MANAGEMENT REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2007

The following discussion should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of March 31, 2007 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2006 and notes thereto. This report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements may be identified by the words “anticipate”, “believe”, “estimate”, “expect”, “plan” and similar expressions. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those discussed in our filings with the Securities and Exchange Commission from time to time.

OVERVIEW

We are a high technology operational holding company that operates through subsidiaries and affiliated companies, referred to as our group companies. Founded in 1962, we have been a major force in the development of the Israeli high technology industry by building Israeli and Israel-related companies with technologies in the fields of medical imaging, advanced defense electronics, telecommunications, semiconductors and software products and services. Elron's group companies currently comprise of a group of publicly-traded and privately held companies primarily in the fields of medical devices, information & communications technology, clean technology and semiconductors.

Our activities range from operational control over the business to involvement in the management of our group companies in which we maintain controlling or significant holdings, and, in a limited number of cases, non-significant holdings. We participate in the management of most of our group companies by means of active membership on their boards of directors and board committees. As a result, we are involved in matters of policy, strategic planning, marketing, selecting and manning senior management positions, approving investments and budgets, financing and the overall ongoing monitoring of our group companies’ performance. In addition to our representation on the boards of directors of our group companies, we provide hands-on assistance to the group companies' management in support of their growth. We view our hands-on involvement in the operations of our group companies as a key element of our business. Our group companies therefore benefit from the experience of our management team in various areas in which they need support and leadership, including, but not limited to, strategic planning, research and development guidance, identifying joint venture opportunities, introductions to potential customers and investors, risk management, market analysis, business plan preparation, budgetary control, and legal support.

Technology industries are characterized by the high degree of risk inherent in their products, their continuous technological innovation and their penetration into world markets, which requires investment of considerable resources and continuous development efforts. The future success of our group companies is dependent upon their technological quality, prices and nature of their products in comparison to 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 as well as their ability to raise financing and the condition of the capital markets.

We expect to continue to build and realize value for our shareholders through the sale to third parties of a portion or all of our holdings in, or the issuance of shares by, our group companies, while simultaneously pursuing the acquisition of, or investment in, new and existing companies at different stages of development including early stage and more mature companies. We believe that this strategy provides the ability to increase shareholder value as well as to create capital to support the growth of our group companies and to invest in new opportunities. The nature of our business, therefore, will result in volatility in our results of operations, depending on the transactions that occur within a particular period.

Our net income (or loss) in any given period is due, for the most part, to the results of operations of those of our group companies which are accounted by us under the consolidation or equity method of accounting and dispositions and changes in our holdings of group companies. As most of our 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, we have experienced, and expect to continue to experience, losses in respect of these companies to the extent they are accounted by us under the consolidation or equity method of accounting.

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

TREND INFORMATION

Technology industries are affected by economic trends and the condition of the capital markets. Since the second half of 2003, there has been a recovery in the technology sectors and capital markets from the downturn which commenced in 2001. This trend was reflected in the improvement in the results of operations of most of our group companies as well as the raising of funds from new strategic and other investors in private placements completed by some of our group companies. In addition, we recorded significant gains from realizing certain of our holdings, mainly in 2004 as a result of the sale of our holdings in Elbit Systems Ltd. (Nasdaq: ESLT) ("Elbit Systems"), and from the sale of our shares in Partner Communications Company Ltd. (Nasdaq: PTNR) ("Partner") in 2005 and 2006. Total proceeds from exit transactions since 2004 amounted to approximately $375 million. We have used the proceeds to distribute a dividend, in 2005, of $88.5 million to our shareholders and to continue investing in existing and new group companies. Since 2004 we and our subsidiary, RDC Rafael Development Corporation Ltd. ("RDC"), invested approximately $187 million of which approximately $84 million was in 13 new companies and the balance of approximately $98 million was in existing group companies (mainly in Given Imaging). Should the improvement in the technology sectors and capital markets continue, we anticipate that it will have a positive effect on our group companies and their ability to raise additional capital. However, there is no assurance that a downturn will not re-occur or that the technology sector will continue to grow.

