MANAGEMENT REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2005

The following management report should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of March 31, 2005 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2004 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. The Company’s 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 multi-national 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 devices, advanced defense electronics, telecom, semiconductors, software products and services and advanced materials. Historically, most of our group companies were established together with entrepreneurs or started as activities within Elron and were subsequently spun-off.

In addition, some of our group companies grew out of our subsidiary, RDC Rafael Development Corporation Ltd. (“RDC”), a joint venture with Rafael Armament Development Ltd. ("Rafael"), the largest research and development organization of Israel's Ministry of Defense. RDC was established pursuant to a joint venture agreement entered into in July 1993 for the purposes of exploiting Rafael's technology in non-military markets. RDC has first rights to commercially exploit technologies of Rafael in non-military markets, which rights are dependent primarily upon RDC’s identification of new and existing military technology developed by Rafael.

Our group companies include both publicly traded and privately held companies.

Our activities range from complete 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 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. 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 some volatility in our results of operations, depending on the transactions that take place 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 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. However, as a result of new accounting pronouncements described below under "CRITICAL ACCOUNTING POLICIES", some of our group

companies and new companies in which we may invest may be accounted for at cost, thereby not affecting our results of operations. We anticipate this change may have a significant effect on our results of operations.
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. 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 sector and capital markets. This trend was reflected in the improvement in the results of operations of most of our group companies as well as some of our group companies raising funds from new strategic and other investors in private placements. In addition, we recorded gains from realizing certain of our holdings, mainly in 2004, as a result of the sale of our holdings in Elbit Systems Ltd. (NASDAQ and TASE: ESLT), and in 2005, as a result of the sale of most of our holdings in Partner Communications Company Ltd. ("Partner") (NASDAQ and TASE: PTNR; LSE: PCCD) (see below under "RECENT DEVELOPMENTS"). Should the recovery in the world economy and, in particular, the technology sector, continue, we anticipate that it will have a positive effect on our group companies and their ability to raise additional capital.

We also anticipate increasing our investments in new companies in our main areas of operation, and we are currently considering investments in new companies in different stages of their life, mainly in the fields of medical devices and communications. In this regard, new companies in which we invested at the end of 2004 included the investment of approximately $6.7 million in Jordan Valley Semiconductors Ltd. ("Jordan Valley") operating in the field of semiconductors, $3.0 million in Starling Advanced Communications ("Starling"), operating in the field of broadband communication, and $7.3 million in Impliant Inc. ("Impliant"), a medical device company. New investment in 2005 included a $16 million investment in Teledata Networks Ltd. ("Teledata"), a telecommunication company, and a $2.9 million investment in Nulens Ltd. ("Nulens"), a medical device company (see below under "RECENT DEVELOPMENTS")

RECENT DEVELOPMENTS

Sale of a majority of our holdings in Partner. On April 20, 2005, we completed the sale of 12,765,190 shares of Partner held by us, to Partner, for approximately $94.0 million, as part of the sale together with the other Israeli founding shareholders of Partner, of an aggregate of 33,317,933 million Partner shares to Partner for an aggregate consideration of approximately $245 million. As a result, we will record in the second quarter of 2005 a gain, net of tax, of approximately $35 million. Following the sale, our beneficial holding in Partner is approximately 2%, almost all of which is subject to transfer restrictions under Partner's Israeli communications license and are no longer pledged.

Investment in Nulens. On April 21, 2005, we invested approximately $1.7 million in Nulens, an Israeli medical devices company operating in the field of intra-ocular lenses mainly for cataract and presbyopia procedures. The investment is the first of two installments, of which the second of approximately $1.2 million is scheduled after Nulens achieves a certain milestone. The total investment of $2.9 million is part of an aggregate investment of approximately $3.4 million, following which Elron will hold approximately 25% of Nulens on a fully diluted basis.

Investment in Teledata. On May 8, 2005, we completed a new investment of $16 million in Teledata. The investment is part of an aggregate round of financing of $19 million in which FBR Infinity II Ventures, a related venture capital fund, invested $3 million. Following the investment, we hold approximately 21% of Teledata and Infinity holds approximately 4% of Teledata, each on a fully diluted basis. Teledata provides innovative access products and solutions for both traditional and next generation networks to telecom operators and service providers.

