ELRON ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2007
(Unaudited)

ELRON ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

AS OF MARCH 31, 2007

UNAUDITED

INDEX

- - - - - - - - - - - - - - - - - -

CONSOLIDATED BALANCE SHEETS

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

	March 31, 2007	December 31, 2006
	Unaudited	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 30,475	$ 52,954
Short-term investments	17,533	19,917
Available for sale marketable securities	65,352	55,862
Trade receivables	619	642
Other receivables and prepaid expenses*	3,092	3,043
Inventories	1,509	1,615
Asset held for sale	5,811	-
Total current assets	124,391	134,033
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments in affiliated companies	112,481	100,392
Investments in other companies and long-term receivables*	69,009	68,215
Deferred taxes	7,475	9,182
Severance pay deposits	1,712	1,662
Total investments and long-term receivables	190,677	179,451
PROPERTY AND EQUIPMENT, NET	1,269	7,223
INTANGIBLE ASSETS		
Goodwill	2,742	2,742
Other intangible assets	2,796	2,800
Total intangible assets	5,538	5,542
Total assets	$ 321,875	$ 326,249

* Includes short-term receivables from related parties in the aggregate amount of $154 and $95 as of March 31, 2007 and December 31, 2006, respectively, and long-term receivables from related parties in the aggregate amount of $475 and $467 as of March 31, 2006 and December 31, 2006, respectively.

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

CONSOLIDATED BALANCE SHEETS

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

	March 31, 2007 Unaudited	December 31, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term loans from banks and others	$ 2,353	$ 1,891
Current maturities of long-term loans from banks and others	2,287	2,249
Trade payables	2,154	2,988
Other payables and accrued expenses	6,880	13,407
Total current liabilities	13,674	20,535
LONG-TERM LIABILITIES		
Long-term loans from banks and others	2,147	2,113
Accrued severance pay and retirement obligations	2,405	2,209
Deferred taxes	1,365	1,408
Total long-term liabilities	5,917	5,730
MINORITY INTEREST	1,137	2,480
SHAREHOLDERS' EQUITY:		
Ordinary shares of NIS 0.003 par value; Authorized - 35,000,000 shares as of March 31, 2007 and December 31, 2006; Issued and outstanding: 29,600,775 and 29,592,748 shares as of March 31, 2007 and December 31, 2006, respectively.	9,573	9,573
Additional paid-in capital	273,056	272,930
Accumulated other comprehensive income	2,247	1,298
Retained earnings	16,271	13,703
Total shareholders' equity	301,147	297,504
Total liabilities and shareholders' equity	$ 321,875	$ 326,249

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended March 31, 2007	Three months ended March 31, 2006	Year ended December 31, 2006
	Unaudited	Unaudited	
INCOME			
Revenues*	$ 981	$ 3,322	$ 12,863
Equity in losses of affiliated companies	(5,308)	(3,495)	(17,740)
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	11,714	16	2,547
Other income, net	473	2,629	29,310
Financial income, net	1,406	1,084	4,051
	9,266	3,556	31,031
COSTS AND EXPENSES			
Cost of revenues	462	1,845	6,625
Research and development costs, net	2,375	2,908	11,758
Marketing and selling expenses, net	516	875	4,717
General and administrative expenses	3,454	2,881	12,995
Amortization of intangible assets	4	5	18
	6,811	8,514	36,113
Income (loss) before taxes on income	2,455	(4,958)	(5,082)
Taxes on income	(1,522)	(282)	(1,110)
Income (loss) after taxes on income	933	(5,240)	(6,192)
Minority interest in losses of subsidiaries	1,635	1,727	9,224
Net income (loss)	$ 2,568	$ (3,513)	$ 3,032
Income (loss) per share:			
Basic:			
Net income (loss)	$ 0.09	$ (0.12)	$ 0.10
Diluted:			
Net income (loss)	$ 0.09	$ (0.12)	$ 0.07
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	29,601	29,514	29,532
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	29,696	29,514	29,624

* Includes revenues from related parties in the amount of $1,744 for the three months ended March 31, 2006 and $6,699 for the year ended December 31, 2006, respectively.

