



AND ITS SUBSIDIARIES

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

As of March 31, 2006
(Unaudited)

**ELRON ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES**

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

AS OF MARCH 31, 2006

UNAUDITED

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ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	March 31, 2006	December 31, 2005
	Unaudited	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 49,475	\$ 26,520
Short-term investments	20,502	54,661
Available – for - sale marketable debentures	58,919	62,617
Trade receivables (net of allowance for doubtful accounts of \$426 at March 31, 2006 and December 31, 2005)*	5,923	6,440
Other receivables and prepaid expenses*	2,778	2,846
Inventories	2,050	2,117
Total current assets	139,647	155,201
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments in affiliated companies	99,432	102,780
Investments in other companies and long-term receivables*	83,703	73,931
Deferred taxes	6,007	6,521
Severance pay deposits	2,008	1,971
Total investments and long-term receivables	191,150	185,203
PROPERTY AND EQUIPMENT, NET	7,972	7,809
INTANGIBLE ASSETS		
Goodwill	2,742	2,742
Other intangible assets	2,813	2,818
Total intangible assets	5,555	5,560
Total assets	\$ 344,324	\$ 353,773

* Includes short-term receivables from related parties in the aggregate amount of \$4,804 and \$5,043 as of March 31, 2006 and December 31, 2005, respectively, and long-term receivables from related parties in the aggregate amount of \$442 and \$434 as of March 31, 2006 and December 31, 2005, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	March 31, 2006	December 31, 2005
	Unaudited	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term loans from banks	\$ 700	\$ 3,808
Current maturities of long-term loans from banks and others	2,038	2,065
Trade payables	2,429	2,146
Other payables and accrued expenses	11,257	11,025
Total current liabilities	16,424	19,044
LONG-TERM LIABILITIES		
Long-term loans from banks and others	1,485	1,477
Accrued severance pay and retirement obligations	2,823	2,635
Deferred taxes	8,467	9,494
Total long-term liabilities	12,775	13,606
MINORITY INTEREST	17,499	19,007
SHAREHOLDERS' EQUITY:		
Ordinary shares of NIS 0.003 par value; Authorized - 35,000,000 shares as of March 31, 2006 and December 31, 2005; Issued and outstanding: 29,531,955 and 29,483,455 shares as of March 31, 2006 and December 31, 2005, respectively.	9,572	9,572
Additional paid-in capital	271,468	271,132
Accumulated other comprehensive income	9,428	10,741
Retained earnings	7,158	10,671
Total shareholders' equity	297,626	302,116
Total liabilities and shareholders' equity	\$ 344,324	\$ 353,773

The accompanying notes are an integral part of the consolidated financial statements.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except share and per share data

	Three months ended March 31,		Year ended December 31,
	2006	2005 ***	2005
	Unaudited		
INCOME			
Net revenues*	\$ 3,322	\$ 2,985	\$ 12,646
Equity in losses of affiliated companies	(3,495)	(3,588)	(17,522)
Gain (loss) from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	16	(10)	23,328
Other income, net	2,629	278	58,648
Financial income, net	1,084	901	5,483
	<u>3,556</u>	<u>566</u>	<u>82,583</u>
COSTS AND EXPENSES			
Cost of revenues	1,845	1,873	7,907
Research and development costs, net	2,908	1,234	6,163
Marketing and selling expenses, net	875	470	2,386
General and administrative expenses	2,881	1,952	9,249
Amortization of intangible assets	5	35	392
	<u>8,514</u>	<u>5,564</u>	<u>26,097</u>
Income (loss) before taxes on income	(4,958)	(4,998)	56,486
Tax benefit (taxes on income)	(282)	167	(10,461)
Income (loss) after taxes on income	(5,240)	(4,831)	46,025
Minority interest in losses of subsidiaries	1,727	194	5,160
Income (loss) from continuing operations	(3,513)	(4,637)	51,185
Loss from discontinued operations **	-	(476)	(3,850)
Net income (loss)	<u>\$ (3,513)</u>	<u>\$ (5,113)</u>	<u>\$ 47,335</u>
Income (loss) per share:			
Basic:			
Income (loss) from continuing operations	\$ (0.12)	\$ (0.16)	\$ 1.74
Loss from discontinued operations	-	(0.01)	(0.13)
Net income (loss)	<u>\$ (0.12)</u>	<u>\$ (0.17)</u>	<u>\$ 1.61</u>
Diluted:			
Income (loss) from continuing operations	\$ (0.12)	\$ (0.17)	\$ 1.73
Loss from discontinued operations	-	(0.01)	(0.13)
Net income (loss)	<u>\$ (0.12)</u>	<u>\$ (0.18)</u>	<u>\$ 1.6</u>
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	<u>29,514</u>	<u>29,414</u>	<u>29,437</u>
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	<u>29,514</u>	<u>29,414</u>	<u>29,550</u>