Definitive agreement for the sale of all of our holdings in Oren. On May 9, 2005, we announced that a definitive agreement was signed for the sale of Oren, which is approximately 41% held by us, to Zoran Corporation (NASDAQ:ZRAN) ("Zoran"), which currently holds 17% of Oren. Zoran will pay $44.6 million in cash and Zoran securities for the remaining 83% of Oren, thereby imputing a value of $53.5 million for Oren, including Zoran's share. Oren is a privately held company which develops demodulator VLSI products for digital televisions, set-top boxes and personal computers, and is also engaged through partnerships in providing customers with a complete front-end solution. The completion of the transaction is subject to certain closing conditions. The transaction is expected to be completed during the second quarter of 2005. However, there is no assurance that the transaction will be consummated or the exact timing of the closing. Upon completion of the transaction, we will receive cash of approximately $12.4 million and Zoran shares with an estimated value of approximately $6.7 million and will record an estimated gain in the second quarter of 2005**,** of approximately $16 million, net of taxes.

Netvision proposed initial public offering. On May 13, 2005, NetVision, our currently 45.7% held affiliate, published a prospectus for a proposed underwritten initial public offering on the Tel Aviv Stock Exchange ("TASE") in Israel. This followed the approval of the Israeli Securities Authority on May 11, 2005. The proposed initial offering is for the sale of shares and convertible securities in consideration for aggregate immediate net proceeds of approximately NIS135 million (approximately $31.0 million). In addition, future proceeds from the exercise of options to be sold in the proposed offering amount to approximately NIS28.8 million (approximately $6.6 million). Discount Investment Corporation ("DIC"), which also holds approximately 46% of Elron, is the other major shareholder of NetVision, holding 45.7% of NetVision. We and DIC will each convert approximately $3.1 million of loans into equity of NetVision immediately prior to the proposed offering. The proposed initial public offering is expects to be completed during May 2005, however there is no assurance that the proposed offering will be consummated.
In the event of the completion of the proposed offering, our holding in NetVision will be decreased to approximately 39% (27.4% on a fully diluted basis taking into account the convertible securities) resulting in an estimated gain, in the second quarter of 2005, of approximately $3 million.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

Concurrently with the announcement of the sale of our shares in Elbit Systems Ltd. in 2004, we announced that, as a result of the transaction, Elron may be characterized as a “passive foreign investment company” (PFIC) for U.S. federal income tax purposes for 2004. This would result in adverse tax consequences for our U.S. shareholders but not for Elron. At the time we filed our Form 6-K with the Securities and Exchange Commission regarding this matter, however, we believed, and our tax advisors concurred, that for 2004 we could potentially rely on the “change of business” exception to PFIC status provided under Section 1298(b)(3) of the U.S. Internal Revenue Code of 1986, as amended. Pursuant to this exception, in order to avoid PFIC status in 2004, we cannot be a PFIC in 2005 and 2006 (which cannot be determined at this time) or in any year prior to 2004 (which we believe was not the case). The tests for determining PFIC status are impacted, among others, by changes in our holdings and in the value of our group companies which are difficult to predict. In addition, the sale of our shares in Partner in 2005, as described above, generated significant passive income. As a result, we believe that it is possible that we will be treated as a PFIC in 2005 and, as a result, in 2004 as well. The ultimate determination of our PFIC status in 2005 is dependent on other components that may be part of our income for 2005, which are difficult to predict at this time. Therefore, it is unclear whether the “change of business” exception would ultimately be satisfied for 2004.

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 2004 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, 2004.

