

MANAGEMENT REPORT FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2007

The following discussion should be read in conjunction with our Condensed Unaudited Interim Consolidated Financial Statements as of September 30, 2007 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2006 and notes thereto, filed with the Securities and Exchange Commission under item 18 to our annual report on Form 20-F for the year ended December 31, 2006 ("2006 20-F"). 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, without exit transactions, 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 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 \$230 million of which approximately \$104 million was in 17 new companies and the balance of approximately \$104 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 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND SUBSEQUENTLY

NetVision Ltd. ("NetVision") (TASE: NTSN). 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 was prior to the merger 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 were 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) in the first quarter of 2007.

On June 26, 2007, NetVision consummated a transaction according to which its wholly owned subsidiary, NANA, and Channel 10 established a new company under common control, namely NANA10. Nana is a portal that provides a variety of content and e-commerce services. Channel 10 is an Israeli commercial television channel. Following the transaction, NANA10 holds exclusive rights for use of television contents of Channel 10 on the Internet. As a result of the transaction NetVision recorded a gain (net of tax) of approximately \$5.3 million, of which Elron's share was approximately \$1 million, recorded in the second quarter of 2007.

In June 2007, NetVision raised in a private placement an amount of approximately NIS 52 million (approximately \$12 million). As a result, our holdings in NetVision decreased to approximately 17%, resulting in a gain of approximately \$1 million.

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"). In February 2007, ChipX, a provider of differentiated ASIC (application specific integrated circuits) solutions, in which we hold 29%, completed 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 with 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 in consideration for approximately 20% of BPT's equity 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, employing its proprietary HMT™ (Hybrid Membrane Treatment) solution, based on NF (Nano-Filtration) membranes. 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.

Purchase of Given Imaging Ltd. ("Given Imaging") Shares. During May 2007, we purchased 717,367 shares of Given Imaging on the open market for an aggregate purchase price of approximately \$18.7 million. As a result, our direct and indirect (through our subsidiary RDC) interest in Given Imaging increased from approximately 21% to approximately 23% 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 now owns approximately 16% of the outstanding shares of Given Imaging. The excess cost of the purchase price over our share in the equity acquired amounted to approximately \$16.1 million and was allocated as follows: \$8.3 million to intangible assets other than goodwill, such as customer base and technology, \$1.4 million to in-process research and development activities, and \$6.4 million to goodwill. Products which did not receive marketing clearance by regulatory authorities as of the acquisition date, were considered to be incomplete and accordingly the amount allocated to such products is considered to be in-process research and development activities ("IPR&D"). The amount allocated to IPR&D was charged immediately to the Company's results of operations in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method". The amounts allocated to intangible assets other than goodwill are being amortized on a straight-line basis over their expected useful life of 7.75-12.75 years.

New Investment in RADLIVE Ltd. ("RADLIVE"). On May 30, 2007, Elron completed a new investment of approximately \$3.75 million in RADLIVE as part of an aggregate investment of approximately \$7.65 million, in consideration for approximately 25% of RADLIVE's equity on a fully diluted basis and on an as converted basis. RADLIVE, an Israeli company is engaged in the development of high definition telephony technologies and applications. RADLIVE is developing infrastructure and applications for high definition telephony, providing high quality voice for telephony calls.

New Investment in Pocared Diagnostics Ltd. ("Pocared"). On June 12, 2007, Elron completed a new investment of approximately \$5.35 million in Pocared as part of an aggregate investment of \$10.7 million. The investment was in two installments: the first of \$3.5 million was invested immediately, and an additional \$1.9 million is subject to the fulfillment of a milestone by Pocared. Following our aggregate investment, we will hold approximately 20% of Pocared's equity on a fully diluted basis and on an as converted basis. Pocared, an Israeli-based medical device company provides an innovative solution for real-time, reagentless In-Vitro Diagnostics (IVD). Pocared's wide technological platform may be used to address a wide range of medical and industrial diagnostic applications.

