FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the Month of November 2010

ELRON ELECTRONIC INDUSTRIES LTD.
(Translation of Registrant's Name into English)

3Azrieli Center, Triangle Building, 42nd Floor, Tel Aviv • ISRAEL
(Address of Principal Corporate Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ☑ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ___

Indicate by check mark if the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ☐ No ☐

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-(2): 82-_______

English Translations of Registrant’s Reports filed with the Israeli Securities Authority on November 8, 2010 in connection with the Registrant's Financial Results for the Third Quarter of 2010.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELRON ELECTRONIC
INDUSTRIES LTD.
(Registrant)

By: /s/ Yaron Elad
Yaron Elad
VP & CFO

Dated: November 8, 2010

Elron Electronic Industries Ltd.

English Translation of Quarterly Report for the Period ended September 30, 2010

Part A – Updates Regarding the Description of the Corporation's Businesses for the Period ended on September 30, 2010

Definitions

In this report, the following expressions shall have the following meanings, unless specifically otherwise specified.

Term	Meaning
The Company/Elron	Elron Electronic Industries Ltd.
Dollar	U.S. dollar
DIC	Discount Investment Corporation Ltd.
RDC	RDC Rafael Development Corporation Ltd.
Starling	Starling Advanced Communications Ltd.
Securities Law	Israeli Securities Law, 5728-1968
Group Companies	Consolidated Companies, Associate Companies and Other Companies held by the Company.
Consolidated Companies	Companies that are controlled by the Company pursuant to Accounting Standard IAS 27R, and whose financial statements are consolidated with the Company's financial statements
Associate Companies	Companies in which the Company has a material influence and are not Consolidated Companies.

Forward-Looking Information

In this report, which contains a description of the entity's businesses for the third quarter of 2010, the Company included, with respect to itself and to the Group Companies, forward-looking information, as defined in the Securities Law. Such information includes, *inter alia*, projections, goals, evaluations and estimates, which refer to future events or matters, whose realization is uncertain and beyond the Company's control. Forward-looking information in this report shall be generally identified specifically or by such expressions as "the Company expects", "the Company estimates", "the Company intends" and similar expressions.

Forward-looking information does not constitute a proven fact and is only based on the subjective estimation of the Company, which has relied in its assumptions, *inter alia*, on the analysis of general information which was available to it at the time of the preparation of this report, including public releases, studies and surveys, with respect to which no assurance as to the veracity or completeness of the information contained therein was provided, and its veracity was not examined independently by the Company.

In addition, the realization and/or non-realization of the forward-looking information shall be affected by factors that cannot be evaluated in advance and are beyond the Company's control.

Therefore, although the Company believes that its expectations, as set forth in this report, are reasonable, there is no certainty that the Company's actual results in the future will be in accordance with such expectations and they may differ from those presented in the forward-looking information as set forth herein.

In cases where forward-looking information has been included as aforesaid, same has been specifically indicated.

1. **Changes in the Entity's Businesses**

The following are important changes or new matters that occurred in the entity's businesses since July 1, 2010:

1.1 **Prepayment of Loans**

During September 2010, Elron prepaid its entire debt to Israel Discount Bank Ltd. ("the Bank") in respect of loans granted to Elron by the Bank in the aggregate amount of approximately $30 million. Repayment of the entire said debt was approved by the Company's Audit Committee and Board of Directors. Upon repayment of Elron's entire debt to the Bank, Elron repaid its entire debt in respect of the loans from DIC in the amount of approximately $17 million, pursuant to the terms of the loan agreements with DIC. Repayment of the said loans did not incur a prepayment commission. See Note 3l to the Company's interim consolidated financial statements as of September 30, 2010.

1.2 **Starling – Organizational Change**

In July 2010, Starling announced its Board of Director's decision to execute an organizational change the purpose of which is to strengthen the manufacturing and supply activities of the advanced communications systems in its production in order to enable Starling to focus on the manufacture and supply of the systems.

1.3 **Investments**

For details regarding the Company's investments in its Group Companies in the third quarter of 2010 see Section I.4 of the Board of Directors' Report for the Third Quarter of 2010.

1.4 **Receipt of Special Dividend**

In August 2010, RDC distributed a special cash dividend in the aggregate amount of approximately $30 million, of which Elron received a dividend in the amount of approximately $15 million.

2. **Business Environment**

2.1 In July 2010, the Israeli Knesset (Parliament) was presented with a private bill to increase competition, details of which were provided in the Company's quarterly report for the second quarter of 2010.

In October 2010, the Israeli prime minster announced that a committee had been formed in connection with increasing competition in the economy, whose purpose it is to recommend to the government, possible policy measures for addressing the issue of the structure of holdings in the economy, and in this regard, among other things, to examine the issue of real companies' control over financial companies and the issue of constraining control over a public company through a pyramidal holding structure (including through taxation of activities carried out within the business group). The object is to achieve certain goals which were defined for the committee, and among them, conserving the stability of the financial system and increasing the competition and efficiency of market activity.

The implementation of policy measures with regard to the aforementioned and other issues, if carried out, may have a material impact on the Company, inter alia in connection with the holding structure under which it operates, taxation of dividends received from Group Companies, etc.

2.2 In September 2010, the Israeli Knesset's Finance Committee approved a bill: Improving the Efficiency of Enforcement Proceedings in the Israel Securities Authority (Legislation Amendments), 5770-2010, prior to its second and third readings in the Knesset. The proposed law is aimed at improving the efficiency of the enforcement of law directives which are under the responsibility of the Israel Securities Authority and which regulate securities laws affairs, including the Securities Law. The proposed law establishes an administrative enforcement mechanism, centered on dealing with certain types of breaches of the said laws through an administrative proceeding in which enforcement measures may be taken against the infringing party, such as: financial sanctions, payment to the victim of the breach, a ban on serving as an executive officer of a supervised entity for a certain period, and the revocation or suspension of a license, permit or authorization. In certain cases in which the infringing party is a corporation, the proposed law determines that the general manager will be liable as well, unless certain conditions are met, among them, policies for preventing the breach being in effect at the corporation. The proposed law also includes a mechanism for an agreed upon arrangement as an alternative to an administrative or criminal proceeding which will also allow for the said enforcement measures to be taken. As part of the preparation for the proposed law coming into effect once approved by the Knesset, as well as for the Securities Regulations (Periodic and Immediate Reports) (Amendment), 5770-2010 concerning effectiveness of internal control over financial reporting and disclosure coming into effect, the Company intends, inter alia, to adopt policies for increasing the stringency of compliance with the Securities Law's directives at the Company and increasing the reliability of financial reporting and disclosure.

3. **Legal Proceedings**

See Note 4 to the Company's interim consolidated financial statements as of September 30, 2010.

Ari Bronshtein CFO	Yaron Elad CFO

November 8, 2010, Tel Aviv

Elron Electronic Industries Ltd.
English Translation of Board of Directors Report
for the Third Quarter and First Nine Months of 2010

I. Board of Directors' Analysis of the Company's Business

1. General

Elron Electronic Industries Ltd. ("Elron" or "the Company"), a member of the IDB Holding group, is a high technology operational holding company that operates through subsidiaries, associates and other companies classified as available-for-sale investments, referred to as "group companies". Elron generally invests in companies in a manner that vests it with influence on their direction and management. Some of Elron's group companies grew out of its subsidiary, RDC – Rafael Development Corporation ("RDC"), established by Elron together with Rafael Advanced Defense Systems Ltd. ("Rafael"), the largest research and development organization of Israel's Ministry of Defense. RDC has first rights to exploit commercially certain technologies of Rafael in non-military markets.

Elron supports its group companies and is directly involved in their direction including through membership on their boards of directors and communication with their managements: selecting and manning senior management positions, business plan preparation, research and development and operational guidance, and introductions to potential strategic partners. Elron's group companies currently comprise public and privately held companies at various levels of development and progress. See the annex to the financial statements for details on the holdings of Elron.

The field of technology in which the group companies operate is characterized by the high degree of risk inherent in their products, their continuous technological innovation and their penetration into world markets, which require investment of considerable resources and continuous development efforts. The future success of Elron's group companies is dependent upon their technological quality, intellectual property, prices and nature of their products in comparison to the products of their competitors and their ability to introduce new products to the markets at the right time, while offering cost effective solutions suitable to their customers' needs. Furthermore, the future success of Elron's group companies is dependent upon the condition of the capital markets and their ability to raise financing.

Elron's goal is to build and realize value for its shareholders through the sale to third parties of a portion or all of its holdings in, or the issuance of shares by, its group companies, while simultaneously seeking opportunities to acquire or invest in new and existing companies at different stages of development including early stage and more mature companies. The Company believes that this strategy is conducive to its goal of increasing shareholder value as well as contributes to obtaining capital to support the growth of its group companies and to investing in new business opportunities. The nature of Elron's business, therefore, is expected to result in volatility in its results of operations, depending on the transactions that occur within a given period.

Elron's operational results in any given period are due, for the most part, to the results of operations of those of its group companies which are accounted by the Company under the consolidation or equity method of accounting and dispositions and changes in holdings of group companies as well as impairment charges. As most of Elron's group companies are technology companies which have not yet generated significant revenues and which invest considerable resources in research and development and in marketing activities, without further exit transactions the Company has experienced, and expects to continue to experience, losses in respect of these companies to the extent they are accounted by it under the consolidation or equity method of accounting, as well as impairment charges for those investments in which the carrying amount will exceed the fair value.

Elron's capital resources in any given period are primarily affected by the extent of its investment in existing and new companies, the realization of certain holdings and available credit lines or loans, as well as the impact of any dividends or distributions to its shareholders and/or from its group companies. The results of operations of Elron's group companies, and consequently, Elron's results of operations and capital resources, are affected by general economic conditions as well as by factors specifically related to the technology markets and capital markets, which significantly affect the ability of Elron's group companies to raise financing and Elron's ability to dispose of holdings and realize gains from its holdings.

During 2009 and the first nine months of 2010, the Company continued to invest in and support its existing group companies, investing in fewer existing companies than in the past with the intent of focusing on such companies. During the third quarter of 2010 the Company completed an investment in Kyma Medical Technologies Ltd. ("Kyma") (See Section I.2 "Major Events in the Reporting Period" below) and intends to continue to invest in new companies.

2. Major Events in the Reporting Period

The major changes are described in Notes 1, 3 and 4 to the Company's consolidated interim financial statements as of September 30, 2010, the most notable of which are the following changes:

Delisting and Transition to IFRS. On January 6, 2010, Elron voluntarily delisted from the Nasdaq Global Select Market. Elron further intends to terminate the registration of its ordinary shares under the Securities Exchange Act of 1934 ("Exchange Act") as soon as possible under Securities and Exchange Commission ("SEC") rules, thereby terminating its obligation to file annual and other reports with the SEC. The Company does not expect such deregistration to take effect earlier than the third quarter of 2011, if at all. Elron's ordinary shares continue to be listed and traded on the Tel Aviv Stock Exchange, its principal trading market. As a result of the delisting, Elron is now required to comply with reporting requirements in accordance with both Israeli and U.S applicable securities laws and regulations.

As a result of the delisting from Nasdaq, Elron commenced reporting in accordance with the reporting obligations under the Israel Securities Law (1968) applicable to reporting companies in Israel which are not dual-listed. As a result, Elron changed its financial reporting principles from generally accepted accounting principles in the United States ("U.S. GAAP") to International Financial Reporting Standards ("IFRS"). As permitted under the Exchange Act and the regulations promulgated thereunder, Elron's consolidated financial statements are prepared in conformity with IFRS (without reconciliation to U.S. GAAP). Elron's consolidated financial statements for the year ended December 31, 2009 were the Company's first annual financial statements prepared in accordance with IFRS. The preparation of the Company's consolidated financial statements in accordance with IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements as of December 31, 2008 and for the year then ended prepared under U.S. GAAP. Elron's significant accounting policies are more fully described in Note 2 to its consolidated financial statements as of December 31, 2009. The material differences between reporting according to U.S. GAAP and IFRS principles are more fully described in Note 6 to the Company's consolidated interim financial statements as of September 30, 2010.

Sale of Medingo. On April 13, 2010, a binding agreement was executed for the sale of all the shares of Medingo Ltd. ("Medingo") to F. Hoffmann-La Roche Ltd. On May 28, 2010, the aforementioned sale was completed. Medingo, which prior to the sale was approximately 92% held by Elron, including approximately 84% held by RDC, is engaged in the development of an insulin micro-pump for people with diabetes. In respect of the aforementioned sale: 1. In accordance with Medingo's capital structure and the shareholders' rights to Medingo's capital, Elron and RDC received approximately $14 million and approximately $94 million, respectively, out of the consideration paid upon completion of the transaction. During the third quarter of 2010, Elron and RDC additionally received approximately $0.2 million and approximately $1.5 million, respectively, from a short-term deposit held in escrow. In addition, they may receive in the future additional amounts of up to approximately $2.7 million and up to approximately $20 million, respectively, from the amount held in escrow in connection with the transaction for a period of up to 24 months, and up to approximately $3 million and up to approximately $29 million, respectively, out of an additional consideration which is conditional upon Medingo achieving gradually, over a certain period, certain operational milestones ("the contingent consideration"). 2. Elron recorded in the second quarter of 2010 a net gain (attributable to the Company's shareholders) of approximately $71 million (a consolidated net gain of approximately $125 million). An additional net gain (attributable to the Company's shareholders) currently estimated at an aggregate amount of up to approximately $14 million (a consolidated net gain of approximately $25 million) may be recorded at later stages, taking into consideration certain future events which may affect the amounts Elron and RDC will receive from the contingent consideration. The aforementioned net gain amounts include Elron's share of the net gain amounts recorded by RDC in respect of the aforementioned sale. See Note 3b to the interim consolidated financial statements as of September 30, 2010 for additional details regarding the sale of Medingo.

Sale of Teledata. In February 2010, Elron and other major shareholders of Teledata Networks Ltd. ("Teledata") commenced negotiations for the sale, by way of merger, of all of the outstanding shares of Teledata to Enablence Technologies Inc. (the "Acquirer" or "Enablence"), a non-Israeli company publicly traded in Canada. On April 15, 2010, following negotiations between the parties and discussions with other Teledata shareholders, a binding merger agreement was executed between Teledata, its principal shareholders, including the Company ("Major Shareholders") and the Acquirer. On June 23, 2010, the aforementioned transaction was completed. Teledata, which prior to the merger was approximately 21% held by Elron, provides innovative access products and solutions for both traditional and Next Generation Networks, or NGN, to telecom operators and service providers. In respect of the aforementioned transaction: 1. In accordance with Teledata's capital structure and the shareholders' rights to Teledata's capital, Elron received aggregate proceeds in the amount of approximately $23 million, including approximately $3 million in cash, approximately $4 million in bonds of the Acquirer and approximately $16 million in shares of the Acquirer (of which shares of the Acquirer in an amount equivalent to approximately $2 million were deposited in escrow for a period of 12 months). 2. Elron recorded a net gain in the second quarter of 2010 in the amount of approximately $22 million. 3. Pursuant to the terms of the aforementioned transaction, guarantees and obligations to grant guarantees which were granted in the past by Elron to Teledata in the aggregate amount of approximately $4 million were cancelled. See Note 3f to the interim consolidated financial statements as of September 30, 2010 for additional details regarding the sale of Teledata.

Investment in Kyma. In September 2010, Elron completed an investment in Kyma in the amount of $1,000 thousand. Kyma is engaged in the development of a miniature, radar technology based device, which allows for the continuous monitoring of chronic heart failure patients. Following the investment, Elron holds approximately 27% of Kyma's outstanding shares. Pursuant to the investment agreement between Elron and Kyma, Elron has the right to invest, as of January 1, 2011, an additional amount of $4,000 thousand which will entitle Elron, among other things, to an additional approximately 38% of Kyma's outstanding shares. See Note 3j to the interim consolidated financial statements as of September 30, 2010 for additional details regarding the investment in Kyma.

Loans Repayment and Receipt of Dividend from RDC. See Section I.4 "Liquidity and Capital Resources" below.

Resignation of Co-CEO. In June 2010, Dr. Zvi Slovin, then Co-CEO of the Company, gave notification of his resignation from the Company, in effect as of June 30, 2010. As a result, Mr. Ari Bronshtein became sole CEO of the Company. Dr. Slovin continues to provide the Company with business guidance and serve as a director of several group companies.

Approval of a Bonus to the Chairman of the Board of Directors. In March 2010, the Company's Audit Committee and Board of Directors approved payment of a special bonus in the amount of NIS 950 thousand (approximately $250 thousand) to Mr. Arie Mientkavich, the Chairman of the Company's Board of Directors, as described in the Board of Directors Report for the first quarter of 2010. In December 2009, the Company's Audit Committee and Board of Directors approved payment of a special bonus in the amount of NIS 600 thousand (approximately $160 thousand) to Prof. Gabi Barbash, a director of the Company, for his activities and contribution to 3DV Systems Ltd. ("3DV"), a group company. On July 21, 2010, payment of such bonuses was approved at the Annual General Meeting of the Shareholders of the Company.

Bonus to CEO. In March 2010, the Company's Audit Committee and Board of Directors approved a bonus in the amount of approximately NIS 492,000 (approximately $134 thousand) to Mr. Ari Bronshtein, the Company's CEO, for the year 2009, as detailed in the Company's Immediate Report filed on form 6-K with the SEC on March 18, 2010. Since the CEO also serves as an Officer (Vice President) of Discount Investment Corporation Ltd. ("DIC"), the Company's controlling shareholder, in the third quarter of 2010 DIC decided to bear the full payment of the amount of the bonus to the CEO as aforementioned.

3. Results of Operations

The Company operates in one business segment, which is the investment in and enhancement of companies. This segment includes the Company's headquarters and the investment in and support of the group companies. During the period of this report, no changes or expansions occurred in the Company’s business segments. The Company has no other business segments as defined by the Schedule to the Israeli Securities Regulations (Prospectus Details and Draft – Structure and Form), 5729-1969.

The loss attributable to Elron's shareholders in the third quarter of 2010 amounted to $4,476 thousand, as compared to a loss of $11,531 thousand in the third quarter of 2009. The gain attributable to Elron's shareholders in the first nine months of 2010 amounted to $63,710 thousand, as compared to a loss of $30,412 thousand in the first nine months of 2009. The loss per share attributable to Elron's shareholders in the third quarter of 2010 amounted to $0.17, as compared to a loss per share of $0.38 in the third quarter of 2009. The gain per share attributable to Elron's shareholders in the first nine months of 2010 amounted to $2.10, as compared to a loss per share of $1.02 in the first nine months of 2009.

The loss for the third quarter of 2010 resulted mainly from Elron's share of the net loss of its group companies in the amount of approximately $5,849 thousand (net of non-controlling interest), resulting mainly from the losses of Wavion and Starling. These amounts include excess cost amortization expenses in respect of certain group companies in the amount of $1,395 thousand. The aforementioned loss was offset by a gain in the amount of $1,990 thousand resulting from a payment received by Elron in respect of a settlement agreement with Online Higher Education B.V ("OHE") over the consideration from the sale of KIT eLearning B.V ("KIT"), which was sold by Elron to OHE in 2004 ("the Settlement Agreement with OHE" – see Note 2m to the interim consolidated financial statements as of September 30, 2010).

