ELRON ELECTRONIC INDUSTRIES LTD.

AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2004

(Unaudited)

ELRON ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2004

UNAUDITED

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CONSOLIDATED BALANCE SHEETS

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

	September 30, 2004	December 31, 2003
	Unaudited	Audited
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 113,320	$ 83,906
Short-term investments	116,764	37,158
Trade receivables, net*	5,972	5,016
Other receivables and prepaid expenses*	1,469	2,516
Inventories and contracts-in-progress	1,933	1,471
Total current assets	239,458	130,067
LONG-TERM ASSETS		
Investments in affiliated companies (See Note 3a)	95,900	156,819
Investments in other companies and long-term receivables*	114,088	128,799
Debentures	-	700
Deferred taxes	-	1,871
Severance pay deposits	2,597	2,144
Total long-term assets	212,585	290,333
PROPERTY AND EQUIPMENT, NET	8,184	8,317
INTANGIBLE ASSETS		
Goodwill	10,039	12,019
Other intangible assets	7,413	9,968
	17,452	21,987
Total assets	$ 477,679	$ 450,704

* Includes receivables from related parties in the aggregate amount of $2,976 and $3,684 as of September 30, 2004 and December 31, 2003, respectively.

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

CONSOLIDATED BALANCE SHEETS

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

	September 30, 2004	December 31, 2003
	Unaudited	Audited
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term loans from banks and others	$ 2,386	$ 11,986
Current maturities of long-term loans from banks and others	2,220	44,021
Trade payables	2,642	3,408
Other payables and accrued expenses	39,991	13,620
Total current liabilities	47,239	73,035
LONG-TERM LIABILITIES		
Long-term loans from banks and others	4,057	17,221
Accrued severance pay and retirement obligations	3,710	2,850
Deferred taxes	34,431	40,684
Other	22	103
Total long-term liabilities	42,220	60,858
MINORITY INTEREST	22,287	20,681
SHAREHOLDERS' EQUITY:		
Ordinary shares of NIS 0.003 par value; Authorized - 35,000,000 shares as of September 30, 2004 and December 31, 2003; Issued and outstanding - 29,356,707 and 29,206,845 shares as of September 30, 2004 and December 31, 2003, respectively;	9,572	9,572
Additional paid-in capital	269,274	267,113
Accumulated other comprehensive income	39,411	51,792
Retained earnings (accumulated deficit)	47,676	(32,347)
Total shareholders' equity	365,933	296,130
Total liabilities and shareholders' equity	$ 477,679	$ 450,704

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

	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Three months ended September 30, 2004	Three months ended September 30, 2003	Year ended December 31, 2003
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
INCOME					
Net revenues*	$ 11,546	$ 12,555	$ 4,545	$ 4,724	$ 16,547
Equity in losses of affiliated companies	(5,434)	(8,051)	(3,333)	(1,178)	(8,698)
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	132,386	25,645(**)	104,485	24,386	25,754
Other income, net	4,813	9,713(**)	626	3,653	14,665
	143,311	39,862	106,323	31,585	48,268
COSTS AND EXPENSES					
Cost of revenues	7,165	7,746	2,676	3,454	10,198
Research and development costs, net	2,584	3,199	1,009	762	3,787
Marketing and selling expenses, net	2,199	7,195	1,012	1,004	7,763
General and administrative expenses	10,942	10,091	3,298	4,181	13,923
Amortization of intangible assets	668	839	281	251	1,073
Restructuring costs	225	-	225	-	-
Impairment of goodwill	1,980	-	1,980	-	-
Impairment of intangible assets and property and equipment	2,905	-	2,905	-	-
Financial expenses (income), net	(479)	779	(580)	(234)	753
	28,189	29,849	12,806	9,418	37,497
Income before taxes on income	115,122	10,013	93,517	22,167	10,771
Taxes on income	(30,924)	(5,735)	(22,770)	(3,897)	(6,834)
Income from continuing operations after taxes on income	84,198	4,278	70,747	18,270	3,937
Minority interest in losses (income) of subsidiaries	(3,725)	(11,915)	169	(15,569)	(10,907)
Income (loss) from continuing operations	80,473	(7,637)	70,916	2,701	(6,970)
Income (loss) from discontinued operations	(450)	(2,682)	(94)	319	(235)
Net income (loss)	$ 80,023	$ (10,319)	$ 70,822	$ 3,020	$ (7,205)
Income (loss) per share:					
Basic:					
Income (loss) from continuing operations	$ 2.75	$ (0.26)	$ 2.42	$ 0.09	$ (0.24)
Income (loss) from discontinued operations	(0.01)	(0.09)	-	0.01	(0.01)
Net income (loss)	$ 2.74	$ (0.35)	$ 2.42	$ 0.10	$ (0.25)
Diluted:					
Income (loss) from continuing operations	$ 2.74	$ (0.26)	$ 2.41	$ 0.09	$ (0.24)
Income (loss) from discontinued operations	(0.01)	(0.09)	-	0.01	(0.01)
Net income (loss)	$ 2.73	$ (0.35)	$ 2.41	$ 0.10	$ (0.25)
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	29,233	29,190	29,277	29,203	29,194
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	29,353	29,190	29,412	29,203	29,194

* Includes revenues from related parties in the amount of $ 6,376 and $ 2,516 for the nine months ended September 30, 2004 and 2003, respectively, of $ 2,073 and $ 2,068 for the three months ended September 30, 2004 and 2003, respectively and $4,156 for the year ended December 31, 2003.