New Investments in the Internet and cellular field. On July 1, and November 1, 2007, we provided a convertible loan of \$0.6 million in two installments of \$0.3 million each to ***Journeys Ltd. ("Journeys")***, an Israeli company which is in the Massive Multiplayer On-line Gaming (MMOG) arena. Journeys is engaged in the development of a casual Internet multiplayer game appealing to a wide audience. On July 11, 2007, Elron completed a new investment of \$1 million in ***MuseStorm Ltd. ("MuseStorm")***, an Israeli company engaged in developing innovative technology for the distribution of a variety of content over the web. Following the investment, Elron holds approximately 23% of MuseStorm's equity on a fully diluted basis and on an as converted basis. MuseStorm's technology enables media suppliers to easily distribute their content to many bloggers, social networks, Internet sites, computers and mobile telephones with the ability to monitor effectiveness of the content after distribution. Users of MuseStorm's technology include Globes, a leading Israeli financial on-line and print newspaper, The Washington Post and record and media companies in the United States.

Sale of Real Estate. On June 18, 2007, Elron's wholly owned subsidiary, Elbit Ltd. completed the sale of Elbit's real estate in Carmiel, Israel, for approximately \$11.6 million. As a result of the sale, we recorded a gain, net of tax of approximately \$4.1 million, in the second quarter of 2007.

Starling Advanced Communications Ltd. ("Starling") – Initial Public Offering ("Starling IPO") (TASE: STLG). On June 13, 2007, Starling completed its initial public offering on the Tel Aviv Stock Exchange ("TASE"), in Israel, of shares and convertible securities (convertible interest-bearing and NIS, Israeli CPI linked debentures ("Convertible Debentures") and options to the Convertible Debentures ("Options to Convertible Debentures")) for aggregate gross proceeds of approximately NIS 57 million (approximately \$14 million), approximately half of which consists of Convertible Debentures. An amount of \$7.3 million (denominated in NIS) proceeds from the issuance of the Convertible Debentures is restricted and will be released from the restrictions and will be used by Starling only upon achieving certain milestones, no later than November 30, 2008. We invested approximately \$4 million as part of the offering. In addition, immediately prior to the IPO, existing shareholders of Starling, including us and our subsidiary, RDC, converted shareholder loans in the amount of approximately \$6.5 million into equity and Options to Convertible Debentures of Starling. As a result of Starling's IPO, our combined holding in Starling decreased from 73% to approximately 68% (or 50%, Elron's direct holding and its share in the holding of RDC). Starling is considered a development stage company. Accordingly, the changes in our and RDC's proportional shares of Starling's equity, resulting from the decrease in our and RDC's holdings in Starling, have been accounted for as an equity transaction and as a result a capital reserve of approximately \$3.4 million (\$2.5 million after minority interest) was recorded. Since we still have control over Starling, we continue to account for Starling as a consolidated subsidiary.

According to SFAS No. 133 "Accounting For Derivative Instruments And Hedging Activities", as amended by SFAS 155 "Accounting For Certain Hybrid Financial Instruments", the Convertible Debentures and the Options to Convertible Debentures are to be presented, in each reporting period, at their fair value in the balance sheet and the changes in fair value will be charged to finance income, net. As of September 30, 2007 the minority portion in the Convertible Debentures and in the Options to Convertible Debentures amounted to \$5.7 million and \$1.1 million, respectively. The Convertible Debentures are presented as part of long term liabilities in our consolidated balance sheets and the Options to Convertible Debentures are presented as part of short term liabilities. Accordingly, our future results of operations will be affected from changes in the market value of the Convertible Debentures and the Options to Convertible Debentures.

Wavion Inc. ("Wavion"). On September 30, 2007, we, together with certain other stockholders ("Participating Stockholders"), signed a stock purchase agreement with Wavion relating to an aggregate investment of up to \$10 million in Wavion, of which an aggregate of \$3.6 million was invested immediately in consideration for Series A preferred shares, of which we invested approximately \$1.7 million. The balance of the investment may be invested by the Participating Stockholders pro rata to their holdings in Wavion, in two installments, during the fourth quarter of 2007 and the second quarter of 2008, respectively. As part of the financing, all previously existing series of preferred shares were converted into ordinary shares. In addition, the Participating Stockholders purchased the shares held by another shareholder in Wavion. Following these transactions, we hold approximately 49.5% of the outstanding share capital of Wavion, Inc.