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total Shareholders' equity	Total comprehensive income (loss)
Audited							
Balance as of January 1, 2006	29,483,455	$ 9,572	$ 271,132	$ 10,741	$ 10,671	$ 302,116	
Exercise of options	109,293	1	527			528	
Stock - based compensation	-	-	344	-	-	344	
Capital transaction in affiliated company (gain on purchase by affiliate of its subsidiary’s preferred stock)	-	-	927	-	-	927	
Other comprehensive loss, net of tax:							
Unrealized gain on available for sale securities	-	-	-	6,493	-	6,493	
Reclassification adjustment for gain realized included in net income	-	-	-	(16,645)	-	(16,645)	(16,653)
Foreign currency translation adjustments	-	-	-	709		709	709
Net income	-	-	-	-	3,032	3,032	3,032
Balance as of December 31, 2006	29,592,748	$ 9,573	$ 272,930	$ 1,298	$ 13,703	297,504	
Total comprehensive loss							$ (12,912)
Exercise of options	8,027	-	40	-	-	40	
Stock - based compensation	-	-	86	-	-	86	
Other comprehensive loss, net of tax:							
Unrealized gain on available for sale securities	-	-	-	1,204	-	1,204	
Reclassification adjustment for gain realized included in net loss	-	-	-	(487)	-	(487)	(487)
Foreign currency translation adjustments included in net income due to decrease in holdings in affiliated company				(265)		(265)	(265)
Foreign currency translation adjustments	-	-	-	497	-	497	497
Net income	-	-	-	-	2,568	2,568	2,568
Balance as of March 31, 2007 Unaudited	29,600,775	$ 9,573	$ 273,056	$ 2,247	$ 16,271	$ 301,147	
Total comprehensive income							$ 2,313
Balance as of January 1, 2006	29,483,455	$ 9,572	$ 271,132	$ 10,741	$ 10,671	$ 302,116	
Exercise of options	48,500	-	242			242	
Stock - based compensation	-	-	94	-	-	94	
Other comprehensive loss, net of tax:							
Unrealized loss on available for sale securities	-	-	-	(1,480)	-	(1,480)	$ (1,480)
Reclassification adjustment for loss realized and other than temporary impairment included in net loss	-	-	-	242	-	242	242
Foreign currency translation adjustments	-	-	-	(75)		(75)	(75)
Net loss	-	-	-	-	(3,513)	(3,513)	(3,513)
Balance as of March 31, 2006 Unaudited	29,531,955	$ 9,572	$ 271,468	$ 9,428	$ 7,158	$ 297,626	
Total comprehensive loss							$ (4,826)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Three months ended March 31, 2007	Three months ended March 31, 2006	Year ended December 31, 2006
	Unaudited	Unaudited	
Cash flows from operating activities			
Net income (loss)	$ 2,568	$ (3,513)	$ 3,032
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Equity in losses of affiliated companies	5,308	3,495	17,740
Minority interest in losses of subsidiaries	(1,635)	(1,727)	(9,224)
Loss (gain) from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	(11,712)	(16)	(2,547)
Loss (gain) from sale of investments in available - for - sale securities	(480)	150	(24,899)
Gain from settlement of a subsidiary's loan	-	(2,708)	(2,708)
Depreciation and amortization	247	270	1,192
Equity in losses (gains) of partnerships	120	238	672
Stock - based compensation and changes in liability in respect of call options	468	174	771
Deferred taxes, net	1,460	(13)	(4,243)
Changes in operating assets and liabilities			
Decrease (increase) in trade receivables	23	517	(457)
Decrease (increase) in other receivables and prepaid expenses	196	68	(738)
Decrease in trading securities, net	(1)	-	(2)
Decrease (increase) in inventories and contracts-in-progress	106	67	(1,069)
Increase (decrease) in trade payables	(834)	283	2,589
Increase (decrease) in other payables and accrued expenses (mainly provision for income taxes)	(6,681)	192	7,195
Other	190	1,043	843
Net cash used in operating activities	(10,657)	(1,480)	(11,853)
Cash flows from investing activities			
Investment in affiliated companies	(5,999)	-	(18,395)
Proceeds from sale of affiliated companies shares	413	-	992
Change in cash and cash equivalents resulting from disposal of businesses and decrease in holdings in formerly consolidated subsidiaries (Schedule A)	-	-	(808)
Investment in other companies	(140)	(6,439)	(25,153)
Proceeds from sale of available for sale securities	4,069	21,353	82,332
Investments in deposits	(6,256)	(20,379)	(40,183)
Investment in available for sale securities	(12,841)	(23,166)	(35,377)
Proceeds from deposits	8,550	53,650	72,878
Purchase of property and equipment	(100)	(441)	(1,308)
Proceeds from sale of property and equipment	-	15	19
Net cash provided by investing activities	(12,304)	24,593	34,997
Cash flows from financing activities			
Proceeds from options exercised	40	242	527
Repayment of long-term loans	(2)	-	(105)
Decrease in short-term bank loan, net	176	(400)	208
Receipt of short-term loans, convertible loans and long-term loans from minority shareholders of a subsidiary	268	-	2,660
Net cash used in financing activities	482	(158)	3,290
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,479)	22,955	26,434
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	52,954	26,520	26,520
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 30,475	$ 49,475	$ 52,954

