/or the Underlying Shares. If an offeree will instruct to sell or transfer from the trustee the Options or the Underlying Shares as aforesaid before the end of the period (hereinafter: "**Breach**"), the Offeree shall pay all the taxes due to the Breach pursuant to Section 7 of the Section 102 Rules. Until all taxes are paid pursuant to Section 7 of the Section 102 Rules, such rights may not be transferred, assigned, pledged or mortgaged, and the offeree shall not be able to grant any power of attorney or transfer deed, whether for immediate or future use, except for actions as stated in Section 18.9.20.5 below and subject to its provisions).

18.9.12.4. The Underlying Shares and the additional rights that were allotted by the Company to the trustee shall be held by the trustee in favor of the offeree for a period not to exceed 3

years from the date of termination of the Option Period. The Administrator shall instruct the trustee as to the manner of transfer of the Underlying Shares and the aforesaid additional rights to the offeree.

18.9.12.5. The plan shall be subject to, construed by and shall comply with all the requirements of the Ordinance as a whole, and Section 102 and the Section 102 Rules in particular, and any written approval from the Israeli tax authorities. All tax implications in accordance with any law deriving from it, inter alia, as a result of the grant of Options (or any other security that is allocated under the Plan) by or for the offeree, shall be paid by the offeree. The offeree shall indemnify the Company and/or the trustee and/or a related company, as the case may be, and shall hold them harmless for any liability for any payment of any tax or fine, interest or indexation. If the Company chooses to grant Options under the terms of the income tax route without a trustee, and if before the exercise of any or all of the aforesaid Options, the offeree ceases to be an employee, service provider, officer or director of the Company or of the related company, the offeree shall submit the Company with a guarantee or any other security required by law for securing the payment of the appropriate tax upon the exercise of the said Options.

#### 18.9.13. The Fair Value of the Options

The calculation of the amount of Options shall be made on the Allotment Date, as defined above, as a derivative of the fair value of the Options to the CEO which is NIS 1,530 thousands according to Black & Scholes (hereinafter - the "**Fair Value**"). For the purpose of calculating the number of Options deriving from the Fair Value, the Company relied on an economic opinion prepared by an external consultant specializing in senior officers' compensation (hereinafter: the "**Appraiser**").

The calculation of the number of Options given the Fair Value was based on the following assumptions:

- A. A share price which is the higher of the average price of the Company's share on the TASE during the last 30 trading days prior to May 26, 2020 and the share price at the end of the trading on May 26, 2020 (soon after decision of the Compensation Committee and the Board of Directors), NIS 6.2190, plus a 10% premium.
- B. Accordingly, the exercise price of the Options - NIS 6.8409.
- C. The expected duration of the Options - the Options granted to the CEO are for a contractual period of 5 years from the date of grant. It was

assumed that the Options will, in average, be exercised in the middle of the period between the vesting period and their expiry date.

- D. Options tranches - the Options shall vest in three equal tranches over a period of three years.
- E. Expected volatility - The historical standard deviation of the Company was used for a period consistent with the expected duration of the Options at the date of grant. The volatility used in calculating the option's fair value is 38.74%.
- F. The exercise price of the Options is subject to adjustments in respect of the distribution of dividends and bonus shares, and therefore it was assumed that the expected dividend rate is 0%.
- G. Risk-free interest rate - The interest rate taken is consistent with the expected duration of the Options and based on data of the Israeli government bonds that are not indexed to the CPI. The interest rate used in the calculation of the option's fair value is 0.314%.
- H. The option value is approximately NIS 1.5755.

#### 18.9.14. The Company's issued and paid up share capital

The issued share capital of the Company prior to the allotment specified in this report is 43,065,467 ordinary shares of the Company of NIS 0.003 par value each.

