ELRON ELECTRONIC INDUSTRIES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2002

(Unaudited)

ELRON ELECTRONIC INDUSTRIES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2002

(Unaudited)

C O N T E N T S

	Page
Consolidated Balance Sheets	1 - 2
Consolidated Statements of Operations	3
Consolidated Statements of Shareholders' Equity and Comprehensive Income	4 - 5
Consolidated Statements of Cash Flows	6 – 8
Notes to the Consolidated Financial Statements	9 – 24
Annex to the Consolidated Financial Statements	25

# # # # # #

ELRON ELECTRONIC INDUSTRIES LTD.

CONSOLIDATED BALANCE SHEETS

In thousands of U.S. Dollars

	September 30 2002 (Unaudited)	December 31 2001 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	70,185	90,404
Debentures and deposits	24,882	15,465
Marketable securities	3,329	237
Trade receivables (net of allowance for doubtful accounts of $610 and $252 as of September 30, 2002 and December 31, 2001, respectively)	9,878	9,627
Other receivables and prepaid expenses	7,224	4,395
Inventories and work-in-progress	2,063	1,671
Total current assets	117,561	121,799
Long-term assets:		
Investments in affiliated companies	139,742	162,260(*)
Other investments	102,199	7,504(*)
Long-term debentures	2,641	6,689
Deferred taxes	-	973(*)
Severance pay fund	1,762	2,313
Total long-term assets	246,344	179,739
Property and equipment, net	11,910	4,971
Other assets:		
Goodwill	25,512	8,834
Other intangible assets	20,097	10,967
Total other assets	45,609	19,801
Total assets	421,424	326,310

(*) Restated – see Note 3C.

The accompanying notes to the consolidated financial statements form an integral part thereof.

ELRON ELECTRONIC INDUSTRIES LTD.

CONSOLIDATED BALANCE SHEETS (Cont.)

In thousands of U.S. Dollars

	September 30 2002 (Unaudited)	December 31 2001 (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term loans and current maturities of long-term loans	64,947	16,617
Trade payables	5,696	4,514
Other payables and accrued expenses	15,127	9,321
Total current liabilities	85,770	30,452
Long-term liabilities:		
Long-term loans	15,284	51,808
Retirement obligations	3,047	3,914
Deferred taxes	33,198	-(*)
Other long-term liabilities	546	383
Total long-term liabilities	52,075	56,105
Minority interests	3,576	1,040
Shareholders' equity:		
Ordinary shares of NIS 0.003 par value; Authorized – 31,500,000 shares; Issued and outstanding – 29,158,358 shares (As of December 31, 2001 - 21,213,664 shares)	9,572	9,567
Capital surplus	267,175	165,680(*)
Accumulated other comprehensive income	13,381	42,231(*)
Retained earnings (accumulated deficit)	(10,125)	21,235(*)
Total shareholders' equity	280,003	238,713(*)
Total liabilities and shareholders' equity	421,424	326,310

(*) Restated – see Note 3C.

The accompanying notes to the consolidated financial statements form an integral part thereof.

ELRON ELECTRONIC INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands of U.S. Dollars, except per share data

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2002	2001	2002	2001	2001
	(Unaudited)		(Unaudited)		(Audited)
Income					
Revenues	17,422	26,420	5,746	6,568	32,859
Net loss from equity investments	(18,791)	(13,278)(*)	(3,517)	(5,115)(*)	(27,242)(*)
Gain (loss) from disposal and changes in holdings in related companies, net	5,259	(156)	3,227	15	3,179
Other income (expenses), net	319	(4,620)	35	(1,895)	(4,885)(*)
Finance income	2,190	4,328	667	1,608	5,215
	6,399	12,694	6,158	1,181	9,126
Costs and Expenses					
Cost of revenues	9,153	18,099	3,446	4,316	22,048
Research and development expenses	5,967	6,917	2,290	2,118	8,979
Marketing and selling expenses	9,484	8,086	4,627	2,470	10,587
General and administrative expenses	7,970	8,433	3,216	2,607	11,810
Amortization of other assets	1,561	2,848	666	887	3,734
Finance expenses	2,534	3,166	787	876	3,964
Restructuring charges, net	1,497	1,324	91	398	2,203
	38,166	48,873	15,123	13,672	63,325
Loss from continuing operations before tax benefit	(31,767)	(36,179)	(8,965)	(12,491)	(54,199)
Tax benefit	1,563	3,583	399	1,136	2,947
Loss from continuing operations after tax benefit	(30,204)	(32,596)	(8,566)	(11,355)	(51,252)
Minority interest	305	328	71	118	438
Loss from continuing operations	(29,899)	(32,268)(*)	(8,495)	(11,237)(*)	(50,814)(*)
Gain (loss) from discontinued operations	(1,461)	-	551	-	-
Net loss	(31,360)	(32,268)(*)	(7,944)	(11,237)(*)	(50,814)(*)
Loss per share data					
Basic loss per share data -					
Loss from continuing operations	(1.18)	(1.52)(*)	(0.29)	(0.53)(*)	(2.40)(*)
Gain (loss) from discontinued operations	(0.06)	-	0.02	-	-
Net loss	(1.24)	(1.52)(*)	(0.27)	(0.53)(*)	(2.40)(*)
Weighted average number of shares used in computing per share amounts (thousands)	25,308	21,189	29,158	21,189	21,191
Diluted loss per share data -					
Loss from continuing operations	(1.19)	(1.52)(*)	(0.29)	(0.53)(*)	(2.41)(*)
Gain (loss) from discontinued operations	(0.06)	-	0.02	-	-
Net loss	(1.25)	(1.52)(*)	(0.27)	(0.53)(*)	(2.41)(*)
Weighted average number of shares used in computing per share amounts (thousands)	25,308	21,189	29,158	21,189	21,191

(*) Restated - see Note 3C.

The accompanying notes to the consolidated financial statements form an integral part thereof.

