

Elron Electronic Industries Ltd.
(the "Company")

January 26, 2021

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

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

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

An immediate report is hereby made (the "**Report**") in accordance with the Israel Companies Law, 5759-1999 (the "**Companies Law**"), the Israel Securities Law, 5728-1968 (the "**Securities Law**"), the Israel Securities Regulations (Immediate and Periodic Reports), 5730-1970 (the "**Report Regulations**"), the Israel Companies Regulations (Notice and Announcement of General Meetings and Class Meetings in a Public Company and the Addition of an Issue to the Agenda), 5760-2000 (the "**Notice and Announcement Regulations**"), and the Israel Companies Regulations (Voting in Writing and Position Statements) 5766-2005 (the "**Voting Regulations**"), concerning the convening of a special and annual general meeting of the shareholders of the Company, which will be held on **March 2, 2021**, at 15:30 (Israel time), in the Company's offices at ToHa Tower, 114 Yigal Alon St., 27th Floor, Tel Aviv, Israel, whose agenda shall consist of the items described in this Report below.

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

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

To re-appoint the following directors, in addition to the external directors who hold office in the Company: Yoram Avraham Turbovich (Chairman), Omer Serviansky, Osnat Hilel-Fine, Doron Haim Cohen, Yacov Nimkovsky, Isaac Idan, Amiram Erel and Shalom Turgeman (independent director), as directors of the Company for an additional term to commence on the date their appointment is approved by the general meeting being convened according to this Report, and to end on the date of the Company's next annual general meeting.

Each nominee shall be voted for separately.

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

Details of the directors nominated for re-appointment

For details on the nominees, Doron Haim Cohen and Amiram Erel, in accordance with Regulation 36B(a)(10) of the Report Regulations, see Regulation 26 of Part IV (Additional information about the Corporation) of the Periodic Report for 2019 that was published by the Company on March 19, 2020 (ISA ref. no. 2020-01-023128), the details of which are hereby incorporated by reference. As of the date of this report, there has been no change in the details presented in said periodic report, except as detailed below:

- Mr. Doron Haim Cohen no longer serves as a director of Lachish Industries Ltd and serves as Chairman at Cellcom Israel Ltd and as a director of Property and Building Corporation Ltd, Mehadrin Ltd and Epsilon Investment House Ltd.
- Mr. Amiram Erel no longer serves as a director at Pocared Dignostics Ltd.

Name:	Yoram Avraham Turbovich
ID No:	055585426
Date of Birth:	1.11.1958
Address for service of process:	24 Dereh Hayam, Mihmoret
Citizenship:	Israel
Membership on board of directors' committees:	No
Is he/she an external director or an independent director:	No
Accounting and financial expertise; professional competency or an expert external director:	No
Director is an employee of the Company, any subsidiary, associate company of the Company or of a related party:	No*
Date in which became director:	25.11.2020
Education:	Graduate of Law, The Hebrew University Certified in Legal Sciences LL.M, Harvard Law School Doctor of Legal Sciences S.J.D, Harvard Law School
Occupation over the last 5 years:	Director of Allied Ltd., Allied Logistics Ltd. and Champion Motors Ltd.
Serve as a Director in other companies:	Chairman of Discount Investments Corporation Ltd., Property and Building Corporation Ltd., Mehadrin Ltd., Cellcom Israel Ltd., Allied Ltd., Allied Logistics Ltd., Champion Motors Ltd., Danshet Holdings Ltd and Danshet Ltd.
A family member of other related party in the Company	No

*To the best of the Company's knowledge, on January 14, 2021 the general meeting of the controlling shareholder of the Company, Discount Investments Corporation Ltd, resolved to approve its engagement with Mr. Turbovich for the provision of Chairman services, commencing on November 20, 2020.