MAJOR TRANSACTIONS AND INVESTMENTS DURING THE FIRST QUARTER AND SUBSEQUENTLY

NetVision Ltd. ("NetVision"). On January 25, 2007, NetVision, then held 36% by Elron and 36% by Discount Investment Corporation Ltd. ("DIC"), a 49% shareholder of Elron, completed a merger with Barak I.T.C (1998) International Telecommunications Services Corp Ltd. ("Barak") and a merger between NetVision and GlobCall Communications Ltd. ("Globcall"). Barak is a subsidiary of Clal Industries and Investments Ltd. ("Clal"). Elron, Clal and DIC, are all part of the IDB group. Following the transactions, Elron’s, DIC's and Clal's holdings in NetVision are approximately 18%, 25% and 29%, respectively. As a result of the Barak merger and GlobCall merger, we recorded a gain of $10.3 million ($9.1 million net of tax). Elron continues to account for NetVision under the equity method due to a shareholders agreement between DIC, Elron and Clal in connection with voting at shareholders meetings including the appointment of directors.

ChipX Inc. ("ChipX"). ChipX Corporation, a provider of differentiated ASIC (application specific integrated circuits) solutions, in which we hold 29%, completed in February 2007 the acquisition of the US ASIC business assets of Oki Semiconductor Company, a division of Oki America Inc. Oki is a global semiconductor company headquartered in Japan with offices worldwide offering a full range of digital integrated circuits from real time controllers to micro processors and network devices focusing on the communications and security industries. In addition, ChipX and Oki Semiconductor have signed a collaboration agreement which will enable ChipX to gain access to Oki Semiconductor’s technology, libraries and foundry services. This transaction will boost ChipX’s ASIC team capabilities and enable it to offer its customers a range of differentiated ASIC solutions of embedded arrays, gate arrays, structured ASICs and standard cell ASICs. In April, 2007 ChipX completed a private placement of $4.0 million from existing shareholders, of which we invested $1.3 million. The proceeds will be used mainly to finance ChipX sales and marketing activities in connection to the acquisition of the US ASIC business of Oki Semiconductors.

New Investment in AqWise – Wise Water Solutions Ltd. ("AqWise"). On March 15, 2007 we completed the acquisition of approximately 34% of the outstanding shares of AqWise, an Israeli-based water technology company, from certain existing shareholders of AqWise in consideration for approximately $3.4 million. AqWise provides advanced biological wastewater treatment technologies which increase capacity and nutrient removal in wastewater treatment plants, utilizing advanced bio film technology. AqWise's solutions have been implemented worldwide in over 20 municipal and industrial plants, in various fields: pulp and paper, food and beverage, agricultural wastewater, chemical plants and aquaculture farms.

New Investment in BPT (Bio-Pure Technology) Ltd. ("BPT"). On April 19, 2007, Elron completed a new investment of approximately $1.1 million in BPT out of a $2.5 million financing round which was led by Elron and Aurum Ventures M.K.I. Following the investment, Elron holds approximately 19% of BPT's outstanding shares. 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 enables 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.

Sale of Real Estate. 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 $11.6 million. 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 $3.5 million.

Proposed Initial Public Offerings By Three Of Our Group Companies On The Tel Aviv Stock Exchange ("TASE"). On April 29, 2007 we announced that three of our group companies, BrainsGate Ltd., in which we hold approximately 22%, Starling Advanced Communications Ltd. ("Starling"), in which we hold approximately 27% directly and approximately 46% indirectly through our subsidiary RDC, and SELA – Semiconductor Engineering Laboratories Ltd. ("Sela"), in which we hold approximately 12% directly and approximately 54% indirectly through RDC, have filed requests with the Israeli Securities Authority and the TASE for proposed public offerings of their respective shares on the TASE. It is the intention of each of these companies to list on the TASE during the second quarter of 2007 or as soon as possible thereafter, subject to receiving a permit from the Israeli Securities Authority and market conditions. The pricing and extent of each proposed offering has not yet been determined. We intend to participate in these public offerings, by investing an aggregate amount of up to $15 million. There is no assurance when or if at all, any of the proposed offerings will take place.

Purchase of Given Imaging Ltd. ("Given Imaging") Shares. During May 2007 and through May 17, 2007 we purchased approximately391,000 shares of Given Imaging on the open market for an aggregate purchase price of approximately $ $9.9 million. As a result, our direct and indirect (through our subsidiary RDC – Rafael Development Corporation ("RDC")) interest in Given Imaging increased from approximately 20.8% to approximately 22.1% of the outstanding shares of Given Imaging. DIC simultaneously purchased the same number of shares of Given Imaging for the same aggregate purchase price and is now owns 15.3% of the outstanding shares of Given Imaging. It is the intention of each of Elron and DIC, subject to market conditions, to seek purchasing in parallel and on equal terms, up to 2.5% of Given Imaging's outstanding shares, including the aforementioned purchases. There is no assurance that Elron and DIC will purchase the whole amount.