ELRON ELECTRONIC INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

In thousands of U.S. Dollars, except share data

	Number of shares	Share capital	Capital surplus	Accumulated other comprehensive income	Retained earnings (accumulated deficit)	Total shareholders' equity	Total comprehensive loss
Audited							
Balance as of January 1, 2001	21,188,664	9,567	158,898(*)	36,459	72,049(*)	276,973	
Options exercised	25,000	-	306	-	-	306	
Other comprehensive income, net of tax:							
Unrealized gains on securities	-	-	-	6,850(*)	-	6,850	6,850(*)
Reclassification adjustment for net amounts included in net income	-	-	-	(1,056)	-	(1,056)	(1,056)
Foreign currency translation adjustment	-	-	-	(22)	-	(22)	(22)
Changes in capital surplus in affiliated companies	-	-	2,899(*)	-	-	2,899	-
Deferred gain from changes in holdings in a related company	-	-	3,583(*)	-	-	3,583	-
Amortization of deferred stock compensation	-	-	(6)	-	-	(6)	-
Net loss	-	-	-	-	(50,814)(*)	(50,814)	(50,814)(*)
Balance as of December 31, 2001	21,213,664	9,567	165,680	42,231	21,235	238,713	(45,042)(*)
Unaudited							
Options exercised	65,250	-	449	-	-	449	
Other comprehensive income, net of tax:							
Unrealized losses on securities	-	-	-	(27,478)	-	(27,478)	(27,478)
Reclassification adjustment for net amounts included in net income	-	-	-	(1,399)	-	(1,399)	(1,399)
Foreign currency translation adjustment	-	-	-	27	-	27	27
Changes in capital surplus in affiliated companies	-	-	278	-	-	278	-
Issuance of shares pursuant to the merger with Elbit	5,617,601	4	71,191	-	-	71,195	-
Issuance of shares pursuant to the purchase of DEP	2,261,843	1	29,448	-	-	29,449	-
Amortization of deferred stock compensation	-	-	129	-	-	129	-
Net loss	-	-	-	-	(31,360)	(31,360)	(31,360)
Balance as of September 30, 2002	29,158,358	9,572	267,175	13,381	(10,125)	280,003	(60,210)
Balance as of January 1, 2001	21,188,664	9,567	158,898(*)	36,459	72,049(*)	276,973	
Other comprehensive income, net of tax:							
Unrealized losses on securities	-	-	-	(10,190)	-	(10,190)	(10,190)
Reclassification adjustment for net amounts included in net income	-	-	-	(945)	-	(945)	(945)
Foreign currency translation adjustment	-	-	-	(12)	-	(12)	(12)
Changes in capital surplus in affiliated companies	-	-	(538)(*)	-	-	(538)	-
Amortization of deferred stock compensation	-	-	(55)	-	-	(55)	-
Net loss	-	-	-	-	(32,268)(*)	(32,268)	(32,268)(*)
Balance as of September 30, 2001	21,188,664	9,567	158,305	25,312	39,781	232,965	(43,415)(*)

(*) Restated – see Note 3C.

The accompanying notes to the consolidated financial statements form an integral part thereof.

ELRON ELECTRONIC INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (Cont.)

In thousands of U.S. Dollars, except share data

	Number of shares	Share capital	Capital surplus	Accumulated other comprehensive income	Retained earnings (accumulated deficit)	Total shareholders' equity	Total comprehensive loss
Unaudited							
Balance as of July 1, 2002	29,158,358	9,572	267,295 (*)	17,403 (*)	(2,181) (*)	292,089	
Options exercised	-	-	-	-	-	-	-
Other comprehensive income, net of tax:							
Unrealized losses on securities	-	-	-	(4,034)	-	(4,034)	(4,034)
Reclassification adjustment for net amounts included in net income	-	-	-	(3)	-	(3)	(3)
Foreign currency translation adjustment	-	-	-	15	-	15	15
Changes in capital surplus in affiliated companies	-	-	(120)	-	-	(120)	-
Net loss	-	-	-	-	(7,944)	(7,944)	(7,944)
Balance as of September 30, 2002	29,158,358	9,572	267,175	13,381	(10,125)	280,003	(11,966)
Balance as of July 1, 2001	21,188,664	9,567	158,643 (*)	27,744	51,018 (*)	246,972	
Other comprehensive income, net of tax:							
Unrealized gains on securities	-	-	-	(2,431)	-	(2,431)	(2,431) (*)
Foreign currency translation adjustment	-	-	-	(1)	-	(1)	(1)
Changes in capital surplus in affiliated companies	-	-	(375) (*)	-	-	(375)	-
Amortization of deferred stock compensation	-	-	37	-	-	37	-
Net loss	-	-	-	-	(11,237) (*)	(11,237)	(11,237) (*)
Balance as of September 30, 2001	21,188,664	9,567	158,305	25,312	39,781	232,965	(13,669) (*)

(*) Restated – see Note 3C

The accompanying notes to the consolidated financial statements form an integral part thereof.

ELRON ELECTRONIC INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of U.S. Dollars