#### 18.9.15. Interested Parties' Holding Percentages

Holder name	On May 26, 2020 (prior to allotment of Options subject of this Report)		Immediately after private allotment		After the private allotment and assuming the exercise (by the offeree) of the full amount of Options offered <sup>8</sup>		On a fully diluted basis (exercise of all existing and offered convertible securities of the Company) <sup>9</sup>	
	No. of shares	% of equity and voting	No. of shares	% of equity and voting	No. of shares	% of equity and voting	No. of shares	% of equity and voting
Discount Investments Ltd.	26,294,982	61.06	26,294,982	61.06	26,294,982	59.71	26,294,982	56.12
The Phoenix - Provident Fund	2,570,495	5.97	2,570,495	5.97	2,570,495	5.84	2,570,495	5.49
Excellence Trust Fund	132,441	0.31	132,441	0.31	132,441	0.30	132,441	0.28
Yaron Elad	43,000	0.10	43,000	0.10	1,014,138	2.30	1,300,367	2.78
Zohar Rosenberg	8,200	0.02	8,200	0.02	8,200	0.02	1,108,112	2.36
Niv Levy	34,600	0.08	34,600	0.08	34,600	0.08	808,470	1.73
The Phoenix Nostro	14,139	0.03	14,139	0.03	14,139	0.03	14,139	0.03
Epsilon Trust Funds	12,930	0.03	12,930	0.03	12,930	0.03	12,930	0.03
The other Company's shareholders	13,954,680	32.40	13,954,680	32.40	13,954,680	31.69	13,954,680	31.19

#### 18.9.16. Consideration details

The Options shall be allocated to the CEO without any monetary consideration as part of the terms of office and employment. As aforesaid, the exercise price is theoretical only and shall not actually be paid to the Company.

<sup>8</sup> It shall be clarified that this is an amount of maximum underlying shares and maximum shareholding and voting rights percentage deriving from the underlying shares and in light of a net exercise mechanism. In practice, the shareholding percentage will be lower due to the said net exercise mechanism.

<sup>9</sup> Including exercise of options granted to additional officers of the Company, who are not directors, as stated in Section 18.8 above, under similar assumptions for the calculation of the amount of options proposed for approval to the CEO as stated in this Report.

18.9.17. The name of any substantial shareholder or officer of the Company which, to the best of the Company's knowledge, has a personal interest in the consideration and the nature of the personal interest of each of them

To the best of the Company's knowledge, except for the CEO's personal interest in the allotment of the Options, no substantial shareholder or officer of the Company has a personal interest in the Consideration. However, it should be noted that in parallel to the approval of the Options to the CEO, the Board of Directors approved grant of Options to other officers (who are not directors) of the Company.

18.9.18. The required approvals or the conditions prescribed for the performance of the allotment pursuant to the offer, whether they were accepted or fulfilled, and if not, at what date they are expected to be received or to exist

The allotment of the Options to the CEO pursuant to this Report shall be made after receipt of the cumulative approvals detailed below, and their receipt is a precondition for the grant to the offeree:

- A. The approvals of the relevant organs in the Company as required by law. On May 26, 2020, the Company's Board of Directors approved the grant of the Options, after the approval of the Compensation Committee. Therefore, the approval of the General Meeting convened pursuant to this Report is still required.
- B. Obtaining all the required approvals from the stock exchange, including listing for trading the underlying shares deriving from the exercise of the Options.

18.9.19. Agreements between the Offeree and the shareholders or other Company's Offerees

To the best of the Company's knowledge, there is no agreement between the CEO and a shareholder of the Company regarding the purchase or sale of the Company's securities or voting rights therein.

18.9.20. Description of prevention or restriction in carrying out transactions with the securities offered which will apply on the offeree, in accordance with the TASE articles, in accordance with law or a commitment undertaken by the offeree, to the Company's best knowledge

- 18.9.20.1. In accordance with the provisions of the Securities Law and the Securities Regulations (Details regarding Sections 15A to 15C of the Law), 5760-2000, the Offeree will be subject to restrictions on the resale of the shares that will derive from the exercise of the offered Options pursuant to the provisions of Section 15C of the Law and the said Securities Regulations which shall be from time to time, when the allotment to the

offeree shall be deemed an allotment under Section 15A (a) (1) of the Law.

18.9.20.2. Subject to the contents of the Option Plan, the trustee shall not perform any transaction or action with the Options and/or the Underlying Shares, shall not transfer, assign, withdraw, foreclose or pledge them voluntarily and shall not issue a power of attorney or a deed of transfer for them, whether with immediate or future effect, other than a transfer by virtue of a probate will or by law, except following payment of the applicable tax due from their allotment or after securing such tax payment; If the shares were transferred by virtue of a probate will or by law, the provisions of Section 102 and the provisions of the 102 ules shall apply to the offeree's heirs or transferees, as the case may be. The trustee shall not transfer the Options to any third party, including the Offeree, except in accordance with instructions received from the administrator.