The gain for the first nine months of 2010 resulted mainly from the gain in the amount of approximately $70,800 thousand (net of non-controlling interest and of tax) recorded in the second quarter of 2010 in respect of the completion of the sale of Medingo, and the gain in the amount of approximately $22,400 thousand recorded in the second quarter of 2010 in respect of the completion of the sale of Teledata. The aforementioned gain was offset by Elron's share of the net loss of its group companies in the amount of approximately $27,684 thousand (net of non-controlling interest), which resulted mainly from the losses of Wavion, Starling and Medingo. These amounts include excess cost amortization and impairment expenses in respect of certain group companies in the amount of $6,749 thousand.

The loss for the third quarter and first nine months of 2009 resulted mainly from Elron's share of the net losses of its group companies in the amount of $8,443 thousand and $28,199 thousand, respectively (net of non-controlling interest), resulting mainly from the losses of Starling, Medingo, Impliant and Pocared. These amounts include excess cost amortization in the third quarter and first nine months of 2009 in respect of certain group companies in the amount of $1,496 thousand and $4,504 thousand, respectively. The loss for the third quarter and first nine months of 2009 was offset by a gain in the amount of approximately $4,400 thousand (net of non-controlling interest) in respect of the sale of all the assets of 3DV to a third party.

Elron Electronic Industries Ltd.
English Translation of Board of Directors Report
for the Third Quarter and First Nine Months of 2010

I. Composition of the Company's Results of Operations

	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the year ended December 31, 2009
	unaudited		unaudited		audited
			$ thousands		
Income from sales	5,231	7,416	1,858	1,850	9,904
Income (loss) from disposal of businesses and associates and changes in holdings in associates, net	157,618	6,843	1,047	380	31,802
Financial income	1,543	3,171	2,221	606	1,413
Total income	164,392	17,430	5,126	2,836	43,119
Equity in losses of associates, net	9,854	9,878	2,702	2,511	10,514
Cost of sales	2,193	3,867	691	1,208	4,824
Research and development expenses, net	14,609	17,481	3,944	5,927	25,699
Selling and marketing expenses	5,191	6,986	1,191	2,853	8,985
General and administrative expenses	10,062	11,505	2,187	4,828	15,865
Amortization of intangible assets	1,101	1,061	383	353	1,416
Financial expenses	3,060	6,410	1,312	2,816	5,434
Other expenses (income), net	1,095	2,116	(1,894)	138	2,230
Total costs and expenses	47,165	59,304	10,516	20,634	74,967
Income (loss) before taxes on income	117,227	(41,874)	(5,390)	(17,798)	(31,848)
Tax benefit (expenses)	(8,471)	-	37	-	2,453
Income (loss)	108,756	(41,874)	(5,353)	(17,798)	(29,395)
Income (loss) attributable to the Company's shareholders	63,710	(30,412)	(4,476)	(11,531)	(14,304)
Income (loss) attributable to non-controlling interest	45,046	(11,462)	(877)	(6,267)	(15,091)
Basic income (loss) per share attributable to the Company's shareholders (in $)	2.10	(1.02)	(0.17)	(0.38)	(0.48)
Diluted income (loss) per share attributable to the Company's shareholders (in $)	2.10	(1.02)	(0.17)	(0.38)	(0.49)

II. Analysis of the Company's Results of Operations

Income from sales

This item included mainly income from sales of the following companies:

	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009	For the three months ended September 30, 2010	For the three months ended September 30, 2009
	unaudited		unaudited	
	$ thousands			
Wavion	5,221	5,200	1,856	1,355
Sela*	-	2,216	-	495

* SELA – Semiconductors Engineering Laboratories Ltd. ("Sela") was consolidated in the Company's financial results until September 30, 2009.

Gains from Disposal of Businesses and Associates and Changes in Holdings in Associates, net

In the third quarter and first nine months of 2010, gains from disposal of businesses and associates and changes in holdings in associates, net, amounted to $1,047 thousand and $157,618 thousand, respectively, resulting mainly from the consideration which was deposited in escrow at the time of the sale of all the assets of 3DV, received during the third quarter, and from the gain in respect of the completion of the sale of Medingo in the amount of $133,506 thousand and in respect of the completion of the sale of Teledata in the amount of $22,364 thousand during the first nine months of 2010, compared with a gain in the amount of $380 thousand and $848 thousand, respectively, in the third quarter and first nine months of 2009, resulting from the decrease in the Company's holding in Impliant during the third quarter of 2009, and from the completion of the sale of all the assets of 3DV during the first nine months of 2009.

Financial Income

Financial income in the third quarter and first nine months of 2010 amounted to $2,221 thousand and $1,543 thousand, respectively, compared with $606 thousand and $3,171 thousand, respectively, in the third quarter and first nine months of 2009. The financial income in the third quarter and first nine months of 2010 resulted mainly from interest income from loans granted by the Company to associates, from translation differences accumulated on NIS-denominated deposits and from interest income on bank deposits. The financial income in the third quarter and first nine months of 2009 resulted mainly from interest income from loans granted by the Company and by RDC to associates.

Equity in Losses of Associates, net

The Company's share of net losses of associates resulted from holdings in certain investments that are accounted for under the equity method. The Company's share of net losses of associates amounted to $2,702 thousand and $9,854 thousand, respectively, in the third quarter and first nine months of 2010, compared with $2,511 thousand and $9,878 thousand, respectively, in the third quarter and first nine months of 2009.

The Company expects that most of its group companies will continue to recognize losses in future periods, as they invest significant resources in research and development and sales and marketing activities and have not yet generated significant revenues. The Company's results of operations will therefore be affected by the extent of its share of their losses (to the extent they are reported under the equity method of accounting). See "Analysis of the Results of Operations of the Company's Major Associates" below.

Cost of Sales

Cost of sales consisted primarily of expenses related to salaries and materials associated with supplying products to the Company's subsidiaries, Wavion and Sela (until the deconsolidation of Sela as of September 30, 2009, as a result of its sale). Cost of sales in the third quarter and first nine months of 2010 amounted to $691 thousand and $2,193 thousand, respectively, compared with $1,208 thousand and $3,867 thousand, respectively, in the third quarter and first nine months of 2009. The decrease in cost of sales resulted mainly from the improvement in Wavion's gross profit margin and from the deconsolidation of Sela, as previously mentioned.

Operating Expenses

Operating expenses in the third quarter and first nine months of 2010 were comprised mainly of research and development expenses, net, sales and marketing and general and administrative expenses of Elron's and RDC's corporate operations and of consolidated companies (excluding amortization of intangible assets which is presented separately) and amounted to $7,322 thousand and $29,862 thousand, respectively, and $13,608 thousand and $35,972 thousand, respectively, in the second quarter and first half of 2009. The following table summarizes the operating results of the Company and its main consolidated companies:

	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009	For the three months ended September 30, 2010	For the three months ended September 30, 2009
	unaudited		unaudited	
	$ thousands			
Corporate	3,435	4,679	1,288	1,413
RDC	3,586	2,460	354	1,586
Wavion	6,447	4,534	2,365	1,684
Medingo *	6,877	10,651	-	4,307
Starling	6,918	4,086	2,600	1,061
Impliant **	-	4,894	-	2,237

* Medingo was consolidated in the Company's financial results until the date of its sale as aforementioned.
** Impliant was consolidated in the Company's financial results until September 30, 2009 due a decrease in holding percentage.

Corporate: Corporate operating expenses in the third quarter and first nine months of 2010 amounted to $1,288 thousand and $3,435 thousand, respectively, compared with $1,413 thousand and $4,679 thousand, respectively, in the third quarter and first nine months of 2009. The decrease in expenses resulted mainly from the implementation of the Services Agreement with DIC, the controlling shareholder of the Company, and from other measures implemented since May 2009, aimed at reducing operational costs.

RDC: RDC's operating expenses in the third quarter and first nine months of 2010 amounted to $354 thousand and $3,586 thousand, respectively, compared with $1,586 thousand and $2,460 thousand, respectively, in the third quarter and first nine months of 2009. The decrease in expenses compared with the third quarter of 2009 resulted mainly from an expense recorded in the third quarter of 2009 in respect of an increase in the value of call options granted by group companies of RDC to their employees. The increase in expenses in the first nine months of 2010 compared with the first nine months of 2009 resulted mainly from a one-time expense with respect to the signing of a settlement agreement with an officer of RDC (see Note 4a to the interim consolidated financial statements as of September 30, 2010).

Wavion: Wavion's operating expenses in the third quarter and first nine months of 2010 amounted to $2,365 thousand and $6,447 thousand, respectively, compared with $1,684 thousand and $4,534 thousand, respectively, in the third quarter and first nine months of 2009. The increase in operating expenses resulted mainly from Wavion's increased marketing and sales efforts.

Medingo: Medingo's operating expenses in the first nine months of 2010 (which include Medingo's expenses until its sale and its deconsolidation in Elron's financial statements in May 2010) amounted to $6,877 thousand, compared with $10,651 thousand in the first nine months of 2009. The decrease in Medingo's operating expenses resulted from the deconsolidation of Medingo as of the date of its sale as aforementioned.

Starling: Starling's operating expenses in the third quarter and first nine months of 2010 amounted to $2,600 thousand and $6,918 thousand, respectively, compared with $1,061 thousand and $4,086 thousand, respectively, in the third quarter and first nine months of 2009. The increase in operating expenses resulted mainly from an increase in Starling's research and development expenses.

Amortization of Intangible Assets

Amortization of intangible assets in the third quarter and first nine months of 2010 amounted to $383 thousand and $1,101 thousand, respectively, compared with $353 thousand and $1,061 thousand, respectively, in the third quarter and first nine months of 2009, and resulted mainly from amortization of intangible assets attributed to technology as a result of the initial consolidation of Wavion. The change in amortization of intangible assets resulted from the shortening of such technology's estimated lifespan. See Note 3c to the interim consolidated financial statements as of September 30, 2010.

Financial Expenses

Financial expenses in the third quarter and first nine months of 2010 amounted to $1,312 thousand and $3,060 thousand, respectively, compared with $2,816 thousand and $6,410 thousand, respectively, in the third quarter and first nine months of 2009. The financial expenses in the third quarter and first nine months of 2010 resulted mainly from interest expenses from loans granted to Elron, RDC and Wavion, and from an increase in the market value of Starling's convertible debentures. The financial expenses in the third quarter and first nine months of 2009 resulted mainly from accumulated interest expenses in respect of Starling's convertible debentures, from expenses incurred in respect of Starling's liability to the Office of the Chief Scientist and from the increase in the market value of such debentures, and from interest expenses in respect of loans granted to Impliant.

Other Expenses (Income), net

Other expenses (income), net, amounted to $1,894 thousand income and $1,095 thousand expenses, respectively, in the third quarter and first nine months of 2010, compared with other expenses, net, in the amount of $138 thousand and $2,116 thousand, respectively, in the third quarter and first nine months of 2009. Income in the third quarter of 2010 resulted mainly from a payment received by Elron in respect of the Settlement Agreement with OHE, as aforementioned. Expenses, net, in the first nine months of 2010 resulted mainly from an impairment charge in respect of the investment in Impliant which resulted from the decision of Impliant's Board of Directors to cease its operations (see Note 3i to the interim consolidated financial statements as of September 30, 2010), and from amortization of intangible assets attributed to technology of Wavion (see Note 3c to the interim consolidated financial statements as of September 30, 2010). Expenses, net, in the first nine months of 2009 resulted mainly from an impairment charge in respect of the investments in Radlive Ltd. and Kyma which resulted from Elron's decision during the second quarter of 2009 to cease investment in these companies (it should be noted that during 2009, due to a change in Kyma's capital structure, Elron's rights in respect of past investments in Kyma were cancelled), and from an impairment charge in respect of the investment in Elbit Vision Systems Ltd. ("EVS") during the first quarter of 2009.

Tax Expenses (Benefit)

Tax expenses (benefit) in the third quarter and first nine months of 2010 amounted to a tax benefit of $37 thousand and tax expenses in the amount of $8,471 thousand, respectively. No tax expenses (benefit) were recorded during the third quarter and first nine months of 2009. The tax expenses were incurred because RDC's gain from the sale of Medingo, as described above, exceeds RDC's cumulative losses for tax purposes. Therefore, the gain from such sale required RDC to remit taxes and record current tax and deferred tax expenses accordingly.

III. Analysis of the Results of Operations of the Company's Major Associates

<u>Given Imaging</u> (an approximately 27% direct and indirect holding through RDC) reported the following results of operations:

In accordance with US GAAP:	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009	Increase/ Decrease	For the three months ended September 30, 2010	For the three months ended September 30, 2009	Increase/ Decrease
	unaudited			unaudited		
	$ thousands		%	$ thousands		%
Sales	112,889	101,723	11%	38,658	35,220	10%
Net income attributable to shareholders	5,275	8,966	(41)%	1,011	3,839	(74)%

In accordance with IFRS:	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009	Increase/ Decrease	For the three months ended September 30, 2010	For the three months ended September 30, 2009	Increase/ Decrease
	unaudited			unaudited		
	$ thousands		%	$ thousands		%
Sales	112,889	101,723	11%	38,658	35,220	10%
Net income attributable to shareholders	7,189	8,619	(17)%	1,240	3,353	(63)%

The increase in Given Imaging's revenues resulted mainly from the inclusion of the revenues of Sierra Scientific Instruments ("SSI"), acquired in April 2010. This increase was partially offset by a decrease in revenues not stemming from SSI's operations. The main factor that influenced the decrease in Given Imaging's net income in the third quarter and first nine months of 2010 compared with the third quarter and first nine months of 2009, is the decrease in revenues not stemming from the acquisition of SSI, which yield a significantly high gross profit margin compared with sales stemming from the operations of SSI. Other factors that influenced the decrease in Given Imaging's net income in the first nine months of 2010 compared with the first nine months of 2009 are one-time expenses resulting from the acquisition of SSI and additional one-time expenses in respect of stock-based compensation to employees, which resulted, among other things, from a change to Given Imaging's employees and directors stock-based compensation plan. In addition, the first nine months of 2009 included one-time tax income, resulting from a tax assessment arrangement signed with the Israeli income tax authorities.

4. Liquidity and Capital Resources

	September 30, 2010	December 31, 2009
	(unaudited)	(audited)
	$ thousands	
Total assets in the consolidated balance sheet	251,852	213,080
Investments in associate companies and available for sale assets	142,125	127,764
Other long-term receivables	27,431	940
Current assets	75,004	73,864
Intangible assets, net	5,169	7,521
Current liabilities (not including held for sale liabilities)	12,915	25,937
Long-term liabilities	18,749	65,050
Total liabilities	31,664	90,987
Equity attributable to shareholders including non-controlling interest	220,188	122,093

Elron's and RDC's primary cash flows (non-consolidated) *	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009	For the three months ended September 30, 2010	For the three months ended September 30, 2009
	unaudited		unaudited	
	$ thousands			
Gain from disposal of non-current investments of Elron and RDC	114,072	6,758	2,644	4,722
Dividends from Elron's and RDC's group companies	-	9,533	-	1,048
Investments in Elron's and RDC's group companies **	29,723	24,590	5,258	10,393
Raising of Elron's and RDC's debt	-	20,163	-	2,163
Repayment of Elron's and RDC's loans ***	70,640	-	43,979	-
Dividend distributed by RDC ****	14,997	-	14,997	-

* The amounts presented include RDC's cash flows in full (100%) in addition to Elron's cash flows.
** Not including Elron's investment in RDC.
*** Including repayment of RDC's shareholder loans to Rafael only.
**** Dividend distributed by RDC to Rafael only.

Consolidated cash and cash equivalents at September 30, 2010 were approximately $61,296 thousand, compared with approximately $64,747 thousand at December 31, 2009. Non-consolidated cash and cash equivalents at September 30, 2010 were approximately $43,012 thousand, compared with approximately $59,915 thousand at December 31, 2009.

The main uses of cash in the third quarter and first nine months of 2010 were approximately $5,258 thousand and $29,723 thousand, respectively, of investments and loans to group companies. In addition, during the second quarter of 2010 cash was used to prepay loans as detailed below:

1. In June 2010, the Company's Audit Committee and Board of Directors approved the prepayment of Elron's entire debt to Israel Discount Bank Ltd. ("the Bank") in respect of loans granted to Elron by the Bank in the aggregate amount of $30,000 thousand (without incurring a prepayment commission), on the interest payment dates in respect of the debt, the last of which was in September 2010. Upon repayment of the Company's entire debt to the Bank in September 2010, the Company's entire debt in respect of the loans granted to it by DIC in the amount of approximately $17,479 thousand were repaid as well, pursuant to the terms of the loan agreements with DIC. See Note 3j to the interim consolidated financial statements as of September 30, 2010. During the second quarter of 2010, the Company repaid Bank loans in the amount of approximately $3,500 thousand. The balance of the debts to the Bank and DIC in the aggregate amount of $43,979 thousand were repaid during the third quarter of 2010.

2. In June 2010, RDC's entire debt in respect of loans granted to it in the amount of $10,000 thousand by Bank Mizrahi Tefahot Ltd. ("Bank Mizrahi") was prepaid. See Note 3d to the interim consolidated financial statements as of September 30, 2010.

3. In June 2010, RDC's entire debt in respect of loans granted to it in the aggregate amount of approximately $32,000 thousand by its shareholders was prepaid, in the course of which, RDC's debt to Rafael in the amount of approximately $13,000 thousand was repaid. (Concurrently, RDC's debt to the Company in the amount of approximately $19,000 thousand was repaid. The repayment of RDC's loan to the Company has no impact on the cash and liabilities balance in the consolidated statement of financial position as of September 30, 2010). See Note 3d to the interim consolidated financial statements as of September 30, 2010.

Proceeds from the sale of Elron's and RDC's non-current investments during the third quarter and first nine months of 2010 mainly include Elron's and RDC's cash consideration from the sale of Medingo in the amount of approximately $13,686 thousand and $93,514 thousand, respectively, Elron and RDC's consideration from a short-term deposit held in escrow in the amount of approximately $200 thousand and approximately $1,500 thousand, respectively, in respect of such sale, and cash consideration in the amount of approximately $3,000 thousand from the sale of Teledata. In addition, in consideration for the sale of Medingo, Elron and RDC received amounts of approximately $2,700 thousand and $19,300 thousand, respectively, which were deposited in escrow for a period of two years. These amounts are presented under "other long-term receivables" in the consolidated financial statements as of September 30, 2010. Proceeds from the sale of Elron's and RDC's non-current investments included approximately $2,000 thousand and approximately $2,700 thousand, respectively, in the third quarter of 2009, and approximately $3,000 thousand and $3,700 thousand, respectively, in the first nine months of 2009, in respect of the completion of the sale of all the assets of 3DV to a third party.