	For the nine months ended September 30		For the year ended December 31
	2002	2001	2001
	(Unaudited)		(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(31,360)	(32,268)(*)	(50,814)(*)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Income and expenses not affecting operating cash flows:			
Net loss from equity investments	18,791	13,278(*)	27,242(*)
Dividend from affiliated companies	1,967	13,148	13,805
Minority interest	(305)	(328)	(438)
Loss (gain) from disposal and changes in holdings in related Companies, net	(5,259)	156	(3,179)
Gain on sale of other investments	(605)	(999)	(999)
Gain resulting from sale of business	(2,095)	-	-
Depreciation and amortization	2,825	4,939	6,362
Decrease in other investments and accrued interest	794	14	1,247(*)
Amortization of deferred stock compensation	(1,558)	(188)	29
Deferred taxes	(1,519)	(3,656)	(2,796)
Other	1,377	(155)	568
Changes in operating assets and liabilities-			
Decrease in trade receivables	1,771	497	2,328
Decrease (increase) in other receivables and prepaid expenses	3,758	(169)	(1,305)
Decrease in trading account securities	235	17,180	16,652
Decrease (increase) in inventories	1,130	(23)	(1,310)
Increase (decrease) in trade payables	(1,427)	(288)	1,436
Decrease in other payables and accrued expenses	(10,672)	(7,427)	(7,711)
Net cash provided by (used in) operating activities	(22,152)	3,711	1,117
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in affiliated companies	(18,118)	(13,322)(*)	(17,681)(*)
Merger costs	-	-	(250)
Cash and cash equivalents resulting from the merger with Elbit (Schedule A)	14,907	-	-
Cash and cash equivalents resulting from the share purchase of DEP (Schedule B)	284	-	-
Cash and cash equivalents resulting from newly consolidated subsidiaries (Schedule C)	2,978		
Cash and cash equivalents resulting from sale of businesses and subsidiaries(Schedule D)	(1,984)		
Other investments	(1,521)	(2,618)(*)	(1,900)(*)
Proceeds from sale of other investments	-	-	1,115
Proceeds from sale of available for sale securities	789	1,270	1,332
Proceeds from sale of Elbit Systems shares	-	-	6,655
Proceeds from sale of Given Imaging shares	6,918	-	-
Investments in held to maturity debentures and deposits	(7,480)	-	(12,213)
Proceeds from deposits and maturities of held to maturity debentures	2,147	38,878	39,357
Purchase of property and equipment	(463)	(1,287)	(1,132)
Proceeds from sale of property and equipment	63	288	311
Net proceeds from sale of activities	6,110	3,430	3,430
Net cash provided by investing activities	4,630	26,639	19,024
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from options exercised	449	-	306
Proceeds from options exercised in a subsidiary	2	41	71
Issuance of Convertible notes in subsidiary to minority	727	-	-
Long-term loans received from banks	402	-	9,540
Repayment of loans from shareholder	(1,378)	-	-
Repayment of long-term loans	(193)	(461)	(630)
Increase (decrease) in short-term bank credit, net	(2,706)	8,597	401
Net cash provided by (used in) financing activities	(2,697)	8,177	9,688
Increase (decrease) in cash and cash equivalents	(20,219)	38,527	29,829
Cash and cash equivalents at the beginning of the period	90,404	60,575	60,575
Cash and cash equivalents at the end of the period	70,185	99,102	90,404

(*) Restated – see Note 3C.

The accompanying notes to the consolidated financial statements form an integral part thereof.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

In thousands of U.S. Dollars

	For the nine months ended September 30		For the year ended December 31
	2002	2001(*)	2001(*)
	(Unaudited)		(Audited)
Supplemental cash flow information:			
Cash paid for:			
Income taxes	133	5,941	6,025
Interest	1,390	3,096	4,202

SCHEDULE A:

Cash and cash equivalents resulting from the merger with Elbit

Assets acquired and liabilities assumed on the merger date:	
Working capital (except cash and cash equivalents)	6,970
Property and equipment	(9,225)
Investments in affiliated companies	(5,423)
Other investments	(111,482)
Other long term assets	(1,820)
Goodwill	(18,251)
Long-term liabilities	40,123
Investment at equity prior to merger	42,739
Minority interests	82
Issuance of shares	71,194
Cash and cash equivalents acquired	14,907

SCHEDULE B:

Cash and cash equivalents resulting from the share purchase of DEP

Assets acquired and liabilities assumed at the share purchase date:	
Working capital (except cash and cash equivalents)	19,115
Property and equipment	(28)
Investments in affiliated companies	(40,493)
Other investments	(3,315)
Other assets	(5,486)
Long-term liabilities	1,451
Investment at equity prior to acquisition	385
Minority interests	(794)
Issuance of shares	29,449
Cash and cash equivalents acquired	284

(*) Restated – see Note 3C.

The accompanying notes to the consolidated financial statements form an integral part thereof.

ELRON ELECTRONIC INDUSTRIES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

In thousands of U.S. Dollars

SCHEDULE C:	For the nine months ended September 30 2002 (Unaudited)
Cash and cash equivalents resulting from newly consolidated subsidiaries	
Assets acquired and liabilities assumed at the purchase date:	
Working capital (except cash and cash equivalents)	3,333
Property and equipment	(2,007)
Other assets	(10,534)
Deferred taxes	1,667
Accrued severance pay, net	179
Investment at equity prior to acquisition	8,231
Minority interests	2,109
Cash and cash equivalents acquired	2,978

SCHEDULE D:	
Cash and cash equivalents resulting from sale of business and subsidiaries	
Assets and liabilities at date of sale:	
Working capital (except cash and cash equivalents)	(781)
Property and equipment	266
Other assets	200
Accrued severance pay, net	(33)
Gain resulting from sale of business	2,095
Marketable securities received	(1,600)
Other investments received	(2,131)
Cash and cash equivalents received	(1,984)

The accompanying notes to the consolidated financial statements form an integral part thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of U.S. Dollars
(Unaudited)

Note 1 - GENERAL

The accompanying unaudited condensed interim consolidated financial statements have been prepared as of September 30, 2002, and for the nine months and three months then ended in accordance with accounting principles generally accepted in the United States (US GAAP) relating to the preparation of financial statements for interim periods. See note 7 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, 2001 included in the Company's Annual Report on Form 20-F.

Comparative data in the annual and interim financial statements for 2001 have been restated – see Note 3C.

The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation.

Results for the nine months and three months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

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 described in Note 5, regarding the cessation of the amortization of goodwill upon the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

The financial statements have been prepared in US dollars, since the functional currency of the Company and its principal subsidiaries is the US dollar.

Note 3 - MAJOR TRANSACTIONS

A. MERGER WITH ELBIT

On May 15, 2002, Elron completed its merger with Elbit Ltd. ("Elbit"), in which Elron previously held 44%. As a result, each outstanding ordinary share of Elbit, other than shares held by Elron, was exchanged for 0.45 ordinary shares of Elron and, accordingly, Elron issued 5,617,601 ordinary shares. Elron also assumed options held by Elbit employees to purchase 240,525 ordinary shares of Elron with a fair value of $997.

Elbit invests in high technology companies, which are primarily engaged in the fields of e-business (electronic business) and m-commerce (mobile commerce).