** Reclassified

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

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 (Accumulated deficit)	Total shareholders' equity	Total comprehensive income
Audited							
Balance as of January 1, 2003	29,180,970	$ 9,572	$ 267,482	$ 7,529	$ (25,142)	$ 259,441	
Exercise of options	25,875	-	177			177	
Changes in additional paid-in capital in affiliated companies	-	-	(932)	-	-	(932)	
Amortization of deferred stock compensation	-	-	386	-	-	386	
Other comprehensive income (loss), net of tax:							
Unrealized gains on available for sale securities	-	-	-	55,960	-	55,960	$ 55,960
Reclassification adjustment for gain realized included in net loss	-	-	-	(11,113)	-	(11,113)	(11,113)
Foreign currency translation adjustments	-	-	-	(304)		(304)	(304)
Unrealized loss on derivative instruments in affiliated company	-	-	-	(108)	-	(108)	(108)
Minimum pension liability in affiliated company	-	-	-	(172)	-	(172)	(172)
Net loss	-	-	-	-	(7,205)	(7,205)	(7,205)
Balance as of December 31, 2003	29,206,845	9,572	267,113	51,792	(32,347)	296,130	
Total comprehensive income							$ 37,058
Unaudited							
Exercise of options	149,862	-	1,553	-	-	1,553	
Amortization of deferred stock compensation	-	-	405	-	-	405	
Tax benefit in respect of options exercised	-	-	203	-	-	203	
Other comprehensive income (loss), net of tax:							
Unrealized losses on available for sale securities	-	-	-	(9,900)	-	(9,900)	$ (9,900)
Reclassification adjustment for gain realized included in net income	-	-	-	(3,582)	-	(3,582)	(3,582)
Foreign currency translation adjustments	-	-	-	285	-	285	285
Unrealized gain on derivative instruments in affiliated company	-	-	-	84	-	84	84
Reclassification adjustments for loss on derivative instruments, minimum pension liability and foreign currency translation adjustment, included in net income due to sale of affiliated company	-	-	-	732	-	732	732
Net income	-	-	-	-	80,023	80,023	80,023
Balance as of September 30, 2004	29,356,707	$ 9,572	$ 269,274	$ 39,411	$ 47,676	$ 365,933	
Total comprehensive income							$ 67,642
Unaudited							
Balance as of January 1, 2003	29,180,970	$ 9,572	$ 267,482	$ 7,529	$ (25,142)	$ 259,441	
Exercise of options	22,500	-	154	-	-	154	
Changes in additional paid-in capital in affiliated companies	-	-	609	-	-	609	
Amortization of deferred stock compensation	-	-	181	-	-	181	
Other comprehensive income (loss), net of tax:							
Unrealized gains on available for sale securities	-	-	-	35,080	-	35,080	$ 35,080
Reclassifications adjustments for gain realized included in net loss	-	-	-	(7,963)	-	(7,963)	(7,963)
Foreign currency translation adjustments	-	-	-	(365)	-	(365)	(365)
Unrealized gain on derivative instruments in affiliated company	-	-	-	173	-	173	173
Net loss	-	-	-	-	(10,319)	(10,319)	(10,319)
Balance as of September 30, 2003	29,203,470	$ 9,572	$ 268,426	$ 34,454	$ (35,461)	$ 276,991	
Total comprehensive income							$ 16,606

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

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 (Accumulated deficit)	Total shareholders' equity	Total comprehensive income
Unaudited							
Balance as of July 1, 2004	29,220,345	$ 9,572	$ 267,518	$ 49,411	$ (23,146)	$ 303,355	
Exercise of options	136,362	-	1,460	-	-	1,460	
Amortization of deferred stock compensation	-	-	93	-	-	93	
Tax benefit in respect of options exercised	-	-	203	-	-	203	
Other comprehensive income (loss), net of tax:							
Unrealized losses on available for sale securities	-	-	-	(10,452)	-	(10,452)	$ (10,452)
Reclassification adjustment for gain realized included in net income	-	-	-	(273)	-	(273)	(273)
Foreign currency translation adjustments	-	-	-	(7)	-	(7)	(7)
Reclassification adjustments for loss on derivative instruments, minimum pension liability and foreign currency translation adjustment, included in net income due to sale of affiliated company	-	-	-	732	-	732	732
Net income	-	-	-	-	70,822	70,822	70,822
Balance as of September 30, 2004	29,356,707	$ 9,572	$ 269,274	$ 39,411	$ 47,676	$ 365,933	
Total comprehensive income							$ 60,822
Unaudited							
Balance as of July 1, 2003	29,203,470	$ 9,572	$ 269,040	$ 22,818	$ (38,481)	$ 262,949	
Changes in additional paid-in capital in affiliated companies	-	-	(669)	-	-	(669)	
Amortization of deferred stock compensation	-	-	55	-	-	55	
Other comprehensive income (loss), net of tax:							
Unrealized gains on available for sale securities	-	-	-	15,710	-	15,710	15,710
Reclassification adjustments for gain realized included in net loss	-	-	-	(3,808)	-	(3,808)	(3,808)
Unrealized loss on derivative instruments in affiliated company	-	-	-	(254)	-	(254)	(254)
Foreign currency translation adjustments	-	-	-	(12)	-	(12)	(12)
Net income	-	-	-	-	3,020	3,020	3,020
Balance as of September 30, 2003	29,203,470	$ 9,572	$ 268,426	$ 34,454	$ (35,461)	$ 276,991	
Total comprehensive income							$ 14,656