Raising of Elron's and RDC's debt: As previously mentioned, Elron repaid its entire debt in respect of the loans granted to Elron by the Bank and by DIC, of which loans in the amount of $9,000 thousand were received from DIC during the first nine months of 2009. In addition, as previously mentioned, RDC repaid its entire debt in respect of loans it received from Bank Mizrahi and from its shareholders, of which loans in the amount of $9,000 thousand were received from Bank Mizrahi during the first nine months of 2009. Therefore, Elron and RDC have no long-term nor short-term loans as of September 30, 2010.

Dividends received by Elron and RDC during the third quarter and first nine months of 2009 and 2010 included the following amounts:

1. In February 2009, Given Imaging declared a special cash dividend of approximately $0.54 per share, of which Elron's and RDC's share was approximately $3,673 thousand and $1,438 thousand, respectively. Payment of the dividend was received in March 2009.

2. In March and August 2009, NetVison Ltd. declared a special cash dividend of approximately NIS 3.08 per share and NIS 0.86 per share, respectively (approximately $0.73 per share and $0.23 per share, respectively), of which Elron's share was approximately $3,394 thousand and $1,048 thousand, respectively. Payment of the dividends was received during April and September 2009, respectively.

3. In August 2010, RDC declared a special cash dividend in the aggregate amount of approximately $30,000 thousand. Elron's share in such dividend amounted to approximately $15,000 thousand. The balance amount was distributed to Rafael. Payment of the dividend was received during August 2010.

In addition, convertible debentures at September 30, 2010 amounted to $3,309 thousand compared with $3,383 thousand at December 31, 2009. The convertible debentures balance represents the minority portion of the convertible debentures issued by Starling. The increase, which was mainly due to an increase in the market value of Starling's debentures, was offset due to repayment of the first payment out of four equal tranches of the debentures principal during June 2010.

Shareholders' equity attributable to shareholders at September 30, 2010 was approximately $196,092 thousand, representing approximately 78% of the total assets compared with $126,469 thousand, representing approximately 59% of total assets at December 31, 2009. The increase in shareholders' equity resulted mainly from the net gain attributable to shareholders in the amount of $63,710 thousand in the first nine months of 2010, as a result of an increase in capital reserves in respect of available for sale financial assets in the amount of $6,006 thousand, mainly due to the increase in the fair value of the investment in Enablence's shares. The increase in the ratio of shareholders' equity attributable to shareholders to total assets mainly resulted from the increase in equity as aforementioned, from the repayment of loans from banks and shareholders by Elron and RDC and from the dividend distribution by RDC to non-controlling interests.

Consolidated working capital at September 30, 2010 was approximately $62,089 thousand, compared with approximately $47,927 thousand at December 31, 2009. The increase in working capital resulted mainly from an increase in Wavion and Starling's inventories balance and from a decrease in the credit balance from banks and from other short-term credit givers, resulting from the repayment of RDC's debt to Bank Mizrahi, as described above.

Elron's investments during the first nine months of 2010 and 2009 amounted to approximately $21,356 thousand and approximately $10,452 thousand, as detailed in the following table:

	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
	unaudited	
	$ thousands	
Consolidated Companies *		
RDC	6,000	-
Starling	6,828	1,812
Wavion	3,350	1,727
Medingo	461	918
	16,639	4,457
Associates and Other Investments:		
NuLens	2,000	-
Safend	317	161
BrainsGate	-	500
BPT	-	500
Pocared	1,400	3,460
Kyma **	1,000	500
Impliant	-	460
Other	-	414
	4,717	5,995
Total corporate investments	21,356	10,452

*These investments do not affect the cash included in the consolidated financial statements.
** With regards to past investments in Kyma, see "Analysis of the Company's Results of Operations – Other Expenses (Income), net" in Section I.3 "Results of Operations".

During the first nine months of 2010, RDC's investments amounted to approximately $14,367 thousand.

Subsequent to the balance sheet date and through November 8, 2010, the Company invested an additional aggregate amount of approximately $1,161 thousand as detailed below:

	unaudited $ thousands
Consolidated Companies	
Starling	1,161
	1,161

Intangible assets as of September 30, 2010 mainly included intangible assets allocated to the agreement with Rafael in the amount of $3,051 thousand and technology allocated to Wavion in the amount of $1,916 thousand resulting from the initial consolidation of Wavion. The decrease in intangible assets compared with December 31, 2009 resulted mainly from amortization of intangible assets attributed to technology of Wavion in the amount of $1,101 thousand and from a decline in the value of such technology in the amount of $1,230 thousand as described in Note 3c to the interim consolidated financial statements as of September 30, 2010.

II. Exposure to and Management of Market Risks

The report in this section refers to Elron and its consolidated companies to the extent that the exposure to market risks is material. The Company's risk management policy is implemented only for Elron itself. Elron does not determine the risk management policy for its group companies, and as of the date of this report, has not taken any action in the reported period to hedge market risks resulting from operations of its group companies. During the reporting period, and during the period from September 30, 2010 until the date of approval of the financial reports, no material change has taken place with respect to the market risks to which the Company is exposed, the Company's policy for management of such risks, the officers responsible for their management and the means of supervision and implementation of the policy, as described in the Board of Directors Report for the first quarter of 2010.

1. Report on Linkage Bases

Presented below is the Company's consolidated linkage balance at September 30, 2010, September 30, 2009 and December 31, 2009.

The linkage balance includes balances in respect of Starling, whose operating currency (NIS) differs from that of the Company (U.S. dollars).

As of September 30, 2010 ($ thousands) (unaudited)

	NIS (CPI linked)	USD (or USD linked)	Other currencies	NIS (not linked)	Non-monetary item	Total
Assets						
Cash and cash equivalents	-	58,625	10	2,662	-	61,296
Restricted cash	-	-	-	63	-	63
Trade receivables	-	1,981	-	95	-	2,076
Other current assets	-	173	-	1,515	2,712	4,400
Inventories	-	-	-	-	7,169	7,169
Investments in associates	-	-	-	-	110,440	110,440
Other investments (accounted as available for sale)	-	-	-	-	31,685	31,685
Property, plant and equipment, net	-	-	-	-	2,123	2,123
Intangible assets, net	-	-	-	-	5,169	5,169
Other long-term receivables	-	27,187	-	225	19	27,431
Total assets	-	87,966	10	4,560	159,317	251,852
Liabilities						
Credit from banks and other credit givers	-	175	-	-	-	175
Trade payables	-	478	17	3,392	-	3,887
Other current liabilities	60	1,716	-	3,853	1,997	7,626
Long term loans from banks and others	-	588	-	-	-	588
Convertible debentures	3,309	-	-	-	-	3,309
Royalty bearing government grants	-	9,059	-	-	-	9,059
Employee benefits, net	-	-	-	-	126	126
Deferred taxes	-	-	-	-	4,892	4,892
Other long term liabilities	-	-	-	-	2,002	2,002
Total liabilities	3,369	12,016	17	7,245	9,017	31,664

As of September 30, 2009 ($ thousands) (unaudited)

	NIS (CPI linked)	USD (or USD linked)	Other currencies	NIS (not linked)	Non-monetary item	Total
Assets						
Cash and cash equivalents	-	11,640	3	2,165	-	13,808
Restricted cash	-	-	-	67	-	67
Trade receivables	-	1,422	-	117	-	1,559
Other current assets	101	128	-	1,837	1,752	3,818
Inventories	-	-	-	-	4,344	4,344
Investments in associates	-	-	-	-	154,227	154,227
Other investments (accounted as available for sale)	-	-	-	-	8,366	8,366
Property, plant and equipment, net	-	-	-	-	3,321	3,321
Intangible assets, net	-	-	-	-	8,259	8,259
Assets related to employee benefits	-	-	-	-	154	154
Other long-term receivables	-	585	-	-	-	585
Total assets	101	13,795	3	4,186	180,423	198,508
Liabilities						
Short term credit and loans	-	1,457	-	-	-	1,457
Trade payables	-	603	16	3,479	-	4,098
Other current liabilities	230	2,914	-	7,821	786	11,751
Long term loans from banks and others	-	44,630	-	-	-	44,630
Long term loan from shareholders	16,593	-	-	-	-	16,593
Convertible debentures	944	-	-	-	-	2,944
Royalty bearing government grants	-	9,092	-	-	-	9,092
Employee benefits, net	-	-	-	-	350	350
Other long term liabilities	-	-	-	-	222	222
Total liabilities	19,767	58,697	16	11,299	1,358	91,137

As of December 31, 2009 ($ thousands) (audited)

	NIS (CPI linked)	USD (or USD linked)	Other currencies	NIS (not linked)	Non-monetary item	Total
Assets						
Cash and cash equivalents	-	42,742	3	22,002	-	64,747
Restricted cash	-	-	-	60	-	60
Trade receivables	-	1,997	-	87	-	2,084
Other current assets	212	14	-	1,169	1,996	3,391
Inventories	-	-	-	-	3,582	3,582
Investments in associates	-	-	-	-	113,237	113,237
Other investments (accounted as available for sale)	-	-	-	-	14,527	14,527
Property, plant and equipment, net	-	-	-	-	2,991	2,991
Intangible assets, net	-	-	-	-	7,521	7,521
Other long-term receivables	106	612	-	204	18	940
Total assets	318	45,365	3	23,522	143,872	213,080
Liabilities						
Short term credit and loans	-	10,865	-	-	-	10,865
Trade payables	-	587	21	3,665	-	4,273
Other current liabilities	419	970	-	7,428	810	9,627
Long term loans from banks and others	-	36,981	-	-	-	36,981
Long term loan from shareholders	16,737	-	-	-	-	16,737
Convertible debentures	3,383	-	-	-	-	3,383
Royalty bearing government grants	-	8,685	-	-	-	8,685
Employee benefits, net	-	-	-	194	-	194
Other long term liabilities	-	-	-	-	242	242
Total liabilities	20,539	58,088	21	11,093	1,246	90,987

The Company and subsidiaries did not have material derivatives positions as of September 30, 2010, September 30, 2009 and December 31, 2009.

2. Financial Market Conditions

Since the beginning of 2010, the economic recovery trend has continued in most financial and real capital markets worldwide and even more markedly in Israel, however, the ramifications of the financial crisis which developed in 2008 are still evident, including in stock and currency rate fluctuations, in the endurance of the credit squeeze experienced by various firms and various countries, and in significant uncertainty in economic activities.

In the domestic capital market, a positive trend has been observed which has recently been gaining strength, and simultaneously, the corporate debt market has begun to recover and the business sector has gradually renewed finance raising activities. In light of the signs of recovery evidenced in the Israeli economy, the Bank of Israel in recent months has been gradually increasing the monetary interest.

Developments in the global markets and particularly in the Euro area and in the U.S., including exchange rate fluctuations worldwide, have affected and may continue to affect the Company's and its group companies' results of operations, their liquidity, the value of their equity, the value and exit potential of their assets, their business (including the demand for products of Elron's group companies), their financial covenants, their credit rating, their ability to distribute dividends, and also their ability to raise financing required for their day-to-day and long-term operations, and the terms of such financing.

3. Financial Instruments Sensitivity Analyses

For further details concerning sensitivity analyses of sensitive financial instruments included in the interim consolidated financial statements as of September 30, 2010 in accordance with changes in market factors, see Appendix A below.

Following are the summarized results of the sensitivity analyses:

As of September 30, 2010

		Gain (loss) from changes in interest rates					
		Increase			Decrease		
Section	Fair value	2% at absolute value	10%	5%	2% at absolute value	10%	5%
	$ thousands						
Sensitivity to changes in nominal NIS interest rate							
Sensitivity to changes in dollar interest rates	3,218	(108)	(19)	(11)	114	20	10

		Gain (loss) from changes in other market factors			
		Increase		Decrease	
Section	Fair value	10%	5%	10%	5%
	$ thousands				
Sensitivity to changes in the NIS-dollar exchange rate	(791)	(79)	(40)	79	40
Sensitivity to changes in share prices of investments accounted as available for sale	31,685	3,169	1,584	(3,169)	(1,584)
Sensitivity to changes in the price of convertible debentures issued by subsidiary	(3,377)	(338)	(169)	338	169

As of September 30, 2009

		Gain (loss) from changes in interest rates					
		Increase			Decrease		
Section	Fair value	2% at absolute value	10%	5%	2% at absolute value	10%	5%
	$ thousands						
Sensitivity to changes in nominal NIS interest rate	(17,837)	664	120	60	(60)	(121)	(704)
Sensitivity to changes in dollar interest rates	(44,695)	1,264	263	132	(132)	(266)	(1,328)

		Gain (loss) from changes in other market factors			
		Increase		Decrease	
Section	Fair value	10%	5%	10%	5%
	$ thousands				
Sensitivity to changes in the NIS-dollar exchange rate	(23,565)	(2,357)	(1,178)	1,178	2,357
Sensitive to changes in the Consumer Price Index	(17,837)	(357)	(178)	178	357
Sensitive to changes in share prices of investments accounted as available for sale	8,366	837	418	(418)	(837)
Sensitivity to changes in the price of convertible debentures issued by subsidiary	(3,175)	(318)	(159)	159	318

As of December 31, 2009

		Gain (loss) from changes in interest rates					
		Increase			Decrease		
Section	Fair value	2% Absolute value	10%	5%	2% Absolute value	10%	5%
	$ thousands						
Sensitivity to changes nominal NIS interest rate	(18,229)	600	77	38	(633)	(77)	(39)
Sensitive to changes in dollar interest rates	(47,037)	1,231	212	106	(1,288)	(212)	(107)

		Gain (loss) from changes in other market factors			
		Increase		Decrease	
	Fair value	10%	5%	10%	5%
Section		$ thousands			
Sensitivity to changes in the NIS-dollar exchange rate	(4,097)	(390)	(195)	390	195
Sensitive to changes in the Consumer Price Index	(18,229)	(365)	(182)	365	182
Sensitive to changes in share prices of investments accounted as available for sale	14,527	1,453	726	(1,453)	(726)
Sensitivity to changes in the price of convertible debentures issued by subsidiary	(3,383)	(338)	(169)	338	169

III. Aspects of Corporate Governance

1. <u>Disclosure Pertaining to the Approval Process of the Financial Statements</u>

The Company's audit committee is the organ responsible for overseeing the financial statements, and the Company's board of directors is the organ responsible for approving the financial statements.

The audit committee presents the board of directors with a summary of the main points of its discussion concerning the financial statements and recommends their approval. The audit committee is comprised of three members: Avraham Asheri – a director with financial and accounting expertise, Yaacov Goldman – an external director with financial and accounting expertise, and Gad Arbel – an external director with financial and accounting expertise. The Company's auditor is invited to and is present at the audit committee and board of directors' meetings at which the financial statements are discussed and approved, and is required to present the main findings (if any) which arose from the review or audit.

The audit committee examines, with the aid of detailed presentations made by officers and others at the Company, including: the Company's CEO – Ari Bronshtein, and the CFO, Yaron Elad, the material issues in the financial report including transactions which are not in the ordinary course of business (if any), material evaluations and critical assessments which were applied in the financial statements, reasonability of the information, accounting policy which was implemented and changes that occurred therein, and implementation of the principle of due disclosure in the financial statements and related information. The audit committee examines various aspects of control and risk management, both such which are reflected in the financial statements (such as the report on financial risks) and such which affect the credibility of the financial statements. If needed, the audit committee demands that comprehensive reviews will be presented to it on issues with a particularly material influence.

The approval of the financial statements entails at least two meetings: the one – of the audit committee, before the board of directors' meeting, for an in-principle and comprehensive deliberation of the material reporting issues, and the other – of the board of directors, for deliberation of the financial statements and approval thereof.

IV. Disclosure Directives Relating to Financial Reporting

1. Critical Accounting Estimates

As of the date of this report. no material changes have taken place with respect to the critical accounting estimates used in the preparation of the Company's financial statements, except as described in Notes 3c and 3f to the interim consolidated financial statements as of September 30, 2010.

Arie Mientkavich Chairman	Ari Bronshtein CEO

November 8, 2010, Tel Aviv

Appendix A
to the Board of Directors Report as of September 30, 2010

Sensitivity analyses of sensitive financial instruments included in the consolidated financial statements as of 30 September 2010, in accordance with changes in market factors

The following tables describe sensitivity analyses of the fair value of financial instruments held by the Company and its group companies.

The following comments should be considered with regards to the tables below:

1. The instruments that appear below are not necessarily presented in the financial statements at fair value.

2. Starling's operating currency (NIS) is different from that of the Company and its other subsidiaries (U.S. Dollar). Accordingly, no sensitivity analyses were carried out in relation to the exchange rate in financial instruments held by Starling. It should be noted that the effect of the difference between Starling's currency and the Company's currency is reflected in the Company's shareholders' equity under capital reserves from translation differences.

3. The exchange rates according to which the sensitivity analyses were carried out are the closing rates on the day of calculation.

a. <u>Sensitivity analysis of the balances as of 30 September 2010</u>

<u>Sensitivity Test of changes in dollar interest rates</u>

		Gain (loss) from changes in dollar interest rates					
		Increase			Decrease		
	Fair value	2% Absolute value	10%	5%	2% Absolute value	10%	5%
Section	$ thousands						
Other long-term receivables	3,742	(119)	(39)	(20)	125	40	20
Loans from banks and others (including current maturities)	(524)	11	20	9	(11)	(20)	(10)
	3,218	(108)	(19)	(11)	114	20	10

Sensitivity Test of changes in the dollar exchange rate *

Section	Fair value	Gain (loss) from changes in the dollar-NIS exchange rate – Increase 10%	Increase 5%	Decrease 10%	Decrease 5%
		$ thousands			
Current Assets:					
Other current assets and trade receivables	1,515	152	76	(152)	(76)
Cash and cash equivalents	2,032	203	102	(203)	(102)
Non-current assets:					
Long-term receivables	157	16	8	(16)	(8)
Current liabilities:					
Trade payables and other current liabilities	(4,495)	(450)	(225)	450	225
	791	(79)	(40)	79	40

*Sensitivity analyses for the influence of the Euro exchange rate were not presented due to their negligible influence.

Sensitivity Test of changes in prices of investments accounted as available for sale

Section	Fair value	Gain (loss) from changes in the price of shares – Increase 10%	Increase 5%	Decrease 10%	Decrease 5%
		$ thousands			
Other investments	31,685	3,169	1,584	(3,169)	(1,584)

Sensitivity Test of changes in the price of convertible debentures issued by a subsidiary

Section	Fair value	Gain (loss) from changes in the price of convertible debentures – Increase 10%	Increase 5%	Decrease 10%	Decrease 5%
		$ thousands			
Convertible debentures	(3,377)	(338)	(169)	338	169

b. Sensitivity analysis of the balances at 30 September 2009

Sensitivity Test of changes in dollar interest rates

Section	Fair value	Gain (loss) from changes in dollar interest rates – Increase 10%	Increase 5%	Decrease 10%	Decrease 5%
		$ thousands			
Loans from banks and others (including current maturities)	(44,695)	263	132	(266)	(132)

Sensitivity Test of changes in nominal NIS interest rate

		Gain (loss) from changes in nominal NIS interest rates			
		Increase		Decrease	
	Fair value	10%	5%	10%	5%
Section			$ thousands		
Loans from shareholders	(17,837)	120	60	(121)	(60)

Sensitivity Test of changes in the dollar-NIS exchange rate *

		Gain (loss) from changes in the dollar-NIS exchange rate			
		Increase		Decrease	
	Fair value	10%	5%	10%	5%
Section			$ thousands		
Current Assets:					
Other current assets and trade receivables	1,630	163	82	(163)	(82)
Cash and cash equivalents	1,921	192	96	(96)	(192)
Current liabilities:					
Trade payables and other current liabilities	(9,279)	(928)	(464)	928	464
Non-current liabilities:					
Loans from shareholders	(17,837)	(1,784)	(892)	892	1,784
	(23,565)	(2,357)	(1,178)	2,357	1,178

*Sensitivity analyses of the influence of the Euro exchange rate were not presented due to their negligible influence.