Jordan Valley Semiconductors Ltd. ("Jordan Valley"). On October 16, 2007, Intel Capital, Intel's global investment organization, completed an \$11 million investment in Jordan Valley, then held 27% by Elron. Clal Electronics Industries Ltd., a wholly owned subsidiary of Clal Industries and Investments Ltd. ("CII"), is the other major shareholder of Jordan Valley. Both CII and Elron are part of the IDB group of companies. Following the investment, Elron holds approximately 21% of the outstanding shares of Jordan Valley, subject to adjustment based on Jordan Valley's future performance. Jordan Valley, an Israeli based company, has been developing tools for semiconductor metrology based on x-ray technology for over twelve years with additional offices in the U.S., Europe and Asia. Jordan Valley's metrology solutions enable accurate and precise measurements for various thin-film applications in semiconductor manufacturing.

NuLens Ltd. ("NuLens"). On November 1, 2007, we invested approximately \$4.2 million in NuLens in consideration for Series C Preferred Shares as part of an aggregate financing of \$8 million in which other existing shareholders, including Warburg Pincus, a leading private equity fund, also participated. Following the transaction, our holdings in NuLens increased from 29% to approximately 34% of NuLens' outstanding shares.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

See our 2006 20-F under Item 10 "Additional Information – Taxation – U.S. Federal Income Tax Considerations - Tax Consequences if we are a Passive Foreign Investment Company ("PFIC")", concerning Elron's status with respect to the U.S. tax provisions regarding 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 under item 5 to our 2006 20-F under "Critical Accounting Policies".

On January 1, 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 September 30, 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:

Nine months ended September 30,			
2007		2006	
RDC	RDC	Starling	Enure ²
SELA	Galil Medical ¹	3DV ¹	
Medingo	SELA	Medingo	
Starling			

¹Galil Medical and 3DV had been consolidated through December 2006.

²Enure had 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:

Nine months ended September 30,					
2007			2006		
Given Imaging	3DV ¹	RADLIVE ⁵	Given Imaging	Wavion	CellAct ³
NetVision	Ellara (formerly	Journeys ⁶	Oncura ²	Ellara (formerly	
ChipX	AMT)		NetVision	AMT)	
Wavion	Notal Vision		ChipX	Notal Vision	
Galil Medical ¹	AqWise ⁴			Pulsicom	

¹Galil Medical and 3DV have been accounted based on the equity method since December 2006

²Oncura was sold in December 2006

³CellAct was sold in February 2007

⁴AqWise was purchased in March 2007

⁵RADLIVE was purchased in May 2007

⁶Journeys was purchased in July 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 Basis:

Nine months ended September 30,				
2007			2006	
Jordan Valley	NuLens	Enure ¹	Jordan Valley	BrainsGate
Impliant	Safend	Pocared ²	Impliant	NuLens
Teledata	Neurosonix	BPT ³	Teledata	Enure ¹
BrainsGate	Atlantium	MuseStorm ⁴		

¹ Enure has been accounted at cost from August 2006

² Pocared was purchased in June 2007

³ BPT was purchased in April 2007

⁴ MuseStorm was purchased in July 2007

Available-for-sale Securities - As of September 30, 2007 – Elbit Vision Systems and M-Wise.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2007 compared to three and nine months ended September 30, 2006.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(millions of \$, except per share data)			
	Unaudited			
Net loss	(20.0)	(4.4)	(16.7)	(14.4)
Net loss per share	(0.68)	(0.15)	(0.56)	(0.49)

The net loss we reported in the three and nine months period ended September 30, 2007 resulted mainly from our share in the net loss of our group companies in the amount of \$9.7 million and \$23.6 million, respectively, which included our share in the net losses mainly of Starling, Medingo, ChipX, Wavion, Ellara (formerly AMT), Galil Medical and 3DV. Our share in the net loss of our group companies which we recorded in the nine months ended September 30, 2007 also included: (i) a \$1.4 million write-off of IPR&D recorded in the second quarter of 2007 related to the acquisition of additional shares of Given Imaging; (ii) a \$1.8 million gain, our portion in Notal's net income in the second quarter of 2007 as a result of an approximately \$10 million gain recorded by Notal from the arbitration award in favor of Notal in connection with its dispute with its former distributor; and (iii) \$1.0 million, our share in the gain recorded by NetVision as a result of the establishment of NANA10 .