18.9.20.3. The Options and all the other rights of the Offeree under the option plan, and during the Lock-Up Period - the underlying shares and any rights deriving therefrom - may not be transferred, assigned, sold, pledged or foreclosed, and no right may be granted to any third party other than to transfer to heirs by law subject to the terms of the Plan and the Options and subject to the Lock-Up Period and the provisions of Section 102 and the 102 Rules.

18.9.20.4. Prior to the payment of the applicable tax as stated in Section 102 to the Ordinance and the rules, or prior to securing its payment, Options or Underlying Shares may not be transferred, assigned, pledged, foreclosed or otherwise voluntarily encumbered, and no power of attorney or transfer deed, whether immediate or of future effect, may be issued, except by virtue of a probate will or by law; If the Options or the Underlying Shares were transferred by virtue of a probate will or by law as aforesaid, the provisions of section 102 to the Ordinance and the rules shall apply to the Offeree's heirs or transferees.

18.9.20.5. Transfer of rights to Options or to underlying shares granted under this plan and/or rights deriving therefrom pursuant to a probate will or in accordance with the law shall be valid and binding on the Company only after the Company has been furnished with the following notarized documents:

- A. Written request for transfer and a copy of a legal document that creates or confirms the right of such person to act in relation to the Offeree's estate and which creates or approves the right of the transferee;
- B. Written consent by the transferee to pay any amount in respect of the Options or the underlying shares and consent to pay any payment required in accordance with the provisions of the Option Plan and consent to comply with

all the provisions of the Option Plan and the Options award letter;

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

#### 18.9.21. Options Grant Date

The Allocation Date is as set forth in Section 18.6 above. As stated above, the number of Options to be granted to the CEO on the Allotment Date was determined in accordance with the fair value in the amount of NIS1,530 thousands and according to the assumptions on which the fair value is based as specified in Section 18.9.13 above.

#### 18.9.22. Administrator's Authorities

Subject to the provisions of the Law, the Company's Articles of Association, the Compensation Policy and any other resolution of the Company's Board of Directors, the Administrator or a Board of Directors' committee so authorized by the Board of Directors, shall be authorized, in its sole discretion, to exercise all powers and authorities (subject to Board of Directors' approval, if such an approval is required by law) and to interpret, whether such powers and authorities have been expressly given to them in the Option Plan or whether such powers or powers are required or desirable for the purpose of administering the plan, including:

##### A. To determine:

- 1) Who shall be the offerees under the Plan, number of Options to be granted to each offeree in accordance with the Compensation Policy, the vesting conditions, the vesting and lock-up periods for each offeree and the exercise price of the Options (subject to the approval of the authorized organs, if such approval is required by law);
- 2) Date or dates at which Options will be granted;
- 3) Whether, to which extent and under which circumstances, shall it be possible to repay, cancel, foreclose, replace, return to the Company or waive Options or an underlying share held in trust;
- 4) Any provision or condition according to which Options are granted, in addition to those specified in the Option Plan;
- 5) Whether all or part of the Underlying Shares are allocated out of dormant shares of the Company, including those that the Company intends to purchase for this purpose;
- 6) To resolve whether to deposit shares, in advance in trust in the hands of the trustee, that are to be purchased for the purpose of

their grant to the trustee in favor of the offerees as underlying shares.

- 7) To approve adjustments in the terms of the Options whose manner of execution was not explicitly determined in accordance with the provisions of the Option Plan;
  - 8) Take any measures or actions necessary or desirable for the management and implementation of the Option Plan.
- B. Interpret any provision of the Option Plan and take any action required as a result of this interpretation, including:
- 1) In accordance with the provisions of the Option Plan for vesting acceleration, to accelerate the dates according to which the Options are to be vested;
  - 2) Exercise the powers vested in it in accordance with the provisions of the Option Plan;
  - 3) If necessary - to interpret and guide how each of the provisions of the Option Plan has to be implemented.

Notwithstanding the foregoing, any interoperation, resolution or action of the Administrator will not contradict the provisions of Section 102 and the rules, and any waiver or amendment of a term of the Option Plan, which are not set forth under the Option Plan or under the grant letter, will not significantly derogate from the rights of the offerees under the option granted under the Option Plan, unless consented in advance by those offerees.