* Includes revenues from related parties in the amount of \$1,744 and \$1,823 for the three months ended March 31, 2006 and 2005, respectively, and \$8,046 for the year ended December 31, 2005.

** Includes revenues from related parties in the amount of \$143 for the three months ended March 31, 2005, and \$174 for the year ended December 31, 2005.

*** Reclassified due to discontinued operations.

The accompanying notes are an integral part of the consolidated financial statements.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share and per share data

	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total Shareholders' equity	Total comprehensive income (loss)
Audited							
Balance as of January 1, 2005	29,414,424	\$ 9,572	\$ 270,005	\$ 57,717	\$ 51,786	\$ 389,080	
Exercise of options	69,031	-	697	-	-	697	
Stock - based compensation	-	-	405	-	-	405	
Tax benefit in respect of options exercised	-	-	25	-	-	25	
Dividend paid	-	-	-	-	(88,450)	(88,450)	
Other comprehensive income , net of tax:							
Unrealized loss on available for sale securities	-	-	-	(10,450)	-	(10,450)	\$ (10,450)
Reclassification adjustment for gain realized and other than temporary impairment included in net income	-	-	-	(36,335)	-	(36,335)	(36,335)
Foreign currency translation adjustments	-	-	-	(191)	-	(191)	(191)
Net income	-	-	-	-	47,335	47,335	47,335
Balance as of December 31, 2005	29,483,455	\$ 9,572	\$ 271,132	\$ 10,741	\$ 10,671	302,116	<u>\$ 359</u>
Total comprehensive income							
Unaudited							
Exercise of options	48,500	-	242	-	-	242	
Stock - based compensation	-	-	94	-	-	94	
Other comprehensive loss, net of tax:							
Unrealized loss on available for sale securities	-	-	-	(1,480)	-	(1,480)	\$ (1,480)
Reclassification adjustment for loss realized and other than temporary impairment included in net loss	-	-	-	242	-	242	242
Foreign currency translation adjustments	-	-	-	(75)	-	(75)	(75)
Net loss	-	-	-	-	(3,513)	(3,513)	(3,513)
Balance as of March 31, 2006	<u>29,531,955</u>	<u>\$ 9,572</u>	<u>\$ 271,468</u>	<u>\$ 9,428</u>	<u>\$ 7,158</u>	<u>\$ 297,626</u>	<u>\$ (4,826)</u>
Total comprehensive loss							
Unaudited							
Balance as of January 1, 2005	29,414,424	\$ 9,572	\$ 270,005	\$ 57,717	\$ 51,786	\$ 389,080	
Stock - based compensation	-	-	109	-	-	109	
Other comprehensive income , net of tax:							
Unrealized gains on available for sale securities	-	-	-	5,333	-	5,333	\$ 5,333
Foreign currency translation adjustments	-	-	-	30	-	30	30
Net loss	-	-	-	-	(5,113)	(5,113)	(5,113)
Balance as of March 31, 2005	<u>29,414,424</u>	<u>\$ 9,572</u>	<u>\$ 270,114</u>	<u>\$ 63,080</u>	<u>\$ 46,673</u>	<u>\$ 389,439</u>	<u>\$ 250</u>
Total comprehensive income							