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Year ended December 31, 2003
	Unaudited	Unaudited	Audited
Cash flows from operating activities			
Net income (loss)	$ 80,023	$ (10,319)	$ (7,205)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Equity in losses of affiliated companies	5,434	8,051	8,698
Dividend from affiliated companies	1,719	2,189	2,971
Minority interest in income (losses) of subsidiaries	3,725	11,915	10,907
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	(132,386)	(25,645)	(25,754)
Gain from sale of investments in available for sale securities	(5,360)	(13,122)	(17,924)
Gain from disposal of businesses included in discontinued operations	-	(1,571)	(4,137)
Depreciation and amortization	1,522	3,017	3,573
Impairment of goodwill	1,980	-	-
Impairment of intangible assets and property and equipment	2,905	-	-
Decline in value of other investments	173	3,601	3,716
Equity in losses of partnerships	159	503	547
Amortization of deferred stock compensation and changes in liability in respect of call options	3,272	1,551	2,564
Deferred taxes, net	4,890	5,647	6,229
Changes in operating assets and liabilities:			
Decrease in trade receivables	1	3,366	3,491
Decrease in other accounts receivable and prepaid expenses	565	891	1,888
Decrease (increase) in trading securities, net	5	(6)	(4)
Decrease (increase) in inventories and contracts-in-progress	384	(109)	589
Decrease in trade payables	(2,001)	(220)	(2,009)
Increase (decrease) in other accounts payable and accrued expenses	25,365	(5,680)	(5,275)
Other	331	(88)	652
Net cash used in operating activities	(7,294)	(16,029)	(16,483)
Cash flows from investing activities			
Investment in affiliated companies	(31,732)	(12,218)	(14,884)
Proceeds from sale of KIT shares	5,706	-	-
Proceeds from sale of Given Imaging shares	9,073	13,878	13,878
Proceeds from sale of ESL shares	196,580	-	-
Cash and cash equivalents resulting from newly consolidated subsidiaries (schedule a)	247	-	-
Net decrease in cash and cash equivalents upon sale of businesses and subsidiaries (schedule b)	-	(2,959)	(4,648)
Investment in other companies	(967)	(299)	(299)
Collection of long term receivables	-	772	772
Proceeds from sale of available for sale securities	8,062	37,191	46,143
Investment in available for sale securities	(14,000)	(1,952)	(1,952)
Investments in deposits	(105,378)	(6,855)	(8,925)
Proceeds from maturities of held to maturity debentures and deposits	33,345	8,963	8,975
Purchase of property and equipment	(559)	(433)	(547)
Proceeds from sale of property and equipment	188	235	329
Net cash provided by investing activities	100,565	36,323	38,842
Cash flows from financing activities			
Proceeds from options exercised	1,553	154	177
Receipt of long-term loans from banks	418	3,516	4,032
Repayment of long-term loans	(50,477)	(6,031)	(6,200)
Decrease in short-term bank loan, net	(16,625)	(4,124)	(4,076)
Repayment of loans from minority shareholders of a subsidiary	(444)	(4,246)	(4,246)
Receipt of short-term loans from minority shareholders of a subsidiary	316	429	904
Proceeds from convertible loans and long-term loans from minority shareholders of a subsidiary	1,649	3,055	3,055
Issuance expenses in a subsidiary	(180)	-	-
Dividend to minority shareholders of a subsidiary	(67)	-	-
Net cash used in financing activities	(63,857)	(7,247)	(6,354)
Increase in cash and cash equivalents	29,414	13,047	16,005
Cash and cash equivalents at the beginning of the period	83,906	67,901	67,901
Cash and cash equivalents at the end of the period	$ 113,320	$ 80,948	$ 83,906

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

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

	Nine months ended September 30, 2004	Nine months ended September 30, 2003	Year ended December 31, 2003
	Unaudited	Unaudited	Audited
Supplemental cash flow information:			
Cash paid for:			
Income taxes	$ 279	$ 83	$ 96
Interest	$ 1,081	$ 1,186	$ 1,466

	Nine months ended September 30, 2004
	(Unaudited)
(a) Cash and cash equivalents resulting from newly consolidated subsidiaries	
Assets acquired and liabilities assumed at the purchase date:	
Working capital, net (except cash and cash equivalents)	1,071
Deposits	(31)
Property and equipment	(618)
Intangible assets	(1,350)
Long-term liabilities	431
Investment at equity prior to acquisition	678
Minority interests	66
Cash and cash equivalents acquired	247

	Nine months ended September 30, 2003	Year ended December 31, 2003
	(Unaudited)	(Audited)
(b) Net decrease in cash and cash equivalents upon sale of businesses and subsidiaries		
Assets and liabilities at date of sale:		
Working capital (working capital deficiency), net (except cash and cash equivalents)	$ 989	$ (708)
Property and equipment	1,274	1274
Intangible assets	6,532	6,532
Deferred tax liability	(907)	(907)
Gain resulting from sale of business	22,825	22,833
Securities received:		
Marketable securities	(5,400)	(5,400)
Other investments	(1,000)	(1,000)
Investment in affiliated company	(30,272)	(30,272)
Liability incurred	3,000	3,000
Net decrease in cash and cash equivalents	$ (2,959)	$ (4,648)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

a. The accompanying unaudited condensed interim consolidated financial statements have been prepared as of September 30, 2004, and for the nine months and 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 disclosures normally included in financial statements prepared in accordance with U.S. GAAP but which are not required for interim reporting purposes, have been condensed or omitted. See Note 9 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 and accompanying notes as of December 31, 2003 included in the Company’s Annual Report on Form 20-F ("the Company's annual financial statements").