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Three months ended March 31, 2007	Three months ended March 31, 2006	Year ended December 31, 2006
	Unaudited	Unaudited	
Supplemental cash flow information:			
Cash paid for:			
Income taxes	$ 7,642	$ 463	$ 794
Interest	$ 26	$ 17	$ 69
Non cash transaction			
Proceeds from sale of an affiliate not yet received	$ 413	$ -	$ -

SCHEDULE A:

Change in cash and cash equivalents resulting from disposal of businesses and decrease in holdings in formerly consolidated subsidiaries

	Three months ended March 31, 2007	Three months ended March 31, 2006	Year ended December 31, 2006
Assets and liabilities at date of sale:			
Working capital (working capital deficiency), net (except cash and cash equivalents)	$ -	$ -	$ 2,826
Property and equipment	-	-	709
Minority interest	-	-	(10,036)
Accrued severance pay, net	-	-	(215)
Long term loans	-	-	(1,401)
Proceeds from repayment of loans and sale of shares of former subsidiary	-	-	2,633
Other investments	-	-	(1,713)
Investment in affiliated Companies	-	-	6,389
Net decrease in cash and cash equivalents	$ -	$ -	$ (808)

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

NOTE 1:- GENERAL

The accompanying unaudited condensed interim consolidated financial statements have been prepared as of March 31, 2007, and for the three months then ended in accordance with accounting principles generally accepted in the United States (U.S. GAAP) relating to the preparation of financial statements for interim periods. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States but which are not required for interim reporting purposes, have been condensed or omitted. See Note 6 for the reconciliation from U.S. GAAP to accounting principles generally accepted in Israel ("Israeli GAAP").

These financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2006 ("the Company annual financial statements") and accompanying notes.

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

Results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

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

c. In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain position may be recognized only if it is “more likely than not” that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. The adoption of FIN 48 as of January 1, 2007 did not have any effect on the Company's retained earnings and financial position.

d. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS 157 applies only to fair value measurements that are already required or permitted by other accounting standards. FASB 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently reviewing this new standard to determine its effects, if any, on its results of operations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 159 no later than January 1, 2008. The Company has not yet determined the effect of the adoption of SFAS No. 159 on its consolidated financial statements.

NOTE 3:- MAJOR TRANSACTIONS

a. **NetVision**

On January 25, 2007, NetVision Ltd. ("NetVision"), then held 36% by Elron and 36% by Discount Investment Corporation Ltd. ("DIC"), completed the merger with Barak I.T.C (1998) International Telecommunications Services Corp Ltd. ("Barak") and the merger with GlobCall Communications Ltd. ("Globcall"), following which NetVision purchased from Barak shareholders all of Barak's issued share capital in exchange for approximately 46.5% of NetVision's share capital immediately after the transaction ("Barak Merger"), and from DIC, all of GlobCall's issued share capital in exchange for approximately 7% of NetVision's share capital immediately after the Barak Merger and the transaction ("GlobCall Merger"). The above mentioned exchange ratios were based upon companies valuations, that were issued to the parties by independent appraisers, according to which NetVision's value was estimated to be between 533,000 NIS (approximately $122,000) and 621,000 NIS (approximately $142,000), Barak's value was estimated to be between 456,000 NIS (approximately $105,000) and 529,000 NIS (approximately $121,000), and GlobCall's value was estimated to be between 67,000 NIS (approximately $15,000) and 90,000 NIS (approximately $21,000). Barak is a subsidiary of Clal Industries and Investments Ltd. ("Clal"). Elron, Clal and DIC, are part of the IDB group and are considered entities under common control.