Name:	Omer Serviansky
ID No:	042342451
Date of Birth:	9.5.1981
Address for service of process:	1 Hanah Zemer, Tel Aviv
Citizenship:	Israel
Membership on board of directors' committees:	No
Is he/she an external director or an independent director:	No
Accounting and financial expertise; professional competency or an expert external director:	Accounting and financial expertise
Director is an employee of the Company, any subsidiary, associate company of the Company or of a related party:	No
Date in which became director:	25.11.2020
Education:	Graduate of Accounting and Economics, Tel Aviv University
Occupation over the last 5 years:	Partner and Founder in the consulting firm ClearStructure, Partner and head of finance and consulting department at Baker Tilly Israel, Partner at investment and banking firm, and Senior consultant in the finance department at PwC Israel.
Serve as a Director in other companies:	Discount Investments Corporation Ltd, Property and Building Corporation Ltd., Mehadrin Ltd., Clearstructure Ltd., and a private company owned by him
A family member of other related party in the Company	No

Name:	Osnat Hilel-Fine
ID No:	022151922
Date of Birth:	18.1.1965
Address for service of process:	20 Y.L. Gordon, Tel Aviv
Citizenship:	Israel

Membership on board of directors' committees:	No
Is he/she an external director or an independent director:	No
Accounting and financial expertise; professional competency or an expert external director:	No
Director is an employee of the Company, any subsidiary, associate company of the Company or of a related party:	No
Date in which became director:	25.11.2020
Education:	Graduate of the Faculty of Humanities, Tel Aviv University. Master of Business Administration (Executive MBA), Tel Aviv University
Occupation over the last 5 years:	Consulting business development and management in Kendo Solutions Ltd., Initiated and established of clinic company for esthetics Prof. Gur-Shfaram Ltd., and external director of ICB.
Serve as a Director in other companies:	Discount Investments Corporation Ltd, XTL Biopharmaceuticals Ltd., Property and Building Corporation Ltd., Mehadrin Ltd.
a family member of other related party in the Company	No

Name:	Yacov Nimkovsky
ID No:	024931313
Date of Birth:	20.2.1970
Address for service of process:	14 Ramat Hen, Ramat Gan
Citizenship:	Israel
Membership on board of directors' committees:	No
Is he/she an external director or an independent director:	No

Accounting and financial expertise; professional competency or an expert external director:	Accounting and financial expertise
Director is an employee of the Company, any subsidiary, associate company of the Company or of a related party:	No
Date in which became director:	25.11.2020
Education:	Graduate of Economics and Business Administration, the Hebrew University Master of Business Administration (specialization in financing and marketing), Tel Aviv University
Occupation over the last 5 years:	CEO of Alumot (Goren – B.T.H) Holdings (2007) Ltd. (14 years, CEO and Chairman of Alumot Mutual Funds Management Ltd. (12 years), and Chairman of Alumot Investments Portfolio Management Ltd. (14 years). Private businessman and consultant (8 months).
Serve as a Director in other companies:	Eldav Investments Ltd. (external director), Univo Pharmaceuticals Ltd. (external director), One Software Technologies Ltd. (Independent director), Discount Investments Corporation Ltd., Property and Building Corporation Ltd., Mehadrin Ltd., KN Capital Group Ltd (Chairman).
a family member of other related party in the Company	No

Name:	Isaac Idan
ID No:	053554937
Date of Birth:	29.8.1955
Address for service of process:	Levi Eshkol 18, Tel Aviv
Citizenship:	Israel
Membership on board of directors' committees:	No

Is he/she an external director or an independent director:	No
Accounting and financial expertise; professional competency or an expert external director:	Accounting and financial expertise
Director is an employee of the Company, any subsidiary, associate company of the Company or of a related party:	No
Date in which became director:	1.11.2020
Education:	Graduate of Economics and Accounting, Tel Aviv University
Occupation over the last 5 years:	Partner and founder of Clear Structure (from January 2020 until today); Senior partner, founder of accounting firm Baker Tilly Israel (until 2019)
Serve as a Director in other companies:	Discount Investments Corporation Ltd., Property and Building Corporation Ltd., Mehadrin Ltd. and private companies owned by him.
a family member of other related party in the Company	No

Name:	Shalom Turgeman
ID No:	059214452
Date of Birth:	28.05.1965
Address for service of process:	ToHA Building, 114 Yigal Alon, Tel Aviv
Citizenship:	Israel
Membership on board of directors' committees:	Audit committee and compensation committee
Is he/she an external director or an independent director:	Independent director
Accounting and financial expertise; professional competency or an expert external director:	No
Director is an employee of the Company, any subsidiary, associate	No

company of the Company or of a related party:	
Date in which became director:	7.12.2020
Education:	Master of Business Administration (EMBA), Tel Aviv University Graduate of Political Science, and Islamic studies and the Middle East, the Hebrew University
Occupation over the last 5 years:	Managing Partner in an Israeli-Chinese investment fund GEOC (from 2013 until today); Consultant in Israeli consulting company EOC (from 2009 until today)
Serve as a Director in other companies:	Serves as an alternate director in Sight Diagnostics Ltd. and Cnoga Ltd.
a family member of other related party in the Company	No

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

Report to the annual meeting on the fees of the auditors for 2019, reappointment of the accounting firm Kesselman & Kesselman (PwC) as the Company's auditors for an additional term until the Company's next annual general meeting, and to authorize the Company's board of directors and Audit Committee, insofar required, to determine their fees as auditors.