The purchase price of the Elbit acquisition was approximately $73,911, which was calculated as follows:

Fair value of Elron ordinary shares issued	$ 70,220
Fair value of options assumed(*)	$ 975
Transaction and other costs	$ 2,716
Total	$ 73,911

(*) Net of intrinsic value of $22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars
(Unaudited)

Note 3 - MAJOR TRANSACTIONS (Cont.)

A. MERGER WITH ELBIT (Cont.)

Ordinary shares were valued based on the average price of Elron ordinary shares during the period beginning on the day of the announcement of the exchange ratio (September 4, 2001) and ending five days thereafter. The fair value of options assumed was determined using the Black-Scholes pricing method.

The purchase price has been allocated to the fair value of Elbit's tangible and intangible assets acquired and liabilities assumed, based on an analysis made by an independent valuation appraiser. The excess of the purchase price over the estimated fair values of the identifiable net assets acquired was recorded as goodwill, which is not deductible for tax purposes.

The allocation of the purchase price to assets purchased and liabilities assumed was as follows:

Current assets	$ 12,325
Long-term investments	65,586
Other long-term assets	1,061
Property and equipment, net	6,285
Goodwill	18,623
Liabilities assumed	(29,969)
Net assets acquired	$ 73,911

Net deferred tax assets relating to operating loss carryforwards have been fully offset by a valuation allowance.

The goodwill recorded relates to the "Investment holdings" segment and reflects the anticipated synergies that are expected to result from the combined entity, including anticipated reduction in operational and management costs, the creation of an enhanced platform, a more simplified and efficient organizational structure and greater resources and scope of operations, which will benefit the Elron group companies.

The operating results of Elbit, as a wholly owned subsidiary, have been included in the Company's consolidated financial statements from the date of the merger (May 15, 2002). See Note 4 for supplemental pro forma information.

B. DEP SHARE PURCHASE

On May 6, 2002, Elron completed the purchase of shares of DEP Technology Holdings Ltd. ("DEP") in which it previously held 33%. Pursuant to the share purchase agreement signed on November 19, 2001, with Discount Investment Corporation Ltd. ("DIC"), which then held approximately 42% of Elron's shares, Elron issued 2,261,843 ordinary shares to DIC in exchange for DIC's investment (67%) in DEP, including rights to loans in the amount of approximately $3,529 provided by DIC to a subsidiary of DEP, RDC Rafael Development Corporation Ltd. ("RDC"), held 48% by DEP.

DEP invests in high technology companies, which are primarily engaged in the fields of communications, medical devices, semi conductors and software.

Note 3 - MAJOR TRANSACTIONS (Cont.)

B. DEP SHARE PURCHASE (Cont.)

The share purchase is intended to further enhance Elron's position in the high technology markets, to enable Elron to manage existing DEP investments independently and to allow Elron to pursue additional investment opportunities.

The purchase price of the DEP acquisition was $29,502, consisting of $29,449 representing the fair market value of newly issued Elron ordinary shares, which has been calculated using the average price of Elron's shares during a period of a few days before and after the announcement date of the number of shares to be issued to DIC, and $53 in transaction costs.

The purchase price has been allocated to the fair value of DEP's tangible and intangible assets acquired and liabilities assumed, based on an analysis made by an independent valuation appraiser.

The allocation of the purchase price was as follows:

Current assets	$ 467
Long-term investments	38,233
Property and equipment, net	19
Other assets	2,339
Liabilities assumed	(15,085)
Total	$ 25,973
Loans from DIC to a subsidiary of DEP	3,529
Net assets acquired	$ 29,502

The liabilities include $3,963 of bank loans received by RDC which are secured by a lien on RDC's current assets.

Net deferred tax assets relating to operating loss carryforwards have been fully offset by a valuation allowance.

The amount of $38,233, allocated to long-term investments accounted for under the equity method, included amounts allocated to intangible net assets of these equity investments and is net of any related deferred taxes. The aggregate amount allocated to identifiable intangible assets of the equity investments was $16,500 with a weighted average amortization period of approximately 11 years. An aggregate amount of $6,500 has been recorded as goodwill relating to the above equity investments. The goodwill is not deductible for tax purposes.

The operating results of DEP have been included in the Company's consolidated financial statements from the date of closing of the share purchase (May 6, 2002). See Note 4 for pro forma information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars
(Unaudited)

Note 3 - MAJOR TRANSACTIONS (Cont.)

C. RESTATEMENT

Elron has direct holdings in certain companies in which RDC also holds shares. As a result of the purchase of DEP, Elron's aggregate interest in these companies has increased and enables Elron to exercise significant influence in these companies. In accordance with U.S. Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", Elron's direct holdings in these companies, which were accounted for by Elron at cost or as available for sale securities, are accounted for retroactively under the equity method of accounting ("step-by-step acquisition"). Implementing step-by-step acquisition resulted in a restatement of Elron's financial statements for all prior periods in which Elron's investments in these companies were recorded at cost or as available for sale securities.

Following are the effects of the restatement:

(1) Consolidated balance sheet

	December 31, 2001		
	As reported	Effect of restatement	As restated
Investments in affiliated companies	155,967	6,293	162,260
Other investments	27,484	(19,980)	7,504
Deferred tax assets (liabilities)	(3,254)	4,227	973
Capital surplus	162,109	3,571	165,680
Accumulated other comprehensive income[(*)]	49,745	(7,514)	42,231
Retained earnings	26,751	(5,516)	21,235
Total shareholders' equity	248,173	(9,460)	238,713

[(*)] Restatement of unrealized gains on securities

(2) Consolidated statements of operations

	For the three months ended September 30, 2001		
	As reported	Effect of restatement	As restated
Net loss from equity investments	(4,472)	(643)	(5,115)
Net loss	(10,594)	(643)	(11,237)
Basic and diluted net loss per share	(0.50)	(0.03)	(0.53)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars
(Unaudited)

Note 3 - MAJOR TRANSACTIONS (Cont.)

C. RESTATEMENT (Cont.)

(2) Consolidated statements of operations (Cont.)