The above net loss in the nine months ended September 30, 2007 also included the following:

- (i) an \$8.3 million write off in Impliant Inc. as a result of material adverse events in connection with Impliant's main product during clinical trials, which occurred during the third quarter and beginning of the fourth quarter of 2007. Impliant temporarily ceased FDA clinical trials and is currently conducting a technical reassessment of its main product which could cause a delay in bringing its product to the market and will require additional financing. (see also "Highlights of the Results of Operations of our Major Affiliates and Other Investments");
- (ii) a gain, net of tax, of approximately \$9.1 million from the merger between NetVision, Barak and Globcall, which was completed during the first quarter of 2007;
- (iii) a gain, net of tax, of approximately \$4.1 million resulting from the sale of Elbit's real estate in Carmiel, Israel; and
- (iv) a tax benefit of approximately \$3.0 million resulting from the decrease in our previous valuation allowance in respect of carryforward tax losses incurred in prior periods as a result of a continued increase in the market price of certain of our marketable securities.

The net loss we reported in the three and nine months ended September 30, 2006 resulted from our share in the net loss of our group companies in the amount of \$7.2 million and \$19.1 million, respectively, which included a \$1.0 million

write-off of IPR&D related to the acquisition of additional shares of Given Imaging purchased during August 2006 and a \$1.7 million gain from the decrease in holdings in Ellara (formerly AMT). In addition, the net loss for the period of nine months ended September 30, 2006 included our share in an impairment charge related to Galil Medical's investment in Oncura in the amount of \$6.1 million (\$2.5 million after minority interest).

The following table summarizes our operating results:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(millions of \$)			
	Unaudited			
Net revenues	1.0	2.4	3.2	9.5
Equity in losses of affiliated companies	(5.5)	(4.7)	(13.8)	(16.6)
Gains from disposal of business and affiliated companies and changes in holdings in affiliated companies	-	2.3	12.5	2.3
Other income (loss), net	(8.7)	0.6	(2.5)	4.0
Finance income, net	0.8	1.1	2.6	3.4
Total income (loss)	<u>(12.4)</u>	<u>1.7</u>	<u>1.9</u>	<u>2.6</u>
Cost of revenues	0.4	1.3	1.3	5.2
Operating expenses	<u>8.1</u>	<u>6.8</u>	<u>20.8</u>	<u>20.8</u>
Total costs and expenses	8.5	8.1	22.1	25.9
Loss before income taxes	<u>(20.9)</u>	<u>(6.4)</u>	<u>(20.2)</u>	<u>(23.3)</u>
Tax benefit (Income taxes)	0.1	-	(0.5)	(0.1)
Minority interest	<u>0.8</u>	<u>2.0</u>	<u>4.0</u>	<u>9.0</u>
Net loss	<u>(20.0)</u>	<u>(4.4)</u>	<u>(16.7)</u>	<u>(14.4)</u>

Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(millions of \$)			
	Unaudited			
SELA	1.0	0.6	3.2	3.5
Galil Medical ¹	-	1.8	-	5.9
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.1</u>
	<u>1.0</u>	<u>2.4</u>	<u>3.2</u>	<u>9.5</u>

¹ Galil Medical had been consolidated through December 2006.

Equity in 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 \$5.5 million and \$13.8 million in the three and nine months period ended September 30, 2007, compared to \$4.7 million and \$16.6 million in the comparable periods in 2006. The decrease in the nine months period derived primarily from the following: (i) a \$1.8 million gain, our portion in Notal's net income in the second quarter of 2007 as a result of an approximately \$10 million gain recorded by Notal from the arbitration award in favor of Notal in connection with its dispute with its former distributor; (ii) our share in the amount of approximately \$1 million in the gain recorded by NetVision as a result of the establishment of NANA10 and (iii) a \$6.1 million impairment charge recorded in 2006, in Galil Medical's investment in Oncura (\$2.5 million after minority interest). This decrease was offset mainly by \$1.6 million and \$5.3 million, our share in the net losses of Galil Medical and 3DV in the three and nine months ended September 30, 2007, while their results in the same period last year were consolidated with ours.