1.3. Item 3 – **Discussion on the Company's Annual Reports for 2019**

No resolution is required on this matter.

1.4. Item 4 – **Appointment of Mr. Barak Mashraki as an external director for a period of 3 years commencing from the date of approval by the general meeting**

It is proposed to appoint Mr. Barak Mashraki as an external director in the Company to serve for a period of three years as of the date of approval by the general meeting.

The terms of office and employment of Mr. Barak Mashraki as an external

director in the Company, and subject to the approval of his appointment, shall be as follows: Mr. Barak Mashraki shall be entitled to maximum remuneration and expense reimbursement pursuant to the Companies Regulations (Rules regarding remuneration and expenses to an external director), 5760-2000, for remuneration payable to an expert external director in a company having similar equity as the Company (to the date of this report, a c-level company).

Mr. Barak Mishraki has accounting and financial expertise, as such term is defined in the Companies Regulations (Terms and Tests for a director having an accounting and financial expertise and for a director with professional competency), 5766-2005.

Mr. Barak Mishraki has signed a declaration in accordance with Section 224B and 241 of the Companies Law, a copy of which is attached as **Appendix B** to the immediate report.

For details regarding Mr. Barak Mishraki in accordance with Regulation 26 of the Report Regulations see the ballot, attached as **Appendix C** to the immediate Report.

The proposed Resolution: to approve the appointment of Mr. Barak Mashraki as an external director of the Company for a term of 3 years commencing from the date of approval by the meeting.

1.5. Item 5 - **Approval of an amendment to Section 11.1 of the Company's officers' compensation policy, in accordance with Section 267A to the Companies Law**

For details see Part B to this report below.

The proposed Resolution: To approve the amendment to Section 11.1 of the Company's officers' compensation policy, as detailed in Part B to the report convening the meeting, in accordance with Section 267A to the Companies Law.

2. **Record Date**

The record date entitling a shareholder to participate in and vote at the general meeting, in accordance with Section 182 of the Companies Law, is on February 2 2021 (henceforth: the "**Record Date**"). If there is no trading on the Record Date, the record date will be the last trading day preceding such date.

3. **Legal Quorum and Adjourned Meeting**

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

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

4. **Required Majority**

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

To the best of the Company's knowledge, as of the date of this Report, the Company's controlling shareholder, Discount Investment Corporation Ltd., a public company whose shares are traded in the Tel Aviv Stock Exchange Ltd and which information is available to the public¹, holds approximately 61.06% of the Company's outstanding share capital and voting rights, a holding percentage that confers the controlling shareholder the required majority for the approval of the issues set forth in Sections 1.1 and 1.2 on the agenda.

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

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

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

- 4.3. The majority required for adoption of the proposed resolution no. 5 on the agenda, set forth in Section 1.5 above, is a simple majority of the shareholders entitled to vote and participating in the vote, in person or by proxy (including via ballot), without taking into account the abstaining votes, provided that one of the following is fulfilled:

4.3.1. The majority vote count at the general meeting will include a majority of all votes of shareholders who are not controlling shareholders of the Company or have personal interest in approval of the resolution, participating in the vote; the vote count of such shareholders shall not take into account abstaining votes.

4.3.2. The total dissenting votes from among the shareholders specified in Section 4.3.1 above does not exceed two percent (2%) of the total voting rights in

¹ For additional details regarding the holdings of Discount Investments Corporation Ltd., see immediate report on the related parties' and senior officers' holdings, published by the Company on January 7, 2021 (ref. no. 2021-01-003724)

the Company.