As more fully described in our management report for the year ended December 31, 2004, during 2004 the Emerging Issues Task Force of the Financial Accounting Standards Board (“EITF”) reached a consensus on Issue No. 02-14, "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock” ("EITF 02-14"), according to which the equity method of accounting should be applied to investments in common stock and in in-substance common stock if the investor has the ability to exercise significant influence over the operating and financial policies of the investee. EITF 02-14 defines in-substance common stock as an investment with similar risk and reward characteristics to common stock. The provisions of EITF 02-14 were effective beginning in the fourth quarter of 2004. In certain holdings we invested, among others, in preferred shares which include rights, among others, such as cumulative dividends, participating rights, dividend preferences and liquidation preferences. Upon adoption of EITF 02-14, we evaluated the impact of its provisions and found that there are no investments that were previously accounted for by the equity method which are not considered to be in-substance-common stock, nor are there investments that are in-substance common stock that were not accounted for under the equity method of accounting prior to the effective date of EITF 02-14 and which should be accounted as such in accordance with EITF 02-14. However, new companies in which we invested since the fourth quarter of 2004, namely Jordan Valley, Impliant, Nulens and Teledata, are accounted for at cost notwithstanding our significant influence in such companies, as the investment in these companies is not considered to be in-substance-common stock. Any assessment of whether we hold in substance common stock in a group company is judgmental in nature and involves the use of significant estimates and assumptions such as assessing the fair value of the subordinated equity of the group company.

BASIS OF PRESENTATION

Consolidation. Our consolidated financial statements include the accounts of the Company and the following main companies:

Three months ended March 31,			
2005		2004	
Elron TeleSoft	3DV	Elron TeleSoft	3DV
Galil Medical	Starling	Galil Medical	Starling
RDC	SELA[1]	RDC	

[1] Sela is consolidated since the second quarter of 2004, following the conversion by RDC of previously granted loans. On March 31, 2005, Elron and RDC invested $0.5 million and $0.8 million, respectively, in SELA, out of an aggregate amount of approximately $1.4 million raised by SELA in a private placement from Elron, RDC, other existing shareholders and new investors. As a result, Elron's consolidated ownership interest in SELA increased from approximately 54% to approximately 66%.

Equity Method. Our main group companies, accounted for under the equity method of accounting, include:

Three months ended March 31,					
2005			2004		
Given Imaging	ChipX	Pulsicom	Elbit Systems[1]	Oren Semiconductor	Notal Vision
Oncura	Wavion	CellAct	Given Imaging	ChipX	Pulsicom
NetVision	AMT		Oncura	Wavion	CellAct
Oren Semiconductor	Notal Vision		NetVision	AMT	

[1] Sold on July 28, 2004.

RESULTS OF OPERATIONS

Three months Ended March 31, 2005 compared to Three months Ended March 31, 2004.

The following table sets forth our results of operations in the reported period:

	Three months ended March 31,	
	2005	2004
	(millions of $, except per share data)	
Net income (loss)	(5.1)	3.7
Basic net income (loss) per share	(0.17)	0.13

The net loss we reported in the three months ended March 31, 2005 was negatively affected by the absence of gains from dispositions of group companies, which contributed $7.3 million to our net income in the first quarter of 2004 (resulting from the sales of shares in KIT eLearning and Zix Corporation), and from our share in the net loss of our group companies which are accounted for under the consolidation or the equity method of accounting, which increased to $4.8 million (which includes $1.6 million of amortization of intangible assets related to holdings in our group companies), as compared to $1.7 million in the first quarter of 2004 (which includes $0.6 million of amortization of intangible assets), mainly due to the sale of all of our holdings in Elbit Systems in 2004 which positively contributed $2.5 million to our net income in the first quarter of 2004.

Reportable Segments

Our reportable segments are i) The Systems and Projects Segment - Elron TeleSoft; and ii) Other Holdings and The Corporate Operations, which includes our holdings in subsidiaries, affiliates and other companies, engaged in various fields of advanced technology, and corporate operations, which provide the strategic and operational support to the group companies. Prior to September 2, 2003, we operated through ESW in a third business segment – Internet Products – which has been reclassified as discontinued operations. ESW has been liquidated as of December 31, 2004.

