MANAGEMENT REPORT FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2005

The following management report should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of September 30, 2005 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2004 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, 2004 ("2004 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 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"), established with Rafael, the largest research and development organization of Israel's Ministry of Defense. RDC was established pursuant to an 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.

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 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 some 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. 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 operation. 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 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 few of our holdings, mainly in 2004 as a result of the sale of our holdings in Elbit Systems Ltd. (Nasdaq: ESLT) ("Elbit Systems"), and in the second quarter of 2005 from the sale of most of our shares in Partner Communications Company Ltd. (Nasdaq: PTNR) ("Partner") and the sale of all of our shares in Oren Semiconductor, Inc. ("Oren") (see below under "RECENT DEVELOPMENTS"). 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.
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 cycle including early stage and more mature companies. In this regard, new companies in which we invested in 2004 and in 2005 to date include a $8.1 million investment in Jordan Valley Semiconductors Ltd. ("Jordan Valley"), operating in the field of semiconductors, an investment by us of $3.0 million and additional $2 million by RDC in Starling Advanced Communications Ltd. ("Starling"), operating in the field of broadband communication, a $16 million investment in Teledata Networks Ltd. ("Teledata"), a telecommunications company, three investments in medical device companies, namely, a $8.3 million investment in Impliant, Inc. ("Impliant"), a $1.7 million investment in NuLens Ltd. ("NuLens"), and a $6.9 million investment in BrainsGate Ltd. ("BrainsGate"), and a $4.0 million investment in Gaia Broadband Services Management Ltd. ("Gaia"), a software 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 Partner shares to Partner for aggregate consideration of approximately $245 million. As a result, we recorded in the nine month period ended September 30, 2005, a gain, net of tax, of approximately $45.4 million, of which approximately $9.4 million was recorded in the third quarter of 2005, as a result of a decrease in our previous valuation allowance in respect of losses incurred in prior periods, following a final tax assessment. Following the sale, we continue to hold 3,091,361 shares of Partner, representing approximately 2% of Partner's outstanding shares, almost all of which are subject to transfer restrictions under Partner's Israeli communications license but are no longer pledged to secure debt of Partner.

Investment in NuLens. On April 21, 2005, we invested approximately $1.7 million in NuLens, an Israeli medical device 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 25% of NuLens on a fully diluted basis, if and when the milestone is achieved.

Investment in Teledata. On May 8, 2005, we completed a new investment of $16 million in Teledata. The investment was part of an aggregate round of financing of $19 million in which FBR Infinity II Ventures ("Infinity"), 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. We and Infinity entered into a voting agreement with respect to our holdings in Teledata. Teledata provides innovative access products and solutions for both traditional and next generation networks to telecom operators and service providers.

NetVision Initial Public Offering. On May 19, 2005, NetVision Ltd. ("NetVision") completed its initial public offering on the Tel Aviv Stock Exchange ("TASE"), in Israel of shares and convertible securities in consideration for aggregate immediate net proceeds of approximately NIS135 million (approximately $31 million). In addition, future proceeds from the exercise of options sold in the offering may amount up to approximately NIS28.8 million (approximately $6.6 million). Discount Investment Corporation Ltd. ("DIC"), which currently holds approximately 48% of our shares, is the other major shareholder of NetVision. We and DIC each converted approximately $3.1 million of loans into equity of NetVision immediately prior to the offering and $2.2 million in loans was repaid to each of us from the proceeds of the offering. As a result of the initial public offering, our holding in NetVision decreased from 45.7% to approximately 39% (27.4% on a fully diluted basis taking into account the possible exercise of the convertible securities) resulting in a gain for us in the second quarter of 2005 of approximately $3.0 million.

Sale of holdings in Oren. On June 10, 2005, Zoran Corporation, or Zoran (Nasdaq: ZRAN), completed the acquisition of Oren in which we held a 41% interest. From the proceeds of the acquisition, we received cash of approximately $12.5 million (of which approximately $2.0 million is held in escrow under the terms of the agreement) and 613,410 Zoran shares with a market value of approximately $7.7 million based on Zoran's share price on the completion date of the acquisition. As a result of the transaction, we recorded a gain in the second quarter of 2005, net of tax, of approximately $17.2 million. The common shares held by us were accounted for as available for sale securities in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities". In the third quarter of 2005 we sold all our shares of Zoran for $8.8 million, resulting in a gain, net of tax, of $0.7 million.

Investment in BrainsGate. On August 8, 2005, we completed an investment of approximately $6.9 million in BrainsGate in consideration for approximately 20% of BrainsGate on a fully diluted basis, as part of an aggregate investment in BrainsGate of approximately $17.0 million. Infinity, with whom we have a voting agreement, holds approximately 5% of BrainsGate on a fully diluted basis. BrainsGate is an Israeli company that is developing minimally invasive technology which enables the opening of the blood brain barrier and enabling widening of brain blood vessels and nerve stimulation. The company solutions focus on post ischemic stroke treatment, brain cancers and through cooperation with pharmaceutical companies to deliver into the brain drugs composed of large molecules.