Following the transactions, Elron's, DIC's and Clal's holdings in NetVision is approximately 18%, 25% and 29%, respectively. The merger was recorded in NetVision's financial statements based on the fair market value of NetVision ordinary shares issued, according to the purchase method of accounting. As a result of the Barak merger and GlobCall merger, Elron recorded gain of approximately $10,300 ($9,100 net of tax). In addition, Elron recorded gain in the amount of approximately $1,000 ($800 net of tax) as a result of exercise of options and debentures in NetVision.
Elron continues to account for NetVision under the equity method of accounting as together with DIC and Clal, Elron has a significant influence over Netvision.

b. **AqWise**

On March 15, 2007, Elron completed the acquisition of approximately 34% of the outstanding ordinary shares of AqWise – Wise Water Solutions Ltd., an Israeli-based water technology company ("AqWise"), from Polar Investments Ltd. (TASE: PLR) and other existing shareholders in consideration for approximately $3,400.

AqWise, headquartered in Israel with offices in Mexico, provides advanced biological wastewater treatment technologies. AqWise's patented AGAR® (Attached Growth Airlift Reactor) technology increases capacity and nutrient removal in wastewater treatment

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

b. **AqWise (Cont.)**

plants, utilizing advanced bio film technology to be used in existing plants or in new plants with limited space.

The excess of the purchase price over the company's share in the assets acquired and liability assumed amounted to approximately $3,400. The Company is evaluating the allocation of the purchase price to AqWise intangible assets.

Since the investment was in ordinary shares, the investment in AqWise is accounted for under the equity method of accounting under the provisions of APB 18.

c. **Given Imaging**

Subsequent to the balance sheet date, during May 2007 and through May 17, 2007 Elron purchased approximately 391,000 shares of Given Imaging Ltd. (“Given Imaging”) on the open market for an aggregate purchase price of approximately $9,900. As a result, our direct and indirect (through Elron's subsidiary RDC – Rafael Development Corporation ("RDC")) interest in Given Imaging increased from approximately 20.8% to approximately 22.1% of the outstanding ordinary shares of Given Imaging. DIC, a 49% shareholder of Elron, simultaneously purchased the same number of shares of Given Imaging for the same aggregate purchase price and now owns 15.3% of the outstanding shares of Given Imaging.

d. **BPT**

Subsequent to the balance sheet date, on April 19, 2007, Elron completed a new investment of $1,125 in BPT (Bio-Pure Technology) Ltd. ("BPT"), in consideration for 1,723,709 series A preferred shares. The aggregate financing round of $2,500 was led by Elron and Aurum Ventures M.K.I. In addition, as part of the transaction, Elron was issued with warrants to purchase an additional 430,927 preferred A shares at a price and upon conditions determined in the agreement. Following the investment, Elron holds approximately 19% of BPT on a fully diluted basis and on an as converted basis.

BPT, an Israeli based water technology company, provides advanced membrane-based separation solutions that address the unique needs of the water, wastewater treatment and chemical process industries and enable high-grade separation and re-use of water and valuable materials within the process.
BPT offers a cost-effective and environment-friendly process, employing its proprietary HMT™ (Hybrid Membrane Treatment) solution, based on NF (Nano-Filtration) membranes exhibiting high stability, selectivity and reliability. BPT's solutions address aggressive wastewater streams and water-intensive applications in a wide range of industries, such as pharmaceuticals, chemicals, agrochemicals, metals, food & beverage, drinking water, water re-use and desalination.