At March 31, 2005, the main group companies were classified into the following segments:

	Systems and projects	Other holdings and corporate operations
Consolidated	Elron TeleSoft	RDC; Galil Medical; 3DV; Starling; Sela.
Equity basis		Given Imaging; Oncura; NetVision; ChipX; Oren Semiconductor; Notal Vision; Wavion; AMT; Pulsicom; CellAct.
Cost		Jordan Valley; Impliant; Avantry.
Available-for-sale Securities		Partner, Elbit Vision Systems

The following table reflects our consolidated data by reported segments:

	Elron TeleSoft	Other holdings and corporate operations*	Discontinued operations of ESW	Consolidated
	(millions of $)			
	Three months ended March 31, 2005			
Income (loss)	1.3	(0.3)	-	1.0
Costs and expenses	(1.8)	(4.3)	-	(6.1)
Net loss	(0.5)	(4.6)	-	(5.1)

	Elron TeleSoft	Other holdings and corporate operations*	Discontinued operations of ESW	Consolidated
	(millions of $)			
	Three months ended March 31, 2004			
Income	1.7	9.9	-	11.6
Costs and expenses	(2.2)	(6.3)	-	(8.5)
Income (loss) from continuing operations	(0.5)	4.5	-	4.0
Loss from discontinuing operations	-	-	(0.3)	(0.3)
Net Income (loss)	(0.5)	4.5	(0.3)	3.7

* Income in the other holdings and corporate operations includes net losses from equity investments.

Systems and Projects - Elron TeleSoft

Elron TeleSoft is focused on telecom network management and revenue assurance products. The following table sets forth the results of operation of Elron TeleSoft:

	Three months ended March 31, 2005	2004
	(millions of $)	
Net revenues	1.3	1.7
Cost of revenues	(0.8)	(1.0)
Gross profit	0.5	0.7
Operating expenses*	(1.0)	(0.7)
Amortization of intangible assets	-	(0.2)
Operating loss	(0.5)	(0.2)
Finance expenses, net	-	(0.3)
Other expenses, net	-	-
Net loss	(0.5)	(0.5)

* Excluding amortization of other assets which are presented separately.

Revenues. Elron TeleSoft's net revenues decreased by $0.4 million, or 23%, from $1.7 million in the three months ended March 31, 2004 to $1.3 million in the same period in 2005 mainly due to the decrease in revenues derived from projects, as a result of Elron TeleSoft's efforts to focus on revenue assurance products. However, revenues in the first quarter of 2005 increased by 56% compared to revenues of $0.8 million in the fourth quarter of 2004, mainly as a result of increase in revenues dervied from its new revenue assurance products.

Cost of revenues. Cost of revenues of Elron TeleSoft in the three months ended March 31, 2005 was $0.8 million, representing a gross margin of 38%, compared to $1.0 million in the same period in 2004, representing a gross margin of 41%.

Operating expenses (excluding amortization of other assets which is presented separately) increased to $1.0 million in the three months ended March 31, 2005, compared to $0.7 million in the comparable period in 2004, resulting from the increase in development expenses of the company's new revenue assurance line of products and an increase in sales and marketing expenses associated with launching these products in the international market.

Operating loss. As a result of the above, Elron TeleSoft's operating loss increased to $0.5 million in the three months ended March 31, 2005, compared to $0.2 million in the comparable period in 2004.

Finance expenses, net. Finance expenses decreased to $0 million in the three months ended March 31, 2005 compared to approximately $0.3 million in the same period in 2004, primarily as a result of the repayment of the majority of Elron Telesoft's bank loans and translation gains resulting from the devaluation of the New Israeli Shekel against the US Dollar.

Other Holdings and Corporate Operations segment

The other holdings and corporate operations segment includes our holdings in subsidiaries, affiliates and other companies engaged in various fields of advanced technology, and corporate operations which provide strategic and operational support to the group companies. The following table sets forth this segment's operating results:

	Three months ended March 31,	
	2005	2004
	(millions of $)	
Net revenues	3.0	1.8
Net loss from equity investments	(3.6)	(0.4)
Gain from disposal and changes in holdings in related companies, net	-	6.1
Other income, net	0.3	2.4
Total income	(0.3)	9.9
Cost of revenues	(1.7)	(1.1)
Operating expenses*	(3.8)	(5.5)
Amortization of intangible assets	-*	-*
Finance income, net	0.9	0.3
Total costs and expenses	(4.7)	(6.3)
Income (loss) from continuing operations before taxes	(5.0)	3.6
Tax benefit (income tax)	0.2	(0.6)
Minority interest	0.2	1.5
Net income (loss)	(4.6)	4.5

* Excluding amortization of intangible assets which are presented separately, and amounted to less than $100 thousand in the three months ended March 31, 2005 and 2004.

