

Tel-Aviv, June 5, 2002

Dear Shareholder:

You are cordially invited to attend the Company's Annual General Meeting ("AGM") of Shareholders to be held at 3:00 p.m., on July 3, 2002, at the Company's offices at 3 Azrieli Center, the Triangle Building, 42nd Floor, Tel-Aviv, Israel. At this meeting you will be asked:

- (1) to elect seven (7) directors to the Board of Directors of the Company;
- (2) to approve the compensation of the directors of the Company as a group for the fiscal year 2002;
- (3) to appoint Luboshitz Kasierer, Member Firm Of Ernst & Young International as the Company's auditors until the Company's next annual general meeting and to authorize the Board of Directors to determine the audit fees;
- (4) to receive and consider the Auditors' Report, the Directors' Report and the Financial Statements of the Company for each of the fiscal years ended on December 31, 2000 and December 31, 2001; and
- (5) to transact such other business as may properly come before the AGM or any adjournment thereof.

For the reasons set forth in the accompanying Proxy Statement, the Board of Directors unanimously recommends that you vote "FOR" the resolutions, specified on the enclosed form of proxy.

We look forward to greeting those shareholders present at the meeting personally; however, whether or not you plan to be with us at the meeting, it is important that your shares be represented. Accordingly, you are kindly requested to sign, date and mail the enclosed proxy in the envelope provided, at your earliest convenience, that the proxy is received at the Company's offices no later than forty-eight hours before the meeting.

Thank you for your cooperation.

Very truly yours,



AMI EREL
Chairman of the Board of Directors



DORON BIRGER
President

ELRON ELECTRONIC INDUSTRIES LTD.
NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

Tel-Aviv, Israel
June 5, 2002

Notice is hereby given that an Annual General Meeting of Shareholders (the "Meeting" or the "AGM") of Elron Electronic Industries Ltd. (the "Company") will be held at the Company's offices at 3 Azrieli Center, the Triangle Building, 42nd Floor, Tel-Aviv, Israel, at 3:00 p.m. on July 3, 2002.

In the Meeting the following issues will be brought before the shareholders:

- (1) to elect seven (7) directors to the Board of Directors of the Company;
- (2) to approve the compensation of the directors of the Company as a group for the fiscal year 2002;
- (3) to appoint Luboshitz Kasierer, Member Firm Of Ernst & Young International as the Company's auditors until the Company's next annual general meeting and to authorize the Board of Directors to determine the audit fees;
- (4) to receive and consider the Auditors' Report, the Directors' Report and the Financial Statements of the Company for each of the fiscal years ended on December 31, 2000 and December 31, 2001; and
- (5) to transact such other business as may properly come before the AGM or any adjournment thereof.

Shareholders of record at the close of business on June 3, 2002 are entitled to notice of, and to vote at, the Meeting. All shareholders are cordially invited to attend the Meeting in person.


Shareholders who are unable to attend the Meeting in person are kindly requested to complete, date and sign the enclosed form of proxy and return it promptly in the pre-addressed envelope provided. No postage is required if mailed in the United States. The Company must receive proxies at its office by 3:00 p.m., Israel time, on July 1, 2002. Shareholders may revoke their proxies by providing written notice to Elron no later than 48 hours prior to the Meeting. Shareholders who attend the Meeting may revoke their proxies and vote their shares in person.

Joint holders of shares should take note that, pursuant to Article 67 of the Articles of Association of the Company, the vote of the senior of joint holders of any share who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) of the share, and for this purpose, seniority will be determined by the order in which the names are listed in the Register of Shareholders.

By Order of the Board of Directors,



AMI EREL
Chairman of the Board of Directors



DORON BIRGER
President

ELRON ELECTRONIC INDUSTRIES LTD.

3 Azrieli Center
The Triangle Building, 42nd Floor
Tel-Aviv, Israel

PROXY STATEMENT

This Proxy Statement is furnished to the holders of Ordinary Shares, NIS 0.003 nominal value (the "Ordinary Shares"), of Elron Electronic Industries Ltd. (the "Company" or "Elron") in connection with the solicitation by the Board of Directors of the Company of proxies for use at an Annual Meeting of Shareholders (the "Annual Meeting", the "Meeting" or the "AGM") to be held on July 3, 2002, at 3:00 p.m., or at any adjournment thereof, pursuant to the accompanying Notice of Annual Meeting of Shareholders.