Sensitivity Test of changes in the Israeli Consumer Price Index

		Gain (loss) from changes in the Israeli Consumer Price Index			
		Increase		Decrease	
	Fair value	2%	1%	2%	1%
Section			$ thousands		
Loans from shareholders	(17,837)	(357)	(178)	357	178

With regard to possible further impact of Consumer Price Index changes on the results of the Company's activity – see linkage balance sheets reported in section II.1 above of this report.

Sensitivity Test of changes in prices of investments accounted as available for sale

		Gain (loss) from changes in the price of shares			
		Increase		Decrease	
	Fair value	10%	5%	10%	5%
Section			$ thousands		
Other investments	8,366	837	418	(418)	(837)

Sensitivity Test and changes in the price of convertible debentures issued by a subsidiary

		Gain (loss) from changes in the price of convertible debentures			
		Increase		Decrease	
	Fair value	10%	5%	10%	5%
Section	$ thousands				
Convertible debentures	(3,175)	(318)	(159)	318	159

c. Sensitivity analysis of the balances at 31 December 2009

Sensitivity Test of changes in dollar interest rates

		Gain (loss) from changes in dollar interest rates					
		Increase			Decrease		
	Fair value	2% Absolute value	10%	5%	2% Absolute value	10%	5%
Section	$ thousands						
Loans from banks and others (including current maturities)	(47,037)	1,231	212	106	(1,288)	(212)	(107)

Sensitivity Test of changes in nominal NIS interest rate

		Gain (loss) from changes in nominal NIS interest rates					
		Increase			Decrease		
	Fair value	2% Absolute value	10%	5%	2% Absolute value	10%	5%
Section	$ thousands						
Loans from shareholders	(18,229)	600	77	38	(633)	(77)	(39)

Sensitivity Test of changes in the dollar-NIS exchange rate *

		Gain (loss) from changes in the dollar-NIS exchange rate			
		Increase		Decrease	
	Fair value	10%	5%	10%	5%
Section		$ thousands			
Current Assets:					
Other current assets and trade receivables	1,131	113	57	(113)	(57)
Cash and cash equivalents	21,696	2,170	1,085	(2,170)	(1,085)
Non-current assets:					
Long-term receivables	243	24	12	(24)	(12)
Current liabilities:					
Trade payables and other current liabilities	(8,939)	(894)	(447)	894	447
Non-current liabilities:					
Loans from shareholders	(18,229)	(1,823)	(911)	1,823	911
NIS-Dollar forward:					
Not recognized as an accounting hedge**	1	20	10	(20)	(10)
	(4,097)	(390)	(195)	390	195

*Sensitivity analyses of the influence of the Euro exchange rate were not presented due to their negligible influence.
**Sensitivity analyses of the forward effect of the changes in respect of the NIS and dollar interest rates were not presented due to their negligible effect.

Sensitivity Test of changes in the Israeli Consumer Price Index

		Gain (loss) from changes in the Israeli Consumer Price Index			
		Increase		Decrease	
	Fair value	2%	1%	2%	1%
Section		$ thousands			
Loans from shareholders	(18,229)	(365)	(182)	365	182

With regard to possible further impact of Consumer Price Index changes on the results of the Company's activity – see linkage balance sheets, reported in section II.1 above of this report.

Sensitivity test of changes in prices of investments accounted as available for sale

		Gain (loss) from changes in the price of shares			
		Increase		Decrease	
	Fair value	10%	5%	10%	5%
Section	$ thousands				
Other investments	14,527	1,453	726	(1,453)	(726)

Sensitivity Test and changes in the price of convertible debentures issued by a subsidiary

		Gain (loss) from changes in the price of convertible debentures			
		Increase		Decrease	
	Fair value	10%	5%	10%	5%
Section	$ thousands				
Convertible debentures	(3,383)	(338)	(169)	338	169

Elron Electronic Industries Ltd.

English Translation of Interim Consolidated Financial Statements

As of September 30, 2010 Unaudited

Interim Consolidated Financial Statements as of September 30, 2010

Contents

Auditors' review report to the shareholders of
Elron Electronic Industries Ltd.

Introduction

We have reviewed the accompanying financial information of Elron Electronic Industries Ltd. and its subsidiaries ("the Group"), which comprises the condensed consolidated statement of financial position as of September 30, 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine and three months then ended. The Company's board of directors and management are responsible for the preparation and presentation of interim financial information for these periods in accordance with IAS 34, "Interim Financial Reporting", and are also responsible for the preparation of interim financial information in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of certain associate, the investment in which, at equity, amounted to approximately $43,199 thousand as of September 30, 2010, and the Group's share in its earnings amounted to approximately $2,191 and $282 thousand for the nine and three months then ended, respectively. The condensed interim financial information of this company was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of this company, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition to the abovementioned, based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
November 8, 2010

KOST FORER GABBAY & KASIERER
Certified Public Accountants

Interim Consolidated Statements of Financial Position

	September 30 2010	September 30 2009	December 31 2009
	Unaudited		Audited
	$ thousands	$ thousands	$ thousands
Current assets			
Cash and cash equivalents	61,296	13,808	64,747
Restricted cash	63	67	60
Trade receivables	2,076	1,559	2,084
Other current assets	4,400	3,818	3,391
Inventories	7,169	4,344	3,582
	75,004	23,596	73,864
Non-current assets			
Investments in associates	110,440	154,227	113,237
Other investments (accounted as available for sale)	31,685	8,366	14,527
Property, plant and equipment, net	2,123	3,321	2,991
Intangible assets, net	5,169	8,259	7,521
Assets related to employee benefits	-	154	-
Other long-term receivables (see Notes 3B and 3F)	27,431	585	940
	176,848	174,912	139,216
Total assets	251,852	198,508	213,080

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

Interim Consolidated Statements of Financial Position (Cont.)

	September 30 2010	September 30 2009	December 31 2009
	Unaudited		Audited
	$ thousands	$ thousands	$ thousands
Current liabilities			
Short term credit and loans from banks and others	175	1,457	10,865
Trade payables	3,887	4,098	4,273
Other current liabilities	7,626	11,751	9,627
Convertible debentures	1,227	1,120	1,172
	12,915	18,426	25,937
Long-term liabilities			
Loans from banks and others	588	44,630	36,981
Loans from shareholders	-	16,593	16,737
Convertible debentures	2,082	1,824	2,211
Royalty bearing government grants	9,059	9,092	8,685
Employee benefits, net	126	350	194
Other long term liabilities	2,002	222	242
Deferred taxes	4,892	-	-
	18,749	72,711	65,050
Total Liabilities	31,664	91,137	90,987
Equity attributable to the Company's shareholders			
Issued capital	9,573	9,573	9,573
Share premium	190,378	190,328	190,328
Capital reserves	14,818	9,647	10,067
Accumulated deficit	(18,677)	(99,963)	(83,499)
	196,092	109,585	126,469
Non-controlling interests	24,096	(2,214)	(4,376)
Total equity	220,188	107,371	122,093
Total liabilities and equity	251,852	198,508	213,080

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

Arie Mientkavich	Ari Bronshtein	Yaron Elad
Chairman of the Board of Directors	Chief Executive Officer	Vice President & Chief Financial Officer

Approval date of the interim consolidated financial statements: November 8, 2010.

Interim Consolidated Statements of Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	$ thousands (except for price per share)				
Income					
Income from sales	5,231	7,416	1,858	1,850	9,904
Gain from disposal of businesses and associates and changes in holdings, net	157,618	6,843	1,047	380	31,802
Financial income	1,543	3,171	2,221	606	1,413
	164,392	17,430	5,126	2,836	43,119
Cost and Expenses					
Cost of sales	2,193	3,867	691	1,208	4,824
Research and development expenses, net	14,609	17,481	3,944	5,927	25,699
Selling and marketing expenses	5,191	6,986	1,191	2,853	8,985
General and administrative expenses	10,062	11,505	2,187	4,828	15,865
Equity in losses of associates, net	9,854	9,878	2,702	2,511	10,514
Amortization of intangible assets	1,101	1,061	383	353	1,416
Financial expenses	3,060	6,410	1,312	2,816	5,434
Other expenses (income), net	1,095	2,116	(1,894)	138	2,230
	47,165	59,304	10,516	20,634	74,967
Income (loss) before taxes	117,227	(41,874)	(5,390)	(17,798)	(31,848)
Tax benefit (expenses)	(8,471)	-	37	-	2,453
Net income (loss)	108,756	(41,874)	(5,353)	(17,798)	(29,395)
Attributable to:					
The Company's shareholders	63,710	(30,412)	(4,476)	(11,531)	(14,304)
Non-controlling interests	45,046	(11,462)	(877)	(6,267)	(15,091)
	108,756	(41,874)	(5,353)	(17,798)	(29,395)
Net income (loss) per share attributable to the Company's shareholders (in $)					
Basic net income (loss)	2.10	(1.02)	(0.17)	(0.38)	(0.48)
Diluted net income (loss)	2.10	(1.02)	(0.17)	(0.38)	(0.49)

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

Interim Consolidated Statements of Comprehensive Income

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	$ thousands				
Net income (loss)	108,756	(41,874)	(5,353)	(17,798)	(29,395)
Other comprehensive income (loss)					
Gain from available for sale financial assets, net	6,069	52	3,977	24	5,001
Net change in fair value of available-for-sale financial assets classified to the statement of income	-	(15)	-	(4)	(84)
Foreign currency translation differences for foreign operations	(492)	(67)	(839)	1,609	(45)
Foreign currency translation differences charged to the statement of income upon disposal of foreign operations	-	-	-	-	(4,330)
Actuarial gains from defined benefit plans, net	-	-	-	-	15
Company's share of other comprehensive income (loss) of associates	(74)	350	(5)	59	455
Other comprehensive income	5,503	320	3,133	1,688	1,012
Total comprehensive income (loss)	114,259	(41,554)	(2,220)	(16,110)	(28,383)
Attributable to:					
Company's shareholders	69,351	(30,171)	(1,118)	(9,916)	(13,381)
Non-controlling interests	44,908	(11,383)	(1,102)	(6,194)	(15,002)
	114,259	(41,554)	(2,220)	(16,110)	(28,383)

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

Interim Consolidated Statements of Changes in Equity

	Attributable to the Company's shareholders										
	Issued capital	Share premium	Capital reserves in respect of transaction with controlling interest	Revaluation reserve from consolidation of subsidiaries	Capital reserves in respect of financial assets available for sale	Capital reserves from translation differences	Share based payments	Accumulated deficit	Total	Non controlling interests	Total equity
	Unaudited										
	$ thousands										
Balance at January 1, 2010 (audited)	9,573	190,328	217	4,127	5,000	723	1,180	(84,679)	126,469	(4,376)	122,093
Total comprehensive income (loss)	-	-	-	-	6,006	(365)	-	63,710	69,351	44,908	114,259
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	-	976	976
Share based payment	-	-	-	-	-	-	88	-	88	-	88
Exercise of options into shares	-	50	-	-	-	-	(74)	74	50	-	50
Purchase of options from non-controlling interests	-	-	-	-	-	-	-	-	-	(255)	(255)
Reclassification of revaluation reserve in respect of acquisition of subsidiary in stages to retained earnings	-	-	-	(1,024)	-	-	-	1,024	-	-	-
Increase in the non-controlling interests due to additional investment in subsidiary	-	-	-	-	-	-	-	-	-	641	641
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(14,997)	(14,997)
Capital reserve from transaction with controlling interests	-	-	134	-	-	-	-	-	134	-	134
Change in non controlling interests due to sale of a subsidiary	-	-	-	-	-	-	-	-	-	(2,801)	(2,801)
Balance at September 30, 2010	9,573	190,378	351	3,103	11,006	358	1,194	(19,871)	196,092	24,096	220,188

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

Interim Consolidated Statements of Changes in Equity (Cont.)

	Attributable to the Company's shareholders										
	Issued capital	Share premium	Capital reserves in respect of transaction with controlling interest	Revaluation reserve from consolidation of subsidiaries	Capital reserves in respect of financial assets available for sale	Capital reserves from translation differences	Share based payments	Accumulated deficit	Total	Non controlling interests	Total equity
	Unaudited										
	$ thousands										
Balance at January 1, 2009 (audited)	9,573	190,328	-	4,751	(211)	5,117	1,053	(71,105)	139,506	6,545	146,051
Total comprehensive income (loss)	-	-	-	-	340	(99)	-	(30,412)	(30,171)	(11,383)	(41,554)
Share-based payments in respect of shares issued by subsidiaries	-	-	-	-	-	-	-	-	-	1,330	1,330
Share based payments	-	-	-	-	-	-	33	-	33	-	33
Reclassification of revaluation reserve in respect of acquisition of subsidiary in stages to retained earnings	-	-	-	(468)	-	-	-	468	-	-	-
Deconsolidation of subsidiary	-	-	-	-	-	-	-	-	-	(1,245)	(1,245)
Increase in the non-controlling interests due to additional investment in subsidiary	-	-	-	-	-	-	-	-	-	2,756	2,756
Transaction with non-controlling interests	-	-	217	-	-	-	-	-	217	(217)	-
Balance at September 30, 2009	9,573	190,328	217	4,283	129	5,018	1,086	(101,049)	109,585	(2,214)	107,371

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

Interim Consolidated Statements of Changes in Equity (Cont.)

	Attributable to the Company's shareholders										
	Issued capital	Share premium	Capital reserves in respect of transaction with controlling interest	Revaluation reserve from consolidation of subsidiaries	Capital reserves in respect of financial assets available for sale	Capital reserves from translation differences	Share based payments	Accumulated deficit	Total	Non controlling interests	Total equity
	Unaudited										
	$ thousands										
Balance at July 1, 2010	9,573	190,328	217	3,271	7,033	973	1,268	(15,637)	197,026	40,403	237,429
Total comprehensive income (loss)	-	-	-	-	3,973	(615)	-	(4,476)	(1,118)	(1,102)	(2,220)
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	-	47	47
Share based payment	-	-	-	-	-	-	-	-	-	-	-
Exercise of options into shares	-	50	-	-	-	-	(74)	(74)	50	-	50
Purchase of options from non-controlling interests	-	-	-	-	-	-	-	-	-	(255)	(255)
Reclassification of revaluation reserve in respect of acquisition of subsidiary in stages to retained earnings	-	-	-	(168)	-	-	-	168	-	-	-
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(14,997)	(14,997)
Capital reserve from transaction with controlling interests	-	-	134	-	-	-	-	-	134	-	134
Balance at September 30, 2010	9,573	190,378	351	3,103	11,006	358	1,194	(19,871)	196,092	24,092	220,188

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

Interim Consolidated Statements of Changes in Equity (Cont.)

	Attributable to the Company's shareholders										
	Issued capital	Share premium	Capital reserves in respect of transaction with controlling interest	Revaluation reserve from consolidation of subsidiaries	Capital reserves in respect of financial assets available for sale	Capital reserves from translation differences	Share based payments	Accumulated deficit	Total	Non controlling interests	Total equity
	Unaudited										
	$ thousands										
Balance at July 1, 2009	9,573	190,328	-	4,439	58	3,474	1,060	(89,674)	119,258	3,131	122,389
Total comprehensive income (loss)	-	-	-	-	71	1,544	-	(11,531)	(9,916)	(6,194)	(16,110)
Share-based payments in respect of awards issued by subsidiaries	-	-	-	-	-	-	-	-	-	750	750
Reclassification of revaluation reserve in respect of acquisition of subsidiary in stages to retained earnings	-	-	-	(156)	-	-	-	156	-	-	-
Deconsolidation of subsidiary	-	-	-	-	-	-	-	-	-	(1,245)	(1,245)
Increase in the non-controlling interests due to additional investment in subsidiary	-	-	-	-	-	-	-	-	-	1,561	1,561
Transaction with non-controlling interests	-	-	217	-	-	-	-	-	217	(217)	-
Share based payment	-	-	-	-	-	-	26	-	26	-	26
Balance at September 30, 2009	9,573	190,328	217	4,283	129	5,018	1,086	(101,049)	109,585	(2,214)	107,371

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

Interim Consolidated Statements of Changes in Equity (Cont.)