NOTE 4:- ASSET HELD FOR SALE

On April 25, 2007, a definitive agreement for the sale by our subsidiary, Elbit Ltd., of its real estate in Carmiel, Israel, was signed for approximately $11,600. The agreement is subject to the right of the current tenant of the property, to notify Elbit within a period of thirty days, if it wishes to purchase the property on the same terms. The sale is expected to be completed during the second quarter of 2007. Upon completion of the sale, Elron expects to record a gain, after tax of approximately $3,500, in the second quarter of 2007.

NOTE 5:- CONTINGENT LIABILITIES

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

1. During September 1999, the Company received a copy of a claim and a request to approve such claim as a class action on behalf of public shareholders of Elscint (formerly an affiliated company) against the Company and others. The allegation raised by the claimants related to the decision regarding the sale of Elscint's substantial assets. The class action claim is for an amount of approximately $158,000, alternatively $123,000. The claim alleges that the defendants, by their decisions regarding the sale of Elscint's assets, caused damage to Elscint and its minority shareholders. The plaintiff seeks a court order requiring Elscint, or the other defendants, to purchase from each of the members of the represented class all shares held by them at a price of $27.46 per share. The claim has been stayed pursuant to an arrangement reached by the parties pending the outcome of the appeal in the claim described in paragraph 2 below. The arrangement provides that if the appeal as described in paragraph 2 below is accepted, then the proceedings to recognize the lawsuit as a class action will proceed. Otherwise, the application to recognize the claim as a class action suit will be dismissed. In light of the decision on the said appeal by the Supreme Court as described in paragraph 2 below, the Company has requested directions from the Court in regard to this action.

2. On November 2, 1999, the Company received a copy of a claim, and a request to approve such a claim, as a class action on behalf of some institutional investors and others and those who held shares in Elscint on September 6, 1999. The allegations raised against the Company and certain of its officers including former officers, among others, relate to the period prior to the sale of the Company's holdings in Elbit Medical Imaging ("EMI") (the parent company of Elscint and formerly an affiliated company). The claimants seek a court order pursuant to which EMI would be compelled to execute the alleged buy-out of Elscint's share at $14 per share or other remedies. On August 16, 2000, the Haifa District court dismissed the application to recognize the claim as a class action. Some of the claimants applied for and were granted permission to appeal to the Supreme Court in Israel. On December 14, 2006, the Supreme Court referred the matter back to the Haifa District Court in order to decide whether the claim should be recognized as a class action. On April 11, 2007, the Haifa District court ordered that the plaintiffs submit a revised statement of claim as well as a revised motion to recognize the claim as a class action.

   In addition, in February 2001, the claimants submitted a revised claim similar to the previous one but not as a class action

3. During September 2006, two claims were filed by a certain individual in the Haifa District Court against the same defendants (including the Company and certain officers and former officers of the Company) of the action described in paragraph 2 above and based substantially on the same facts of such action. The claims are for an undisclosed amount and also include a request to recognize the claims as class actions. The Court has determined that the defendants do not yet have to file statements of defense.

   The Company denies all the allegations set forth as described in paragraphs 1, 2 and 3, and based on legal advice received, management is of the opinion that the Company has good defense arguments which, more likely than not, will cause dismissal of the above claims.

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

NOTE 5:- CONTINGENT LIABILITIES (Cont.)

4. On September 20, 2006 Rafael Armaments Development Authority Ltd. ("Rafael") filed a claim with the Tel Aviv District Court against the company's 100% subsidiary, DEP Technology Holdings Ltd. ("DEP"), and RDC, 50.1% held by DEP and 49.9% held by Rafael, requesting the court to issue a declaratory order that Rafael is entitled to terminate the rights granted to RDC to commercialize technologies of Rafael for future development of products for use in non-military markets, pursuant to an agreement between DEP, RDC and Rafael. In December 2006, DEP and RDC filed statements of defense. The parties have agreed to refer to mediation proceedings.

   Based on legal advice, the management is of the opinion that DEP and RDC have good defense arguments, which, more likely than not, will cause dismissal of the claim.