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 periods presented.

Results for the three months and nine months periods ended September 30, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

b. On August 22, 2004 Discount Investment Corporation Ltd. ("DIC") completed a tender offer to purchase 2,203,425 of the Company's shares. Following the consummation of the tender offer, DIC's interest in the Company increased from 38.5% to approximately 46% of the Company's outstanding shares.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. The significant accounting policies followed in the preparation of these financial statements are identical to those applied in the preparation of the latest annual financial statements , except as follows:

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying variable interest entities ("VIE") and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is a corporation, partnership, limited-liability corporation, trust, or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that is unable to make significant decisions about its activities, or (3) has a group of equity owners that does not have the obligation to absorb losses or the right to receive returns generated by its operations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

FIN 46 provides several exceptions to its scope, such as that an entity that is deemed to be a business need not be evaluated to determine if it is a VIE, unless one of the conditions specified in the interpretation exists.

FIN 46 requires a VIE to be consolidated by the party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) that will absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no other variable interests absorb a majority of the VIE's losses), or both.

A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on a majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

FIN 46 was effective immediately for VIEs created after January 31, 2003. For VIEs created before January 31, 2003, the provisions of FIN 46, as revised, were adopted in the first quarter of 2004. The adoption of FIN 46 did not have a significant effect on the Company's financial statements. For additional information on the Company’s VIEs, see Note 4.

b. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2004, the EITF reached a consensus on Issue No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock” ("EITF 02-14"). EITF 02-14 states that the Company must apply the equity method of accounting to investments in common stock and in in-substance common stock if it has the ability to exercise significant influence over the operating and financial policies of the investee. EITF 02-14 defines in-substance common stock as an investment with similar risk and reward characteristics to common stock. The provisions of EITF 02-14 are effective in the fourth quarter of 2004.

For investments that are in-substance common stock but were not accounted for under the equity method of accounting prior to the effective date of EITF 02-14, the effect of adopting the consensuses in EITF 02-14 should be reported in the beginning of the reporting period of adoption similar to a cumulative effect of a change in accounting principle pursuant to Opinion 20. For investments that are not common stock or in-substance common stock, but were accounted for under the equity method of accounting prior to the effective date of EITF 02-14, the equity method of accounting should be discontinued at the effective date. Previously recognized equity method earnings and losses should not be reversed.

The Company is currently evaluating the effects of the provisions of EITF 02-14 on its financial statements.

c. 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.

NOTE 3:- MAJOR TRANSACTIONS AND EVENTS

a. **Elbit Systems Ltd. ("ESL")**

On July 8, 2004, Elron announced the signing of a definitive agreement for the sale of all of its holdings in ESL (NASDAQ: ESLT) constituting approximately 19.6% of the outstanding share capital of ESL to Tadiran Communications Ltd., in consideration for approximately $197,000. The closing of the transaction was subject to the right of first refusal of Federmann Enterprises Ltd. ("Federmann Enterprises"), the other major shareholder of ESL. On July 28, 2004, Federmann Enterprises exercised its right of first refusal, following which the shares were sold to Federmann Enterprises for approximately $197,000. As a result, Elron recorded in the third quarter of 2004 a gain of approximately $104,600 which net of tax amounted to approximately $79,900. The gain net of tax includes a reduction of approximately $10,000 in the tax expense as a result of a reversal of a valuation allowance previously recorded in respect of deferred tax assets relating to loss carryforwards. The tax benefit due to the change in the valuation allowance is included in the computation of the effective tax rate for the year and, accordingly, is recognized in proportion to the current period earnings and the expected earnings for subsequent interim periods of the year. As the sale of ESL was completed in the third quarter, the principal portion of the tax benefit referred to above was also recorded in the third quarter.

b. **Given Imaging Ltd. ("Given")**

1. In April 2004, RDC, then 48% held subsidiary, purchased from one of its shareholders (a former senior executive of RDC) treasury shares amounting to approximately 3% of its outstanding share capital. In consideration for the treasury shares, RDC distributed to the shareholder 200,000 shares of Given (NASDAQ: GIVN). The number of the distributed Given shares was calculated based on the relative fair values of the shares of RDC and of Given on the date the agreement to purchase the treasury shares was signed (May 2003). The transaction was completed in April 2004, after receipt of various approvals required under the agreement.

   RDC recorded the purchase of the treasury shares based on the fair value of Given's shares on the date of distribution. Accordingly, RDC recorded a gain on the distribution of Given shares of approximately $5,800.

   RDC's purchase of the treasury shares resulted in Elron increasing its interest in RDC by approximately 1.5%. This acquisition of the additional interest in RDC was accounted for by the purchase method. Accordingly, Elron has recorded the additional interest in RDC at fair value of approximately $1,900 and recorded its share of the gain in the distribution of Given shares in the amount of $1,400, net of tax and minority interest.

2. On June 23, 2004, Given completed its secondary public offering of 2,880,750 ordinary shares at $32.00 per share, comprising 1,500,000 shares issued by Given and 1,380,750 shares (including 375,750 shares as a result of the exercise of the underwriters' over allotment option) sold by existing shareholders. In the aforementioned offering, RDC sold 300,000 ordinary shares in consideration for approximately $9,000. Given received net proceeds of approximately $44,300.

   As a result of the sale of Given's shares by RDC and the issuance of shares by Given, Elron's direct and indirect interest in Given decreased from approximately 16% to approximately 15%, and Elron recorded a gain of $15,200 ($6,700 net of tax and minority interest).