	Attributable to the Company's shareholders										
	Issued capital	Share premium	Capital reserves in respect of transaction with controlling interest	Revaluation reserve from consolidation of subsidiaries	Capital reserves in respect of financial assets available for sale	Capital reserves from translation differences	Share based payments	Accumulated deficit	Total	Non controlling interests	Total equity
	Audited										
	$ thousands										
Balance at January 1, 2009	9,573	190,328	-	4,751	(211)	5,117	1,053	(71,105)	139,506	6,545	146,051
Total comprehensive income (loss)	-	-	-	-	5,211	(4,394)	-	(14,198)	(13,381)	(15,002)	(28,383)
Share-based payments in respect of shares issued by subsidiaries	-	-	-	-	-	-	-	-	-	2,395	2,395
Reclassification of revaluation reserve in respect of acquisition of subsidiary in stages to retained earnings	-	-	-	(624)	-	-	-	624	-	-	-
Deconsolidation of subsidiary	-	-	-	-	-	-	-	-	-	(1,625)	(1,625)
Increase in the non-controlling interests due additional investment in subsidiary	-	-	-	-	-	-	-	-	-	3,528	3,528
Transaction with non-controlling interests	-	-	217	-	-	-	-	-	217	(217)	-
Share based payments	-	-	-	-	-	-	127	-	127	-	127
Balance at December 31, 2009	9,573	190,328	217	4,127	5,000	723	1,180	(84,679)	126,469	(4,376)	122,093

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

Interim Consolidated Statements of Cash Flows

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	$ thousands				
Cash flows from operating activities					
Net income (loss)	108,756	(41,874)	(5,353)	(17,798)	(29,395)
Adjustments to reconcile net income (loss) to net cash used in operating activities:					
Depreciation and amortization	1,846	2,229	612	846	2,958
Financial expenses (income), net	2,089	812	967	(121)	949
Share based compensation and changes in liability in respect of call options	1,067	1,363	44	777	2,398
Accrued interest on loans from shareholders	742	1,417	751	1,236	1,561
Gain from sale of investments in financial assets available for sale	(28)	(15)	-	(15)	(85)
Reevaluation of restricted cash	-	-	-	(78)	83
Loss from sale of property and equipment, net	55	78	58	51	64
Impairment of investments	1,780	1,628	-	-	1,853
Impairment of intangible assets	1,230	-	-	-	-
Change in fair value of convertible debentures	1,194	607	249	66	921
Gain from disposal of businesses and associates and changes in holdings, net	(157,618)	(6,843)	(1,047)	(380)	(31,802)
Equity in losses of associates, net	9,854	9,878	2,702	2,511	10,514
Taxes on income	8,471	-	(37)	-	-
Other	(2,296)	(901)	(1,373)	(1,408)	323
	(131,614))	10,253	2,926	3,485	(10,263)
Changes in Assets and Liabilities:					
Decrease (increase) in trade receivables	8	(409)	(641)	139	(1,103)
Decrease (increase) in other current assets	(1,062)	590	645	195	62
Increase in inventories	(3,410)	(2,209)	(1,464)	(1,234)	(2,634)
Decrease in liabilities in respect of royalty bearing government grants	(150)	(438)	(135)	(282)	(589)
Increase in trade payables	442	617	372	470	307
Increase (decrease) in other current liabilities	(458)	(464)	(2,591)	2,623	(1,444)
	(4,630)	(2,313)	(3,814)	1,911	(5,401)
Cash paid and received during the year for:					
Taxes paid	(1,734)	-	(1,734)	-	-
Interest paid	(2,708)	(1,308)	(1,328)	(369)	(1,542)
Interest received	619	496	361	490	593
	(3,823)	(812)	(2,701)	121	(949)
Net cash used in operating activities	(31,311)	(34,746)	(8,942)	(12,281)	(46,008)

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

Interim Consolidated Statements of Cash Flows (Cont.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	$ thousands				
Cash flows from investment activities					
Purchase of property and equipment	(1,131)	(888)	(351)	(281)	(1,293)
Investment in associates and other companies	(4,717)	(5,617)	(1,161)	(677)	(8,630)
Purchase of intangible assets	(208)	(50)	(12)	(22)	(172)
Proceeds from sale of property and equipment	72	61	8	50	105
Proceeds from sale of investments in subsidiaries net of cash disposed of in their deconsolidation (Schedule A) (see also Note 3B)	107,395	(555)	433	(555)	(1,044)
Proceeds from sale of associates and other companies (see Notes 3F, 3G)	4,951	5,520	1,014	4,722	66,290
Dividend received from associates	-	9,533	-	1,048	9,553
Proceeds from sale of available for sale securities	157	15	-	15	728
Investments in long term deposits	-	(430)	-	-	(430)
Proceeds from long term deposits	-	503	-	73	430
Net cash provided by (used in) investment activities	106,519	8,092	(69)	4,373	65,537
Cash flows from financing activities					
Receipt of government grants	986	1,036	604	872	2,984
Repayment of government grants	(312)	-	(116)	-	-
Proceeds from exercise of options	50	-	50	-	-
Investment of non controlling interests in subsidiaries	641	2,756	-	1,561	3,529
Dividend paid to non-controlling interests	(14,997)	-	(14,997)	-	-
Purchase of options from non-controlling interests	(255)	-	(255)	-	-
Receipt of long-terms loans from shareholders	-	9,000	-	-	9,000
Repayment of long-term loans from shareholders	(16,279)	-	(16,279)	-	-
Receipt of long-term loans from banks and others	6,750	11,163	750	2,163	13,500
Repayment of long-term loans from banks and others	(52,500)	(445)	(26,500)	-	(566)
Repayment of convertible debentures	(1,150)	-	-	-	
Short-term credit and loans from banks and others, net	(865)	(412)	(143)	92	(593)
Net cash provided by (used in) financing activities	(77,931)	23,098	(56,886)	4,688	27,854
Exchange rate differences in respect of cash and cash equivalents	(728)	-	(1,496)	-	-
Increase (decrease) in cash and cash equivalents	(3,451)	(3,556)	(67,393)	(3,320)	47,383
Cash and cash equivalents as of beginning of the period	64,747	17,364	128,689	17,028	17,364
Cash and cash equivalents as of end of the period	61,296	13,808	61,296	13,808	64,747

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

Interim Consolidated Statements of Cash Flows (Cont.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	$ thousands				
Schedule A					
Sale of investments in previously consolidated subsidiaries – changes in assets and liabilities due to sale (see also Note 3B)					
Working capital (excluding cash and cash equivalents)	(2,247)	(2,986)	-	(2,986)	(3,031)
Property, plant and equipment, net	1,300	890	-	890	1,259
Intangible assets, net	204	3,346	-	3,346	3,810
Long-term assets	107	(128)	-	(128)	24
Long-term liabilities	-	-	-	-	(2,164)
Non-controlling interests	(2,801)	(1,245)	-	(1,245)	(1,627)
Gain (loss) from disposal of businesses	133,466	459	(35)	459	1,574
Employee benefits, net	-	24	-	24	26
Investment in associate	-	(915)	-	(915)	(915)
Decrease in other current assets	-	-	1,677	-	-
Decrease in other current liabilities	-	-	(1,209)	-	-
Total proceeds from sale of subsidiaries net of cash disposed of	130,029	(555)	433	(555)	(1,044)
Net of amounts not yet received:					
Long-term deposit in escrow	(22,634)	-	-	-	-
	107,395	(555)	433	(555)	(1,044)

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

Note 1 – General

Elron Electronic Industries Ltd. ("Elron" or "The Company") is a high technology operational holding company, which is traded on the Tel-Aviv Stock Exchange and the Over-The-Counter market in the U.S. The Company is an Israeli-resident company incorporated in Israel, and its registered address is 3 Azrieli Center, Triangle Tower, 42^{nd} floor, Tel Aviv. The Company has holdings in subsidiaries, associates and other companies in various technology fields, primarily medical devices, information and communications technology and clean technology.

The Company's controlling shareholder is Discount Investment Corporation Ltd. ("DIC"), which holds an approximately 50.46% interest in the Company as of September 30, 2010.

DIC's parent company is IDB Development Corporation Ltd., which is wholly owned by IDB Holding Corporation Ltd. The control nucleus of DIC is comprised of Ganden Holdings Ltd., Manor Holdings B.A. Ltd. and Avraham Livnat Ltd., which have a voting agreement between them regarding their shares in IDB Holding Corporation Ltd. The ultimate parent company of IDB Holding Corporation Ltd. is Ganden Holdings Ltd., and Mr. Nochi Dankner is the ultimate controlling shareholder.

Pursuant to the decision of the Company's Board of Directors from November 12, 2009, on January 6, 2010, the Company's shares were de-listed from trading on the NASDAQ stock exchange. Elron further intends to terminate the registration of its ordinary shares as soon as possible under U.S. Securities and Exchange ("SEC") rules. The Company does not expect such deregistration to take effect earlier than the third quarter of 2011, if at all.

As a result, in the preparation of its financial statements as of December 31, 2009, the Company commenced reporting in conformity with International Financial Reporting Standards ("IFRS") instead of generally accepted accounting principles in the United States ("U.S. GAAP"). Elron's consolidated financial statements for the year ended December 31, 2009 were the Company's initial annual financial statements prepared in conformity with IFRS.

In the first quarter of 2010 Elron commenced reporting in accordance with the reporting obligations under Chapter F of the Israel Securities Law (1968) applicable to reporting companies in Israel. Up until January 2010, the Company reported in accordance with the reporting obligations under Chapter E3 of the Israel Securities Law (1968) applicable to reporting companies in Israel which are dual-listed.

As aforementioned, Elron's ordinary shares continue to be registered in the U.S. under SEC rules, and as such, in addition to the reporting requirements under Chapter F of the Israel Securities Law as aforementioned, the Company continues to comply with reporting requirements in accordance with U.S. applicable securities laws and regulations.

These financial statements have been prepared in accordance with IFRS in a condensed format as of September 30, 2010 and for the nine and three months then ended ("interim consolidated financial statements"). The interim consolidated financial statements are presented in U.S. dollars ("USD"), the Company's functional currency, and are rounded to the nearest thousand. These financial statements should be read in conjunction with the Company's annual financial statements as of December 31, 2009 and the year then ended, and accompanying notes ("annual financial statements").

See Note 6 regarding the impact of the transition from reporting in accordance with U.S. GAAP to reporting in accordance with IFRS on the Company's consolidated financial position as of September 30, 2009, and consolidated statements of loss for the three and nine months ended September 30, 2009.

Note 2 - Significant Accounting Policies

A. Basis of preparation of the interim consolidated financial statements

The interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in IAS 34, "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970.

The significant accounting policies, estimates and methods of computation adopted in the preparation of the interim consolidated financial statements are consistent with those followed in preparation of the annual financial statements, except as noted below:

i. *IFRS 3 (Revised) - Business Combinations and IAS 27 (Amended) ("The New Standards") – Consolidated and Separate Financial Statements*

According to the New Standards:

- The definition of a business was broadened so that it contains also activities and assets that are not managed as a business as long as the seller is capable of operating them as a business.

- An entity can choose whether to measure non-controlling interests in the acquiree (and consequently, the goodwill) of each business combination, either at its full fair value or at the non-controlling interest's proportionate share of acquiree's net identifiable assets at the acquisition date.

- Contingent consideration in a business combination is measured at fair value and changes in the fair value of the contingent consideration, which do not represent adjustments to the acquisition cost in the measurement period, are not simultaneously recognized as goodwill adjustments. If the contingent consideration is classified as a financial liability under IAS 39, it is measured at fair value through profit or loss.

- Direct acquisition costs attributed to a business combination transaction are recognized in the statement of income as incurred.

- Subsequent measurement of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date will be charged to profit or loss and not as adjustment to goodwill.

- A subsidiary's losses, even if resulting in a capital deficiency in a subsidiary, are allocated between the parent company and non-controlling interests, even if the non-controlling interest has not guaranteed or has no contractual obligation for sustaining the subsidiary or of investing further amounts.

- Upon the loss or achievement of control of a subsidiary, the remaining investment, if any, is revalued to fair value against gain or loss from the sale and this fair value represents the cost basis for the purpose of subsequent treatment.

Note 2 - Significant Accounting Policies (Cont.)

A. Basis of preparation of the interim consolidated financial statements (cont.)

- A transaction with non-controlling interests, whether a sale or an acquisition, is accounted for as an equity transaction. As such, further acquisitions of non-controlling interests by the Company are recognized directly in equity (capital reserves in respect of transaction with non-controlling interests). Any difference between the amount of the adjustment to non-controlling interest (reflecting the change in relative interest in the subsidiary) and the consideration paid or received by the parent on the change in holding is recognized directly in equity. In disposal of equity interests while control is retained, the company should take into consideration realization of goodwill attributed to the subsidiary, if any, comprehensive income and capital reserves from translation differences, in accordance with the decrease in holdings in the subsidiary.

- Losses are attributable to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

- At the acquisition date, the acquirer reassesses the assets and liabilities, not including leases and insurance contracts, for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date.

- In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss. Any amount that was recognized in other comprehensive income is recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

The Standards are adopted prospectively since January 1, 2010. The adoption of the Standards has affected our accounting for subsidiaries and non-controlling interests mainly with respect to prospective allocation of losses to non-controlling interests, but may in the future affect accounting for consolidating and de consolidating subsidiaries and recognition of gain upon a change of ownership, and the accounting for business combinations.

ii. *IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations*

According to the amendment to IFRS 5, when the parent decides to sell part of its interest in a subsidiary so that after the sale the parent retains a non-controlling interest, such as rights conferring significant influence, all the assets and liabilities attributed to the subsidiary will be classified as held for sale if the relevant criteria of IFRS 5 are met, including the presentation as a discontinued operation. Further, an additional amendment specifies the disclosures required in respect of non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. Pursuant to the amendment, only the disclosures required in IFRS 5 will be provided. Disclosures in other IFRSs apply to such assets only if they require specific disclosures in respect of non-current assets or disposal groups.

The amendment is adopted prospectively starting from the financial statements for periods beginning on January 1, 2010.

Note 2 - Significant Accounting Policies (Cont.)

B. Early adoption of IFRS standards

Commencing from these financial statements, the Company early adopted the amendments to IFRS 3, "Business Combinations", as set forth below.

The amendments prescribed by IFRS 3 are as follows:

i *Measurement of non-controlling interests*

The amendment limits the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at the present ownership instruments' share in the recognized amounts of the acquiree's identifiable net assets. According to the amendment, this possibility is only available for types of non-controlling interests that entitle their holders to present ownership interests and a proportionate share to the entity's net assets in the event of liquidation (usually shares). In contrast, other types of non-controlling interests (such as options that represent equity instruments in the acquiree) do not allow such choice and must be measured at fair value on the acquisition date, unless another measurement basis is required by IFRSs such as in IFRS 2.

ii *Share-based payment awards in a business combination*

The amendment elaborates the accounting treatment of a business combination that refers to the exchange of the acquiree's share-based payment transactions (whether it is obligated or chooses to exchange them) with the acquirer's share-based payment transactions. Accordingly, the acquirer must allocate a value on the acquisition date and an expense in the period following the acquisition date. However, if the award expires as a result of the business combination and is exchanged for a new award, the value of the new award in accordance with IFRS 2 will be recognized as an expense in the period following the acquisition date and will not be included in the purchase price. Furthermore, if share-based payment awards are not exchanged, then, if the instruments have vested, they will form part of the non-controlling interests and are measured pursuant to the provisions of IFRS 2. If the instruments have not vested, they will be measured at the value that would have been used had they been re-granted on the acquisition date whereby this amount is allocated between the non-controlling interests and the post-acquisition expense.

The above amendments did not have a material effect on the Company's financial position, operating results and cash flows.

C. New standards and interpretations issued but not yet effective

i. *IFRS 9 - Financial Instruments*

In November 2009, the IASB issued IFRS 9, "Financial Instruments", which represents the first phase of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

Note 2 - Significant Accounting Policies (Cont.)

C. New standards and interpretations issued but not yet effective (Cont.)

According to IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets will be at fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in the statement of income or in other comprehensive income (loss), in accordance with the election of the accounting policy on an instrument-by-instrument basis. This election is final and irrevocable. Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The standard will be effective starting January 1, 2013. Earlier adoption is possible. Early adoption will be made with a retrospective restatement of comparative figures, subject to the reliefs set out in the Standard.

The Company is evaluating the effect of IFRS 9 on its financial statements.

ii. *IFRS 7 – Financial Instruments: Disclosure*

The amendment to IFRS 7 clarifies the disclosure requirements prescribed by the Standard. The Standard highlights the connection between the quantitative and qualitative disclosures and the nature and scope of the risks arising from financial instruments. The disclosure requirements regarding securities held by the company have been minimized and the disclosure requirements regarding credit risk have been revised. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The required disclosures will be included in the Company's financial statements.

iii. *IAS 34 – Interim Financial Reporting*

Pursuant to the amendment to IAS 34, new disclosure requirements were introduced to interim financial reporting regarding the circumstances that are likely to affect the fair value of financial instruments and their classification, the transfers of financial instruments between different fair value levels, changes in the classification of financial assets and changes in contingent liabilities and contingent assets. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The required disclosures will be included in the Company's financial statements.

Note 2 - Significant Accounting Policies (Cont.)

C. New standards and interpretations issued but not yet effective (Cont.)

iv. *IAS 1: Presentation of Financial Statements*

According to the amendment to IAS 1, the changes between the opening and the closing balances of each other comprehensive income component may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. The amendment will be adopted retrospectively in the financial statements for periods starting from January 1, 2011. Early adoption is possible.

The amendment is not expected to have a material effect on the Company's financial statements.

Note 3 – Significant Changes in Investments

A. Starling

Starling Advanced Communications Ltd. ("Starling") is a provider of innovative connectivity solutions for the broadband access market for mobile platforms including aircraft and ground vehicles.

Starling is an Elron subsidiary. Elron directly holds approximately 32% of Starling's outstanding shares, and approximately 36% indirectly through its consolidated subsidiary RDC – Rafael Development Corporation Ltd. ("RDC").

In December 2009, Elron and RDC signed a loan agreement to provide Starling with a loan in the aggregate amount of $3,900, of which Elron's and RDC's share is approximately $1,800 and $2,100, respectively. The total loan amount was granted to Starling in a single installment during January 2010.

In March 2010, Elron and RDC signed an additional loan agreement to provide Starling with a loan in the aggregate amount of $7,800, of which Elron's and RDC's share is approximately $3,600 and $4,200, respectively. During the second and third quarters, payments in respect of the total loan amount were advanced to Starling by Elron and RDC.

In August 2010, Elron and RDC signed an additional loan agreement to provide Starling with a loan in the aggregate amount of $7,000, of which Elron's and RDC's share is approximately $3,300 and $3,700, respectively. During August 2010, payments in respect of the loan in the amount of approximately $1,400 and $1,600 were advanced to Starling by Elron and RDC, respectively. The balance of the loan amount will be advanced to Starling by Elron and RDC upon Starling's request, no later than January 1, 2011, subject to Elron's and RDC's consent. In October 2010, subsequent to the balance sheet date, Elron advanced approximately $1,200 to Starling in respect of this loan.

B. Medingo

Medingo Ltd. ("Medingo") is a development stage company that is engaged in the development of an insulin micro-pump for people with diabetes, ("the Micro-Pump"). In July 2009, Medingo received FDA clearance to market the Micro-Pump in the U.S.

Prior to its sale (see below), Medingo was approximately 92% held by Elron, including approximately 84% held by RDC.

(USD in thousands, except for price per share and number of shares)

Note 3 – Significant Changes in Investments (Cont.)

B. Medingo (Cont.)

In January 2010, the shareholders of Medingo, including Elron and RDC, extended an investment in the aggregate amount of $5,500 to Medingo, of which Elron's and RDC's share is approximately $500 and $4,600, respectively. During the first quarter of 2010, a payment in respect of the investment in the amount of $3,500 was advanced, of which Elron's and RDC's share is approximately $300 and $2,900, respectively. During the second quarter of 2010, an additional payment in the amount of $1,500 was advanced, of which Elron and RDC's share is approximately $130 and $1,300, respectively.

On April 13, 2010, a definitive sale agreement was executed for the acquisition of all of Medingo's shares by F. Hoffman-La Roche Ltd. (the "Acquirer"), the principal terms of which include, inter alia, the following terms: (i) upon completion of the transaction, the selling shareholders received consideration in the aggregate amount of $160,000, subject to certain adjustments, of which an amount of $29,000 is held in escrow for a period of up to 24 months to cover mainly potential indemnification payments which may be due from the selling shareholders in connection with breaches, if any, of the sale agreement and certain potential future claims relating to Medingo, if any, (ii) the selling shareholders will receive gradual payments of additional contingent consideration of up to $40,000 conditional upon Medingo achieving, gradually, over a certain period, certain operational milestones ("Contingent Consideration"), (iii) Elron's and RDC's maximum potential indemnification obligations under the sale agreement are limited to approximately 110% of their respective parts of the total consideration amount, except – with respect to each of them separately – in case of fraud or willful misconduct by it.

On May 28, 2010, the sale was completed. As a result, in respect of the aforementioned sale:

1. In accordance with Medingo's capital structure and the shareholders' rights to Medingo's capital, Elron and RDC received approximately $13,700 and approximately $93,500, respectively, upon completion of the transaction. During the third quarter of 2010, Elron and RDC additionally received approximately $200 and approximately $1,500, respectively, from a short-term deposit held in escrow, and may receive in the future additional amounts of up to approximately $2,700 and up to approximately $20,000, respectively, from the amount held in escrow in connection with the transaction for a period of up to 24 months, and up to approximately $3,000 and up to approximately $29,200, respectively, out of the contingent consideration.