It is proposed that at the Meeting, the Shareholders approve the following resolutions: (1) to elect seven (7) directors to the Board of Directors of the Company; (2) to approve the compensation of the directors of the Company as a group for the fiscal year 2002; (3) to appoint Luboshitz Kasierer, Member Firm Of Ernst & Young International as the Company's auditors until the Company's next annual general meeting and to authorize the Board of Directors to determine the audit fees; (4) to receive and consider the Auditors' Report, the Directors' Report and the Financial Statements of the Company for each of the fiscal years ended on December 31, 2000 and December 31, 2001; and (5) to transact such other business as may properly come before the AGM or any adjournment thereof.

The Company is unaware at this time of any other matters that will come before the Meeting. If any other matters properly come before the Meeting, it is the intention of the persons designated as proxies to vote in accordance with their judgment on such matters.

A form of proxy for use at the Meeting and a return envelope for the proxy are enclosed. Shareholders may revoke the authority granted by their execution of proxies at any time before the effective exercise thereof, by filing with the Company a written notice of revocation or a duly executed proxy bearing a later date, or by voting in person at the Meeting. Unless otherwise indicated on the form of proxy, shares represented by any proxy properly executed and received by the Company at least 48 hours prior to the Meeting will be voted in favor of all the matters to be presented at the Meeting, as described above. On all matters considered at the Meeting, abstentions and broker non-votes will not be considered to have been voted. Although abstentions are taken into account to determine if a quorum is present, broker non-votes are not.

Proxies for use at the Meeting are being solicited by the Board of Directors of the Company. Only shareholders of record at the close of business on June 3, 2002 will be entitled to a notice of and to vote at the Meeting. Proxies are being mailed to shareholders on or about June 5, 2002 and will be solicited chiefly by mail; however, certain officers, directors, employees and agents of the Company, none of whom will receive additional compensation therefor, may solicit proxies by telephone, fax or other personal contact. The Company will bear the cost of the solicitation of proxies, including the cost of preparing, assembling and mailing the proxy material, and will reimburse the reasonable expenses of brokerage firms and others for forwarding material to beneficial owners of Ordinary Shares.

On May 23, 2002, the Company had issued and outstanding 29,093,108 Ordinary Shares, each of which is entitled to one vote upon each of the matters to be presented at the Meeting. No less than two shareholders holding one-third of the outstanding Ordinary Shares, present in person or by proxy and entitled to vote, will constitute a quorum at the Annual General Meeting.

**BENEFICIAL OWNERSHIP OF SECURITIES
BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of May 23, 2002, the number of Ordinary Shares owned by (i) all shareholders known to Elron to own more than 5% of Elron's Ordinary Shares and (ii) all Directors and officers as a group:

| <u>Name and Address</u> | <u>Number of Ordinary Shares</u> | <u>Percent of Ordinary Shares</u> |
|--|--|---|
| Discount Investment Corporation Ltd. ("DIC")(1) 3 Azrieli Center, 43rd Floor Tel Aviv 67023, Israel | 11,240,232 | 38.64% |
| Bank Hapoalim Group | 1,595,273 | 5.48% |
| Bank Leumi Group | 2,374,704 | 8.16% |
| Clal Insurance Group(2) | 402,757 | 1.38% |
| All directors and officers as a group* | 53,635 | 0.18% |

* Includes options exercisable within 60 days of May 23, 2002.

(1) IDB Holding Corporation Ltd. ("IDBH") is the parent of IDB Development Corporation Ltd. ("IDBD"), which, in turn, is the parent of DIC. IDBH, IDBD and DIC are public companies traded on the Tel Aviv Stock Exchange.

The Recanati family holds through three private companies, namely Israel Financial Holdings Ltd. ("IFH"), Israel Investment and Finance Corporation Ltd. ("IIFC") and Financial Holdings El-Yam (Hamigdal) Ltd. ("Hamigdal") (the "Private Companies"), approximately 51.7% of the outstanding share capital and the voting rights of IDBH. The Private Companies may be deemed to be controlled by Leon Y. Recanati, Oudi Recanati, Judith Yovel Recanati and Elaine Recanati. Leon Y. Recanati is Chairperson and Chief Executive Officer of IDBH, Chairperson of IDBD, and Chairperson of DIC.