## 19. Specification of terms of office and employment

- 19.1. Following is a summary of the CEO's expected compensation, according to the proposed terms of office and employment (including the grant of Options to the CEO), insofar as they will be approved by the general meeting, under the assumption that the CEO will serve for a full calendar year<sup>10</sup> and under the assumption the CEO will serve until the end of the year (in terms of gross salary, NIS in thousands):

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<sup>10</sup> In practice, the CEO commenced on March 2020 and the equity compensation pursuant to this Report was not yet granted to him; in view of which, the accounting expense in practice due to the salary component and the total CEO compensation for 2020, are expected to be lower than as indicated in the table.

Details of the receiver of the compensation					Compensation for services							Total
Name	Position	Scope of office (%)	Rate of holding in the corporation's share capital <sup>11</sup> (%)	Salary	Annual Bonus <sup>12</sup>	Special Bonus <sup>13</sup>	Equity Compensation <sup>14</sup>	Management fee	Consulting fee	fee	other	
Yaron Elad	CEO	100%	0.74%	1,545	765	510	765					3,585

## 19.2. Ratio between fixed and variable components

The ratio according to expected data for 2020 (given theoretical entitlement to a maximum<sup>15</sup> cap for the annual bonus for 2020) between the annual cost of the variable components and the annual total cost of the CEO's compensation terms for 2020 will be approximately 45%.

## 19.3. Process for approval of the grant of Options to the CEO and reasons of the Compensation Committee and the Board of Directors for the approval

19.3.1. The following data and information have been reviewed and considered, inter alia, during the meetings of the Board of Directors and of the Compensation Committee:

- 19.3.1.1. The Company's Compensation Policy;
- 19.3.1.2. The terms of office of the previous CEO;
- 19.3.1.3. The terms of employment of the Company's employees (including the data required for reference pursuant to the Companies Law);
- 19.3.1.4. An economic opinion prepared by the Appraiser for the purpose of calculating the number of Options derived from the Fair Value;

19.3.2. The members of the Compensation Committee who participated in the Committee's meeting approving the terms of office and employment are: Ehud Rassabi (External Director and Chairman of the Committee), Yehuda Freidenberg (External Director) and Lee-Bath Nelson (External Director).

<sup>11</sup> With respect to the rate of holdings in the Company's share capital it should be clarified that it is based on an assumption of maximum exercise and maximum shareholding in the share capital and in the voting rights deriving from the Underlying Shares under the assumption of exercising the current options at the capped price (as detailed in the Immediate Report on a private offering published on November 21, 2018, ref. no. 2018-01-112131) and in view of the net exercise mechanism. In practice, the holdings may be lower insofar as the exercise shall be at a rate lower than the aforesaid capped price. This rate does not include the shares deriving from the grant proposed herein to approve.

<sup>12</sup> The amount of the annual bonus shall only be determined following the end of the year, based on the same year's results. The indicated sum is the CEO's annual bonus cap based on the proposed terms.

<sup>13</sup> The amount of the special bonus, insofar as the CEO shall be entitled to it, shall only be determined following the end of the year, based on the same year's results. The indicated sum is the CEO's annual bonus cap based on the proposed terms.

<sup>14</sup> The amount of the equity compensation is in the maximum possible value for a calendar year whether granted in the form of options or paid in cash in accordance with the Company's Compensation Policy.

<sup>15</sup> Including a special annual bonus as detailed below.

19.3.3. The members of the Board of Directors who participated in the meeting of the Board of Directors approving the terms of office and employment were: Eduardo Elsztain, Saul Zang, Gerardo Tyszberowicz, Amiram Erel, Doron Cohen, Ehud Rassabi, Yehuda Freidenberg and Lee-Bath Nelson.