The accompanying notes are an integral part of the consolidated financial statements.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	<u>Three months ended March 31,</u>		<u>Year ended December 31,</u>
	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>Unaudited</u>		
<u>Cash flows from operating activities</u>			
Net income (loss)	\$ (3,513)	\$ (5,113)	\$ 47,335
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Equity in losses of affiliated companies	3,495	3,588	17,522
Minority interest in losses of subsidiaries	(1,727)	(194)	(5,160)
Loss (gain) from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	(16)	10	(23,328)
Loss (gain) from sale of investments and other than temporary decline in available - for - sale securities	150	-	(56,515)
Gain from extinguishment of a subsidiary loan	(2,708)	-	-
Gain from disposal of businesses included in discontinued operations	-	-	(213)
Depreciation and amortization	270	302	1,513
Impairment of intangible assets (discontinued operations)	-	-	1,329
Decline in value of other investments	-	-	636
Equity in losses (gains) of partnerships	238	31	(174)
Stock - based compensation and changes in liability in respect of call options	174	(465)	(811)
Deferred taxes, net	(13)	(184)	(7,288)
Changes in operating assets and liabilities			
Decrease (increase) in trade receivables	517	562	(947)
Decrease (increase) in other receivables and prepaid expenses	68	(374)	(38)
Decrease in trading securities, net	-	1	4
Decrease (increase) in inventories	67	(234)	(519)
Increase (decrease) in trade payables	283	(415)	(834)
Increase (decrease) in other payables and accrued expenses	192	(15,125)	(12,139)
Other	1,043	(508)	(753)
Net cash used in operating activities	<u>(1,480)</u>	<u>(18,118)</u>	<u>(40,380)</u>
<u>Cash flows from investing activities</u>			
Investment in affiliated companies	-	(465)	(3,823)
Proceeds from sale of affiliated companies	-	-	10,522
Proceeds from repayment of loan granted to an affiliated company	-	-	2,253
Purchase of treasury stock from the minority by a subsidiary	-	-	(823)
Cash and cash equivalents resulting from newly consolidated subsidiary (Schedule A)	-	-	-
Change in cash and cash equivalents resulting from disposal of business (Schedule B)	-	-	1,800
Investment in other companies	(6,439)	-	(27,651)
Proceeds from sale of available - for - sale securities	21,353	-	119,888
Proceeds from sale of other investments	-	93	237
Investments in deposits	(20,379)	-	(59,185)
Investment in available - for - sale securities	(23,166)	(4,955)	(35,405)
Proceeds from deposits	53,650	10,000	105,802
Purchase of property and equipment	(441)	(265)	(995)
Proceeds from sale of property and equipment	15	24	197
Net cash provided by investing activities	<u>24,593</u>	<u>4,432</u>	<u>112,817</u>
<u>Cash flows from financing activities</u>			
Proceeds from options exercised	242	-	697
Proceeds from exercise of options in a subsidiary	-	-	8
Repayment of long-term loans	-	(22)	(777)
Decrease in short-term bank loan, net	(400)	(706)	(1,079)
Receipt of short-term loans, convertible loans and long-term loans from minority shareholders of a subsidiary	-	-	1,003
Issuance of shares to the minority of a subsidiary	-	30	145
Issuance expenses in a subsidiary	-	(67)	(75)
Dividend paid	-	-	(88,450)
Net cash used in financing activities	<u>(158)</u>	<u>(765)</u>	<u>(88,528)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>22,955</u>	<u>(14,451)</u>	<u>(16,091)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>26,520</u>	<u>42,611</u>	<u>42,611</u>
	49,475	28,160	26,520
LESS CASH AND CASH EQUIVALENTS ATTRIBUTED TO DISCONTINUED OPERATIONS	-	(230)	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>49,475</u></u>	<u><u>27,930</u></u>	<u><u>26,520</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Three months ended March 31,		Year ended December 31,
	2006	2005	2005
	Unaudited		
Supplemental cash flow information:			
Cash paid for:			
Income taxes	\$ 463	\$ 15,014	\$ 30,591
Interest	\$ 17	\$ 31	\$ 203
Proceeds from sale of an affiliate not yet received	\$ -	\$ -	\$ 1,958
Proceeds from sale of an affiliate received in Zoran shares	\$ -	\$ -	\$ 7,700

SCHEDULE A:

Cash and cash equivalents resulting from newly consolidated subsidiaries

Assets acquired and liabilities assumed at the purchase date:

Working capital deficiency, net (except cash and cash equivalents)	\$ -	\$ -	\$ 75
Property and equipment	-	-	(14)
Intangible assets	-	-	(237)
Accrued severance pay, net	-	-	27
Liability incurred	-	-	149
Cash and cash equivalents acquired	\$ -	\$ -	\$ -

SCHEDULE B:

Change in cash and cash equivalents resulting from disposal of businesses

Assets and liabilities at date of sale:

Working capital deficiency, net (except cash and cash equivalents)	\$ -	\$ -	\$ (671)
Property and equipment	-	-	40
Intangible assets	-	-	2,389
Accrued severance pay, net	-	-	(171)
Gain resulting from sale of businesses	-	-	213
Net increase in cash and cash equivalents	\$ -	\$ -	\$ 1,800

The accompanying notes are an integral part of the consolidated financial statements.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 1:- GENERAL

The accompanying unaudited condensed interim consolidated financial statements have been prepared as of March 31, 2006, and for the three months then ended in accordance with accounting principles generally accepted in the United States (U.S. GAAP) relating to the preparation of financial statements for interim periods. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States but which are not required for interim reporting purposes, have been condensed or omitted. See Note 5 for the reconciliation from U.S. GAAP to accounting principles generally accepted in Israel ("Israeli GAAP").

These financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2005 ("the Company annual financial statements") and accompanying notes.

The condensed interim consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the period presented.

Results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The significant accounting policies followed in the preparation of these financial statements are identical to those applied in preparation of the latest annual financial statements, except as included in c below.
- b. The financial statements have been prepared in U.S. dollars, since the functional currency of the Company and its principal subsidiaries is the U.S. dollar.
- c. Effective January 1, 2006 ("the effective date") the Company applied SFAS No. 123(R), "Share-Based Payment", which revises the previously effective SFAS No. 123 and supersedes APB No. 25, and on March 29, 2005 the SEC issued SAB 107, "Share-Based Payment" ("SAB 107"). Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

The company, its subsidiaries and its affiliated companies adopted SFAS 123(R) using the modified-prospective method. According to the modified-prospective method, compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 "Accounting for Stock-Based Compensation" ("SFAS 123") for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.

Previously, the Company and its subsidiaries adopted the fair-value-based method of accounting based on the provisions of SFAS 123 for share-based payments effective January 1, 2003 using the prospective method" described in SFAS 148 "Accounting for Stock- Based Compensation- Transition and Disclosure".

Because 1) SFAS 123(R) must be applied not only to new awards but also to previously granted awards that are not fully vested on the effective date, 2) the Company adopted

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

SFAS 123 using the prospective transition method (which applied only to award granted, modified or settled after the adoption date), and 3) the Company's affiliated companies applied APB 25 to previously granted awards, compensation cost for some previously granted awards in the Company, its subsidiaries and in its affiliated companies that were not recognized under SFAS 123 are recognize under SFAS 123(R).

As a result of adopting the provisions of SFAS 123(R) on January 1, 2006 by the Company, its subsidiaries and its affiliated companies, the Company recorded compensation expenses in the amount of approximately \$400 during the three-month period ended March 31, 2006.

NOTE 3:- MAJOR TRANSACTIONS

a. **Partner Communications Company Ltd. ("Partner")**

On March 21, 2006, Elron completed the acquisition of approximately 823,000 shares of Partner from one of the other Israeli founding shareholders of Partner for approximately \$5,300, reflecting approximately 15% discount from the market price at the date of the agreement. Upon completion of the acquisition, Elron holds approximately 2.6% of Partner.

Almost all of Partner shares held by the Company are subject to transfer restrictions under Partner's Israeli Communications license. The shares are accounted for as available-for-sale securities.

b. **Nulens**

As described in Note 8 (c) to the Company's annual financial statements, on April 21, 2005, Elron completed an investment of approximately \$2,900 in Nulens Ltd. ("Nulens"), in consideration for 763,584 Series A preferred shares, as part of an aggregate investment of approximately \$3,400. Elron's investment was in two installments, the first of approximately \$1,700 was invested immediately for approximately 17% of Nulens on a fully diluted and on an as converted basis and an additional amount of approximately \$1,100 was invested on March 9, 2006. Simultaneously with the \$1,100 investment, Elron invested an additional amount of \$1,500, for 241,158 Series B preferred shares. The investment in preferred B shares was part of a new round of investment in the aggregate amount of approximately \$6,000. The new round was led by Warburg Pincus, a leading global private equity fund. Following the above investments, Elron holds 25% of Nulens, on a fully diluted and on an as converted basis. Nulens is an Israeli medical devices company operating in the field of intra-ocular lenses mainly for cataract and presbyopia procedures.