These persons may be deemed to share the power to vote and dispose of Elron's shares owned by DIC.

On 23 May, 2002, the Private Companies signed an agreement to sell their approximately 51.7% of the share capital of IDBH to a group comprising Ganden Holdings Ltd. and Ganden Investments IDB Ltd., Maskit-Man Ltd. (a company owned by the Yitzhak and Ruth Manor family) and Avraham Livnat Investments (2002) Ltd. The agreement is subject to the fulfillment of conditions precedent and to the receipt of various approvals, including approvals by general meetings of the shareholders of the Private Companies, and to approvals required by law. The agreement also contains various provisions that make it possible for the Private Companies and the purchasers to cancel the agreement.

Members of the Carasso family together have approximately a 16.1% equity interest and a 10.9% voting interest in IDBH through direct holdings in IIFC and indirect holdings in Hamigdal. The Carasso family holdings are held almost entirely in the name of Moise Carasso Sons Ltd.,

which is controlled by four family companies that are beneficially owned by Maccabi Carasso, Yoel Carasso, Zipporah Mizrahi Carasso, Ariel Carasso, Yonit Goldstein Carasso, Orly Hoshen Carasso, Sarah Buton Carasso, Edna Oz Carasso and Moshe Carasso. Those shares that are not held in the name of Moise Carasso Sons Ltd. are held by the above family members.

GS Star Holding Inc., the shareholders of which consist of investment funds that are affiliates of Goldman Sachs Group L.P. and the directors of which are officers of the Goldman Sachs group, owns approximately 9.5% of the outstanding shares and voting rights of IDBH. Companies affiliated with Mr. Eliezer Fishman own approximately 5.3% of the outstanding shares and the voting rights of IDBH. The remaining shares of IDBH are held by mutual and/or provident funds controlled by Bank Leumi le'Israel B.M. (6.0% as of May 8, 2002), mutual and/or provident funds controlled by Bank Hapoalim Ltd. (5.45% as of May 8, 2002) and the public.

(2) The Clal Insurance Group made up of Clal Insurance Enterprises Holdings Ltd. and its subsidiaries, is deemed to be one of our major shareholders as Clal Insurance Enterprises Holdings Ltd. is majority-owned by IDBD which is the parent company of DIC, which in turn is our parent company.

ITEM 1—ELECTION OF DIRECTORS

The Board of Directors has nominated the seven (7) directors of the Company named and described below to be elected as directors. All of said individuals currently serve as directors of the Company. These directors, together with two independent directors, Prof. Ilan Meshoulam and Prof. Daniel Sipper, shall constitute the entire Board of Directors.

Duly executed proxies (other than those directing the proxy holders not to vote for all or certain of the listed nominees) will be voted for the election of each of the seven (7) nominees, to hold office until the next annual general meeting of shareholders and until his or her successor shall have duly taken office, or such earlier time as he or she shall resign or be removed from the Board pursuant to the terms of the Articles of Association of the Company or the Companies Law. The Company is unaware of any reason why any of the nominees, if elected, should not be able to serve as a director.

If any of the nominees should be unable to serve, the proxies will be voted for the election of such other person or persons as shall be determined by the persons named in the proxy in accordance with their judgment.

The nominees, the year in which each first became a director, their age and the number of Ordinary Shares of the Company beneficially owned by each on May 13, 2002 are as follows:

| <u>Nominee</u> | <u>Year First Became A Director</u> | <u>Age</u> | <u>Beneficial Ownership of Ordinary Shares and Options on May 13, 2002</u> |
|---------------------------|---|------------|--|
| Ami Erel | 1999 | 55 | 77,487 |
| Avraham Asheri(1)..... | 1999 | 64 | 0 |
| Dr. Chen Barir..... | 1999 | 43 | 0 |
| Lenny Recanati | 1992 | 48 | 0 |
| Michael F. Kaufmann | 1999 | 58 | 0 |
| Ziv Leitman | 2000 | 43 | 0 |
| Itzhak Ravid | 2000 | 47 | 0 |

(1) Member of the Audit Committee of the Board of Directors (the "Audit Committee").