2. Elron recorded a net gain (attributable to the Company's shareholders) in the second quarter of 2010 in the amount of approximately $70,800 (a consolidated net gain in the amount of approximately $124,700). An additional net gain (attributable to the Company's shareholders), currently estimated at an aggregate amount of up to approximately $13,900 (a consolidated net gain of approximately $24,900) may be recorded at later stages, taking into consideration certain future events which may affect the amounts Elron and RDC will receive from the Contingent Consideration. The net gain amounts include Elron's share of the net gain recorded by RDC in respect of the aforementioned sale.

(USD in thousands, except for price per share and number of shares)

Note 3 – Significant Changes in Investments (Cont.)

B. Medingo (Cont.)

In accordance with the aforementioned, the consideration held in escrow was recognized as a financial asset, and accordingly, the aforementioned net gain includes recognition of the gain in respect of this element of the consideration. The consideration held in escrow is included under "Other long-term receivables" in the Statement of Financial Position. The said net gain amount does not include recognition of the contingent consideration element, as in management's estimation, in light of the significant uncertainty as to the achievement of the aforementioned milestones and the timing thereof, the fair value measurement of this element cannot be reliably estimated, for the reason, among others, that the Company does not have control over Medingo's success in meeting the aforementioned milestones, which is under the control of the Acquirer and is dependent upon additional factors, and also for the reason that pursuant to the sale agreement, the Company does not at this stage have access to information which would enable it to establish a reliable range of reasonable fair value estimates. The Company examines and shall examine at every financial report date whether there is any change in the circumstances or in the information to which Elron has access, which would enable the Company to reliably measure the cash receivables' value in respect of the Contingent Consideration. The gain recognized as aforementioned is presented under "Gain from disposal of businesses and associates and changes in holding in associates, net" in the Statement of Income.

C. Wavion

Wavion Inc. ("Wavion") is a developer and manufacturer of broadband wireless access systems for Wi-Fi networks.

Wavion is an Elron subsidiary. Elron holds approximately 67% of Wavion's outstanding shares.

In January 2010, Elron together with another shareholder of Wavion, invested an aggregate amount of $1,600 in Wavion, of which Elron's share was approximately $1,400.

In April 2010, Elron alone invested an additional amount of $2,000 in Wavion.

"Intangible assets, net" include an amount of approximately $1,900 in respect of technology of Wavion as a result of the initial consolidation of Wavion. During the second quarter of 2010, a provision was made in respect of the impairment of such technology in the amount of approximately $1,200, as a result of a decline in its fair value. In addition, as a result of the obsolescence of this technology, its estimated lifespan was shortened from 3 years to 1.5 years. The expense in respect of this impairment was included under "Other Expenses (Income), net" in the Statement of Income.

D. RDC

RDC is a holding company consolidated by Elron. Elron holds 50.1% of RDC's outstanding shares (through DEP Technology Holdings Ltd., a subsidiary fully owned by Elron).

In December 2009, Elron and Rafael Advanced Defense Systems Ltd. ("Rafael") signed a loan agreement to provide RDC with a loan in the aggregate amount of approximately $15,000, of which Elron's share is approximately $7,500. During January 2010, a payment in respect of the loan in the amount of $7,500 was advanced, of which Elron's share is approximately $3,750.

During the second quarter, payments in the amount of $4,500 were advanced to RDC, of which Elron's share is approximately $2,250.

Note 3 – Significant Changes in Investments (Cont.)

D. RDC (Cont.)

During June 2010, RDC's entire debt in respect of loans granted to it in the amount of $10,000 by Bank Mizrahi Tefahot Ltd. ("Bank Mizrahi") was repaid (without incurring a prepayment commission). As a result of such repayment, the pledge on 2,662,110 Given Imaging Ltd. ("Given") shares held by RDC in favor of Bank Mizrahi, representing approximately 9% of Given's outstanding shares, was removed.

In addition, during June 2010, RDC's entire debt in respect of loans granted to it by its shareholders (Elron and Rafael) in the aggregate amount of approximately $32,000 was prepaid (without incurring a prepayment commission), in the course of which, RDC's debt to Rafael in the amount of approximately $13,000 was repaid. (Concurrently, RDC's debt to the Company in the amount of approximately $19,000 was repaid. The repayment of RDC's loan to the Company has no impact on the cash and liabilities balance in the Consolidated Statement of Financial Position as of September 30, 2010).

On August 10, 2010, RDC declared a special cash dividend in the aggregate amount of approximately $30,000. On August 16, 2010, payment of the said dividend by RDC was made. Elron's share in such dividend amounted to approximately $15,000. The balance of the dividend amount was distributed to Rafael. Rafael's share in the said dividend in the amount of $14,997 was recorded in the Statement of Changes in Equity.

E. Pocared

Pocared Diagnostics Ltd. ("Pocared") is an Israeli clinical diagnostics company developing an innovative technological platform for real-time and reagentless diagnosis of contaminants. Elron holds approximately 32% of Pocared's outstanding shares. Pocared is accounted for under the equity method of accounting.

In January 2010, the shareholders of Pocared, including Elron, invested an aggregate amount of $3,600 in Pocared, of which Elron's share was approximately $1,500.

In June 2010, the shareholders of Pocared, including Elron, invested an aggregate amount of $3,200 in Pocared, of which Elron's share was approximately $1,400.

F. Teledata

Teledata Networks Ltd. ("Teledata") provides innovative access products and solutions for both traditional and Next Generation Networks, or NGN, to telecom operators and service providers. Elron held approximately 21% of Teledata's outstanding shares prior to its sale (see below). Teledata was accounted for under the equity method of accounting.

In January 2010, Teledata received a guarantee from certain of its shareholders in the amount of $3,000. Elron's share in the said amount was approximately $1,500.

In April 2010, Teledata received a commitment to provide a guarantee from certain of its shareholders in the amount of $3,000. Elron's share in the said amount was approximately $1,500.

Elron's share in Teledata's losses included its share in the aforementioned guarantees.

Note 3 – Significant Changes in Investments (Cont.)

F. Teledata (Cont.)

In April 2010, a definitive merger agreement was executed between Teledata, its principal shareholders, including the Company ("major shareholders") and Enablence Technologies Inc. (the "Acquirer"), a foreign company publicly traded on the TSX Venture Exchange, for the sale, by way of merger, of all of the outstanding shares of Teledata to the Acquirer, the principal terms of which include, inter alia, the following terms: (i) upon completion of the transaction, consideration was received in the aggregate amount of $50,000, including $10,000 payable in cash, $10,000 payable in non-tradable bonds of the Acquirer and $30,000 payable in publicly tradable shares of the Acquirer. Of this consideration, shares of the Acquirer equivalent to $5,000 were deposited in escrow for a period of up to 12 months to cover, mainly, possible indemnification which may become due to the Acquirer in connection with breaches, if any, of the merger agreement by any of the other parties thereto and possible future claims relating to Teledata, if any, (ii) upon completion of the transaction all outstanding shareholders' loans granted to Teledata by Elron (in the aggregate amount of approximately $800, and which are convertible into Teledata shares) were assigned to the Acquirer. The abovementioned consideration includes the consideration for such assignment, (iii) each of the major shareholders shall only be liable for part of the indemnification amounts that may become due to the Acquirer, each according to its share of the consideration, and will not be liable for any breaches of the merger agreement by any other major shareholders. The liability of each major shareholder's liability for its representations and obligations towards the Acquirer will be limited to its share of the aggregate consideration, while its liability for representations and obligations relating to Teledata shall be limited (except in certain matters) to each such shareholder's share of the consideration held in escrow described above, (iv) any shares of the Acquirer received as part of the consideration are subject to a lock-up period of 6 to 12 months commencing from the closing date of the transaction, (v) on the closing date of the transaction, all shareholders' guarantees granted by the major shareholders to Teledata, and all obligations of the major shareholders to grant shareholders guarantees or collaterals for loans to Teledata were cancelled.

On June 23, 2010 the conditions were met and the transaction was completed. As a result, in respect of the transaction:

1. In accordance with Teledata's capital structure and the shareholders' rights to Teledata's capital, Elron received aggregate proceeds of approximately $23,200, including approximately $3,000 payable in cash, approximately $3,800 payable in bonds of the Acquirer and approximately $16,400 payable in shares of the Acquirer based on their price on the TSX Venture Exchange on the closing date of the sale (of which shares of the Acquirer in an amount equivalent to approximately $2,300 are held in escrow, based on their share price on the TSX Venture Exchange on the closing date of the sale).

2. Pursuant to the terms of the transaction, guarantees and obligations to grant guarantees which were granted in the past by Elron to Teledata in the aggregate amount of approximately $4,200 were cancelled.

3. Elron recorded a net gain in the second quarter of 2010 in the amount of approximately $22,400. The said gain is included in the Statement of Income under "Gain from disposal of businesses and associates and changes in holdings, net".

(USD in thousands, except for price per share and number of shares)

Note 3 – Significant Changes in Investments (Cont.)

F. Teledata (Cont.)

In accordance with the aforementioned, the consideration held in escrow was recognized as a financial asset. The consideration held in escrow is included under "Other investments (accounted as available for sale)".Accordingly, the aforementioned net gain includes recognition of the gain in respect of this element of the consideration. In addition, the net gain amount was calculated after the deduction of the discount element (the "Discount") in respect of the lock-up period on the Acquirer's shares. The Discount's fair value was estimated by the Company on the closing date of the transaction at approximately $5,000. The Discount was estimated based on the Option Pricing Model method and was determined on the closing date of the transaction at a rate of 30% for the shares not held in escrow, and 35% for the shares held in escrow.

On September 30, 2010 the Discount was estimated at a rate of 13% for the shares not held in escrow, and 19% for the shares held in escrow. The difference between the Discount rate of shares held and not held in escrow derives from the difference in their respective lock-up periods.

The Valuation Model –PUT Option Analysis Based on the Black and Scholes Option Pricing Model.

	Closing Date of Transaction	September 30, 2010
Exercise price	CAD 0.55	CAD 0.60
Share price	CAD 0.55	CAD 0.60
Expected life	6-12 months	3-9 months
Volatility	59%-97%	50%-60%
Risk free rate	0.73%-1.01%	0.63%-1.43%
Dividend rate	0%	0%
Discount's fair value	Approximately $5,000	Approximately $2,500

G. Galil

Galil Medical Ltd. ("Galil") develops, manufactures and markets a cryotherapy platform of minimally invasive treatments for various clinical applications.

Elron directly held approximately 12% of Galil's outstanding shares, and approximately 17% indirectly through RDC (prior to its sale, see below). Galil was accounted for under the equity method of accounting.

In March 2010, the Company's Audit Committee and Board of Directors approved the transaction in which Elron, together with RDC and DIC (who together held approximately 42% of Galil) and certain other shareholders of Galil (the "Sellers") entered into an agreement to sell all their respective holdings in Galil to certain other Galil shareholders (the "Acquirers") for an immediate payment in the aggregate amount of approximately $1,300 and for an additional contingent future payment, conditional upon certain future events occurring within 24 months from the consummation of the above transaction. The consideration was allocated between the Sellers proportionally to the number of Galil shares sold by each of them from among the total shares sold, irrespective of their class and liquidation preference. Accordingly, Elron's and RDC's portion in the immediate payment is approximately $400 and approximately $500, respectively.

In April 2010, subsequent to the receipt of all required approvals, the transaction was completed. As a result of the sale, in the second quarter Elron recorded a gain (attributable to the Company's shareholders) in the amount of approximately $500 (a consolidated net gain of approximately $800).

Note 3 – Significant Changes in Investments (Cont.)

H. NuLens

NuLens Ltd. ("NuLens") operates in the field of intra-ocular lenses, or IOLs, mainly for the treatment of cataracts, presbyopia and low vision.

Elron holds approximately 35% of NuLens's outstanding shares. NuLens is accounted for under the equity method of accounting.

In January 2010, NuLens completed a financing round of approximately $4,600, in consideration for 512,049 Preferred C1 shares, in which Elron invested $2,000. The investment did not result in any significant change to the proportion of Elron's holdings of NuLens's outstanding shares.

I. Impliant

Impliant Inc. ("Impliant") is engaged in the development of spinal implants for motion preservation.

Elron holds approximately 48% of Impliant's outstanding shares. Impliant is accounted for under the equity method of accounting.

During the second quarter, an impairment provision was made in respect of the investment in Impliant in the amount of approximately $1,600 due to the decision of Impliant's Board of Directors to cease its operations. Expenses in respect of the said impairment were included under "Other Expenses (Income), net" in the Statement of Income.

J. Kyma

Kyma Medical Technologies Ltd. ("Kyma") is engaged in the development of a miniature, radar technology based device, which allows for the continuous monitoring of chronic heart failure patients.

In September 2010, Elron and Kyma signed an investment agreement according to which Elron invested $1,000 in Kyma in consideration for 65,738 Series B preferred shares. Following the transaction, Elron holds approximately 27% of Kyma's outstanding shares, and accordingly, the investment in Kyma is accounted for under the equity method of accounting. Pursuant to the said investment agreement, Elron has the right to invest, as of January 1, 2011, an additional amount of $4,000 in consideration for 262,953 Series B preferred shares which will entitle Elron, among other things, to an additional approximately 38% of Kyma's outstanding shares.

K. Bonus to CEO

In March 2010, the Company's Audit Committee and Board of Directors approved a bonus to the Company's CEO, Mr. Ari Bronshtein for the year 2009 in the amount of approximately NIS 492,000 (approximately $134). Since the CEO also serves as an Officer (Vice President) of DIC, in the third quarter of 2010, DIC decided to bear the full payment of the amount of the bonus to the CEO as aforementioned. Therefore, Elron charged the said amount in its entirety to "Capital reserves in respect of transaction with controlling interest" in the Statement of Changes in Equity.

(USD in thousands, except for price per share and number of shares)

Note 3 – Significant Changes in Investments (Cont.)

L. Bank and shareholders' loans

In June 2010, the Company's Audit Committee and Board of Directors approved the prepayment of Elron's entire debt to Israel Discount Bank Ltd. ("the Bank") in respect of loans granted to Elron by the Bank in the aggregate amount of $30,000 (without incurring a prepayment commission), on the interest payment dates in respect of the debt, the last of which was in September 2010. Therefore, and pursuant to the terms of the loan agreements with DIC, upon repayment of the Company's entire debt to the Bank in September 2010, the Company's entire debt in respect of the loans granted to it by DIC in the amount of approximately $17,500 (including interest) was repaid as well (without incurring a prepayment commission). Approval by the Audit Committee and Board of Directors was given pursuant to Regulation 1 of the Israeli Companies Regulations (Reliefs in Related Parties Transactions), 5760 – 2000. Upon repayment of Elron's entire debt to the Bank, the pledge on 3,359,676 Given Imaging shares held by Elron in favor of the Bank, representing approximately 11% of Given's outstanding shares, was removed.

See Section D above regarding the repayment of loans granted to RDC.

M. Settlement Agreement in the Matter of the KIT Sale Consideration

In March 2004, Elron together with other shareholders of KIT eLearning B.V ("KIT"), including DIC ("the Sellers"), completed the sale of KIT to Online Higher Education B.V ("OHE"). In addition to an immediate consideration received as part of the transaction, the Sellers were entitled to an additional consideration of up to $10,000 (from which Elron's share amounted up to approximately $5,700) based on earnings of KIT in the years 2006 and 2007 ("the Additional Consideration"). In 2008, OHE paid the Sellers a portion of the Additional Consideration in the amount of approximately $2,100 (of which Elron's portion was approximately $1,600 and DIC's portion was approximately $500). Following a dispute between the Sellers and OHE over payment of the Additional Consideration balance and after the parties commenced arbitration proceedings, the parties signed a settlement agreement during July 2010. Pursuant to the settlement agreement, a final Additional Consideration was paid to the Sellers in the amount of approximately $2,900 (from which Elron's portion is approximately $2,100 and DIC's portion is approximately $800). As a result of the execution of this settlement agreement, a gain was recorded in the amount of approximately $2,000, which was included under "Other Expenses (Income), net, net" in the Statement of Income.

Note 4 - Contingent Liabilities

For details regarding pending contingent liabilities and claims against the Company and its group companies as of the date of approval of the interim consolidated financial statements, see Note 21 to the Company's annual financial statements, approved on March 28, 2010.

Details regarding changes to the contingent liabilities and claims described in the Company's annual financial statements are included below:

Note 4 - Contingent Liabilities (Cont.)

1. On April 11, 2010, a settlement agreement was signed between a former officer of a subsidiary of the Company, the subsidiary and a group company of the subsidiary ("the Settlement Agreement"). The officer's position was terminated by the subsidiary at its instance on January 12, 2010. The officer raised a series of allegations and demands against the Company, its subsidiary and the subsidiary's group company relating to his terms of employment and the terms of his termination from the subsidiary, and in addition from its group company. According to the Settlement Agreement, the former officer is to be paid by the subsidiary of the Company a total amount of up to $3,750, and, subject to an additional future condition precedent, an additional amount of $125; all in exchange for an absolute, irrevocable waiver of any claims and reciprocal rights, including rights of the former officer in the group company which is a party to the Settlement Agreement and other companies held by such subsidiary.

   As a result of the Settlement Agreement, a liability in the amount of approximately $2,100 was recorded in the interim financial statements as of June 30, 2010, in addition to the liability recorded in the Company's annual financial statements in the amount of approximately $1,000 in respect of the non-disputable amount. These liabilities are included in the Consolidated Statements of Financial Position as of the abovementioned dates under "Other Current Liabilities". In July and August 2010, the officer was paid the entire amount to which the officer is entitled under the Settlement Agreement.

2. In September 1999, a shareholder of Elscint Ltd. ("Elscint"), a subsidiary of Elbit Medical Ltd. ("Elbit Imaging"), which was a group company of Elron up to May 1999, filed a claim with the District Court of Tel-Aviv Jaffa, along with a request for certification thereof as a class action on behalf of the public shareholders of Elscint, against various defendants, including Elscint, Elbit Imaging, Elron and former directors of Elscint. The claim alleges, primarily, that in the sale of Elscint's assets, which was finalized in 1998, Elscint's minority shareholders were prejudiced, and it requests that the Court order the defendants to purchase the shares which were held by the public at a price of approximately $27 per share. In October 1999, the plaintiff amended his claim and according to the amended claim the total amount of the class action (if certified) was estimated by the plaintiff to be about $158,000 or alternatively about $123,000. On March 31, 2009, the Court approved the defendants' application to dismiss certain claims while others still remained. On July 27, 2010, the Company announced that negotiations are taking place regarding the possibility of reaching a settlement to end these legal proceedings, in the framework of which the Company may pay an immaterial sum. On August 23, 2010, a settlement agreement was signed in relation to these legal proceedings, in which the plaintiff agreed to withdraw from the proceedings, and some of the defendants, including the Company, agreed to pay the plaintiff a certain sum, of which the Company's part is immaterial. On September 1, 2010, the court gave the said settlement agreement the effect of a judgment, and accordingly, the Company paid its part of the said sum.