Since the investments in preferred A and B shares are not considered to be investments that are in-substance-common stock, the investment in Nulens is accounted for under the cost method.

c. **Safend**

On January 2, 2006, Elron completed an investment of approximately \$3,700 in Safend Ltd. ("Safend"), in consideration for 1,942,261 Series B preferred shares, as part of an aggregate investment of approximately \$7,400. Following Elron's investment, Elron holds approximately 22% of Safend on a fully diluted and on an as converted basis. Safend is an Israeli company which develops comprehensive desktops and laptops endpoint security solutions.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

c. **Safend (Cont.)**

Since the investment in preferred B shares is not considered to be an investment that is in-substance-common stock, the investment in Safend is accounted for under the cost method.

d. **Mediagate**

In February 2006, Mediagate's bank loan in the amount of approximately \$2,800 was extinguished for a consideration of \$100. As a result, according to the provision of FAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" Elron recorded in the first quarter of 2006 a gain from extinguishment of approximately \$2,700 which is included in other income in the statements of operations.

e. **ChipX**

On April 28, 2006, ChipX completed a \$6,000 round of investment in preferred AA shares from existing shareholders, in which Elron invested approximately \$2,300. As a result, Elron's interest in ChipX on a fully diluted and on an as converted basis, increased to 22.6%. ChipX is a manufacturer of late stage programmable application-specific integrated circuits, or structured ASICs.

NOTE 4:- CONTINGENT LIABILITIES

There were no material changes in the status of the Company's contingent liabilities as described in the Company's annual financial statements, the details of which are as follows:

Legal proceedings:

1. During September 1999, the Company received copies of two claims and a request to approve such claims as a class action on behalf of public shareholders of Elscint (formerly an affiliated company) against the Company and others. The allegation raised by the claimants related to the decision regarding the sale of Elscint's substantial assets. The claim has been stayed pursuant to an arrangement reached by the parties pending the outcome of the appeal in the claim described in paragraph 2 below. The arrangement provides that if the appeal as described in paragraph 2 below is accepted, then the proceedings to recognize the lawsuit as a class action will proceed. Otherwise, the application to recognize the claim as a class action suit will be dismissed.
2. On November 2, 1999, the Company received a copy of a claim, and a request to approve such a claim, as a class action on behalf of some institutional investors and others and those who held shares in Elscint on September 6, 1999. The allegations raised against the Company and certain of its officers including former officers, among others, relate to the period prior to the sale of the Company's holdings in Elbit Medical Imaging ("EMI") (the parent company of Elscint and formerly an affiliated company). The claimants seek a court order pursuant to which EMI would be compelled to execute the alleged buy-out of Elscint's share at \$14 per share or other remedies. On August 16, 2000, the Haifa District court dismissed the application to recognize the claim as a class action. Some of the claimants applied for and have been granted permission to appeal to the Supreme Court in Israel, which appeal is currently pending.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 4:- CONTINGENT LIABILITIES (Cont.)

In addition, in February 2001, the claimants submitted a revised claim similar to the previous one but not as a class action. It has not been determined when the defendants are required to file their statements of defense to the claim. The claimants and the defendants are currently involved in various proceedings, mostly regarding the disagreement concerning the court fees.

The Company denies all the allegations set forth in the above claims, and based on legal advice received, management is of the opinion that the Company has good defense arguments which, if accepted, will cause dismissal of the above allegations.