Ami Erel has served as the Chairman of the Board of Directors of the Company since November 1999 and served as Chief Executive Officer of the Company from November 1999 to December 2001. Mr. Erel has served as President of DIC since June 1, 2001. Mr. Erel is also a director of Property and Building Corporation Ltd. and Super-Sol Ltd. as well as the Chairman or member of the board of other companies in the DIC group and the Elron group. Mr. Erel is also Chairman of Given Imaging Ltd. From 1997 to 1999, Mr. Erel served as President and Chief Executive Officer of Bezeq-The Israel Telecommunications Corp. Ltd. From 1997 to 1998, he was Chairman of the board of directors of PelePhone Communications Ltd. From 1993 to 1997, he served as Chief Executive Officer and director of ForSoft Ltd. and as a director of its subsidiaries. From 1990 to 1997, he served as Chief Executive Officer and director of F.C.T. Formula Computer Technologies Ltd. and as director of its subsidiaries. In January 2000, Mr. Erel was elected as Chairman of the board of Israel Association of Electronics & Information Industries. Mr. Erel holds a B.Sc. in electrical engineering from the Technion, Israel Institute of Technology.

Avraham Asheri serves as the Chairman of the Company's Audit Committee. He is an economic and financial advisor. Mr. Asheri is a member of the boards of directors of Discount Mortgage Bank Ltd., Kardan Nadlan Ltd., ISAL Amlat Investments (1993) Ltd., Meditor Pharmaceuticals Ltd., Elbit Systems Ltd. and Scitex Corporation Ltd. Mr. Asheri was the President and Chief Executive Officer of Israel Discount Bank from November 1991 until July 1998. Prior to joining Israel Discount Bank in 1983 as Senior Executive Vice President and a member of its management committee, Mr. Asheri held the position of Director General of the Ministry of Industry and Trade. During his 23 years at the Ministry of Industry and Trade and at the Ministry of Finance, Mr. Asheri held several key offices in Israel and abroad, including: Managing Director of the Investment Center in Israel, and Trade Commissioner of Israel to the United States. Mr. Asheri holds a bachelors degree in economics and political science from the Hebrew University in Jerusalem.

Dr. Chen Barir is the Chairman of Berman & Co. Trading and Investments Ltd. and its subsidiaries, a private group specializing in seed stage venture capital investments, management and real estate. Dr. Barir is also Chairman of Galil Medical Ltd., the Chairman and Chief Executive Officer of Sunlight Medical and a director of Optonol. Dr. Barir holds a masters in business administration from the European Institute of Business Administration (INSEAD) in Fontainebleau, France and a doctorate in law and economics from Harvard Law School.

Michael F. Kaufmann is the Chairman of Alcatel Telecom Israel Ltd. and Corporate Senior Officer In-Country. Since 1970, he has managed Orterac, a family owned company whose charter has been to initiate business and to market and implement the product portfolio of its principal companies. He owns and manages D.S. Ltd. & Kibernetics Ltd. In the past, Mr. Kaufmann served as a board member of Gvanim (a cable television company) and as a General Manager of Hapoalim Technological Infrastructures Ltd. Mr. Kaufmann holds a bachelor of science degree in applied physics from the Technion, Israel Institute of Technology in Haifa, and attended the Harvard International Senior Management Program.

Ziv Leitman joined DIC in September 2000 as its Executive Vice President and Chief Financial Officer. From 1998 to 2000, Mr. Leitman served as the Vice President and Chief Financial Officer of Lannet/Lucent Technologies Networks Ltd., Lucent Technologies Inc.—EIS. Between 1993 and 1997, he served as Vice President and Chief Financial Officer of Hogla Kimberly Ltd. From 1989 to 1993 he served as Vice President, chief financial officer and company secretary of Optrotech Ltd. He serves on the boards of directors of a number of Israeli enterprises

connected with DIC, including Property and Building Corporation Ltd., Ilanot Batucha Investment House Ltd., Aprion Digital Ltd. and Bayside Lands Ltd. and is the chairman of the board of directors of Albar Mimunit Services Ltd. Mr. Leitman is a Certified Public Accountant and holds a bachelors degree in economics and accounting and a masters degree in business administration from Tel Aviv University.