Income

Net revenues. Net revenues in the three months ended March 31, 2005 and 2004 of the Other Holdings and Corporate Operations segment consisted of sales of products and services by our subsidiaries, mainly Galil Medical and Sela. The following table sets forth the segment revenues:

	Three months ended March 31,	
	2005	2004
	(millions of $)	
Galil Medical	2.0	1.7
Sela	1.0	-
Other	-	0.1
	3.0	1.8

In the three months ended March 31, 2005 Galil Medical recorded revenues of $2.0 million, compared to $1.7 million in the comparable period in 2004. Galil Medical's revenues derived mainly from the supply of cryo products and R&D services to Oncura, in which it has a 25% ownership interest.

Sela recorded revenues of $1.0 million in the three months ended March 31, 2005, compared to $0.9 million recorded in the three months ended March 31, 2004.

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”). The share in net losses of affiliated companies amounted to $3.6 million in the three months ended March 31, 2005, compared to $0.4 million in the same period in 2004. The increase in our share in net losses of our affiliated companies in the first quarter of 2005 is primarily due to the sale of our holding in Elbit Systems during the third quarter of 2004, which positively contributed $2.5 million to our net income in the first quarter of 2004. In addition, amortization of intangible assets relating to our holdings in our group companies, which is included in our share in net losses of affiliated companies, has increased in the first quarter of 2005 to $1.6 million, from $0.4 in the comparable period in 2004, mainly due to the purchase of additional shares of Given Imaging during the second half of 2004. Our share in net losses of affiliated companies in the first quarter of 2005 also includes a loss of $0.7 million, representing our share in Oren's net loss, which is not expected to recur in future periods after the sale of all of our shares in Oren, as described under "RECENT DEVELOPMENTS".

Highlights of the Results of Operations of Certain Affiliates:

Given Imaging (Nasdaq: GIVN) (a 20% holding directly and indirectly through RDC). Given Imaging, a medical device company that developed and markets disposable miniature video capsules for visualizing the gastrointestinal tract, recorded sales of $22.0 million in the first quarter of 2005, a 73% increase over sales in the first quarter of 2004. The total number of PillCam SB capsules sold in the first quarter of 2005 was 29,340, 55% higher than in the first quarter of 2004 and 11% higher than the fourth quarter of 2004. To date, cumulative unit sales of PillCam SB have reached 201,000. The total number of PillCam ESO capsules sold in the first quarter of 2005 was 6,700, compared to 5,300 PillCam ESO capsules sold in the fourth quarter of 2004 (following FDA clearance in late November 2004). Gross profit amounted to $15.6 million, or 70.9% of revenues, compared to $9.0 million, or 70.7% of revenues, in the first quarter of 2004. Given Imaging's net income for the first quarter was $1.2 million, compared to a net loss of $0.6 million in the first quarter of 2004.

Oncura (a 25% holding by Galil). Oncura, which markets and sells therapeutic device systems and related consumables used primarily in the performance of minimally-invasive, urologic cancer treatment, recorded revenues in the three months ended March 31, 2005 of $18.4 million compared to $17.4 million in the first quarter of 2004. Oncura's net loss in the three months ended March 31, 2005 amounted to $0.8 million compared to a net income of $0.3 million in the first quarter of 2004. The net loss in the first quarter of 2005 resulted mainly from decrease in gross margin and an increase in operating expenses.

Notal Vision (a 26% holding). Notal Vision, a medical device company operating in the field of early detection of Age Related Macular Deterioration (AMD), recorded revenues of $0.1 million in the three months ended March 31, 2005 compared to $0.3 million in the same period in 2004 and its net loss increased to $0.7 million from $0.3 million, mainly as a result of an increase in research and development expenses.