Note 5 – Inclusion of the financial statements of associate companies accounted for under the equity method of accounting

The Company did not include the condensed financial statement data or the financial statements of Given, a material associate company, as it reports in accordance with the reporting obligations under Chapter E3 of the Israel Securities Law (1968), applicable to reporting companies in Israel which are dual-listed.

(USD in thousands, except for price per share and number of shares)

Note 6 - Reconciliations of the consolidated financial statements under US GAAP to consolidated financial statements under IFRS

A. International Financial Reporting Standard 1 ("IFRS 1") requires the inclusion of a reconciliation of the Company's equity reported in accordance with U.S. GAAP to its equity in accordance with IFRS.

B. In regards to the exemptions that the Company chose to apply prospectively in accordance with IFRS 1, see Note 2 to the annual financial statements.

C. Set forth below is a reconciliation note which presents the material effects of application of IFRS on the Company's consolidated balance sheet and equity as of September 30, 2009 and on the Company's consolidated statement of income for the nine and three months ended September 30, 2009.

(USD in thousands, except for price per share and number of shares)

Note 6 - Reconciliations of the consolidated financial statements under US GAAP to consolidated financial statements under IFRS (Cont.)

Adjustments resulting from the transition to reporting in accordance with IFRS on the Company's consolidated Statements of Financial Position as of September 30, 2009

	Item	US GAAP	Effect of transition to IFRS	IFRS
			Unaudited	
		$ thousands	$ thousands	$ thousands
Current assets				
Cash and cash equivalents		13,808	-	13,808
Restricted cash		67	-	67
Trade receivables	11	1,556	3	1,559
Other current assets		3,818	-	3,818
Inventories		4,344	-	4,344
		23,593	3	23,596
Non-current assets				
Investments in associates	1,4,5,6,9,10,12,13,14	145,459	8,768	154,227
Other investments (accounted as available for sale)	4,5,9,10,,12,14,13	67,726	(59,360)	8,366
Property, plant and equipment, net	2,11	3,426	(105)	3,321
Assets related to employee benefits	9	1,869	(1,715)	154
Intangible assets, net	1,2,6,13	7,135	1,124	8,259
Other long-term receivables		585	-	585
		226,200	(51,288)	174,912
Total assets		249,793	(51,285)	198,508
Current liabilities				
Short terms credit and loans		1,325	132	1,457
Trade payables		4,098	-	4,098
Other current liabilities	5,9,10,11	10,756	995	11,751
Convertible debentures		1,120	-	1,120
		17,299	1,127	18,426
Non-current liabilities				
Loans from banks	4	44,630	-	44,630
Loans from shareholders		16,593	-	16,593
Convertible debentures		1,824	-	1,824
Royalty bearing government grants	5	-	9,092	9,092
Employee benefits, net	9	2,126	(1,776)	350
Other long term liabilities	9	340	(118)	222
		65,513	7,198	72,711
Total liabilities		82,812	8,325	91,137
Equity				
Equity attributable to the Company's shareholders	1, 2, 3, 4, 5, 8, 9, 10 11, 12, 13, 14	161,554	(51,969)	109,585
Non-controlling interest	1, 2, 5, 9, 10, 13, 14	5,472	(7,641)	(2,214)
		166,981	(59,610)	107,371
Total liabilities and equity		249,793	(51,285)	198,508

(USD in thousands, except for price per share and number of shares)

Note 6 - Reconciliations of the consolidated financial statements under US GAAP to consolidated financial statements under IFRS (Cont.)

Adjustments resulting from the transition to reporting in accordance with IFRS on the Company's consolidated statement of income for the nine months ended September 30, 2009

		US GAAP	Effect of transition to IFRS	IFRS
			Unaudited	
	Item	$ thousands	$ thousands	$ thousands
			(except for loss per share data)	
Income				
Income from sales		7,416	-	7,416
Income from disposal of businesses and associates and changes in holding in associates, net	4, 5, 10	18,053	(11,210)	6,843
Financial income	7	-	3,171	3,171
		25,469	(8,039)	17,430
Cost and Expenses				
Cost of sales	5	3,793	74	3,867
Selling and Marketing expenses	9, 10	6,941	45	6,986
General and administrative expenses	5, 9, 10	11,646	(141)	11,505
Research and development expenses, net		16,706	775	17,481
Equity in losses of associates, net	1, 4, 5, 6, 9, 10, 12 13, 14	4,428	5,450	9,878
Amortization of intangible assets	6, 13	321	740	1,061
Other expenses, net	12	2,601	(485)	2,116
Financial expenses	4, 7, 11	3,447	2,963	6,410
		49,883	9,421	59,304
Loss before taxes on income		(24,414)	(17,460)	(41,874)
Taxes on income		-	-	-
Loss		(24,414)	(17,460)	(41,874)
Attributable to:				
The Company's shareholders	1,2,5,8, 9, 10,13,14	(13,028)	(17,384)	(30,412)
Non-controlling interest	1, 2, 5, 9, 10, 13, 14	(11,386)	(76)	(11,462)
		(24,414)	(17,460)	(41,874)
Loss attributable to the Company's shareholders (in USD):				
Basic loss per share		(0.44)	(0.58)	(1.02)
Diluted loss per share		(0.44)	(0.58)	(1.02)

(USD in thousands, except for price per share and number of shares)

Note 6 - Reconciliations of the consolidated financial statements under US GAAP to consolidated financial statements under IFRS (Cont.)

Adjustments resulting from the transition to reporting in accordance with IFRS on the Company's consolidated statement of income for the three months ended September 30, 2009

	Item	US GAAP	Effect of transition to IFRS	IFRS
			Unaudited	
		$ thousands	$ thousands	$ thousands
			(except for loss per share data)	
Income				
Income from sales		1,850	-	1,850
Income from disposal of businesses and associates and changes in holding in associates, net	4, 5, 10	11,362	(10,982)	380
Financial income	7	-	606	606
		13,212	(10,376)	2,836
Cost and Expenses				
Cost of sales	5	985	223	1,208
Selling and Marketing expenses	9, 10	2,845	8	2,853
General and administrative expenses	5, 9, 10	4,611	217	4,828
Research and development expenses, net		5,510	417	5,927
Equity in losses of associates, net	1, 4, 5, 6, 9, 10, 12 13, 14	1,003	1,508	2,511
Amortization of intangible assets	6, 13	107	246	353
Other expenses, net	12	123	15	138
Financial expenses	4, 7, 11	2,245	571	2,816
		17,429	3,205	20,634
Loss before taxes on income		(4,217)	(13,581)	(17,798)
Taxes on income		-	-	-
Loss		(4,217)	(13,581)	(17,798)
Attributable to:				
The Company's shareholders	1,2,5,8, 9, 10,13,14	933	(12,464)	(11,531)
Non-controlling interest	1, 2, 5, 9, 10, 13, 14	(5,150)	(1,117)	(6,267)
		(4,217)	(13,581)	(17,798)
Loss attributable to the Company's shareholders (in USD):				
Basic loss per share		0.03	(0.41)	(0.38)
Diluted loss per share		0.03	(0.41)	(0.38)

Note 6 - Reconciliations of the consolidated financial statements under US GAAP to consolidated financial statements under IFRS (Cont.)

D. Details regarding adjustments resulting from the transition to reporting in accordance with IFRS

1. **Valuation of available for sale financial instruments according to their fair value and balance sheet reclassification –** In accordance with U.S. GAAP, the Company classified its investments in companies which the Company does not have significant influence over their financial affairs, as investments measured at cost, net of other than temporary impairments. According to IFRS, the Company classifies these investments as available-for-sale financial assets, and they are measured at fair value on every balance sheet date. Changes in the fair value are recorded directly

2. **Classification of capitalized computer software and software development costs –** Under U.S. GAAP, computer software and capitalized software development costs were classified as part of property, plant and equipment. According to IFRS, computer software and capitalized software development costs that do not constitute an integral part of the related hardware, are accounted for as an intangible asset. Therefore, upon the transition to reporting according to IFRS, computer software and capitalized software development costs were reclassified from property, plant and equipment to intangible assets.

3. **Valuation of available for sale financial instruments according to their fair value and balance sheet reclassification –** In accordance with U.S. GAAP, the Company classified its investments in companies which the Company does not have significant influence over their financial affairs, as investments measured at cost, net of other than temporary impairments. According to IFRS, the Company classifies these investments as available-for-sale financial assets, and they are measured at fair value on every balance sheet date. Changes in the fair value are recorded directly in equity as a capital reserve in respect of available for sale financial assets, except for other than temporary impairments that are included in the statement of income.

4. **Change in classification of financial derivatives from liability to equity –** In accordance with U.S. GAAP, liabilities convertible into ordinary shares that are denominated in foreign currency (which is different than the investees's functional currency) and/or that are linked to the CPI or to foreign currency, were accounted for in the investee's financial statements as a liability, net of amount allocated as a discount. The discount is amortized over the repayement period of the Convertible Debentures using the effective interest rate method. According to IFRS, these liabilities are classifed as a liability and are recorded in their entirety at their fair values, where changes in the fair value are recorded in the statement of income. Upon modification to the terms of some of the debentures and elimination of the terms that sets the linkage of the conversion price to the CPI, these liabilities were classified as a liabilities including an embedded derivative. For measurement purposes, the amount of the liability is to be separated into two components: the liability component having no conversion right, which is measured on the date of the modification to fair value net of the discount, and which is amortized using the effective interest rate method, and the conversion option, which was classified as equity.

5. **Liability to the Office of the Chief Scientist in respect of government grants –** In accordance with U.S. GAAP, grants from the Chief Scientist in respect of research and development which embed a commitment for royalty payments to the State of Israel that are contingent on execution of future sales deriving from the development, were recorded as an offset from the related research and development expenses when the Company or its invetees where entitled to such grants.

Note 6 - Reconciliations of the consolidated financial statements under US GAAP to consolidated financial statements under IFRS (Cont.)

D. Details regarding adjustments resulting from the transition to reporting in accordance with IFRS (Cont.)

The liability for repayment with a corresponding charge to expense that is included in the cost of sales is recorded when the payment of royalties to the Chief Scientist is triggered by the respective revenues.

According to IFRS, up to December 31, 2008, government grants received from the Office of the Chief Scientist were recognized as a liability upon their receipt if it was reasonably assured that the economic benefits stemming from the research and development activities will lead to sales entitling the State to royalties. Amounts paid as royalties were recorded as repayment of the respective liability. Where economic benefits were not reasonably assumed, the grant receipts were recognized as a reduction of the research and development expenses in the statement of income. In such a case, the liability to pay royalties was accounted for as a contingent liability in accordance with IAS 37.

As a result, for the nine months ended September 30, 2009, the balance of other payables increased by approximately $566, the liabilities for government grants increased by approximately $9,092, the balance of the investment in associates decreased by approximately $2,934, the balance of the Non-controlling interest decreased by approximately $1,193, equity in losses of associates decreased by approximately $1,044, the research and development expenses increased by approximately $775, the cost of sales decreased by approximately $74, the financing expense increased by approximately $130 against a corresponding decrease in the retained earnings (increase in accumulated deficit).

For the three months ended September 30, 2009, other current liabilities increased by approximately $134, the liabilities for government grants increased by approximately $270, the balance of the investment in associates decreased by approximately $761, the balance of the non-controlling interest increased by approximately $257, equity in losses of associates decreased by approximately $761, the research and development expenses increased by approximately $735, the cost of sales increased by approximately $75, the financing expense increased by approximately $136 against a corresponding decrease in the retained earnings (increase in accumulated deficit).

6. **Business combinations –** Under IFRS 1, the Company elected not to restate to past business combinations. Accordingly, certain past transactions differed in their accounting and date of transaction for U.S. GAAP and for IFRS as upon transition to IFRS the Company did not reassess transaction that occurred prior to transition date.

As a result, for the nine months ended September 30, 2009, the balance of the investments in associates increased by approximately $6,881, the balance of the intangible assets decreased by approximately $2,686 and the Company's share in the net loss of associates decreased by approximately $623 against the balance of the retained earnings (accumulated deficit).

For the three months ended September 30, 2009, the balance of the investments in associates increased by approximately $156, the balance of the intangible assets decreased by approximately $14 and the Company's share in the net loss of associates increased by approximately $156 against the balance of the retained earnings (accumulated deficit).

Note 6 - Reconciliations of the consolidated financial statements under US GAAP to consolidated financial statements under IFRS (Cont.)

D. Details regarding adjustments resulting from the transition to reporting in accordance with IFRS (Cont.)

7. Presentation of financial income and expenses on a gross basis – In accordance with U.S. GAAP, the financial income and expenses were presented on a net basis in the statement of income. According to IFRS, The Company separately presented the financial income and the financial expenses (gross presentation).

8. **Recording the balance of the capital reserves from translation differences at the transition date to retained earnings –** Pursuant to the relief provision provided in IFRS 1, the Company elected to record the balance of the capital reserves derived from translation of financial statements of foreign currency investees as of January 1, 2007 to the retained earnings.

9. Use of actuarial calculations in recording the assets and liabilities in respect of employee benefits – In accordance with U.S. GAAP, liabilities for employee post-employment severance benefits were recognized on the basis of the full liability, on the assumption that all the employees will be terminated under conditions entitling them to full severance benefits (shut- down method), without taking into account discount rates, rates of future wage increases and future employee turnover. The employee benefits liability was presented seperately of the severance pay deposits. The severance pay deposits accrued against the liabilities were measured based on their redemption values at every balance sheet date. In addition, liabilities in respect of vacation and sick leave pay were calculated based on estimates of utilization and redemption, respectively. According to IFRS, all the net liabilities in respect of post-employment employee benefits and long-term other benefit plans are measured based on the provisions of IAS 19 regarding employee benefits. Post-employment benefits relating to defined benefit plans are measured, inter alia, based on actuarial estimates and capitalized amounts. Deposits that constitutes a plan asset are measured at fair value. In addition, the employee severance benefits are presented net of severance pay deposits. Amounts deposited with a related party in respect of employee severance benefits do not constitute plan assets and are presented as a separate asset. The Company elected under IAS 19 regarding employee benefits, the alternative whereby actuarial gains and losses deriving from changes in actuarial assumptions are recorded to retained earnings (accumulated deficit).

10. Share-based payment – In accordance with U.S. GAAP, the Company records the share based compensation as payroll expense against a corresponding increase in additional paid in capital. Absent a specific instruction, according to IFRS, the Company elected to record the share based payment payrol expenses against a corresponding increase in retained earnings.

In addition, in accordance with US GAAP, the Company recogizes expenses in connection with a share-based payment based on fair value for grants to employees and managers that were awarded or modified after January 1, 2003. According to IFRS, the Company applies the provision of IFRS 2 only to grants awarded after November 2, 2002 that had not yet vested as of January 1, 2007.

11. Functional currency – In accordance with U.S. GAAP, the functional currency of a certain subsidiary is the U.S. dollar. According to IFRS, based on the provisions of IAS 21 – "Impact of Changes in Foreign Currency Exchange Rates", the subsidiary's functional currency is the NIS, and, the subsidiary was defined as a foreign operation.

(USD in thousands, except for price per share and number of shares)

Note 6 - Reconciliations of the consolidated financial statements under US GAAP to consolidated financial statements under IFRS (Cont.)

D. Details regarding adjustments resulting from the transition to reporting in accordance with IFRS (Cont.)

Accordingly, the assets and liabilities of the subsidiary were translated into dollars based on the exchange rates on the balance sheet date. The revenues and expenses of the subsidiary were translated into dollars based on the the exchange rates in effect on the transaction dates or using average exchange rates for the period.

As a result of the difference in the functional currency of the subsidiary, the Company recorded a reserve for translation differences in the amount of approximately $3,508 and $(342) for the nine and three months ended September 30, 2009, respectively, which were accrued commencing from January 1, 2007.

12. **Change in the accounting treatment of associated companies** – In accordance with U.S. GAAP, investments in companies in which the Company does not hold "in-substance-common stocks", are accounted for at cost subject to an examination of impairment in value, despite the Company's ability to significantly influence the investee's financial results or its financial policy. According to IFRS, if the Company has significant influence over the investee’s financial and operational affairs and results or its financial policy, the equity method of accounting is applied.

As a result, for the nine months ended September 30, 2009, the investments in associates, net, increased by about $3,345, the balance of the other investments decreased by about $57,125 and the Company's share in the net losses of associates increased by about $6,801 against a corresponding decrease in the retained earnings.

For the three months ended September 30, 2009, the investments in associates, net, decreased by about $5,162, the balance of the other investments increased by about $3,093 and the Company's share in the net losses of associates increased by about $2,069 against a corresponding decrease in the retained earnings.

13. **Measurment of assets and liabilities upon initial consolidation –** In accordance with U.S. GAAP, Wavion was initially consolidated in 2008 based on fair value in accordance with the provisions codified within ASC 810, regarding Variable Interests Entities. As a result, the excess of Elron's share in the fair value of Wavion over its reported amount of previously held interest, in the amount of approximately $3,434, was adjusted to reduce the excess cost allocated to technology. According to IFRS 3, the excess of Elron's portion in the fair value of Wavion's equity over its reported amount of previously held interest was recorded to shareholders' equity as a revaluation reserve in the amount of approximately $3,000 and will be amortized over a period of 5 years against retained earnings (accumulated deficit).

In addition, in accordance with U.S. GAAP, Impliant was initially consolidated in 2008 based on fair value in accordance with the provisions codified within ASC 810 regarding Variable Interest Entites. As a result, the excess of Elron's reported amount of previously held interest over its portion in the fair value of Impliant's equity and loans in the amount of approximately $4,500 was allocated to IPR&D and as a result, was charged immediately to the Company’s results of operations. According to IFRS, upon consolidation the excess of the fair value of Elron's share in the capital of Impliant over carrying amount of the investment in the capital and in loans (which was prior to consolidation accounted for using the equity method of accounting), in the amount of approximately $2,300, was recorded in a shareholders equity as a revaluation reserve.

(USD in thousands, except for price per share and number of shares

Note 6 - Reconciliations of the consolidated financial statements under US GAAP to consolidated financial statements under IFRS (Cont.)

D. Details regarding adjustments resulting from the transition to reporting in accordance with IFRS (Cont.)

In addition, excess cost, in the amount of approximately $3,300, which was allocated to IPR&D, was not charged directly to the statement of income as required under U.S. GAAP, but rather, was recognized as an asset in accordance with the provisions of IAS 38. The capital reserve derived upon initial consolidation will be classified to retained earnings (accumulated deficit) upon amortization of the intangible asset allocatd to the IPR&D.