	For the nine months ended September 30, 2001		
	As reported	**Effect of restatement**	**As restated**
Net loss from equity investments	(11,344)	(1,934)	(13,278)
Net loss	(30,334)	(1,934)	(32,268)
Basic and diluted net loss per share	(1.43)	(0.09)	(1.52)

	For the year ended December 31, 2001		
	As reported	**Effect of restatement**	**As restated**
Net loss from equity investments	(24,558)	(2,684)	(27,242)
Other income (expenses), net	(5,105)	220	(4,885)
Net loss	(48,350)	(2,464)	(50,814)
Basic net loss per share	(2.28)	(0.12)	(2.40)
Diluted net loss per share	(2.29)	(0.12)	(2.41)

(3) Total Comprehensive loss

	For the three months ended September 30, 2001		
	As reported	**Effect of restatement**	**As restated**
Total Comprehensive loss	(13,026)	(643)	(13,669)

	For the nine months ended September 30, 2001		
	As reported	**Effect of restatement**	**As restated**
Total Comprehensive loss	(41,481)	(1,934)	(43,415)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars

(Unaudited)

Note 3 - MAJOR TRANSACTIONS (Cont.)

C. RESTATEMENT (Cont.)

(3) Comprehensive loss (Cont.)

	For the year ended December 31, 2001		
	As reported	Effect of restatement	As restated
Total Comprehensive loss	(35,064)	(9,978)	(45,042)

D. CHIP EXPRESS

On June 25, 2002, Chip Express Corporation ("Chip Express"), in which Elron held approximately a 35% interest, issued, in a private placement, approximately 21,650,700 redeemable preferred shares in consideration for $16,000. Elron purchased approximately 6,984,000 redeemable preferred shares in consideration for approximately $5,000, of which approximately $500 was paid by a conversion of a convertible note. As a result, Elron's interest in Chip Express decreased to approximately 34% and no gain or loss was recognized.

E. GALIL MEDICAL

On April 30, 2002, Elron and RDC converted notes of Galil Medical Ltd. (“Galil”), in which Elron held 3.7% and in which RDC held 32.1%, amounting to approximately $3,160 to 2,671,385 preferred C shares. As a result, Elron’s and RDC’s interests in Galil increased to approximately 4.3% and 37.4%, respectively.

In May 2002, certain existing shareholders of Galil signed an agreement (the “agreement”) to invest in convertible notes (the “notes”) to be issued by Galil in an aggregate amount of up to $5,000 with an option to invest an additional amount of $1,000 (the “option”). The notes are automatically convertible in January 2003, or may be converted at an earlier date upon the occurrence of certain events as determined in the agreement.

As of balance sheet date, Elron’s and RDC’s investment, pursuant to the agreement amounted to approximately $2,500. Subsequent to the balance sheet date, Elron and RDC invested an aggregate amount of approximately $830 in Galil pursuant to the option.

On June 27, 2002, Elron purchased 10.75% of the outstanding shares of Galil from Lumenis Ltd. in consideration for $850 which has been allocated to identifiable intangible assets. Lumenis Ltd. also has the right to receive a future earn-out payment, conditioned upon the occurrence of certain events on or before May 27, 2004 in accordance with the terms of the share purchase agreement. As a result, Elron’s interest in Galil increased to 15.09%.

As a result of these transactions, Elron, directly and through its subsidiary, RDC, has a controlling voting interest in Galil and, accordingly, the accounts of Galil have been included in the Company’s consolidated financial statements subsequent to the date of the purchase from Lumenis. See Note 4 for pro forma information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars
(Unaudited)

Note 3 - MAJOR TRANSACTIONS (Cont.)

F. MEDIAGATE

On July 29, 2002, Elron converted notes in the amount of approximately $3,588 of MediaGate N.V ("MediaGate"), in which Elron held 29%, to 32,828,510 preferred F shares. Elron also invested approximately $2,500 in MediaGate through a rights offering and received 58,562,543 Preferred E shares. As a result of these transactions, Elron's interest in MediaGate increased to 68% of the outstanding shares and accordingly the accounts of MediaGate have been consolidated with those of Elron subsequent to the date of the additional investment. See Note 4 for pro forma information. The purchase price in respect to this transaction allocation has not yet been finalized. Elron estimates that approximately $5,400 will be allocated to intangible assets of MediaGate.

G. VFLASH

On September 23, 2002 Elbit VFlash Ltd. (“VFlash”), a wholly-owned subsidiary of Elbit, sold a significant portion of its assets to 24/7 Real Media Inc. (“24/7”), a publicly traded company on the Nasdaq, in exchange for 4,100,000 common shares of 24/7. 24/7 provides marketing and technology solutions to online marketers and publishers.

Concurrently with the above sale, Elron invested through Elbit, $1,000 in consideration for 100,000 convertible preferred shares of 24/7.

The Company viewed the sale of the VFlash main assets and the purchase of the preferred shares as one transaction and accordingly recorded a gain of approximately $2,100 in respect of the sale. The sale of VFlash’s operations meets the definition of discontinued operations under SFAS 144 “Accounting for the Impairment or Disposal of Long-Lived Assets’. Therefore, all results relating to VFlash, including the above gain, were classified as discontinued operations in the statement of operations.

The common shares, which are in the process of being registered for trading, are accounted for as available for sale securities in accordance with SFAS 115 “Accounting for Certain Investments in Debt and Equity Securities”. The market value of these shares on September 23, 2002 was approximately $1,600, based on the then closing price of the common stock of 24/7.

The preferred shares are being accounted for under the cost method. The preferred shares provide their holders with certain rights and preferences, as set forth in the investment agreement. Each preferred share is convertible at any time into 48.40271 common shares, subject to adjustment upon certain events described in the investment agreement. The fair value of the preferred shares received, which was based on the market price of the common shares on the transaction date, is approximately $1,900.

The common and preferred shares held by Elron constitute approximately 7% of the outstanding share capital of 24/7 (on a fully diluted basis).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars

(Unaudited)

Note 3 - MAJOR TRANSACTIONS (Cont.)