Highlights of the Results of Operations of Our Major Affiliates and other Investments:

Given Imaging Ltd. (Nasdaq: GIVN) (23% holding directly and indirectly through RDC as of September 30, 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 capsule, recorded revenues of \$27.7 million and \$78.6 million in the three and nine months period ended September 30, 2007 compared to \$24.0 million and \$67.6 million in the same periods in 2006. Given Imaging's net income in the three and nine month periods ended September 30, 2007 was \$1.7 million and \$2.35 million, compared to a net income of \$0.7 million in the three month periods ended September 30, 2006 and a net loss in the nine month period ended September 30, 2006 of \$3.0 million. On November 8, 2007 Given Imaging announced that InScope, a division of Ethicon Endo-Surgery, Inc., a Johnson & Johnson company, has ended its agreement to market and sell Given Imaging's PillCam® ESO in the U.S. Ethicon Endo-Surgery cited a shift in its strategic priorities within gastroenterology and other areas as the reason for ending the relationship. InScope will pay Given Imaging \$7.6 million in fees associated with the termination. InScope will continue to support reimbursement activities for PillCam ESO and maintain its market development field force for up to six months. InScope has also agreed to continue to fund ongoing clinical trials associated with esophageal diseases. Given Imaging announced that as a result of the foregoing, it will record income of approximately \$13.5 million in the fourth quarter of 2007 and an additional income of approximately \$12.5 million during the first two quarters of 2008.

Galil Medical Ltd. (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 technology and revolutionary needle design to destroy malignant and benign tumors. Galil Medical's revenues in the three and nine month periods ended September 30, 2007 amounted to \$6.4 million and \$19.3 million, compared to \$1.8 million and \$5.9 million in the same periods in 2006. Through December 2006 Galil Medical's revenues derived mainly from the supply of cryo products and R&D services to Oncura, Inc., in which it held a 25% interest and 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 and nine month periods ended September 30, 2007 amounted to \$1.7 million and \$6.2 million, compared to \$0.1 million and \$0.2 million in the same periods 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 Ltd. (a 17% holding) (TASE: NTSN). The following results of NetVision for the three and nine months periods ended September 30, 2007 reflect the combined results of NetVision, Barak and GlobCall (hereafter: "NetVision Group") based on generally accepted accounting principles ("GAAP") in Israel. NetVision Group's revenues in the three and nine month period ended September 30, 2007 amounted to \$77.0 million and \$225.6 million, compared to \$74.6 million and \$223.8 million in the comparable periods in 2006. NetVision Group's operating income in the three and nine month period ended September 30, 2007 amounted to \$1.1 million and \$6.3 million, compared to \$5.8 million and \$20.3 million in the same periods of 2006 and its net income amounted to \$0.4 million and \$10.0 million compared to net income of \$1.7 million and \$6.3 million, respectively in the comparable periods of 2006. NetVision Group's net income in the three month period ended September 30, 2007 includes one time expenses in the amount of approximately \$4.7 million mainly with respect to restructuring expenses, impairment of communication lines, inventory and fixed assets and other one time maintenance expenses. NetVision Group's net income in the nine month period of 2007 included approximately \$7.1 million one time expenses with respect to the merger and restructuring expenses and also included a gain net of tax in the amount of approximately \$5.3 million resulting from the NANA10 transaction (see above under "MAJOR TRANSACTIONS AND INVESTMENTS DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND SUBSEQUENTLY").

NetVision Group's broadband customer base at September 30, 2007 reached approximately 517,000 compared to 498,000 at December 31, 2006. NetVision Group'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 September 30, 2007 according to which \$1.00 equaled NIS 4.013.

Medingo Ltd. (a 50.1% holding indirectly through RDC). Medingo, wholly-owned by RDC, is developing solutions specifically for the needs of insulin-dependent diabetic patients. Medingo's device is a miniature dispensing patch, which is convenient, easy to use, discreet and more cost-effective than standard insulin pumps. Medingo is in advanced stages of the development of its innovative insulin-dispensing device with respect to which it expects to receive FDA approval and to commence sales in 2008. During 2006 and the nine months ended September 30, 2007, we funded

Medingo's operations through convertible loans in the aggregate amount of \$5.0 million which were mainly used to finance Medingo's development and marketing activities. Medingo's operating loss during the nine month period ended September 30, 2007, amounted to \$5.6 million.