NOTE 5:- RECONCILIATION TO ISRAELI GAAP

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. Had the consolidated financial statements been prepared in accordance with Israeli GAAP, the effects on the financial statements would have been as follows:

- a. Effect on the statement of operations:

	Three months ended March 31, 2006		
	<u>As reported</u>	<u>Adjustments</u> <u>Unaudited</u>	<u>As per Israeli GAAP</u>
Net loss	\$ (3,513)	\$ (4,682)	\$ (8,195)
Basic net loss per share	(0.12)	(0.16)	(0.28)
Diluted net loss per share	(0.12)	(0.16)	(0.28)

	Three months ended March 31, 2005		
	<u>As reported</u>	<u>Adjustments</u> <u>Unaudited</u>	<u>As per Israeli GAAP</u>
Net loss	\$ (5,113)	\$ (2,572)	\$ (7,685)
Basic net loss per share	(0.17)	(0.09)	(0.26)
Diluted net loss per share	(0.18)	(0.08)	(0.26)

	Year ended December 31, 2005		
	<u>As reported</u>	<u>Adjustments</u> <u>Audited</u>	<u>As per Israeli GAAP</u>
Net income	\$ 47,335	\$ 7,147	\$ 54,482
Basic net income per share	1.61	0.24	1.85
Diluted net income per share	1.60	0.24	1.84

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 5:- RECONCILIATION TO ISRAELI GAAP (Cont.)

b. Effect on the balance sheet:

	March 31, 2006		
	As reported	Adjustments	As per Israeli
		Unaudited	GAAP
Total assets	\$ 344,324	\$ (77,996)	\$ 266,328
Total liabilities including minority interest	46,698	(20,336)	26,362
Total equity	297,626	(57,660)	239,966

	December 31, 2005		
	As reported	Adjustments	As per Israeli
		Audited	GAAP
Total assets	\$ 353,773	\$ (75,361)	\$ 278,412
Total liabilities including minority interest	51,657	(21,145)	30,512
Total equity	302,116	(54,216)	247,900

c. Material adjustments:

The abovementioned adjustments result primarily from the differences between U.S. GAAP and Israeli GAAP detailed in Note 26 to the Company's annual financial statements for 2005.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

Details relating to major investments as of March 31, 2006:

	% of ownership interest ⁽¹⁾	Carrying value of the investment as of March 31, 2006 ⁽²⁾	Market value of the publicly traded investments as of:	
			March 31, 2006	May 15, 2006
<u>Consolidated Companies:</u>				
Galil Medical Ltd. ⁽³⁾	40%	1,695	-	-
3DV Systems Ltd. ⁽³⁾	62%	(449)	-	-
Starling ⁽³⁾	50%	332	-	-
SELA ⁽³⁾	39%	1,022	-	-
Enure (formerly: Gaia)	57%	2,967	-	-
Mendingo ⁽³⁾	50%	(60)	-	-
<u>Affiliated Companies (equity):</u>				
Given Imaging Ltd. (Nasdaq: GIVN) ⁽³⁾	19%	62,673	125,126	110,501
NetVision Ltd. (TASE: NTSN)	39%	6,280	35,816	40,460
ChipX	26%	1,913	-	-
CellAct Ltd.	45%	451	-	-
Oncura ⁽⁴⁾	10%	8,771	-	-
AMT	42%	1,824	-	-
Wavion, Inc.	38%	191	-	-
Pulsicom Israel Technologies Ltd.	18%	27	-	-
Notal Vision, Inc.	25%	-	-	-
<u>Available for sale:</u>				
Partner (Nasdaq: PTNR)	3%	29,517	29,517	37,151
EVS (Nasdaq: EVSNF.OB)	10%	1,550	2,401	2,128
<u>Partnership:</u>				
Gemini Israel Fund L.P.	5%	33	-	-
InnoMed Ventures L.P.	14%	3,726	-	-
<u>Cost:</u>				
Avantry (formerly: Witcom Ltd.) ⁽³⁾	7%	2	-	-
Jordan Valley	28%	8,137	-	-
Impliant	22%	8,340	-	-
Teledata Ltd.	21%	16,000	-	-
Nulens Ltd.	29%	4,360	-	-
Brainsgate Ltd.	22%	6,947	-	-
Safend Ltd.	26%	3,700	-	-

⁽¹⁾ On the basis of the outstanding share capital.

⁽²⁾ Includes loans and convertible notes.

⁽³⁾ Represents the carrying value and the ownership interest of the investment in Elron's books and Elron's share in the carrying value and ownership interest of the investment in RDC's books.

⁽⁴⁾ Represents Elron's share in the carrying value and the ownership interest of the investment in Galil's books.