14. **Allocation of losses to the Non-controlling interest –** In accordance with U.S. GAAP in effect until December 31, 2008, prior to adoption of ASC 810 guidance with respect to non-controlling interest, where the equity or ownership structure of a subsidiary is complex, for example when the non-controlling interest holds preferred shares or other senior debt that confers preference to the holder upon liquidation or distribution of a dividend, losses were not to be allocated to the non-controlling if such allocation will reduce the non-controlling interest below the lower of the non-controlling's investment and the value of the non-controlling interest's rights upon liquidation. According to IFRS, perior to the implemention of IAS 27 (revised), losses may be allocated to the non-controlling interest up to the amount of the non-controlling's investment, or further up to the amount of a guarantee provided by the non-controlling. As a result, for the nine and three months ended September 30, 2009, the non-controlling interest under IFRS decreased by approximately $7,855 and $569, respectively, against a corresponding decrease in the retained earnings (increase of accumulated deficit).

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. Details regarding investments in the consolidated financial statements as of September 30, 2010

	Rate of holdings in equity		Consolidated rate of holdings in equity	Elron's effective rate of holdings in equity **	Fully diluted consolidated rate of holdings	Elron's fully diluted effective rate of holdings **	Consolidated carrying value of investment	Market value of investment	
	Elron*	RDC					September 30, 2010	September 30, 2010	November 7, 2010
	%						In thousands of dollars		
Investments in group companies									
Subsidiaries:									
Starling Advanced Communications Ltd.	31.61	36.44	68.05	49.86	58.87	43.90	(2,208)	9,299	9,170
SyncRx Ltd.	-	83.85	83.85	42.01	74.01	37.08	102	-	-
Actysafe Ltd.	-	100	100	50.1	85	42.59	(392)	-	-
Xsights Ltd. (formerly: PaperLynx)	-	99.81	99.81	50	78.54	39.35	(183)	-	-
Wavion Inc.	66.96	-	66.96	66.96	54.91	54.91	(1,526)	-	-
Associates:									
Impliant Inc.	47.64	-	47.64	47.64	40.02	40.02	10	-	-
Given Imaging Ltd.	22.84	8.94	31.78	27.32	26.10	22.44	103,224	170,367	149,828
Notal Vision Inc.	27.09	-	27.09	27.09	20.63	20.63	26	-	-
Aqwise Ltd.	34.03	-	34.03	34.03	29.95	29.95	2,815	-	-
NuLens Ltd.	34.74	-	34.74	34.74	30.26	30.26	1,351	-	-
BrainsGate Ltd.	23.28	-	23.28	23.28	20.83	20.83	881	-	-
Safend Ltd.	25.64	-	25.64	25.64	20.43	20.43	10	-	-
Atlantium Inc.	23.44	-	23.44	23.44	20.22	20.22	10	-	-
Pocared Ltd.	31.51	-	31.51	31.51	30.32	1,085	-	-	-
Plymedia Inc.	27.55	-	27.55	27.55	21.84	21.84	0	-	-
Kyma Medical Technologies Ltd.	27.32	-	27.32	27.32	20	20	1,000	-	-
Other investments:									
GigOptix Inc.	8.33	-	8.33	8.33	N/A	N/A	1,974	1,974	1,703
BPT Ltd.	17.45	-	17.45	17.45	15.88	15.88	2,797	-	-
Jordan Valley Ltd.	19.58	-	19.58	19.58	18.22	18.22	9,749	-	-
Elbit Vision Systems Ltd	4.77	-	4.77	4.77	N/A	N/A	200	200	266
InnoMed Ventures L.P.	13.92	-	13.92	13.92	N/A	N/A	1,400	-	-
Enablence Technologies Inc. ***	8.02	-	8.02	8.02	7.38	7.38	15,498	15,498****	17,979****

*) Including holding through Elron's fully-owned subsidiaries.
**) Elron's effective holdings include holdings by RDC multiplied by 50.10%.
***) Includes shares held in escrow in rate of approximately1.1% holdings in equity.
****) The value of Enablence Technologies Inc.'s shares are determined by their price quoted on the TSX Venture Exchange, net of the discount element in respect of the lock-up period (see Note 3F above).

Elron Electronic Industries Ltd.

English Translation of Financial Data from the Interim Consolidated Financial Statements Attributable to the Company

As of

September 30, 2010

Unaudited

Contents

To
The shareholders of Elron Electronic Industries ltd.

The triangle building
42nd floor
3 Azrieli center
Tel-aviv

Special report to the review of the separate interim financial information in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

Introduction

We have reviewed the interim financial information disclosed in accordance with Regulation 38d to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970 of Elron Electronic Industries Ltd. ("the Company") as of September 30, 2010 and for the nine and three months then ended. The Company's board of directors and management are responsible for the separate interim financial information. Our responsibility is to express a conclusion on the separate interim financial information based on our review.

We did not review the separate interim financial information taken from the financial statements of an investee, whose assets less attributable liabilities net, totaled approximately $31,049 thousand as of September 30, 2010 and the earnings from the investee amounted to approximately $1,575 and $203 thousand for the nine and three months then ended, respectively. The financial statements of that company were reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial statements in respect of that company, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying separate interim financial information is not prepared, in all material respects, in accordance with Regulation 38d to the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel-Aviv, Israel
November 8, 2010

KOST FORER GABBAY & KASIERER
Certified Public Accountants

Special Report Pursuant to Regulation 38D
Financial Data and Information from the Interim Consolidated Financial Statements
Attributable to Elron Electronic Industries Ltd. ("the Company")

The following separate financial data and information attributable to the Company ("separate data") are derived from the Company's Interim Consolidated Financial Statements as of September 30, 2010, and for the nine and three months then ended ("interim consolidated financial statements"), which form part of the Company's periodic reports. The separate data are presented in accordance with Regulation 38D of the Israel Securities Law Regulations (Periodic and Immediate Statements) – 1970.

The significant accounting policies followed in the preparation of the following separate data are identical to those applied in the preparation of the Company's consolidated annual financial statements for the year ended December 31, 2009 ("annual consolidated financial statements for 2009") and the Company's interim consolidated financial statements, apart from differences arising from compliance with the aforementioned regulations.

Presentation of transactions which were eliminated in the interim consolidated financial statements

Intercompany balances, transactions and cash flows between the Company and its subsidiaries were eliminated in the preparation of the Company's consolidated financial statements.
In the separate data, such transactions are presented as follows:

- Financial position data attributable to the Company include balances in respect of the Company's subsidiaries which were eliminated in the interim consolidated financial statements.

- Income and loss data attributable to the Company include income and expenses of the Company resulting from transactions with its subsidiaries, which were eliminated in the interim consolidated financial statements.

- Cash flow data attributable to the Company include cash flows between the Company and its subsidiaries which were eliminated in the interim consolidated financial statements.

Data from the Consolidated Financial Statements on the Financial Position Attributable to the Company as of

	September 30 2010	September 30 2009	December 31 2009
	Unaudited		Audited
	$ thousands	$ thousands	$ thousands
Current assets			
Cash and cash equivalents	43,012	7,506	59,915
Other current assets	1,399	1,408	1,384
	44,411	8,914	61,299
Non-current assets			
Investments in subsidiaries and associates, net	212,354	223,960	166,006
Other investments (accounted as available for sale)	30,055	6,144	12,667
Property, plant and equipment, net	144	264	214
Other long-term receivables (2A)	6,535	10,469	12,904
	249,088	240,837	191,791
	293,499	249,751	253,090

Data from the Consolidated Financial Statements on the Financial Position Attributable to the Company as of

	September 30 2010	**September 30 2009**	**December 31 2009**
	Unaudited		**Audited**
	$ thousands	**$ thousands**	**$ thousands**
Current liabilities			
Trade payables	444	266	156
Other current liabilities (2B)	18,639	5,046	3,687
	19,083	5,312	3,843
Long-term liabilities			
Loans from banks	-	30,000	30,000
Loans from shareholders	-	16,593	16,737
Other long term liabilities (2C)	78,324	88,261	76,041
	78,324	134,854	122,778
	97,407	140,166	126,621
Equity attributable to the Company's shareholders			
Issued capital	9,573	9,573	9,573
Share premium	190,378	190,328	190,328
Capital reserves	14,818	9,647	10,067
Accumulated deficit	(18,677)	(99,963)	(83,499)
Total equity	196,092	109,585	126,469
	293,499	249,751	253,090

Arie Mientkavich Chairman of the Board of Directors	Ari Bronshtein Chief Executive Officer	Yaron Elad Vice President & Chief Financial Officer

Approval date of the interim consolidated financial statements: November 8, 2010

Data from the Consolidated Financial Statements on the Income Attributable to the Company

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	$ thousands				
Income					
Financial income	1,153	12,282	379	3,255	1,342
Cost and Expenses					
General and administrative expenses	3,431	4,665	1,285	1,332	6,932
Financial expenses	3,768	14,293	4,943	7,888	3,322
Other expenses, net	441	1,450	(1,997)	60	1,660
	7,640	20,408	4,231	9,280	11,914
	(6,487)	(8,126)	(3,852)	(6,025)	(10,572)
Gain from disposal of subsidiaries and associates and changes in holdings , net	39,450	3,436	408	378	26,873
Company’s share of income (loss) from subsidiaries and associates	30,747	(25,722)	(1,032)	(5,884)	(30,605)
Income (loss) attributable to the Company's shareholders	63,710	(30,412)	(4,476)	(11,531)	(14,304)

Data from the Consolidated Financial Statements on the Comprehensive Loss Attributable to the Company

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	$ thousands				
Income (loss) attributable to the Company	63,710	(30,412)	(4,476)	(11,531)	(14,304)
Other comprehensive income (loss):					
Gain from available for sale financial assets	6,004	52	3,911	24	5,001
Net change in fair value of available-for-sale financial assets classified to the statement of income	-	(15)	-	(4)	(84)
Foreign currency translation differences for foreign operations	(365)	(99)	(615)	1,544	(64)
Foreign currency translation differences charged to the statement of income upon disposal of foreign operations	-	-	-	-	(4,330)
Other comprehensive income (loss) attributable to the Company	5,639	(62)	3,296	1,564	523
Other comprehensive income attributable to the Company's subsidiaries and associates	2	303	62	51	400
Total comprehensive income (loss) attributable to the Company	69,351	(30,171)	(1,118)	(9,916)	(13,381)

Data from the Consolidated Financial Statements on the Cash Flows Attributable to the Company

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	$ thousands				
Cash flows from operating activities					
Income (loss) attributable to the Company	63,710	(30,412)	(4,476)	(11,531)	(14,304)
Adjustments to reconcile net loss to net cash used in operating activities:					
Company's share of income (loss) from subsidiaries and associates	(30,747)	25,722	1,032	5,884	30,605
Depreciation	42	81	11	24	101
Financial (income) expenses, net	(877)	550	1,025	96	(287)
Share based payments	91	33	3	26	127
Accrued interest on loans from shareholders	742	1,417	751	1,236	1,561
Impairment of investments	2,434	1,275	-	-	1,455
Loss (gain) from sale of property and equipment	(3)	49	-	49	55
Gain from disposal of businesses and associates and changes in holdings in associates, net	(39,450)	(3,436)	(408)	(378)	(26,873)
Other	(105)	(1,028)	(1,709)	165	(1,037)
	(67,873)	24,663	705	7,102	5,707
Changes in assets and liabilities of the Company:					
Decrease (increase) in other current assets	150	(232)	(16)	(441)	(151)
Increase in long term receivables	(307)	(252)	(52)	(71)	(358)
Increase (decrease) in trade payables	288	(10)	309	(29)	(120)
Increase in other long term liabilities	2,283	1,020	4,245	3,620	624
Increase (decrease) in other current liabilities*	14,949	(476)	15,482	439	1,161
	17,363	50	19,968	3,518	1,156
Cash paid and received during the year for:					
Interest paid	(1,565)	(605)	(1,315)	(151)	(727)
Interest received	2,442	55	290	55	1,014
	877	(550)	(1,025)	(96)	287
Net cash used in operating activities	14,077	(6,249)	15,172	(1,007)	(7,154)

* See also note 2B

Data from the Consolidated Financial Statements on the Cash Flows Attributable to the Company (Cont.)

	Nine months ended September 30		Three months ended September 30		Year ended December 31
	2010	2009	2010	2009	2009
	Unaudited				Audited
	$ thousands				
Cash flows from investment activities					
Purchase of property and equipment	(3)	(2)	(3)	-	(2)
Investment in associates and subsidiaries	(13,814)	(8,829)	(2,926)	(2,667)	(13,974)
Proceeds from sale of property and equipment	33	51	-	50	76
Proceeds from sale of associates and subsidiaries	17,533	2,436	480	2,006	63,206
Loans to subsidiary	(6,000)	(1,007)	-	(1,007)	(3,343)
Repayment of loan by subsidiary	17,500	-	-	-	-
Dividend received from associates and subsidiaries	-	8,117	-	1,048	8,117
Net cash provided by (used in) investment activities	15,249	766	(2,449)	(570)	54,080
Cash flows from financing activities					
Receipt of long-terms loans from shareholders	-	9,000	-	-	9,000
Repayment of loans to banks	(30,000)	-	(26,500)	-	-
Repayment of loans to shareholders	(16,279)	-	(16,279)	-	-
Proceeds from exercise of options	50	-	50	-	-
Net cash provided by (used in) financing activities	(46,229)	9,000	(42,729)	-	9,000
Increase (decrease) in cash and cash equivalents	(16,903)	3,517	(30,006)	(1,557)	55,926
Cash and cash equivalents as of beginning of the period	59,915	3,989	73,018	9,083	3,989
Cash and cash equivalents as of end of the period	43,012	7,506	43,012	7,506	59,915

ADDITIONAL INFORMATION

U.S.D in thousands

1. General

The accompanying condensed separate financial data have been prepared in accordance with Regulation 38D of the Israel Securities Law Regulations (Periodic and Immediate Statements) – 1970.

Pursuant to the decision of the Company's Board of Directors from November 12, 2009, on January 6, 2010, the Company's shares were de-listed from trading on the NASDAQ exchange. Elron further intends to terminate the registration of its ordinary shares as soon as possible under U.S. Securities and Exchange ("SEC") rules. The Company does not expect such deregistration to take effect earlier than the third quarter of 2011, if at all.

In the first quarter of 2010 Elron commenced reporting in accordance with the reporting obligations under Chapter F of the Israel Securities Law (1968) applicable to reporting companies in Israel which are not dual-listed. Up until January 2010, the Company reported in accordance with the reporting obligations under Chapter E3 of the Israel Securities Law (1968) applicable to reporting companies in Israel which are dual-listed.

As a result, the Company did not present separate financial data for December 31, 2009 and the year then ended. Therefore, the accompanying separate financial data should be read in conjunction with the Company's annual consolidated financial statements for 2009 and accompanying notes, as well as the Company's interim consolidated financial statements and accompanying notes.

2. Additional Information and Accompanying Notes

a. Long term receivables

Up until March 31, 2010, long term receivables included loans granted by the Company to its subsidiary, RDC – Rafael Development Corporation Ltd. ("RDC"). For further details concerning loans granted by the Company to RDC and the repayment of such loans during June 2010, see Note 3D to the interim consolidated financial statements.

b. Dividend Distributed by RDC

On August 16, 2010, RDC distributed a dividend in the aggregate amount of $30,000 to its shareholders. The portion of DEP Technology Holdings Ltd. (a company fully owned by Elron, which holds 50.1% of RDC) in such dividend is approximately $15,000. The amount advanced to Elron was charged as an increase in inter-company balance under "Other current liabilities". For further details see Note 3D to the interim consolidated financial statements.

c. Other long term liabilities

Other long term liabilities include liabilities towards Elbit Ltd. ("Elbit") which is a fully owned subsidiary of Elron. The balance comprises of non-interest bearing and unlinked NIS capital notes.

On December 31, 2009, Elbit distributed a dividend to Elron in the amount of approximately $15,000 which partially paid off one of the capital notes in the amount of approximately $12,000. On June 29, 2010, Elbit's Board of Directors approved the distribution of an additional dividend in the aggregate amount of approximately $258, provided that this amount does not exceed the distributable retained earnings according to Elbit's audited financial statements as of December 31, 2009.

Liabilities report of the Company by repayment date

Section 36a to the Israel Securities Law (1968)

Report as of September 30, 2010
Following are the liabilities of the Company by repayment date:
The following data are presented in NIS and were translated from USD to NIS using the exchange rate as of September 30, 2010 (1 USD = 3.665 NIS)

A. Debentures issued to the public by the reporting Entity and held by the public, excluding debentures held by the Company's parent ,controlling shareholder, companies controlled by one of the parties mentioned above or by companies controlled by the company - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					**Gross interest payments (excluding deduction of tax)**
	NIS (CPI linked)	**NIS (Not linked)**	**Euro**	**USD**	**Other**	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0
Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0

B. Private debentures and non-bank credit, excluding debentures or credit granted by the Comapny's parent, controlling shareholder, companies controlled by one of the parties mentioned above or by companies controlled by the company - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					**Gross interest payments (excluding deduction of tax)**
	NIS (CPI linked)	**NIS (Not linked)**	**Euro**	**USD**	**Other**	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0
Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0

C. Bank credit from Israeli banks - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					**Gross interest payments (excluding deduction of tax)**
	NIS (CPI linked)	**NIS (Not linked)**	**Euro**	**USD**	**Other**	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0
Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0

D. Bank credit from non-Israeli banks - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					**Gross interest payments (excluding deduction of tax)**
	NIS (CPI linked)	**NIS (Not linked)**	**Euro**	**USD**	**Other**	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0
Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0

E. Summary of tables A-D, totals of: bank credit, non-bank credit and debentures - based on separate financial data of

the
Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0
Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0

F. Off-balance credit exposure - based on separate financial data of the Entity ("Solo" reports) (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0
Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0

G. Off-balance credit exposure of all consolidated companies, excluding companies that are considered as reporting companies, and excluding
the reporting Company's data described above in Table F (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0
Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0

H. Totals of: bank credit, non-bank credit, and debentures of all consolidated companies, excluding companies that are considered as reporting companies and excluding the data of the reporting Entity described above in Tables A-D (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other	
First year	0	0	0	641	0	164
Second year	0	0	0	1,100	0	102
Third year	0	0	0	1,008	0	32
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	20,534	0
Total	0	0	0	2,749	20,534	298

I. Total credit granted to the reporting Entity by the parent company or controlling shareholder, and total amounts of debentures issued by the reporting Entity that are held by the parent company or controlling shareholder (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0
Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0

J. Credit granted to the reporting Entity by companies controlled by the parent company or by the controlling shareholder, and are not controlled by the reporting Entity, and debentures issued by the reporting Entity held by companies controlled by the parent company or by controlling shareholder and are not controlled by the reporting Entity (NIS in thousands)

	Principle repayment					Gross interest payments (excluding deduction of tax)
	NIS (CPI linked)	NIS (Not linked)	Euro	USD	Other	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0

Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0

K. Credit granted to the reporting Entity by consolidated companies and debentures issued by the reporting Entity held by consolidated companies (NIS in thousands)

	Principle repayment					**Gross interest payments (excluding deduction of tax)**
	NIS (CPI linked)	**NIS (Not linked)**	**Euro**	**USD**	**Other**	
First year	0	0	0	0	0	0
Second year	0	0	0	0	0	0
Third year	0	0	0	0	0	0
Fourth Year	0	0	0	0	0	0
Fifth year and thereafter	0	0	0	0	0	0
Total	0	0	0	0	0	0