Dividend distribution. On September 5, 2005, we declared a cash dividend of $3.00 per share, totaling approximately $88.5 million. The dividend was paid on September 27, 2005, to shareholders of record on September 15, 2005.

Investment in Gaia. On October 2, 2005, we completed an investment of approximately $4.0 million in Gaia in consideration for approximately 44% of Gaia on a fully diluted basis. Gaia is an Israeli software company engaged in developing solutions in the field of broadband services management and home networks.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

As reported in our 2004 20F ,following the sale of our shares in Elbit Systems in 2004 and the sale of Partner shares in the second quarter of 2005 we believed that it would be reasonably possible that we would be treated as a "passive foreign investment company" (PFIC) for U.S. federal income tax purposes, for 2005 and, as a result, in 2004. Based on a preliminary analysis made by us, the distribution of the above mentioned cash dividend may have a positive impact on aspects of the PFIC analysis. However, we cannot assure you that we will not be treated as a PFIC for 2005 and, as a result, in 2004. The ultimate determination of our PFIC status for 2005 will depend on the composition of our gross income and assets for the entire year, and the values of those assets, which are difficult to predict at this time and the appropriate value of our ownership interest in our group companies.

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 under item 5 of our 2004 20-F under "Critical Accounting Policies".

As more fully described in our 2004 20-F under "Critical Accounting Policies", 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 were no investments that were previously accounted for by the equity method which were not considered to be in-substance common stock, nor were there investments that were 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, Teledata, and Brainsgate 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 Elron and all of our direct or indirect (through Elbit and DEP) controlled subsidiaries. The following are our main subsidiaries:

Three and Nine months ended September 30,					
2005			2004		
Elron TeleSoft	SELA	3DV	Elron TeleSoft	MediaGate	ESW [1]
RDC	MediaGate	Starling	RDC	3DV	SELA[2]
Galil Medical			Galil Medical	Starling	

[1] Elron SW, Inc. ("ESW"), formerly Elron Software. ESW was liquidated as of December 31, 2004.
[2] Semiconductor Engineering Laboratories Ltd.("SELA") has been consolidated since the end of the second quarter of 2004.

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

Three and Nine months ended September 30,					
2005			2004		
Given Imaging	Wavion	Pulsicom	Elbit Systems[1]	ChipX	Oncura
Oren Semiconductor[2]	Notal Vision	NuLens	Given Imaging	Wavion	Pulsicom
NetVision	AMT	CellAct	Oren Semiconductor	Notal Vision	CellAct
ChipX	Oncura		NetVision	AMT	SELA[3]

[1] Sold on July 28, 2004.
[2] Sold on June 10, 2005.
[3] SELA has been consolidated since the end of the second quarter of 2004.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2005 compared to three and nine months Ended September 30, 2004.

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(millions of $, except per share data)			
Net income	4.8	70.8	46.8	80.0
Net income per share	0.16	2.42	1.59	2.74

The net income we reported in the nine months ended September 30, 2005 was mainly due to the following gains from changes in holding and dispositions of group companies:

(i) a gain, net of tax, of approximately $45.4 million resulting from the sale of Partner's shares in consideration for $94.0 million. This gain includes approximately $9.4 million , which was recorded in the third quarter of 2005, resulting from a decrease in our previous valuation allowance in respect of losses incurred in prior periods, following our receipt of a final tax assessment;

(ii) a gain, net of tax, of approximately $17.2 million resulting from the sale of Oren's shares in consideration for $20.3 million in cash and Zoran shares; and

(iii) a gain of approximately $3.0 million from the decrease in our interest in NetVision following its initial public offering.

The above gains were offset by losses, net, which we recorded with respect to our group companies in the amount of $6.0 million and $18.2 million in the three and nine month periods ended September 30, 2005, respectively.

The net income we reported in the nine months ended September 30, 2004 included the following gains from changes in holding and dispositions of group companies:

(i) a gain, net of tax, of approximately $79.9 million resulting from the sale of our holdings in Elbit Systems for approximately $196.6 million. This gain included approximately $10.0 million resulting from a decrease in our previous valuation allowance in respect of losses incurred in prior periods. In the fourth quarter of 2004, an additional reduction in our previous valuation allowance was recorded, bringing the gain from the sale of our holding in Elbit Systems, net of tax, to $91.5 million in 2004.

(ii) a gain, net of tax and minority interest, of approximately $6.7 million resulting from of the sale of Given Imaging's shares by RDC and the decrease in our direct and indirect interest in Given Imaging following the completion of Given Imaging's secondary public offering in the second quarter of 2004;

(iii) a gain of approximately $5.3 million resulting from the sale in the first quarter of 2004 of our shares in KIT eLearning; and

(iv) a gain, net of tax, of approximately $3.6 million resulting from the sale of Zix Corporation shares in consideration for $7.0 million.