DIC preliminary statement to purchase up to approximately 10% of Elron's outstanding shares. On May 15, 2007 DIC, filed with the U.S. Securities and Exchange Commission, a preliminary statement on a Schedule TO-C in connection with a prospectus filed by DIC on May 15, 2007 (in Hebrew) with the Israeli Securities Authority and the Tel Aviv Stock Exchange (the "Prospectus"). In the Prospectus, DIC stated that it is considering purchasing additional shares of Elron, representing up to approximately 10% of Elron's outstanding shares, by way of a tender offer or in another manner. No timing, size or terms of such purchase have been determined and there is no assurance that such purchase will take place.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

See our management report for the year ended December 31, 2006, regarding Elron's status with respect to the U.S. tax provisions regarding passive foreign investment companies ("PFIC").

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States ("US GAAP"). Our significant accounting policies are more fully described in Note 2 of the Notes to our 2006 Annual Consolidated Financial Statements. The accounting policies which are particularly important to the assessment of our financial position and results of operations are described in the management report for the year ended December 31, 2006.

In the first quarter of 2007 we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). For more information regarding FIN 48, see our Condensed Interim Consolidated Financial Statements as of March 31, 2007. The adoption of FIN 48 as of January 1, 2007 did not have any effect on the Company's retained earnings and financial position.

BASIS OF PRESENTATION

Consolidation. Our consolidated financial statements include the accounts of Elron and all of our direct or indirect (through Elbit and DEP) controlled subsidiaries. The following are our main subsidiaries:

Three months ended March 31,		
2007	2006	
RDC	RDC	3DV[1]
SELA	Galil Medical[1]	Starling
Medingo	SELA	Enure[2]
Starling	Medingo	

[1] Galil Medical and 3DV have been consolidated through December 2006.
[2] Enure has been consolidated through August 2006.

Equity Method. Our main group companies held by us or through Elbit, DEP and/or RDC accounted for under the equity method of accounting include:

Three months ended March 31,			
2007		2006	
Given Imaging	3DV[1]	Given Imaging	AMT
NetVision	AMT	Oncura[2]	Notal Vision
ChipX	Notal Vision	NetVision	CellAct[3]
Wavion	AqWise[4]	ChipX	
Galil Medical[1]		Wavion	

[1] Galil Medical and 3DV have been accounted based on the equity method since December 2006
[2] Oncura was sold in December 2006
[3] CellAct was sold in February 2007
[4] AqWise was purchased in March 2007

Other investments. Our main group companies held by us which are accounted for under the cost method or as available-for- sale include:

Cost:

Three months ended March 31,				
2007			2006	
Jordan Valley	BrainsGate	Neurosonix	Jordan Valley	BrainsGate
Impliant	NuLens	Atlantium	Impliant	NuLens
Teledata	Safend	Enure[1]	Teledata	

[1] Enure has been accounted at cost from August 2006

Available-for-sale Securities - As of March 31, 2007 – Elbit Vision Systems and M-Wise.

RESULTS OF OPERATIONS

Three months ended March 31, 2007 compared to three months ended March 31, 2006.

The following tables set forth our results of operations in the reported period:

	Three months ended March 31,	
	2007	**2006**
	(millions of $, except per share data)	
Net income (loss)	2.6	(3.5)
Net income (loss) per share	0.09	(0.12)

The net income we reported in the three months ended March 31, 2007 resulted mainly from a $9.1 million gain (net of tax) from the merger between NetVision, Barak and GloabCall (see above under "MAJOR TRANSACTIONS AND INVESTMENTS DURING THE FIRST QUARTER OF 2007"). This gain was offset mainly by our share in the net loss of our group companies in the amount of $7.4 million.

The net loss we reported in the three months ended March 31, 2006 resulted mainly from our share in the net loss of our group companies in the amount of $5.0 million and from the absence of gains from sales of our share of group companies.