G. VFLASH (Cont.)

Of the 4,100,000 common shares of 24/7 it received, Vflash undertook to grant a beneficial interest in approximately 725,000 common shares to former employees in recognition of services they rendered to VFlash prior to the sale. The fair value of these shares on September 23, 2002 was approximately $283.

H. AMT

On August 6, 2002, Elron completed an investment of $5,017 in convertible notes of A.M.T Advanced Metal Technologies Ltd. ("AMT"). AMT, an Israeli private company, develops, markets and licenses technologies, through its group companies, for amorphous and nano-crystalline advance 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 A.C.S. Advanced Coding Systems Ltd., which develops, markets and sells products using amorphous material for brand protection against counterfeiting and diversion and anti-shoplifting electronic article surveillance.

The investment was part of an aggregate investment in AMT of approximately $8,733 of which the existing shareholders of AMT invested approximately $3,716. The notes are convertible into preferred shares of AMT or into shares held by AMT in certain of its subsidiaries. Elron is entitled to the rights attached to the convertible notes on an “as converted” basis as a shareholder of AMT (which constitutes 29% of the voting rights of AMT) and in addition, has special voting rights in certain specified circumstances.

In addition, Elron and the other investors in AMT were issued warrants to purchase preferred shares of AMT for a total amount of up to approximately $19,140, which may be exercised over various periods up to a maximum of 48 months from the closing, as well as an option to invest up to $5,000 in AMT on the same terms and conditions of the original investment, which may be exercised for a period of eight months from the closing.

Following the abovementioned investment, Elron holds 29% of AMT on a diluted (excluding warrants) and “as converted” basis, and 41% on a fully diluted and “as converted” basis.

The investment in AMT is being accounted for under the equity method.

I. TEXTOLOGY

On September 10, 2002, Elbit sold all of its shares in Textology Inc. (“Textology”), in which it previously held 63.75%, to Assa-Or Ltd. (“Assa-Or”), the other shareholder of Textology, in consideration for $3,300, for which Elbit granted a loan to Assa-Or. In addition, Elbit advanced a loan to Assa-Or in the amount of $1,100 of which $990 was advanced as of the balance sheet date. Pursuant to the transaction, a loan in the amount of $1,628 previously extended by Elbit to Textology was assigned by Textology to Assa-Or. All the above loan amounts, including an existing loan in the amount of approximately $1,620 previously granted.

Note 3 - MAJOR TRANSACTIONS (Cont.)

I. TEXTOLOGY (Cont.)

to Assa-Or (collectively referred to as "the loans") will be repaid in accordance with the provisions of the agreement. In addition, Elbit has an option to convert a portion of the loans into ordinary shares of Assa-Or, pursuant to the terms of the agreement.

As a result of the above transaction, a gain in the amount of $5,620 was deferred and will be recognized as income upon repayment of the loan. As of September 30, 2002, the balance of the loans to Assa-Or, net of the deferred gain, amounted to approximately $1,900.

The results of the operations of Textology until the date of the closing were classified as discontinued operations in the statement of operations.

J. ELRON TELESOFT

In November 2001, as part of its restructuring plan, Elron TeleSoft Inc. ("ETI"), a subsidiary of Elron, signed an agreement with Elbit Systems Ltd. ("ESL"), held approximately 21% by Elron, for the sale of the net assets and activities of ETI in the government field, in consideration for approximately $5,700. The transaction was completed in 2002 and resulted in an insignificant loss.

K. GIVEN IMAGING

During the second quarter of 2002, RDC sold 211,300 shares of Given Imaging Ltd. ("Given") in consideration for approximately $2,600.

During the third quarter of 2002, Elron and RDC sold 98,666 shares and 288,700 shares, respectively, of Given in consideration for approximately $1,100 and $3,300, respectively. In addition, a former senior executive of RDC exercised a call option granted in an agreement dated November 4, 1999, and purchased 172,800 shares of Given at an exercise price of $0.17 per share.

As a result of the above transactions, Elron recorded in the nine month period ended September 30, 2002 a gain of approximately $5,300.

In connection with RDC's bank loan in the amount of approximately $3,000, in October 2002, RDC created in favor of its bank a first degree fixed pledge over the securities, and all rights derived therefrom, deposited in RDC's account with the bank (the "Account"). As of the date of the execution of the pledge, RDC has deposited with the Account 2,840,000 shares of Given Imaging Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars
(Unaudited)

Note 4 - SUPPLEMENTAL PRO FORMA INFORMATION (UNAUDITED)

The pro forma information presents the results of operations of Elron after giving effect to the merger with Elbit, the share purchase of DEP and the acquisition of a controlling interest in Galil and MediaGate as if they had been in effect at the beginning of each of the reported periods, and includes the effect of amortization of identifiable intangible assets and the deferred stock-based compensation from these dates.

The following pro forma information is based upon the historical financial statements of Elron (after restatement, as discussed in Note 3C and after reclassification of the results of operations of VFlash and Textology as discontinuing operations), and upon the historical financial statements of Elbit, DEP, Galil and MediaGate. The pro forma data does not incorporate, nor does it assume, any benefits from cost savings or synergies of the combined companies.

The pro forma data is presented for comparative purposes only and is not necessarily indicative of the operating results that would have occurred had the merger, the share purchase or the acquisition of a controlling interest in Galil and MediaGate been consummated at the dates indicated, nor are they necessarily indicative of future operating results or financial condition.

PRO FORMA COMBINED RESULTS OF OPERATIONS

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2002	2001	2002	2001	2001
Net revenues	19,956	28,463	5,746	7,351	36,491
Net loss from equity investments	(10,873)	(16,752)	(3,517)	(5,322)	(25,839)
Gain (loss) from disposal and changes in holdings in related companies, net	5,045	388	3,227	(955)	3,612
Other expenses, net	2,611	(7,655)	35	(1,955)	(18,856)
Finance income	3,467	6,382	667	2,293	7,861
Total income	20,206	10,826	6,158	1,412	3,269
Costs and expenses	60,306	74,034	15,183	22,078	103,506
Loss before tax benefit and minority interests	(40,100)	(63,208)	(9,025)	(20,666)	(100,237)
Loss from continuing operations	(34,633)	(51,789)	(8,495)	(16,225)	(82,920)
Net loss	(44,319)	(55,053)	(7,944)	(19,097)	(89,449)
Basic and diluted net loss from continuing operations per share	(1.19)	(1.78)	(0.29)	(0.56)	(2.85)
Basic and diluted net loss per share	(1.52)	(1.89)	(0.27)	(0.66)	(3.08)
Weighted average number of ordinary shares used in computation (thousands)	29,158	29,068	29,158	29,068	29,070

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars
(Unaudited)

Note 4 - SUPPLEMENTAL PRO FORMA INFORMATION (UNAUDITED) (Cont.)