Itzhak Ravid has been a partner in the Tel Aviv accounting firm of Raveh-Ravid & Co since 1988. He was a director of Y.L.R Capital Markets from 1992 until 1998. Mr. Ravid was the Chairman of the board of directors of Nessuah Zannex from 1998 to 1999. From 1981 to 1988, he was an accountant with Kost Levary & Forer. Mr. Ravid has been a licensed accountant since 1983. He holds degrees in economics and accounting from Tel Aviv University.

Lenny Recanati has been an officer of DIC since 1983 and currently serves as Executive Vice President and a director. He serves on the boards of directors of a number of Israeli enterprises connected with DIC, including Bayside Land Corporation Ltd., Tefron Ltd., IDB Holdings Ltd., Supersol Ltd. and Elbit Systems Ltd., and is Chairman of the board of directors of Ilanot Betucha Investment House Ltd. He holds a bachelors degree in economics from the Hebrew University of Jerusalem and a masters degree in business administration from Columbia University.

Independent Directors

Pursuant to the Companies Law, the Company is required to have two independent directors on its Board of Directors (the "Independent Directors"). The five-year term of one of the Company's independent directors, Prof. Ilan Meshoulam, continues until March 2003. Prof. Daniel Sipper was elected on February 12, 2001 as the second independent director. In accordance with the Companies Law as currently in effect, Prof. Sipper's term of office will be three years, and he may be re-elected for a second three-year term.

By law, the Independent Directors, as all directors, are entitled to obtain all information relating to the Company's management and assets, and to receive assistance, in special cases, from outside experts at the expense of the Company. Under the Companies Law, any committee of the Board of Directors has to include at least one Independent Director, except the audit committee, which has to include all of the Independent Directors.

It is proposed that at the Annual General Meeting, the following Resolution be adopted:

"RESOLVED, that the seven (7) nominees recommended in the Proxy Statement, dated June 5, 2002 as directors be, and each of them hereby is, elected to hold office for a period of one year, or until the election of their successors in accordance with the Company's Articles of Association."

The affirmative vote of shareholders represented at the Meeting in person or by proxy and holding Ordinary Shares conferring in the aggregate at least a majority of the votes actually cast is necessary for the election of the seven (7) nominees to the Board of Directors.

The Board of Directors recommends a vote FOR all the nominees to the Board of Directors.

ITEM 2—APPROVAL OF DIRECTORS' COMPENSATION

The following table sets forth with respect to all directors of the Company and the Chairman and Chief Executive Officer of the Company the compensation paid by the Company during the fiscal year ended on December 31, 2001;

| | Cash and Cash-Equivalent Forms of Compensation (in thousands of U.S.\$) | |
|---|---|---|
| | Salaries, Fees, Directors' Fees, Commissions and Bonuses | Securities or Property, Insurance Benefits or Reimbursements and Personal Benefits |
| 2001 | | |
| Chairman and Chief Executive Officer..... | 315* | 18 |
| All other directors, except for Chairman and Chief Executive Officer | 145 | — |

* This comprises compensation as Chief Executive Officer for the period of January to May 2001 and compensation as Chairman for the period of June to December 2001.

The Company is authorized to grant options to purchase up to a total of 463,025 Ordinary Shares to the Company's officers and employees. Details concerning these options are as follows:

Series 6 Options

There are outstanding options to purchase an aggregate of 4,500 Ordinary Shares of the Company, of which options to purchase an aggregate of 2,500 shares are held by one officer of the Company (the "Series 6 Options"). The Series 6 Options are exercisable at a price of approximately \$11.29 per share. The optionholder is entitled to exercise 25% of the amount granted, each year, starting in March 1998. The Series 6 Options will expire in March 2006.

Series 7 Options

There are outstanding options to purchase an aggregate of 21,500 Ordinary Shares of the Company, of which options to purchase an aggregate of 12,500 shares are held by one officer of the Company (the "Series 7 Options"). The Series 7 Options are exercisable at a price of approximately \$12.51 per share. The option holders are entitled to exercise 25% of the amount granted, each year, starting in March 1999. The Series 7 Options will expire in March 2005.