A shareholder participating in the vote for resolutions on issues 4 and 5 on the agenda shall notify the Company, prior to the vote at the meeting, or if the vote is via ballot – on the ballot, in respect of each resolution in which he votes, if he is a controlling shareholder in the Company or if he has a personal interest in approving the resolution or not; If a shareholder fails to so notify, he shall not vote and his vote shall not be counted

5. **Manner of Voting**

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

6. **Confirmation of Ownership**

A shareholder whose shares are registered with a TASE member is entitled to receive ownership confirmation from such TASE member, at the TASE member's branch or via post to his address, upon request, provided such request was made in advance for a specific securities account. According to the Israel Companies Regulations (Written Vote and Position Statements), 5766-2005 (the "**Voting Regulations**"), an authorized electronic message according to Section 44K5 of the Securities Law which concerns the data of the internet voting system's users, is tantamount to a confirmation of ownership regarding every shareholder included therein.

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

- 7.1. A shareholder is entitled to vote at the meeting on the proposed resolutions on the agenda via ballot, as detailed below. The ballot and position statements with respect to the meeting are available on the distribution website of the Israel Securities Authority at <https://www.magna.isa.gov.il> (the "**Distribution**

Website") and on the website of the Tel Aviv Stock Exchange Ltd. at <https://maya.tase.co.il> (the "**TASE Website**"). A shareholder may request the ballot and position statements directly from the Company, free of charge.

- 7.2. A TASE member will send, free of charge, via email, a link to the ballot and position statements on the Distribution Website to every shareholder who is not registered in the Company's Shareholders Register and whose shares are registered with the TASE member, unless such shareholder notified the TASE member that he wishes to opt out, and provided that the notice was given regarding a specific securities account and on a date prior to the Record Date.
- 7.3. Votes should be cast on Part Two of the ballot published on the Distribution Website.
- 7.4. The ballot (if non-electronic) of a non-registered shareholder should be delivered to the Company along with the confirmation of ownership, such that the ballot will arrive at the Company's registered offices **no later than four hours prior to the time set for the meeting** (i.e., no later than **March 2, 2021 at 11:30**).
- 7.5. A shareholder registered in the shareholders register should deliver the ballot to the Company, along with a photocopy of his identity card or passport or certificate of incorporation, such that the ballot will arrive at the Company's registered offices **up to six hours prior to the time set for the general meeting** (i.e., by **March 2, 2021 at 09:30**).
- 7.6. A shareholder's ballot will be valid in accordance with Section 177(2) of the Companies Law only if accompanied by a photocopy of his identity card, passport or certificate of incorporation.
- 7.7. A shareholder may appear in person at the Company's registered offices and after providing proof of his identity, retract his ballot and proof of ownership / photocopy of identity card or passport or certificate of incorporation, up to 24 hours prior to the time set for the meeting.

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

- 8.1. A non-registered shareholder may also vote on the resolutions on the agenda by submitting a ballot via the internet voting system as defined in the Voting Regulations (henceforth: "**Electronic Ballot**").
- 8.2. A shareholder whose share is registered with a TASE member is entitled to receive an identifying number and access code as well as additional information related to the meeting from the TASE member, and following a secure identification process may vote via the internet voting system. A shareholder who votes by Electronic Ballot is not required to provide the Company with a certificate of ownership in the manner specified above.
- 8.3. The Electronic Ballot will open for voting at the end of the Record Date. Voting via the internet voting system will close **6 hours prior to the time set for the meeting** (i.e., by **March 2, 2021 at 09:30**), at which time the internet voting system will be closed.

8.4. The electronic voting may be amended or cancelled up until the internet voting system is closed, after which it will not be possible to change it via the internet voting system. Should a shareholder vote via more than one method, the later vote will be counted. In this regard, a vote cast in person or by proxy will be considered to have been cast later than a vote cast by Electronic Ballot.

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

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

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

10. **Notice of a Personal Interest**

A shareholder participating in the vote for resolutions 5 and 6 on the agenda as set forth in Sections 1.4 and 1.5 above, shall notify the Company, prior to the vote, or if the vote is via ballot – by marking on the ballot (a marking space can be found in part B of the ballot) if he or she has a personal interest in the resolution on the agenda and describing the nature of personal interest. If a shareholder fails to so notify or fails to so mark in respect of any of the resolutions, his vote shall not be counted for same resolutions.

In addition, in accordance with the Voting Regulations and the ISA directive of November 30, 2011 regarding the disclosure of the manner of voting in general meeting by interested parties, senior officers and institutional bodies (the "**Directive**"), a related party, senior officer and an institutional investor, as defined in the regulations and the Directive, voting at the general meeting, will deliver to the Company, in the framework of their vote for resolutions 4 and 5 on the agenda as specified in section 1.4 and 1.5 above, the required details in accordance with the Voting Regulations and section 2(b) of the Directive, and if he voted via proxy, the voter or proxy holder will also deliver the proxy details. In addition, details shall be given with respect to any relation between the voter or the proxy (who does not have a personal interest) and the Company or any of its controlling shareholders or any of its senior officers, including employer-employee relations, business relations etc., while specifying their nature.