NOTE 3:- MAJOR TRANSACTIONS AND EVENTS (Cont.)

b. **Given Imaging Ltd. ("Given") (Cont.)**

3. During August 2004 Elron purchased 550,000 ordinary shares of Given in consideration for approximately $19,200. As a result of the transaction, Elron's direct and indirect ownership interest in Given increased from approximately 15% to approximately 17%. The excess of the purchase price over the Company's share in the equity acquired amounted to approximately $ 17,400 and was allocated, based among others, on an appraisal performed by valuation experts, as follows: approximately $12,200 to intangible assets other than goodwill, such as customer base and technology, approximately $700 to in-process research and development activities ("IPR&D"), and approximately $4,500 to goodwill.

   Products which did not receive marketing clearance by regulatory authorities as of the acquisition date were considered to be incomplete and accordingly the amount allocated to such products is considered to be IPR&D. The amount allocated to IPR&D was charged immediately to the Company's results of operations in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method" ("FIN 4"). The amounts allocated to intangible assets other than goodwill are amortized on a straight-line basis over their expected useful life of 10-15 years. The amortization of the identifiable intangible assets as well as the write-off of the IPR&D are included as part of the line item "Equity in losses of affiliated companies" in the statements of operations.

4. During November 2004 (through November 9, 2004), Elron purchased 823,513 ordinary shares of Given in consideration for approximately $24,700. As a result of the transaction, Elron's direct and indirect ownership interest in Given increased from approximately 17% to approximately 20%.

c. **ChipX ("ChipX") (formerly : CHIP EXPRESS CORPORATION)**

On March 4, 2004, ChipX completed a private placement in which it issued 7,594,928 redeemable preferred shares in consideration for $12,000. Elron purchased 1,632,564 redeemable preferred shares in consideration for approximately $2,600. As a result, Elron's interest in ChipX decreased from approximately 33% to approximately 27%. The aforementioned transaction had no effect on Elron's results of operations.

d. **K.I.T. eLEARNING B.V ("KIT")**

On March 31, 2004, Elron together with the other shareholders of KIT, DIC and Kidum IT Ltd. (together "the sellers") completed the sale of KIT, then held 45% by Elron, to Online Higher Education B.V, a subsidiary of Laureate Education, Inc. (formerly: Sylvan Learning Systems) (Nasdaq: LAUR), a global leader in higher education, in consideration for $9,400, of which Elron received approximately $5,700. The gain resulting from the sale amounted to approximately $5,300. In addition, the sellers are entitled to a future payment of up to $10,000 based on future earnings of KIT in the years 2006 and 2007, from which Elron's share will be up to approximately $5,700.

NOTE 3:- MAJOR TRANSACTIONS AND EVENTS (Cont.)

e. **A.M.T. Advanced Metal Technologies Ltd. ("AMT")**

On June 30, 2004, Elron completed an investment of $3,000 (of which $245 were invested in the first quarter of 2004) in convertible notes of AMT, together with an international strategic partner which also invested $3,000 in AMT's convertible notes. In addition, existing AMT shareholders, including Elron, converted shareholder loans into convertible notes in the aggregate amount of approximately $2,700, of which Elron converted approximately $1,600. The notes are convertible into preferred shares of AMT or into shares held by AMT in certain of its subsidiaries. In addition, Elron and the other investors in AMT were issued warrants to purchase convertible notes of AMT for a total amount of up to approximately $19,120, which may be exercised over various periods up to a maximum of 48 months from the closing date of the transaction. As a result of the transaction, Elron increased its ownership interest from approximately 28% to approximately 35% on a fully diluted basis (excluding warrants) and on an "as converted" basis. The excess of the purchase price over the company's share in the equity acquired amounted to approximately $4,200, the majority of which was allocated to technology (patented and unpatented). This amount will be amortized over a period of 8 years.

f. **NetVision Ltd. ("NetVision")**

During the first quarter of 2004, Elron and DIC each granted to NetVision a loan of $2,000 in order to enable NetVision to repay a portion of its line of credit to a lending bank. Due to the uncertainty with regard to NetVision's initial public offering on the Tel-Aviv Stock Exchange, and in accordance with EITF 02-18 "Accounting for Subsequent Investments in an Investee after Suspension of Equity Method Loss Recognition", Elron recognized in the second quarter of 2004 all previously suspended equity method losses in NetVision in the amount of the loan granted.

In July 2004 and October 2004, Elron and DIC each granted NetVision additional loans of $1,900 and approximately $1,400, respectively.

g. **ZIX CORPORATION ("ZIX")**

During the nine months ended September 30, 2004, Elron sold all its remaining shares of Zix amounting to 854,701 shares in consideration for approximately $8,000 ($1,100 in the third quarter of 2004) and recorded a realized gain of approximately $5,400 ($3,600 net of tax) ($300 net of tax in the third quarter of 2004).

h. **Elron Telesoft INC. ("ETI")**

The Systems and Projects segment (reporting unit) which consists of the operations of ETI is usually tested for impairment in the fourth quarter. In light of ETI's results of operations, the technology, property and equipment and subsequently the goodwill associated with the Systems and Projects asset group and reporting unit, respectively, were tested for impairment during the third quarter of 2004. As a result of the impairment test, the Company recorded an impairment loss of approximately $2,700 and $200 relating to the technology and property and equipment, respectively and approximately $2,000 relating to goodwill. These impairment losses are included in separate line items in the statement of operations. The fair value of the aforementioned reporting unit and asset group was estimated, based among others, on an appraisal performed by a valuation expert using the discounted cash flows approach.