Series 9 Options

The Chairman of our Board of Directors was granted options to purchase 58,154 Ordinary Shares of the Company (the "Series 9 Options"). The Series 9 Options are to be granted ratably over a period of three years commencing in February 2000 and are exercisable for a period of three years, commencing two years after the date of grant.

The per share exercise price of the Series 9 Options granted in February 2000 and 2001 is approximately \$21.38. The per share exercise price of the Series 9 Options granted in February 2002 is \$13.01.

Upon exercise of the Series 9 Options, the option holder will be granted a number of shares reflecting the benefit component of the options exercised, as calculated at the exercise date, in consideration for their par value only.

Series 10 Options

There are outstanding options to purchase an aggregate of 33,000 Ordinary Shares of the Company of which options to purchase an aggregate of 20,000 shares are held by one officer of the Company (the "Series 10 Options"). The Series 10 Options are exercisable at a price of approximately \$29.38 per share. The optionholders are entitled to exercise 25% of the amount granted, each year, starting in October 2001. The Series 10 Options will expire in October 2007.

Series 11 Options

The Chairman of our Board of Directors was granted options to purchase 58,000 Ordinary Shares of the Company (the "Series 11 Options"). The Series 11 Options are to be granted ratably over a period of three years commencing in June 2001 and are exercisable for a period of three years, commencing two years after the date of grant. The first amount of 19,333 Series 11 Options was granted in June 2001.

The per share exercise price of the Series 11 Options granted in June 2001 is \$19.05.

Upon exercise of the Series 11 Options, the option holder will be granted a number of shares reflecting the benefit component of the options exercised, as calculated at the exercise date, in consideration for their par value only.

Series 12 Options

There are outstanding options to purchase an aggregate of 42,000 Ordinary Shares of the Company held by two officers of the Company (the "Series 12 Options"). The Series 12 Options are exercisable at a price of approximately \$18.87 per share. The officers are entitled to exercise 25% of the amount granted, each year, starting in June 2002. The Series 12 Options will expire in June 2008.

Series 13 Options

There are outstanding options to purchase an aggregate of 34,871 Ordinary Shares of the Company held by one officer of the Company (the "Series 13 Options"). The Series 13 Options are exercisable at a price of approximately \$13.39 per share. The officer is entitled to exercise 25% of the amount granted, each year, starting in August 2002. The Series 13 Options will expire in August 2008.

Series 14 Options

There are outstanding options to purchase an aggregate of 45,000 Ordinary Shares of the Company of which options to purchase an aggregate of 20,000 shares are held by one officer of the Company (the "Series 14 Options"). The Series 14 Options are exercisable at a price of approximately \$11.69 per share. The optionholders are entitled to exercise 25% of the amount

granted, each year, starting in September 2002. The Series 14 Options will expire in September 2008.

Series 15 Options

There are outstanding options to purchase an aggregate of 148,000 Ordinary Shares of the Company of which options to purchase an aggregate of 120,000 shares are held by three officers of the Company (the "Series 15 Options"). The Series 15 Options are exercisable at a price of approximately \$10.38 per share. The optionholders are entitled to exercise 25% of the amount granted, each year, starting in October 2002. The Series 15 Options will expire in October 2007.

Series 16 Options

There are outstanding options to purchase an aggregate of 18,000 Ordinary Shares of the Company held by one officer of the Company (the "Series 16 Options"). The Series 16 Options are exercisable at a price of approximately \$11.15 per share. The officer is entitled to exercise 25% of the amount granted, each year, starting in November 2002. The Series 16 Options will expire in November 2007.

Elron Software Stock Option Plans

Two officers of the Company were granted up to a total of 845,000 options exercisable for up to 845,000 shares of common stock of Elron Software Inc. ("Elron Software") in accordance with the option plans approved and amended in November 1997, December 1998, November 1999, May 2000 and November 2001. Pursuant to the terms of the plans, the exercise price of each option will be the fair market value of the shares on the date of grant. The options will vest over a four-year period.

As a result of the demerger of Elron Software effective as of April 1, 2000 to two companies—Elron Software and Elron Telesoft Inc. ("Elron TeleSoft")—each option granted prior to the demerger is exercisable for one share of common stock of Elron Software and one share of common stock of Elron TeleSoft. The exercise price of each of these options is \$0.50, which will be divided equally between Elron Software and Elron TeleSoft.