NetVision (a 46% holding). NetVision provides Internet services and solutions in Israel and, commencing the fourth quarter of 2004, international telephony services through Voice over IP technology (VoIP). The other major shareholder of NetVision is DIC, which also holds 46% of NetVision. NetVision's revenues in the three month period ended March 31, 2005, increased by 10% to $18.7 million (of which $0.6 million was derived from international telephony services), from $17.0 million in the same period in 2004, and its Internet customer base at March 31, 2005 reached approximately 400,000 (of which approximately 239,000 were broadband) compared to 390,000 at the end of 2004 (of which approximately 225,000 were broadband). NetVision's operating income decreased to $1.2 million, compared to $2.2 million in the same period in 2004 and its net income decreased to $0.2 million compared to $0.6 million in the first quarter of 2004. The decrease in NetVision's operating income and net income resulted mainly from costs related to the introduction of its international telephony services. 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, 2005 according to which $1.00 equaled NIS 4.361.

NetVision’s future period results will continue to be affected mainly by the highly competitive Internet broadband market environment in Israel, and whether Internet prices will continue to decrease or will stabilize, as well as from NetVision's penetration costs to the highly competitive international telephony services market in Israel.

On May 13, 2005, NetVision published a prospectus for a proposed underwritten initial public offering on the TASE, which NetVision expects to complete during May 2005, as described above under "RECENT DEVELOPMENTS".

Wavion (a 38% holding). Wavion is a developer of broadband wireless access systems for wireless LANs. Wavion had no revenues in the three month period ended March 31, 2005, compared to $0.1 million in the same period in 2004. Revenues in 2004 resulted from subcontracting activities, which Wavion ceased to provide during 2004, focusing its efforts in devoloping its products. Wavion's net loss amounted to $1.7 million in the three month period ended March 31, 2005, the same as in the comparable period in 2004, consisting mainly of research and development expenses.

ChipX (a 27% holding). ChipX is a manufacturer of late stage programmable application-specific integrated circuits, or structured ASICs. ChipX's revenues in the three month period ended March 31, 2005 increased to $5.0 million, compared to $3.9 million in the same period in 2004, primarily due to the launch of new products and the recovery in the semiconductor industry, and its net loss in the three month period ended March 31, 2005 decreased to $0.6 million, compared to $1.5 million in the same period in 2004.
In March 2004, ChipX raised $12.0 million in a private placement, the proceeds of which are used to finance its sales, marketing and development investments in its structured ASIC technology.

Oren Semiconductor (a 41% holding, as of March 31, 2005). On May 9, 2005, we announced the signing of a definitive agreement to sell all of our holdings in Oren, as described above under "RECENT DEVELOPMENTS". In the three months ended March 31, 2005, Oren’s revenues decreased to $0.5 million compared to $1.0 million in the same period in 2004, mainly as a result of a decrease in product revenues due to delay in product development and due to a decrease in revenues from development projects. Oren's net loss in the three months ended March 31, 2005 increased to $1.7 million compared to $1.0 million in the same period in 2004 mainly as a result of the decrease in revenues.

AMT (a 41% holding). The AMT group develops technologies and products based on amorphous metals. AMT's consolidated revenues in the three month period ended march 31, 2005, amounted to $0.7 million, compared to $0.4 million in the first three months of 2004 and its consolidated net loss amounted to $0.7 million in the first quarter of 2005, compared to $0.4 million in the same period in 2004. AMT's main subsidiary, AHT, which uses amorphous metals for heating products, recorded revenues of $0.5 million in the three month period ended March 31, 2005, compared to $0.2 million in the same period in 2004, and a net loss of $0.4 million, the same as in the comparable period in 2004.
In June 2004 AMT completed a private placement of $6.0 million, in which an international strategic partner invested $3.0 million and we invested an additional $3.0 million.

We expect that most of our group companies will continue to recognize losses in future periods, as they invest significant resources in research and development and sales and marketing activities and have not yet generated significant revenues. Therefore, we anticipate that our share in the results of our group companies will continue to negatively affect our results of operations to the extent they are reported under the equity or consolidation method of accounting. In addition, following the sale of our holding in Elbit Systems in 2004 which positively contributed to our net income in previous periods, and in light of expected investments in new companies, to the extent they will be accounted for under the equity method of accounting, our share in the net losses of our group companies is expected to increase.