Impliant Inc. (a 22.3% holding). Impliant is engaged in the development of a novel posterior motion preservation system for spine surgery. As a result of material adverse events in connection with Impliant's main product during clinical trials, which occurred during the third quarter and beginning of the fourth quarter of 2007, Impliant temporarily ceased FDA clinical trials and is currently conducting a technical reassessment of its main product which could cause a delay in bringing its product to the market and will require additional financing. Therefore, an impairment charge of \$8.3 million was recorded in the third quarter of 2007. As of September 30, 2007, the remaining balance of the investment in Impliant amounted to \$1.4 million. We cannot assure the outcome of the reassessment.

Other companies in our group (including companies which are accounted under the cost method) such as Wavion, Starling, 3DV, Enure, NuLens, Brainsgate, Pocared and Neurosonix, are progressing in the development of their products, and ChipX, Jordan Valley, Ellara (formerly AMT), Safend, AqWise and Atlantium recorded in the nine month period ended September 30, 2007 higher revenues as compared to the nine month period ended September 30, 2006. Teledata's revenues in the nine months ended September 30, 2007 decreased as compared to the nine months period ended September 30, 2006, however, in July 2007, Teledata announced that it has won a \$22 million deal from a major telecommunications company in Central Asia, which will enable Teledata to grow its revenues in 2007.

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 and nine month periods ended September 30, 2007 amounted to \$0 and \$12.5 million, as compared to \$2.3 million in both the three and nine month periods ended September 30, 2006, mainly as a result of a \$10.3 million gain (\$9.1 million net of tax) from the merger between NetVision, Barak and Globcall in the first quarter of 2007, a \$1.8 million gain from the private placement and the 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 the first quarter of 2007.

Other Income (loss), net. Other income (loss), net, amounted to a loss of \$4.6 million and income of \$1.6 million in the three and nine months ended September 30, 2007, respectively, compared to a gain of \$0.6 million and \$4.0 million in the comparable periods in 2006. The loss in the three month period ended September 30, 2007 resulted mainly from the impairment charge in the amount of \$4.2 million with respect to our investment in Impliant. The gain in the nine month period ended September 30, 2007 included also a gain in the amount of \$5.5 million (\$4.1 million net of tax) resulting from the sale of Elbit's real estate in Carmiel during the second quarter of 2007 and the sale of some of M-Wise's shares held by us for \$0.8 million. The income for the nine months period ended September 30, 2006 derived mainly from a \$2.7 million gain resulting from the settlement of Mediagate's bank loan and from a dividend distributed by Partner in the amount of \$1.4 million.

Finance income, net. Finance income, net, amounted in the three and nine months ended September 30, 2007 amounted to \$0.8 million and \$2.6 million, compared to \$1.1 million and \$3.4 million in the same periods in 2006. The decrease resulted mainly from \$0.8 million issuance expenses in the second quarter of 2007 relating to the issuance of Convertible Debentures and Options to Convertible Debentures by our subsidiary, Starling and due to the effect of lower cash and debenture balances.

Expenses

Cost of revenues. Cost of revenues consisted primarily of expenses related to salaries and materials associated with delivering products and services of our subsidiary, SELA (in 2006 – also Galil Medical). Cost of revenues in the three and nine month periods ended September 30, 2007 amounted to \$0.4 million and \$1.3 million, compared to \$1.3 million and \$5.2 million in the same periods 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, Medingo and Starling (and in 2006 also Galil Medical and 3DV). The following table sets forth the operating expenses:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	(millions of \$)			
	Unaudited			
Corporate	2.3	1.3	6.0	4.6
Galil Medical ¹	-	0.9	-	2.4
SELA	0.8	0.5	2.1	2.6
Starling	2.1	2.0	5.2	4.3
3DV ¹	-	0.4	-	1.9
Enure ²	-	0.4	-	1.9
Medingo	2.4	0.8	5.6	2.0
RDC	<u>0.5</u>	<u>0.4</u>	<u>1.9</u>	<u>1.1</u>
	<u>8.1</u>	<u>6.8</u>	<u>20.8</u>	<u>20.8</u>

¹ Galil Medical and 3DV had been consolidated through December 2006.