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

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

A shareholder's request under section 66(b) of the Companies Law to include an issue in the agenda of the General Meeting shall be furnished to the Company up to seven (7) days after the general meeting is convened. If such a request is made, the

issue may be added to the agenda and its details will appear on the Distribution Website. In such a case, the Company will publish a revised convening notice no later than seven days after the deadline for the submission of a shareholder's request to include an issue on the agenda, as stated above.

12. **Inspection of Documents**

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

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

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

**Part B -Details Regarding the Amendment to Section 11.1 of the Company's
Compensation Policy**

13. On March 12 2020 the general meeting of the Company's shareholders approved the Company's officers compensation policy, in the form published by the Company as Annex A to the immediate report published by the Company on February 3 2020 (ref. no.: 2020-01-010882) (the "**Compensation Policy**"), included herein by reference.
14. The Compensation Policy includes, among others, the possibility to acquire and engage, on an annual basis, including in accordance with Regulation 1B1 of the Companies Regulations (Reliefs for Interested Parties' Transactions), 5760-2000 (the "**Relief Regulations**") and subject to the approval of the compensation committee only, in an insurance policy for directors and officers liability, including a run-off insurance policy or an insurance covering a relevant event or action , applying to the Company's and/or its subsidiaries' directors and officers, as will serve from time to time, which insurance shall cover their liability subject to applicable approvals and limitations under law, as detailed in section 11.1 of the Compensation Policy.
15. On January 25 2021, the Company's board of directors approved (after considering the recommendations of the Company's compensation committee) the proposed update to the existing Compensation Policy, regarding the terms of engagement for directors and officers liability insurance for the Company, as set forth below, submitted for approval by the general meeting in accordance with section 267A of the Companies Law.
16. Until recently, in accordance with the ISA's position, legal staff position No. 101-21: compensation policy (best practice) (the "**ISA Position**"), for the purpose of approving an engagement in a directors and officers liability insurance policy by the compensation committee, in accordance with Regulation 1B1 of the Companies Regulations (Reliefs for Interested Parties Transactions), 5760-2000 ("**Relief Regulations**"), within the framework of the provisions regarding engagement in a directors and officers liability insurance for the Company specified in the Compensation Policy, reference was required to be made to the premium amounts, limits of liability and deductibles, provided that the engagement is on market terms and is not likely to materially affect the profitability of the Company, its assets or obligations.
17. In the last two years there have been dramatic changes in the directors and officers liability insurance market, and especially in recent months, in view of a dramatic increase in the number of claims against directors and officers and in view of the corona crisis and its continuation. Following the aforementioned changes, there have been changes in the terms of such insurance policies and in particular the insurance premiums of directors and officers have risen significantly, a trend which has intensified due to the outbreak of the corona epidemic.
18. Following such changes and in light of many inquiries submitted to the authority, on July 1, 2020, the authority's staff published an update to the ISA Position according to which, with respect to the compensation policy provisions regarding directors and officers liability insurance and approval of engagement in said insurance policy in accordance with Regulation 1B1 of the Relief Regulations, it is enough that the specification in the Compensation Policy will include reference to the scope of insurance coverage (limit of liability), as long as the cost of the premium and the amount of the deductible are in accordance with market terms at the time the policy is made and the cost is not material

to the Company ("**Current ISA Position**").

19. Therefore, in accordance with the provisions of section 267A of the Companies Law, and following the approval of the Company's board of directors, after considering the recommendations of the Company's compensation committee, it is proposed to approve the proposed update to the existing Compensation Policy in such a manner that the ceiling amount of the insurance coverage scope will remain unchanged while the ceiling amounts determined with respect to insurance premiums and deductibles will be deleted and the Company's compensation committee will be authorized to determine the total annual insurance premium amounts as well as the deductible amounts in accordance with market terms as they will be at the time of purchasing insurance policies, all in accordance with the Current ISA Position, and all in a manner that will apply an amendment to section 11.1 of the Compensation Policy, such that section 11.1 shall be replaced with the following:

*"11.1 Insurance Policy – The Company shall be entitled to acquire each year, including in accordance with Regulation 1B1 of the Companies Regulations (Reliefs for Interested Parties' Transactions), 5760-2000 (the "**Relief Regulations**") and subject to the approval of the compensation committee only, an insurance policy for directors and officers liability, including a run-off policy or an insurance covering a relevant event or action, applying to the Company's and/or its subsidiaries' directors and officers, as will serve from time to time, which insurance shall cover their liability subject to applicable approvals and limitations under law. The Company's compensation committee shall determine the total annual insurance premiums (for these policies) and the deductibles in accordance with the market terms in effect at the time of purchase of the policies. (b) the insurance coverage will not exceed 50% of the current insurance coverage² (although an increase in coverage which shall not cause an increase in premium above the premium paid in the previous year, shall not be considered a deviation from this Policy)".*

20. In general, the changes in the amended section above mainly include inclusion of various types of insurance policies and deletion of premium and deductibles' ceiling amounts, in accordance with the reliefs published in the ISA Position.
21. Under the other terms of the existing Compensation Policy, no change has taken place. This decision to amend section 11.1 of the Compensation Policy, submitted for approval under section 267A of the Companies Law, which will apply for the duration of the existing Compensation Policy, will allow the renewal of directors and officers insurance policies, also in relation to directors, the CEO and in relation to directors and/or other officers who are controlling shareholders and/or their relatives and/or that controlling shareholders may have a personal interest in their inclusion in the insurance policy, in accordance with Regulations 1B1, 1A1 and 1B(5) of the Relief Regulations.
22. For details regarding the Company's existing directors and officers liability insurance, valid until December 31, 2021, see immediate report from December 31, 2020 (ref. no: 2020-01-136105), which is included herein by reference.
23. The names of the directors who participated in the resolutions of the compensation committee and the board of directors and directors who may be considered having a

² Current coverage is US\$ 30,000,000

personal interest and the nature of such personal interest:

- (1) The update of the Compensation Policy was discussed and approved (in a unanimous vote) in the meeting of the compensation committee held on December 24, 2020, in which meeting the following members participated: Ehud Razabi, Lee-Bath Nelson and Shalom Turgeman.
- (2) The update of the Compensation Policy was discussed and approved (in an unanimous vote) at the meeting of the board of directors held on January 25, 2021, in which the following Company directors participated: Yoram Avraham Turbovich (Chairman), Ehud Rassabi, Lee-Bath Nelson, Shalom Turgeman, Omer Serviansky, Yacov Nimkovsky, Isaac Idan, Amiram Erel, Osnat Hilel-Fine and Doron Haim Cohen.
- (3) All of the directors may have a personal interest in updating the Compensation Policy due to the fact that this update concerns the directors and officers insurance.

24. The Reasons of the compensation committee and the board of directors for adopting the update to the Compensation Policy:

- (1) Engaging in directors and officers liability insurance is customary in public companies in Israel and enables the directors and officers of the Company to act freely for the benefit of the Company and to properly perform their duties, in view of the risks involved and their liability under law.
- (2) Engaging in directors and officers liability insurance (including directors that are controlling shareholders or their relatives) is for the benefit of the Company as it allows the directors and officers of the Company to perform their duties properly, in view of the risks involved and their liability under law.
- (3) The proposed update to the existing Compensation Policy, in the framework of which the premiums and deductibles' existing ceiling amounts shall be deleted, is in accordance with current market terms in the D&O insurance market, and after these terms were hardened lately, aims to provide proper flexibility that will enable the Company to adjust the D&O insurance approval proceedings to the changing market terms and in accordance with provisions of the law and Current ISA Position, and considering the characteristics of directors and officers liability insurance, the terms of which are largely determined by reinsurers abroad, along with the understanding that the premium and deductible are generally derived from market norms and in themselves do not raise significant concerns about conflicts of interest between the Company and the officers.
- (4) In light of the foregoing, the Company's compensation committee and the board of directors are in the opinion that approval of the proposed update to the existing Compensation Policy, as above detailed, is for the benefit of the Company.
- (5) The Company is not a granddaughter public company, as such term is defined in section 267A(c) of the Companies Law.

Sincerely,

Elron Electronic Industries Ltd.

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

Yaron Elad, CEO

Niv Levy, CFO

Annex A – Declarations of the nominees to serve as directors

Annex B – Declaration of the nominee to serve as an external director

Annex C - Ballot