Results of operations of significant group companies which are accounted for other than under the equity method of accounting.

Partner (Nasdaq: PTNR) (a 9% holding through Elbit as of March 31, 2005). Our investment in Partner is accounted for as available-for-sale security, whose results do not affect our results of operations. At March 31, 2005, the market value of our investment in Partner amounted to $144.6 million. Partner is a Global System for Mobile Communications, or GSM, mobile telephone network operator in Israel. As described above under "RECENT DEVELOPMENTS", on April 20, 2005 we sold 12,765,190 shares of Partner held by us, to Partner, for approximately $94.1 million, and remained with an approximately 2% equity interest in Partner.

In the three months ended March 31, 2005, Partner recorded revenues of $289.0, an increase of 3% over the same period in 2004, which amounted to $279.4. Partner's net income in the three months ended March 31, 2005 amounted to $28.5, compared to $21.1 in the first quarter of 2004. Partner's operating currency is the NIS and accordingly, all figures above are translations for convenience purposes of Partner's NIS figures into US dollars at the representative rate of exchange prevailing at March 31, 2005 according to which $1.00 equaled NIS 4.361.

Jordan Valley (a 28% holding). Jordan Valley is engaged in developing solutions for advanced in-line thin film metrology for the semiconductor industry. Jordan Valley's revenues in the first quarter of 2005 increased to $0.9 million from $0.6 million in the first quarter of 2004, primarily due to the launch of new products for the semiconductor industry, and its net loss in the three months ended March 31, 2005 amounted to $0.9 million, compared to $0.8 million in the same period in 2004.
In October 2004, Jordan Valley completed a private placement of approximately $9 million, the proceeds of which are used to finance its sales, marketing and development activities.

Impliant (a 28% holding). Impliant is engaged in the development of an innovative posterior motion preservation system for spine surgery. Impliant's net loss in the three months ended March 31, 2005 amounted to $1.5 million, compared to $0.6 million in the same period in 2004, mainly as a result of increase in research and development expenses, following the completion of its private placement of approximately $18 million in December 2004.

Gains from Disposal of Business and Affiliated Companies and Changes in Holdings in Affiliated Companies. Our gains from disposal of business and affiliated companies and changes in our holdings in affiliated companies amounted to $0 million in the three months ended March 31, 2005 compared to $6.1 million in the same period in 2004. The gain in the first quarter of 2004 resulted primarily from a $5.3 million gain from the sale of our share of KIT eLearning and an aggregate gain of $0.5 million resulting from changes in holdings in Given Imaging and Elbit Systems as a result of employees' option exercises.

Other Income , net. Other income, net, of the other holdings and corporate operations segment amounted to $0.3 million in the three months ended March 31, 2005 compared to $2.4 million in the same period in 2004. The gain in the first quarter of 2004 resulted mainly from a $3.1 million gain, before tax ($2.0 million net of tax), from the sale of 362,416 shares of Zix received in consideration for ESW's assets and business sold to Zix in 2003. This gain was partially offset by $0.5 million which represented the funding of 3DV's previous years' losses.

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 Galil Medical and Sela. Cost of revenues of the Other Holdings and Corporate Operation segment in the three month period ended March 31, 2005 were $1.7 million compared to $1.1 million in the same period in 2004.

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 Galil Medical, Sela, 3DV and Starling. The following table sets forth the segment operating expenses (excluding amortization of other assets, amounting to less then $100 thousand in the first quarter of 2005 and 2004, which also constitute part of operating expenses under US GAAP but for presentation purposes are included as a separate item):

	Three months ended March 31,	
	2005	2004
	(millions of $)	
Corporate	1.8	2.0
Galil Medical	0.8	0.7
Sela	0.8	-
Starling	0.4	0.4
3DV	0.3	0.4
Other	(0.3)	2.0
	3.8	5.5

Our corporate operating costs in the three months ended March 31, 2005, amounted to $1.8 million, compared to $2.0 million in the comparable period in 2004.