NOTE 6:- RECONCILIATION TO ISRAELI GAAP

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

a. Effect on the statement of operations:

	Three months ended March 31, 2007		
	As reported	**Adjustments**	**As per Israeli GAAP**
		Unaudited	
Net income (loss)	$ 3,462	$ (16,011)	$ (12,549)
Basic net loss per share	0.09	(0.51)	(0.42)
Diluted net loss per share	0.09	(0.51)	(0.42)

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

	Year ended December 31, 2006		
	As reported	**Adjustments**	**As per Israeli GAAP**
		Audited	
Net income (loss)	$ 3,032	$ (15,130)	$ (12,098)
Basic net income (loss) per share	0.10	(0.51)	(0.41)
Diluted net income (loss) per share	0.07	(0.50)	(0.43)

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

NOTE 6:- RECONCILIATION TO ISRAELI GAAP (Cont.)

b. Effect on the balance sheet:

	March 31, 2007		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Total assets	$ 321,875	$ (61,714)	$ 260,161
Total liabilities including minority interest	20,728	(230)	20,958
Total equity	301,147	(61,944)	239,203

	December 31, 2006		
	As reported	Adjustments	As per Israeli GAAP
		Audited	
Total assets	$ 326,249	$ (58,970)	$ 267,279
Total liabilities including minority interest	28,745	(957)	29,702
Total equity	297,504	(59,927)	237,577

c. Material adjustments:

1. The abovementioned adjustments result primarily from the differences between U.S. GAAP and Israeli GAAP detailed in Note 26 to the Company’s annual financial statements for 2006 and from the following:

   a. NetVision

   As described in Note 3a, under U.S GAAP the Barak Merger and GlobCall Merger were accounted in NetVision's financial statement at fair value according to the purchase method. Under Israeli GAAP, the Barak Merger and GlobCall Merger accounted as "as pooling" since these transactions are considered business combination between parties under common control. The difference between Elron's share in NetVision's shareholder's equity before and after the transactions was recorded by Elron as capital reserve, while under U.S GAAP it was recognized as a gain in the statement of operations.

2. Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS):

   In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard"). Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations

NOTE 6:- RECONCILIATION TO ISRAELI GAAP (Cont.)

c. Material adjustments: (Cont.)

published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008.

Since the financial statements are in accordance to US GAAP, the Company includes in its financial statements a note of reconciliation between US GAAP and Israeli GAAP. Commencing January 1, 2008 the Company will include reconciliation between US GAAP to IFRS in a note to its financial statements.

The Company is evaluating the effect of the new Standard on its financial statements.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

Details relating to major investments as of March 31, 2007:

	% of ownership interest [1]	Carrying value of the investment as of March 31, 2007 [2]	Market value of the publicly traded investments as of: March 31, 2007	May 17, 2007
Consolidated Companies:				
Starling [3]	50%	(693)	-	-
SELA [3]	39%	335	-	-
Medingo [3]	50%	(128)	-	-
Affiliated Companies (equity):				
Given Imaging Ltd. (Nasdaq: GIVN) [3]	21%	71,479	128,659	169,338
NetVision Ltd. (TASE: NTSN)	18%	24,431	62,258	63,809
ChipX	29%	1,387	-	-
AMT	35%	3,831	-	-
Wavion, Inc.	38%	46	-	-
Galil Medical Ltd. [3]	20%	5,036	-	-
3DV Systems Ltd. [3]	44%	2,965	-	-
Notal Vision, Inc.	23%	(114)	-	-
Aqwise	34%	3,422		
Available for sale:				
EVS (Nasdaq: EVSNF.OB)	9%	1,158	1,349	1,402
MWise Inc.	7%	1,419	1,420	1,212
Partnership:				
Gemini Israel Fund L.P.	5%	16	-	-
InnoMed Ventures L.P.	14%	3,193	-	-
Cost:				
Jordan Valley Ltd.	27%	8,137	-	-
Impliant Inc.	22%	8,340	-	-
Teledata Ltd.	21%	16,000	-	-
Nulens Ltd.	29%	4,360	-	-
Brainsgate Ltd.	22%	6,949	-	-
Enure Networks Ltd.	41%	2,215	-	-
Pulsicom Israel Technologies Ltd.	18%	10	-	-
Safend Ltd.	26%	3,700	-	-
Neurosonix Ltd.	16%	2,850	-	-
Atlantium Inc.	31%	10,006	-	-

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

(2) Includes loans and convertible notes.

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

\- - - - - - - - - - - - - - - - - -