The following table summarizes our operating results:

	Three months ended March 31	
	2007	2006
	(millions of $)	
Net revenues	1.0	3.3
Net loss from equity investments	(5.3)	(3.5)
Gains from disposal of business and affiliated companies and changes in holdings in affiliated companies	11.7	-
Other income, net	0.5	2.7
Finance income, net	1.4	1.1
Total income	9.3	3.6
Cost of revenues	0.5	1.8
Operating expenses	6.3	6.7
Total costs and expenses	6.8	8.5
Loss from continuing operations before income taxes	2.5	(4.9)
Taxes on income	(1.5)	(0.3)
Minority interest	1.6	1.7
Net income (loss)	2.6	(3.5)

Income

Net revenues. Net revenues consisted of sales of products and services by our subsidiaries, mainly SELA (and in 2006 – also Galil Medical). The following table sets forth these revenues:

	Three months ended March 31,	
	2007	2006
	(millions of $)	
Galil Medical[1]	-	1.8
SELA	1.0	1.5
	1.0	3.3

[1] Galil Medical has been consolidated through December 2006.

Share in net losses of affiliated companies. Our share in net losses of affiliated companies resulted from our holdings in certain investments that are accounted for under the equity method (see above under "Basis of Presentation"). Our share in net losses of affiliated companies amounted to $5.3 million in the three months ended March 31, 2007, compared to $3.5 million in the same period in 2006. The increase resulted primarily from accounting for our investment in Galil Medical and 3DV in the three months ended March 31, 2007 based on the equity method while their results in the same period last year were consolidated.

Highlights of the Results of Operations of Our Major Affiliates:

Given Imaging (Nasdaq: GIVN) (a 20.8% holding directly and indirectly through RDC as of March 31, 2007). Given Imaging Ltd. ("Given Imaging"), a medical device company that develops, manufactures and markets innovative diagnostic systems for visualizing the gastrointestinal tract, using a disposable miniature swallowable video capsules, recorded revenues of $23.1 million in the first quarter of 2007 compared to $20.3 million in the first quarter of 2006. Given Imaging's net income in the first quarter of 2007 was $0.1 million, compared to net loss of $3.0 million in the first quarter of 2006. Excluding the effect of the adoption of FAS123R, Given Imaging reported non-GAAP net income of $1.2 million in the first quarter of 2007, compared to a non- GAAP net loss of $1.7 million in the same period of 2006.

In April, Japan's Ministry of Health, Labor and Wealth approved the PillCam SB Capsule and equipment for sale and marketing. In addition, Given Imaging signed a global strategic agreement with Fujinon Corporation to collaborate on research and development and sourcing as well as non-exclusive distribution activities.

Galil Medical (a 20.5% holding directly and indirectly through RDC). Galil Medical is a medical device company that develops, manufactures and markets medical supplies based on innovative cryotherapy technology while incorporating powerful freezing technolgy and revolutionary needle design to destroy malignant and benign tumors. Galil Medical revenues in the three month period ended March 31, 2007 amounted to $6.6 million, compared to $1.8 million in the same period in 2006. Through December 2006 Galil Medical's revenues derived mainly from the supply of cryo products and R&D services to Oncura, in which it held a 25% interest which Galil Medical sold in December 2006. At the same time Galil purchased from Oncura its urology related cryotherapy business, thereby resulting in an increase in Galil Medical's revenues. Galil Medical's operating loss in the three month period ended March 31, 2007 amounted to $1.7 million, compared to $0.1 million in the same period in 2006, resulting from higher level of research and development and sales and marketing activities as a result from the purchase of the cryotherapy business.

NetVision (a 18% holding) (TASE: NTSN). The following results of NetVision for the first quarter of 2007 and 2006 reflect the combined results of NetVision, Barak and GlobCall (hereafter: "NetVision Group") based on generally accepted accounting principles (GAAP) in Israel. NetVison Group's revenues in the three month period ended March 31, 2007 amounted to $72.0 million, an increase by 3% from $70.2 million in 2006. NetVision group's operating income in the three month period ended March 31, 2007 amounted to $2.9 million, compared to $6.2 million in the same period of 2006 and its net income amounted to $2.1 million compared to net loss $0.3 million, respectively. NetVision Group's broadband customer base at March 31, 2007 reached approximately 512,000 compared to 498,000 at December 31, 2006. NetVision's operating currency is the New Israeli Shekel (NIS) and accordingly, all figures above are translations for convenience purposes of NetVision's NIS figures into US dollars at the representative rate of exchange prevailing at March 31, 2007 according to which $1.00 equaled NIS 4.155.

We expect that most of our group companies as well as new companies in which we will invest 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. Our results of operations will therefore be affected by the extent of our share in their net losses (to the extent they are reported under the equity or consolidation method of accounting).