19.3.4. Compensation Committee and the Board of Directors reasons for approving the resolution on the agenda regarding the CEO:

- A. The CEO has been involved in the Company's business as a senior officer in the last 10 years, and has a thorough knowledge of the Company's business in all its aspects. The CEO has many years of proven, varied senior managerial, business and financial experience.
- B. The proposed compensation terms were determined, among others, in view of the CEO's education, qualifications, expertise and professional experience
- C. The CEO is familiar with the Company's business, and his service as the CEO of the Company is highly significant to Company's activity and business, including in view of the challenges faced thereby, and he makes a significant contribution to the Company.
- D. The CEO's office and employment terms comply with applicable law and are consistent with, and based upon, the Company's Compensation Policy; and are appropriate in comparison with the employment terms of the previous CEO.
- E. The maximum ratio between the fixed component and the variable component in the CEO's employment terms, as reflected in the caps which were determined, is proportionate and balanced, given the Company's field of business.
- F. The grant of Options is in line with the interests of the Company and shall strengthen the CEO's identification with the Company. The total remuneration proposed to the CEO includes components intended to secure the CEO's activity for the purpose of maximizing the Company's profits both in the short term and in the medium and long term.
- G. If the Options shall be granted in a certain calendar year, the share yield component in the equity variable component shall not apply, which is also expected to save monies to the Company's cash flow.
- H. The Options' terms, including the amount of Options and their vesting periods, are in compliance with the guidelines determined for officers under the Company's Compensation Policy approved by the General Meeting of the shareholders.
- I. The Option Plan and the grant of Options to the CEO aim to balance between the fixed and variable components – the equity compensation, in order to ensure that the variable components do not create a conflict of interest and encourage taking unreasonable risks. The amount of Options at the Allocation Date is limited by a cap which is aligned with the limitations set forth in the Compensation Policy, such that the connection between the fixed component and the

variable component is preserved and the variable component is capped at the Allocation Date.

- J. The recommendation to approve the grant of Options to the CEO is provided after examination of the ratio between the CEO's office and employment terms and the salary cost of the other Company's employees. The Compensation Committee and the Board of Directors estimate that the gaps should not have an influence over the labor relations in the Company, due to, among others, the complexity of the CEO's role and the fact that the Options are granted, as aforesaid, in lieu of the share yield component.
- K. The Compensation Committee and the Board of Directors of the Company were presented with data pertaining to the ratio between the terms of office and employment of the CEO and the median and average salary of the other Company's employees. It is noted that due to the fact that the Company is a holding company with a reduced management headquarters, in the estimate of the Compensation Committee and the Board of Directors, these ratios have less significance in the Company. The Compensation Committee and the Board of Directors found that these ratios have no effect on the employment relations in the Company.
- L. The Compensation Committee and the Board of Directors of the Company were presented with a comparative work prepared by an external advisor, comparing the CEO's compensation, including all its components, and the compensation of chief executive officers in similar companies with respect to the field and size of business activities and in relation to the previous CEO of the Company and also to various financial details. In accordance with such comparative data, the CEO's proposed terms of office are within the sample range and are reasonable in relation to the comparative data. In addition, the CEO's total annual compensation cost in accordance with his proposed terms of office and employment is lower than the said total cost of the previous CEO of the Company.
- M. In light of the foregoing reasons, approval of the terms of office and employment offered to the CEO, including the approval of the grant of Options to the CEO, are reasonable and fair in the circumstances.
- N. There were no dissenting votes at the Compensation Committee and the Board of Directors for the approval of the proposed terms of office and employment.

## 20. The identity of the Controlling shareholder and the rights conferring control over the company

20.1. 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 61.06% of the issued share capital of the Company and of the voting rights in the Company (and approximately 59.09% of the above rights on a fully diluted basis). DIC is a publicly-held company whose shares are traded on the Tel Aviv Stock Exchange.

20.2. As provided to the Company, DIC is controlled, as of the date of this Report, by Mr. Eduardo Elsztain, who holds, through Dolphin A L Investments Ltd. (“**Dolphin A L**”), a company incorporated in Israel that is wholly owned by Dolphin Netherlands B.V., 82.26% of the issued capital of DIC. Furthermore, approximately 1.46% of DIC’s issued capital and voting rights are held by Tyrus S.A., a company formed in Uruguay, wholly owned by Irsa Inversiones Y Representaciones Sociedad Anonima, a foreign corporation. Dolphin Netherlands and Irsa are indirectly controlled by Mr. Eduardo Elsztain. Accordingly, Dolphin A L may be considered, to be cautious, as having personal interest in the approval of the aforesaid resolution, being a controlling shareholder in DIC and the Company.

21. **Directors with a personal interest and the nature of their personal interest**

None of the members of the Board of Directors has a personal interest in the resolution under Section 1.1 above.

**Sincerely,**

**Elron Electronic Industries Ltd.**

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

**Yaron Elad, CEO**

**Niv Levy, CFO**