² Enure had been consolidated through August 2006.

Corporate operating expenses in the three and nine month periods ended September 30, 2007 amounted to \$2.3 million and \$6.0 million, compared to \$1.3 million and \$4.6 million in the comparable periods of 2006. The increase resulted mainly from an increase in donations in the amount of approximately \$0.5 million and in salaries and related expenses.

Medingo's operating expenses and operating loss amounted to \$2.4 million and \$5.6 million in the three and nine months ended September 30, 2007, compared to \$0.8 million and \$2.0 million in the same periods in 2006. Medingo's operating expenses include mainly research and development expenses incurred in the development of its miniature dispensing insulin patch for insulin-dependent diabetic patients.

Starling's operating expenses and operating loss amounted to \$2.1 million and \$5.2 million in the three and nine month periods ended September 30, 2007, compared to \$2.0 million and \$4.3 million in the same periods in 2006. The increased loss resulted mainly from the increase in development and marketing expenses.

SELA's operating expenses amounted to \$0.8 million and \$2.1 million in the three and nine months ended September 30, 2007, compared to \$0.5 million and \$2.6 million in the same periods in 2006 and its operating loss was 0.3 million and \$0.4 million in the three and nine months period ended September 30, 2007 as compared to an operating loss of \$0.3 million and \$0.7 million in the same periods of 2006.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits at September 30, 2007, were approximately \$83.1 million (of which \$7.3 million (denominated in NIS) of proceeds from the issuance of Convertible Debentures by Starling is restricted and will be used by Starling only upon achieving certain milestones) compared with \$128.7 million at December 31, 2006. At September 30, 2007, corporate cash, debentures and deposits were \$71.6 million compared with \$123.5 million at December 31, 2006.

The main sources of corporate cash and other liquid instruments in the nine months ended September 30, 2007, were \$11.6 million of proceeds from Elbit's sale of its real estate in Carmiel (of which approximately \$2.3 million were used for a tax payment and \$1.6 million was still held in trust) and \$0.8 million and \$0.4 million of proceeds from the sale of M-Wise and CellAct shares, respectively.

The main uses of the corporate cash and other liquid instruments in the nine months ended September 30, 2007, were \$51.9 million of investments and loans to our group companies and a tax payment during the first quarter of tax liability in the amount of \$7.6 million, mainly with respect to the sale of Partner shares at the end of 2006.

The investments and loans to our group companies during the nine month period ended September 30, 2007 are detailed in the following table:

<u>Consolidated companies (**)</u>	
Starling (mainly participation in Starling's IPO)	4.2
RDC	1.0
Medingo	3.0
SELA	0.4
	<u>8.6</u>
<u>Affiliated companies and other investments</u>	
Given Imaging	18.7
RADLIVE (*)	3.8
Pocared (*)	3.5
AqWise(*)	3.5
Ellara (formerly AMT)	3.7
ChipX	1.3
Wavion	2.6
BPT(*)	1.1
Impliant	1.4
MuseStorm(*)	1.0
Atlantium	0.9
Other	1.8
	<u>43.3</u>
Total corporate investments	<u>51.9</u>

(*) New investments

(**) These investments do not affect the cash included in the consolidated financial statements.

Consolidated working capital at September 30, 2007 amounted to \$68.5 million compared to \$113.5 million at December 31, 2006.

Consolidated loans at September 30, 2007, were approximately \$5.4 million, compared to \$6.3 million at December 31, 2006. Convertible Debentures at September 30, 2007 amounted to \$5.7 million and represent the minority portion of the Convertible Debentures issued by Starling.

Subsequent to September 30, 2007 and through November 19, 2007, we invested an additional aggregate amount of approximately \$8.6 million, which includes mainly a \$4.2 million investment in NuLens , \$1.7 loans to Medingo a \$1.4 million investment in Enure.

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

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 September 30, 2007, was approximately \$285.0 million, representing approximately 92% of the total assets compared with \$297.5 million representing approximately 91% of total assets at December 31, 2006.

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