Pro forma results of operations for the nine months and three months ended September 30, 2001 and for the year ended December 31, 2001, include amortization of goodwill in the amount of $1,806, $660, and $2,317 respectively. Goodwill is no longer being amortized in accordance with SFAS 142, effective as of January 1, 2002.

Note 5 - GOODWILL AND OTHER INTANGIBLE ASSETS

On January 1, 2002, the Company adopted SFAS 142 and accordingly goodwill is no longer being amortized as of January 1, 2002. In accordance with SFAS 142, the Company has also evaluated the useful lives of its other intangible assets and has concluded that no change in the period of amortization is necessary.

The annual estimated amortization expense relating to Elron's intangible assets, other than goodwill existing as of September 30, 2002, for each of the five years in the period ending December 31, 2006 is approximately as follows:

		Total amortization (*)
2002	-	$ 2,200
2003	-	$ 2,400
2004	-	$ 2,700
2005	-	$ 2,700
2006	-	$ 1,700

(*) Not including amortization of other intangible assets resulting from the investment in MediaGate in July 2002 as the purchase price allocation has not been finalized yet.

The annual estimated amortization expense relating to intangible assets allocated to investments accounted for under the equity method, which will be included in the line item "net loss from equity investments" in the statement of operations, for each of the five years in the period ending December 31, 2006 is approximately as follows:

		Total amortization
2002	-	$ 3,000
2003	-	$ 3,500
2004	-	$ 2,200
2005	-	$ 1,100
2006	-	$ 1,400

As of January 1, 2002, the Company had unamortized goodwill in the amount of approximately $8,800. In connection with SFAS 142's transitional goodwill impairment evaluation, the Company estimated the fair value of each reporting unit and has determined that the carrying amount of each reporting unit does not exceed its fair value. Accordingly, the Company concluded that as of January 1, 2002, there was no indication of impairment of goodwill.

Note 5 - GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

As of September 30, 2002, subsequent to the merger with Elbit, the share purchase of DEP and the acquisition of a controlling interest in Galil and MediaGate, the Company has unamortized goodwill in the amount of approximately $25,500. In addition, at the balance sheet date, the Company has unamortized goodwill in the amount of $5,700 allocated to investments accounted for under the equity method.

The following transitional information is presented to reflect net loss and earnings per share for all prior periods adjusted to exclude amortization of goodwill:

	For the nine months ended September 30		For the three months ended September 30		For the year ended December 31
	2002	2001	2002	2001	2001
Reported net loss	(31,360)	(32,268)	(7,944)	(11,237)	(50,814)
Goodwill amortization	-	1,199	-	365	1,565
Adjusted net loss	(31,360)	(31,069)	(7,944)	(10,872)	(49,249)
Loss per share:					
Reported basic loss per share	(1.24)	(1.52)	(0.27)	(0.53)	(2.40)
Goodwill amortization	-	0.06	-	0.02	0.07
Adjusted basic loss per share	(1.24)	(1.46)	(0.27)	(0.51)	(2.33)
Reported diluted loss per share	(1.25)	(1.52)	(0.27)	(0.53)	(2.41)
Goodwill amortization	-	0.06	-	0.02	0.07
Adjusted diluted loss per share	(1.25)	(1.46)	(0.27)	(0.51)	(2.34)

Note 6 - BUSINESS SEGMENTS

The Company operates in three business segments: the Internet products segment, the Systems and Projects segment and a segment which includes the holdings in affiliated and other companies, engaged in various fields of advanced technology, and the corporate operations, which provide the strategic and operational support to the group companies. All of the activities, assets and liabilities acquired in the Elbit merger, the DEP share purchase and the acquisition of controlling interest in Galil and in MediaGate are included in the holdings segment. Segment information is as follows:

	Internet products	Systems and Projects	Holdings	Adjustments	Total
For the nine months ended September 30, 2002					
Total income	6,260	8,200	(8,061)	-	6,399
Net loss	(6,796)	(4,492)	(20,072)	-	(31,360)
For the three months ended September 30, 2002					
Total income	2,009	802	3,347	-	6,158
Net loss	(1,882)	(2,257)	(3,805)	-	(7,944)
September 30, 2002					
Total assets	6,608	18,949	408,091	(12,224)	421,424
Goodwill	1,085	5,591	18,836	-	25,512
For the nine months ended September 30, 2001					
Total income	6,730	19,690	(13,726)	-	12,694
Net loss	(7,804)	(10,271)	(14,193)	-	(32,268)
For the three months ended September 30, 2001					
Total income	1,989	4,579	(5,387)	-	1,181
Net loss	(2,647)	(2,985)	(5,605)	-	(11,237)
For the year ended December 31, 2001					
Total income	9,077	23,782	(23,733)	-	9,126
Net loss	(11,188)	(15,302)	(24,324)	-	(50,814)
December 31, 2001					
Total assets	7,801	32,060	297,938	(11,489)	326,310
Goodwill	1,085	7,749	-	-	8,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars
(Unaudited)

Note 7 - 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. STATEMENTS OF OPERATIONS:

For the nine months ended September 30, 2002 -

	As reported	Adjustments	As per Israeli GAAP
Net loss	(31,360)	(1,980)	(33,340)
Basic net loss per share	(1.24)	(0.08)	(1.32)
Diluted net loss per share	(1.25)	(0.07)	(1.32)

For the nine months ended September 30, 2001 -

	As reported	Adjustments	As per Israeli GAAP
Net loss	(32,268)	982	(31,286)
Basic and diluted net loss per share	(1.52)	0.04	(1.48)