Operating expenses of Galil Medical in the three months ended March 31, 2005 were $0.8 million compared to $0.7 million in the same period in 2004. The increase in its operating expenses was mainly due to the commencment by Galil Medical at the end of 2004 of the development of its cryotherapy technology for application in the women's health field. Galil Medical's operating loss in the three months ended March 31, 2005 amounted to $0.2 million, the same as in the comparable period in 2004.

Sela's operating expenses amounted to $0.8 million in the three months ended March 31, 2005, compared to $0.6 million in the same period in 2004 and its operating loss amounted to $0.2 million, compared to $0.1 million.

Other operating expenses include mainly the operating expenses of RDC which included, in the first quarter of 2004, $1.8 million costs related to RDC's employee stock option plans, as compared to an income of $0.6 million in the first quarter of 2005 which resulted from the decrease in the fair value of call options to purchase shares of affiliated companies.

Finance income, net. Finance income, net, in the corporate operations and other holdings segment amounted in the three months ended March 31, 2005 to $0.9 million compared to $0.3 million in the same period in 2004. The increase is mainly due to higher cash resources as a result from the sale of our holding in Elbit Systems in 2004 for approximately $197 million.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits at March 31, 2005, were approximately $169.2 million compared with $188.6 million at December 31, 2004. At March 31, 2005, the corporate cash, debentures and deposits were $155.6 million compared with $175.7 million at December 31, 2004.

There were no significant sources of corporate cash and other liquid instruments in the first quarter of 2005. On April 20, 2005, we received approximately $94 million in consideration for the sale of Partner shares, as described under "RECENT DEVELOPMENTS".

The main uses of the corporate cash and other liquid instruments in the first quarter of 2005, were income tax payment of $15 million and $3.3 million of investments in our group companies.

Consolidated working capital at March 31, 2005 amounted to $156.3 million compared to $158.8 million at December 31, 2004.

Consolidated loans at March 31, 2005, were approximately $8.4 million (of which $1.4 million was attributed to Elron TeleSoft, and which is guaranteed by us). In connection with some of Elron TeleSoft's bank loans, we have also provided to the lending bank a comfort letter pursuant to which we undertook not to reduce our holding beyond a certain percentage.

In connection with the credit lines granted to NetVision, we and DIC, the other major shareholder of NetVision, provided letters of comfort to the lending banks pursuant to which we jointly undertook not to reduce our joint holdings beyond a certain percentage. The letters of comfort will be terminated if and when Netvision completes its proposed offering, subject to certain conditions provided in the letters of comfort. The amount outstanding under NetVision's credit lines at March 31, 2005, was approximately $13.5 million.

MediaGate's bank loan in the amount of approximately $2.7 million has been secured by a first ranking pledge over the future proceeds to be received as royalties as a consideration for the sale of its technology to Telrad. The loan is not guaranteed by us. We are currently discussing with the bank ways to legally release Mediagate from the loan.

Following the sale of Partner shares on April 20, 2005, as discribed under "RECENT DEVELOPMENTS", the majority of the remaining Partner shares, amounting to approximately 3.1 million shares, are subject to certain transfer restrictions under Partner's Israeli communications license and are no longer pledged to Partner's lending banks. In order to hedge the dollar value that was received from the sale of our shares in Partner, we purchased call options and sold put options, at a dollar/NIS exchange rate ranging from $4.36 to $4.44. The hedge transaction resulted with no material effect on our cash resources. The proceeds received for Partner shares amounted to approximately $94 million.

Subsequent to March 31, 2005 and through May 16, 2005, we invested an additional aggregate amount of approximately $18.3 million in new and existing group companies, including an investment of $16 million in Teledata and $1.7 million in Nulens, as discribed under "RECENT DEVELOPMENTS".

The corporate cash, debentures and deposits as of May 16, 2005 amounted to approximately $230 million.

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, 2005, was approximately $389.4 million, representing approximately 80% of the total assets compared with $389.1 million representing approximately 78% of total assets at December 31, 2004.

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