Gains from Disposal of Businesses and Affiliated Companies and Changes in Holdings in Affiliated Companies. Gains from disposal of businesses and affiliated companies and changes in our holdings in affiliated companies in the three months ended March 31, 2007 amounted to $11.7 million, mainly as a result of a $10.3 million gain ($9.1 net of tax) from the merger between NetVision, Barak and Globcall, a $1.0 million gain from exercise of options and debentures in Netvision and a $0.5 million gain from the sale of our 45% interest in CellAct in consideration for $0.8 million. No gains from disposal of businesses and affiliated companies and changes in our holdings in affiliated companies were reported in the three month period ended March 31, 2006.

Other Income, net. Other income, net, amounted to $0.5 million in the three months ended March 31, 2007 compared to $2.7 million in the same period in 2006. The gain in first quarter of 2007 was mainly due to the sale of some of Mwise shares held by us for $0.5 million. The gain in first quarter of 2006 was mainly due to a $2.7 million gain resulting from the settlement of Mediagate's bank loan.

Finance income, net. Finance income, net, amounted in the three months ended March 31, 2007 to $1.4 million, compared to $1.1 million in the same period in 2006, mainly as a result of higher interest rates on our deposits and debentures.

Expenses

Cost of revenues. Cost of revenues consisted primarily of expenses related to salaries and hardware associated with delivering products and services of our subsidiaries, mainly SELA (in 2006 – also Galil Medical). Cost of revenues in the three month period ended March 31, 2007 amounted to $0.5 million, compared to $1.8 million in the same period in 2006.

Operating expenses. Operating expenses are comprised of research and development expenses, sales and marketing and general and administrative expenses of our and RDC's corporate operations and of our subsidiaries, mainly SELA and Starling (and in 2006 also Galil Medical and 3DV). The following table sets forth the operating expenses:

	Three months ended March 31,	
	2007	2006
	(millions of $)	
Corporate	2.1	1.6
Galil Medical[1]	-	0.7
SELA	0.6	1.1
Starling	1.7	1.2
3DV	-	0.6
Medingo	1.4	0.5
Enure	-	0.6
RDC	0.5	0.3
	6.3	6.7

[1] Galil Medical and 3DV have been consolidated through December 2006.
[2] Enure has been consolidated through August 2006.

SELA's operating expenses amounted to $0.6 million in the three months ended March 31, 2007, compared to $1.1 million in the same period in 2006 and its operating loss amounted to $0.1 million and $0.2 million, respectively.

Starling's operating expenses and operating loss amounted to $1.7 million in the three months ended March 31, 2007, compared to $1.2 million in the same period in 2006. The increase resulted from the increase in research and development expenses.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits at March 31, 2007, were approximately $113.4 million compared with $128.7 million at December 31, 2006. At March 31, 2007, corporate cash, debentures and deposits were $110.1 million compared with $123.5 million at December 31, 2006.

The main sources of corporate cash and other liquid instruments in the first quarter of 2007, were $0.5 million and $0.4 million of proceeds from the sale of Mwise and CellAct shares, respectively.

The main uses of the corporate cash and other liquid instruments in the first quarter of 2007, were $6.6 million of investments in our group companies, which included $3.4 million investment in AqWise, $1.8 million investment in AMT, a $0.8 million investment in Wavion, a $0.4 million loan to Starling and a $0.1 million loan to BPT. In addtion, we paid during the first quarter tax liability in the amount of $7.6 million, mainly with respect to the sale of Partner shares at the end of 2006.

Consolidated working capital at March 31, 2007 amounted to $110.7 million compared to $113.5 million at December 31, 2006.

Consolidated loans at March 31, 2007, were approximately $6.8 million, compared to $6.3 million at December 31, 2006.

Subsequent to March 31, 2007 and through May 16, 2007, we invested an additional aggregate amount of approximately $13.3 million, which include mainly $9.9 million purchase of Given Imaging shares in the open market, $1.3 million in ChipX, $0.8 million loan to Teledata and $1.0 million in BPT. We intend to purchase additional shares of Given Imaging (see above under "MAJOR TRANSACTIONS AND INVESTMENTS DURING THE FIRST QUARTER OF 2007 AND SUSEQUENTLY").

Our investment policy for managing our funds is in general to invest in bank deposits and U.S. government securities with high liquidity.

We believe that our existing capital will be sufficient to fund our and our subsidiaries' operations and our investment plan in existing and new companies for at least the next twelve months.

Shareholders' equity at March 31, 2007, was approximately $301.1 million, representing approximately 94% of the total assets compared with $297.5 million representing approximately 91% of total assets at December 31, 2006.

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