For the three months ended September 30, 2002 -

	As reported	Adjustments	As per Israeli GAAP
Net loss	(7,944)	(323)	(8,267)
Basic and diluted net loss per share	(0.27)	(0.01)	(0.28)

For the three months ended September 30, 2001 -

	As reported	Adjustments	As per Israeli GAAP
Net loss	(11,237)	(236)	(11,473)
Basic and diluted net loss per share	(0.53)	(0.01)	(0.54)

For the year ended December 31, 2001 -

	As reported	Adjustments	As per Israeli GAAP
Net loss	(50,814)	4,299	(46,515)
Basic net loss per share	(2.40)	0.2	(2.20)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)

In thousands of U.S. Dollars

(Unaudited)

Diluted net loss per share	(2.41)	0.2	(2.21)

Note 7 - RECONCILIATION TO ISRAELI GAAP (Cont.)

B. BALANCE SHEETS:

As of September 30, 2002 -

	As reported	Adjustments	As per Israeli GAAP
Total assets	421,424	(144,311)	277,113
Total liabilities including minority interest	141,421	(30,289)	111,132
Total shareholders' equity	280,003	(114,022)	165,981

As of December 31, 2001 -

	As reported	Adjustments	As per Israeli GAAP
Total assets	326,310	(53,795)	272,515
Total liabilities including minority interest	87,597	(241)	87,356
Total shareholders' equity	238,713	(53,554)	185,159

C. MATERIAL ADJUSTMENTS:

The abovementioned adjustments include material differences between U.S. GAAP and Israeli GAAP as detailed in note 26 to the Company's annual financial statement for the year 2001 as well as material differences between U.S. GAAP and Israeli GAAP resulting from (i) transactions which occurred during the nine month period ended September 30, 2002; and (ii) new accounting pronouncements in the U.S. which were released in that period, as follows:

(1) According to U.S. GAAP, the merger of Elron and Elbit and the DEP share purchase as described in Note 3 are accounted for by the purchase method in Elron's financial statements. According to Israeli GAAP, the merger between Elron and Elbit and the DEP share purchase, are considered transactions with controlling shareholders and accordingly, the assets and liabilities should be recorded according to their carrying values in the transferring company at the dates of the relevant transactions.

(2) As a result of the purchase of DEP, Elron's aggregate interest in certain companies has increased and enabled Elron to exercise significant influence in these companies. In accordance with U.S. GAAP, Elron's direct holdings in these companies, which were accounted for by Elron at cost, are accounted for retroactively under the equity method of accounting ("step-by-step acquisition") which resulted in a restatement of Elron's financial statements for all prior periods. According to Israeli GAAP, the equity method should be applied only from the first time Elron could exercise significant influence in these companies.

Note 7 - RECONCILIATION TO ISRAELI GAAP (Cont.)

C. MATERIAL ADJUSTMENTS (Cont.):

(3) Effective January 1, 2002 the Company adopted SFAS 142, "Goodwill and Other Intangible Assets" according to which goodwill and intangible assets with indefinite lives are no longer amortized periodically but are reviewed annually for impairment (or more frequently if impairment indicators arise). According to Israeli GAAP, all intangibles, including goodwill should be amortized.

(4) According to U.S. GAAP the fair value of options to acquire shares of affiliated companies held by Elron is recorded as a liability. According to Israeli GAAP, no liability should be recorded if the exercise of the options would not result in a loss to Elron.

# # # # # # # #

ELRON ELECTRONIC INDUSTRIES LTD.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of U.S. Dollars
(Unaudited)

Details relating to investments as of September 30, 2002

	% Outstanding shares	Carrying value of the investment September 30, 2002 [1]	Market value of the publicly traded investments as of: September 30, 2002	November 10, 2002
Consolidated Companies:				
Elron Software Inc.	96%	175	-	-
Elron Telesoft Inc.	99%	8,782	-	-
Galil Medical Ltd. [2]	34%	4,515	-	-
MediaGate N.V.	68%	2,809	-	-
Israel Commerce Community Ltd. (ICC)	51%	333	-	-
Affiliated Companies (equity):				
Elbit Systems Ltd. (Nasdq: ESLT)	21%	85,331	128,423	136,127
Given Imaging Ltd. (Nasdq: GIVN) [2]	18%	27,077	45,630	41,624
NetVision Ltd.	46%	1,071	-	-
Wavion Inc.	45%	490	-	-
Kidum Elron IT (KIT) Ltd.	29%	1,671	-	-
Chip Express Corporation	34%	6,110	-	-
Pulsicom Israel Technologies Ltd.	17%	459	-	-
3DV Systems Ltd. [2]	25%	938	-	-
Advanced Metal Technologies Ltd. (AMT)	29%	4,371	-	-
Witcom Ltd. [2]	20%	539	-	-
Cellenuim M.C.S. Ltd.	50%	2,500	-	-
CellAct Ltd.	45%	304	-	-
Semiconductors Engineering Laboratories Ltd. (SELA) [2]	22%	474	-	-
Ingeneo Ltd.	21%	400	-	-
Available for sale:				
Partner Communications Company Ltd. (Nasdaq: PTNR)	12%	87,654	87,654	86,779
Elbit Vision Systems Ltd. (Nasdaq: EVSN)	16%	530	530	437
Cisco Systems Inc. (Nasdaq: CSCO) [3]		1,909	1,909	2,288
24/7 Real Media (Nasdaq: TFSM)	3%	1,249	1,249	1,148
Partnership:				
Gemini Israel Fund	5%	270	-	-
InnoMed	12%	1,934	-	-
Cost:				
Oren Semiconductor Inc.	17%	6,874	-	-
24/7 Real Media [4]	4%	1,888	-	-

(1) Includes loans and convertible notes.

(2) Represents the carrying value and the percentage holding of the investment in Elron's books and Elron's share in the carrying value and percentage holding of the investment in RDC's books.

(3) 182,000 shares.

(4) Investment in preferred shares of 24/7 Real Media which represent 4,840,271 common share on an as converted basis.