NOTE 3:- MAJOR TRANSACTIONS AND EVENTS (Cont.)

i. **Jordan Valley Applied Radiation Ltd. ("Jordan Valley")**

On October 21, 2004, the Company invested approximately $6,700 in Preferred shares of Jordan Valley, an Israeli private company engaged in developing solutions for advanced in-line thin film metrology for the semi-conductor industry. Following the investment the Company holds 25% of Jordan Valley on a fully diluted basis. The Company holding percentage is subject to adjustments based on Jordan Valley's future performance. Jordan Valley is also 40% owned (indirectly) by Clal Industries and Investments Ltd. ("Clal"), an approximately 64% held subsidiary of IDB Development Corporation Ltd. ("IDBD"), which also owns approximately 67% of DIC. Clal, IDBD, and DIC are publicly traded on the Tel Aviv Stock Exchange. The Company's investment in Jordan Valley was approved by the shareholders of Elron and Clal on October 21,2004.

NOTE 4:- VARIABLE INTEREST ENTITIES

a. Towards the end of 2003, RDC and ESL formed a new company, Starling Advanced Communication Ltd. ("Starling") in order to develop connectivity solutions for broadband access for commercial aircrafts. RDC and ESL both contributed technologies in exchange for a 50% ownership interest each in Starling. In addition, RDC and ESL granted Starling convertible loans in the amount of $300 each, which were converted into shares in October 2004. Upon the adoption of FIN 46 (see Note 2a), the Company has consolidated Starling as Starling was determined to be a variable interest entity and the Company its primary beneficiary.

   On October 21, 2004 Elron completed an investment of $3,000 in Starling of which $1,500 was invested immediately and an additional $1,500 will be invested no later than six months from the closing date of the transaction. Following the investment, Elron's direct interest in Starling is approximately 33% and its direct and indirect interest (through RDC) is approximately 50%.

b. In August 2002, Elron completed an investment of approximately $5,000 in AMT as part of an aggregate investment in convertible notes of $8,700. In June 2004, Elron invested an additional $3,000 in convertible notes as part of an aggregate investment of $6,000 and converted loans in the amount of approximately $1,600 (additional loans in the amount of $1,100 were converted by other existing shareholders of AMT) into convertible notes of AMT (see Note 3(e)). AMT, an Israeli private company, develops, markets and licenses technologies, through its group companies, for amorphous and nano-crystalline advanced materials, for a wide range of commercial applications. Currently, AMT is focusing on two of its group companies, namely A.H.T. Advanced Heating Technologies Ltd., which uses amorphous metals for heating products, and Confirm Technology Ltd. ("Confirm") (formerly: ACS Advanced Coding Systems Ltd.), which develops, markets and sells products using amorphous metals for brand protection against counterfeiting and diversion and anti-shoplifting electronic article surveillance. The convertible notes are convertible into preferred shares of AMT, or into shares of certain of its subsidiaries held by AMT. Elron is entitled to the rights attached to the convertible notes on an "as converted" basis as a shareholder of AMT and, in addition, has special voting rights in certain specified circumstances. As of September 30, 2004, Elron holds approximately 35% of AMT on a diluted basis (excluding warrants) and on an "as converted" basis.

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

NOTE 4:- VARIABLE INTEREST ENTITIES (Cont.)

AMT is considered to be a variable interest entity, however, the Company is not the primary beneficiary of AMT, and accordingly has not consolidated AMT.

As of September 30, 2004, the Company's maximum exposure to loss as a result of its involvement in AMT does not exceed the carrying value of its investment in AMT in the amount of approximately $6,000.

NOTE 5:- STOCK BASED EMPLOYEE COMPENSATION

The Company elected to follow Accounting Principles Board Opinion No. 25, ("APB 25") "Accounting for Stock Issued to Employees" and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" in accounting for its employee stock option plans granted prior to 2003. According to APB 25, compensation expense is measured under the intrinsic value method, whereby compensation expense is equal to the excess, if any, of the quoted market price of the stock over the exercise price at the grant date of the award or if applicable, at a subsequent measurement date.

Effective January 1, 2003, the Company adopted the fair value recognition provisions of FASB Statement No. 123 "Accounting for Stock-Based Compensation" ("SFAS No.123"). Under the prospective method of adoption selected by the Company in accordance with the provisions of FASB Statement No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS No. 148"), the recognition provisions will be applied to all employee awards granted, modified, or settled after January 1, 2003.

The following pro forma information presents the effect on the consolidated stock-based employee compensation expense, consolidated net income (loss) and income (loss) per share as if the fair value based method provided under SFAS No. 123 had been applied to all outstanding awards in each reported period:

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
Net income (loss), as reported	$ 80,023	$ (10,319)	$ 70,822	$ 3,020	$ (7,205)
Add: Stock-based employee compensation expense included in reported net income (loss)	448	785	111	387	973
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards	(652)	(1,079)	(207)	(462)	(1,377)
Pro forma net income (loss)	$ 79,819	$ (10,613)	$ 70,726	$ 2,945	$ (7,609)
Income (loss) per share:					
Basic - as reported	$ 2.74	$ (0.35)	$ 2.42	$ 0.10	$ (0.25)
Diluted – as reported	$ 2.73	$ (0.35)	$ 2.41	$ 0.10	$ (0.25)
Basic - pro forma	$ 2.73	$ (0.36)	$ 2.42	$ 0.10	$ (0.26)
Diluted – pro forma	$ 2.72	$ (0.36)	$ 2.40	$ 0.10	$ (0.26)

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

NOTE 5:- STOCK BASED EMPLOYEE COMPENSATION (Cont.)