Directors' Compensation

The Companies Law (as well as the former Israeli Companies Ordinance) requires that the terms and conditions of employment of a director, including the terms and conditions of his or her employment as an officer of a company, be approved by the audit committee of such company and by its board of directors, as well as by such company's shareholders voting at a general meeting.

Following approval by the Audit Committee and by the Board of Directors, it is proposed that the Company grant compensation to all of the Company's directors for the fiscal year 2002, in the maximum amount permitted under the Companies Regulations (rules regarding compensation and expenses for an external director), 2000 (the "External Director Regulations") for companies of the same classification of the Company in relation to its shareholder's equity.

According to the External Director Regulations, in addition to reimbursement of expenses, the current maximum amount permitted per director is approximately NIS 44,000 (approximately

\$9,100) for one year and in addition approximately NIS 1,700 (approximately \$350) per director for participation in each of meetings of the Board of Directors. These amounts are linked to the Israeli Consumer Price Index.

It is proposed that at the Annual General Meeting, the following Resolution be adopted:

“RESOLVED, that the compensation paid and to be paid in 2002 to the Directors of the Company as described in the Company’s Proxy Statement, dated June 5, 2002 be, and hereby are, approved and ratified.”

The affirmative vote of shareholders represented at the Meeting in person or by proxy and holding Ordinary Shares conferring in the aggregate at least a majority of the votes actually cast is necessary for the approval of the Ordinary Resolution.

The Board of Directors recommends a vote FOR approval of this proposed Resolution.

**ITEM 3—APPROVAL OF APPOINTMENT OF LUBOSHITZ KASIERER,
MEMBER FIRM OF ERNST & YOUNG INTERNATIONAL**

Luboshitz Kasierer, Member Firm Of Ernst & Young International, has been nominated by the Board of Directors of the Company for appointment as the auditors of the Company until the Company’s next annual general meeting. Luboshitz Kasierer, Member Firm Of Ernst & Young International has no relationship with the Company or with any affiliate of the Company, except as auditors.

It is proposed that at the Annual General Meeting, the following Resolution be adopted:

“RESOLVED, that Luboshitz Kasierer, Member Firm Of Ernst & Young International be, and they hereby are, appointed as auditors of the Company until the Company’s next annual general meeting and that the Board of Directors be, and hereby is, authorized to determine the fees of said auditors.”

The affirmative vote of the holders of a majority of the Ordinary Shares represented at the AGM in person or by proxy and voting thereon is required to adopt the Resolution appointing Luboshitz Kasierer, Member Firm Of Ernst & Young International as auditors of the Company.

The Board of Directors recommends a vote FOR approval of this proposed Resolution.

**ITEM 4—CONSIDERATION OF THE AUDITORS’ REPORT, THE DIRECTORS’
REPORT AND THE FINANCIAL STATEMENTS**

At the Annual General Meeting, the Auditors’ Report, the Directors’ Report and the Financial Statements of the Company for each of the fiscal years ended December 31, 2000 and 2001 will be presented.

The Annual Report for 2001 including the Financial Statements, Auditors’ Report and the Directors’ Report for 2001 is attached to this Proxy Statement. The Financial Statements for 2000 are not attached to this Proxy Statement as these have previously been provided or made available to the shareholders.

It is proposed that at the Annual General Meeting, the following Resolution be adopted:

“RESOLVED, that the Auditors’ Report, the Directors’ Report and the Financial Statements of the Company for each of the fiscal years ended December 31, 2000 and December 31, 2001 be, and the same hereby are, and each hereby is, received and considered.”

The affirmative vote of shareholders represented at the Meeting in person or by proxy and holding Ordinary Shares conferring in the aggregate at least a majority of the votes actually cast is necessary for the approval of this Resolution.

The Board of Directors recommends a vote FOR approval of this proposed Resolution.

OTHER BUSINESS


Management knows of no other business to be transacted at the Meeting, but if any other matters are properly presented at the Meeting, the persons named in the enclosed form of proxy will vote upon such matters in accordance with their best judgment.

By Order of the Board of Directors,



AMI EREL
Chairman of the Board of Directors

Dated: June 5, 2002



DORON BIRGER
President