The fair value for each award granted was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2004(*)	2003	2004(*)	2003	2003
	Unaudited				Audited
Average risk-free interest rate	-	1%	-	1%	1%
Average expected life (in years)	-	2.7	-	2.75	2.7
Volatility	-	53%	-	50%	53%
Dividend yield	-	0%	-	0%	0%

(*) No options were granted during the period.

NOTE 6:- CONTINGENT LIABILITIES

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

a. 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 request has been stayed pursuant to an arrangement reached by the parties pending the outcome of the appeal in the claim described in paragraph b below. The arrangement provides that if the appeal described in paragraph b below is accepted, then the proceedings to recognize the claims as a class action will proceed. Otherwise, the application to recognize the claims as a class action will be dismissed.

b. 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 17, 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.

   In addition, in February 2001, the claimants submitted a new claim similar to the previous one but not as a class action. In August 2004, the Haifa District Court issued a decision ordering the cancellation of the requirement of the claimants to pay a twenty million shekels filing fee. The defendants have requested permission to appeal the said decision of the Haifa District Court. It has not yet been determined when the defendants must file their statements of defense to the claim.

   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 6:- CONTINGENT LIABILITIES (Cont.)

c. In July 2003, ESW terminated the lease of its premises in the U.S. due to defects in the premises and the lessor's failure to repair the defects. The lessor rejected the termination of the lease and is seeking to enforce the lease and to claim all amounts due under the lease from ESW and Elron, as guarantor of the lease. The balance of the rental payment under the lease amounts to approximately $2,000. ESW is counterclaiming damages caused by the lessor. The Company's management is of the opinion that ESW has good defense arguments which, if accepted, will cause dismissal of the above claim and accordingly, management believes that the above claim will not have a significant effect on the Company's results of operations.

NOTE 7:- INCOME TAXES

On June 29, 2004, the Israeli Parliament approved an amendment to the Income Tax Ordinance (No. 140 and Temporary Provision) (the "Amendment") which progressively reduces the corporate tax rate from 36% to 35% in 2004 and to a rate of 30% in 2007. The amendment was signed and published in July 2004 and is, therefore, considered enacted in July 2004. Accordingly, Elron recorded a tax benefit as a result of the change in the tax rate in the amount of approximately $2,100 in the third quarter of 2004.

NOTE 8:- BUSINESS SEGMENTS

As of September 30, 2004, the Company operates in two business segments: (1) the Systems and Projects segment through its subsidiary ETI and (2) the "Other Holdings and Corporate Operations" segment which reflects the investments in companies engaged in various fields of advanced technology and includes corporate headquarters.

The operations of the Systems and Projects segment include development and supply of software solutions for revenue assurance and management of large and complex communication and internet networks.

The Other Holdings and Corporate Operations segment includes holdings in various companies that operate in the communications, software, electronic defense (through July 28, 2004), medical devices, semiconductors, advanced materials and other fields and the corporate operations.

Prior to September 2, 2003, the Company operated indirectly through ESW in a third business segment – Internet Products – which has been sold and therefore its operations were reclassified as discontinued operations. Segment information is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8:- BUSINESS SEGMENTS (Cont.)

	Systems and Projects	Other holdings and corporate operations	Internet Products (Discontinued operations)	Adjustments	Total
For the nine months ended September 30, 2004 (Unaudited):					
Net revenues	$ 4,251	7,295	-	-	$ 11,546
Net income (loss)	(7,191)	87,664	(450)	-	80,023
As of September 30, 2004 (Unaudited):					
Total assets	$ 7,557	474,946	3	(4,827)(*)	$ 477,679
For the nine months ended September 30, 2003 (Unaudited):					
Net revenues	$ 5,949	6,606	-	-	$ 12,555
Net loss	(1,632)	(5,552)	(3,135)	-	(10,319)
For the three months ended September 30, 2004 (Unaudited):					
Net revenues	$ 811	3,734	-	-	$ 4,545
Net income (loss)	(6,083)	76,999	(94)		70,822
For the three months ended September 30, 2003 (Unaudited):					
Net revenues	$ 1,729	2,995	-		$ 4,724
Net loss	(409)	3,110	319	-	3,020
For the year ended December 31, 2003 (Audited):					
Net revenues	$ 7,390	$ 9,157	-	-	$ 16,547
Net loss	(2,074)	(4,442)	(689)	-	(7,205)
As of December 31, 2003 (Audited):					
Total assets	$ 15,177	450,222	75	(14,770)(*)	$ 450,704

(*) Inter-company balances.

The revenues relating to ESW's discontinued operations for the nine months and three months ended September 30, 2003 and for the year ended December 31, 2003, were $4,790, $975 and $4,470, respectively, and the pre tax losses from operations were $4,706, $1,258 and $4,829, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9:- 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 statements of operations:

	Nine months ended September 30, 2004		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Net income	$ 80,023	$ 9,604	$ 89,627

	Nine months ended September 30, 2003		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Net income (loss)	$ (10,319)	$ 18,405	$ 8,086

	Three months ended September 30, 2004		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Net income	$ 70,822	$ 10,608	$ 81,430

	Three months ended September 30, 2003		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Net income	$ 3,020	$ 5,879	$ 8,899

	Year ended December 31, 2003		
	As reported	Adjustments	As per Israeli GAAP
		Audited	
Net income (loss)	$ (7,205)	$ 18,436	$ 11,231

b. Effect on the balance sheet:

	September 30, 2004		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Total assets	$ 477,679	$ (148,248)	$ 329,431
Total liabilities including minority interest	111,746	(54,847)	56,899
Total equity	365,933	(93,401)	272,532

	December 31, 2003		
	As reported	Adjustments	As per Israeli GAAP
		Audited	
Total assets	$ 450,704	$ (176,981)	$ 273,723
Total liabilities including minority interest	154,574	(61,289)	93,285
Total equity	296,130	(115,692)	180,438

NOTE 9:- RECONCILIATION TO ISRAELI GAAP (Cont.)

c. Material adjustments:

The abovementioned adjustments result primarily from the differences between U.S. GAAP and Israeli GAAP detailed in Note 29 to the Company’s annual financial statements as well as from transactions and events which occurred during the periods of nine months and three months ended September 30, 2004, as follows:

1. As discussed in Note 7, under U.S. GAAP the effect of changes in tax rates is recorded in the period in which the tax law is enacted. Under Israeli GAAP, the effect of changes in tax rates is recorded in the period in which the law is enacted or substantively enacted. Accordingly, the effect of the change in the tax rate under Israeli GAAP, which amounted to an income taxes charge of approximately $400, has been recorded in the second quarter of 2004 while under U.S. GAAP the effect of the change, amounting to a tax benefit of $2,100 has been recorded in the third quarter of 2004.

2. Under U.S. GAAP, deferred taxes are provided in respect of all temporary differences relating to equity method investments. Under Israeli GAAP, deferred taxes are not provided in respect of temporary differences relating to taxes arising on disposal of equity method investments, if the disposal is not probable to occur in the foreseeable future. The effect of the aforementioned difference on net income according to U.S. GAAP was an additional tax expense in the nine months period ended September 30, 2004 in the amount of approximately $700 (net of minority interest).

3. As described in Note 3b1 above, under U.S. GAAP the acquisition of the additional interest in RDC was accounted for by the purchase method. Accordingly, Elron has recorded the additional interest in RDC at fair value and recorded its share of the gain in the distribution of Given shares. According to Israeli GAAP, the gain recorded is limited to the effective decrease in the investment in Given in Elron’s accounts (subsequent to the distribution and the relating acquisition of the additional interest in RDC) and accordingly only the portion relating to the additional interest acquired in other net assets of RDC (except Given) was recorded at fair value. The effect of the aforementioned difference on net income in the nine months ended September 30, 2004 was an increase in net income under U.S. GAAP of approximately $900.

4. As discussed in note 3a above, on July 28, 2004 Elron sold its shares in ESL. Due to the difference in the carrying amount of the investment in ESL between Israeli GAAP and U.S. GAAP (resulting mainly from the difference between Israeli GAAP and U.S. GAAP described in Note 29(c)10 to the Company's annual financial statements for 2003) the gain resulting from the sale of ESL under U.S. GAAP is different than the aforementioned gain under Israeli GAAP. The gain recorded under Israeli GAAP amounted to $116,000, which net of tax was $91,300.

NOTE 9:- RECONCILIATION TO ISRAELI GAAP (Cont.)

c. Material adjustments: (Cont.)

5. As described in Note 29(c)8 to the Company's annual financial statements for 2003, according to US GAAP goodwill is no longer amortized periodically but is reviewed annually for impairment (or more frequently if impairment indicators arise). As mentioned in Note 3h, in the third quarter of 2004 the Company tested the goodwill for impairment and as a result, recorded an impairment loss in the amount of approximately $2,000. According to Israeli GAAP, all intangible assets, including goodwill, are amortized periodically, and are further subject to impairment testing whenever impairment indicators arise. Under Israeli GAAP no impairment loss in respect of goodwill was required to be recorded (mainly since the carrying amount of goodwill had already been amortized).

ANNEX TO THE FINANCIAL STATEMENTS

U.S. dollars in thousands

Details relating to major investments as of September 30, 2004:

	% of ownership interest [(1)]	Carrying value of the investment as of September 30, 2004 [(2)]	Market value of the publicly traded investments as of September 30, 2004	November 9, 2004
Consolidated Companies:				
Elron Telesoft Inc.	99%	3,691	$ -	$ -
Galil Medical Ltd. [(3)]	39%	506	-	-
3DV Systems Ltd. [(3)]	71%	(678)	-	-
Starling [(3)]	25%	(438)	-	-
SELA [(3)]	27%	566	-	-
Affiliated Companies (equity):				
Given Imaging Ltd. (Nasdaq: GIVN) [(3)]	17%	43,826	177,450	164,753(*)
NetVision Ltd.	46%	2,369	-	-
Wavion, Inc.	38%	1,820	-	-
ChipX	27%	3,857	-	-
Pulsicom Israel Technologies Ltd.	18%	324	-	-
Advanced Metal Technologies Ltd. (AMT)	40%	5,970	-	-
CellAct Ltd.	45%	403	-	-
Notal Vision, Inc.	26%	877	-	-
Oren Semiconductor Inc.	41%	2,224	-	-
Oncura [(4)]	10%	11,933	-	-
Available for sale:				
Partner (Nasdaq: PTNR)	9%	108,617	108,617	114,009
EVS (Nasdaq: EVSNF.OB)	15%	994	1,589	1,456
Partnership:				
Gemini Israel Fund L.P.	5%	68	-	-
InnoMed Ventures L.P.	14%	2,705	-	-
Cost:				
Avantry (formerly:Witcom Ltd.) [(3)]	7%	638	-	-

(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.

(*) During November 2004 (through November 9, 2004), Elron purchased 823,513 shares of Given Imaging for approximately $24,700.

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