The above gains were offset by losses, net, which we recorded with respect to our group companies in the amount of $10.0 million and $14.1 million in the three and nine month periods ended September 30, 2004, respectively.

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 provides 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 was voluntarily dissolved as of December 31, 2004, following the sale of all of its assets in 2003 to Zix Corporation. At September 30, 2005, our 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; Notal Vision; Wavion; AMT; Pulsicom; NuLens, CellAct.
Cost		Jordan Valley; Impliant; Teledata; BrainsGate.
Available-for-sale Securities		Partner, Elbit Vision Systems.

The following tables reflect our consolidated data by reported segments:

	Elron Telesoft	Other holdings and corporate operations	Discontinued operations of ESW	Consolidated
	(millions of $)			
	Three months ended September 30, 2005			
Income*	1.0	0.3	-	1.3
Costs and Expenses	1.7	5.9	-	7.6
Income (loss) from continuing operations	(0.7)	5.5	-	4.8
Net income (loss)	(0.7)	5.5	-	4.8
	Three months ended September 30, 2004			
Income*	0.8	105.5	-	106.3
Costs and Expenses	6.9	5.9	-	12.8
Income (loss) from continuing operations	(6.1)	77.0	-	70.9
Net income (loss)	(6.1)	77.0	(0.1)	70.8
	Nine months ended September 30, 2005			
Income*	3.3	77.6	-	80.9
Costs and Expenses	6.1	13.9	-	20.0
Income (loss) from continuing operations	(2.8)	49.6	-	46.8
Net income (loss)	(2.8)	49.6	-	46.8
	Nine months ended September 30, 2004			
Income*	4.3	139.0	-	143.3
Costs and Expenses	11.4	16.8	-	28.2
Income (loss) from continuing operations	(7.2)	87.6	-	80.5
Net income(loss)	(7.2)	87.6	(0.4)	80.0

* 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 products and services. The following table sets forth the operating results of Elron TeleSoft:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(millions of $)			
Net revenues	1.0	0.8	3.3	4.3
Cost of revenues	0.7	0.6	2.0	2.8
Gross profit	0.4	0.2	1.3	1.5
Operating expenses*	0.9	0.8	2.9	2.3
Amortization of other assets	-	0.2	-	0.6
Restructuring charges	0.1	0.2	0.1	0.2
Impairment of long-lived assets	-	2.9	-	2.9
Impairment of goodwill	-	2.0	1.3	2.0
Operating loss	(0.7)	(5.9)	(3.0)	(6.5)
Finance income (expenses), net	-	(0.2)	0.2	(0.7)
Net loss	(0.7)	(6.1)	(2.8)	(7.2)

*Excluding amortization of other assets, restructuring charges and impairment charges, which are presented separately.

Revenues. Elron TeleSoft's net revenues amounted to $1.0 million and $3.3 million in the three and nine month periods ended September 30, 2005, compared to $0.8 million and $4.3 million in the same periods of 2004. The decrease in the nine month period resulted mainly from the decrease in projects revenues and in revenues derived from sale of third parties' products, as a result of Elron TeleSoft's efforts to focus on revenue assurance products. The increase in license revenues from the revenues assurance products partially offset this decrease.

Cost of revenues. Cost of revenues of Elron TeleSoft in the three and nine month periods ended September 30, 2005 were $0.7 million and $2.0 million, representing a gross margin of approximately 29% and 38%, compared to $0.6 million and $2.8 million in the three and nine month periods ended September 30, 2004, representing a gross margin of 25% and 34%. The increase in gross margin was due to changes in the revenue mix as license revenues with a high gross margin increased relative to revenues derived from projects and sale of third party products, which have a lower gross margin.

Operating expenses (excluding amortization of other assets, restructuring charges and impairment charges which are presented separately) increased to $0.9 million and $2.9 million in the three and nine month periods ended September 30, 2005, compared to $0.8 million and $2.3 million in the comparable periods 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.

Restructuring expenses. In response to its operating results and in an effort to adjust its operations to the decrease in revenues, Elron TeleSoft underwent in the third quarter of 2005 and 2004 a restructuring program which included workforce reduction of approximately 17% and 15%, respectively, across all functions of the organization, without hurting its core revenue assurance development and marketing activities. Restructuring expenses amounted to $0.1 million and $0.2 million in the third quarter and nine month periods of 2005 and 2004, respectively.

Impairment charges. In light of Elron TeleSoft's results of operations, Elron Telesoft tested for impairment its technology and fixed assets and subsequently the goodwill associated with its operations, resulting in an impairment loss of $1.3 million in the second quarter of 2005 and $4.9 million in the third quarter of 2004.

Operating loss. As a result of all the above, Elron TeleSoft's operating loss amounted to $0.7 million and $3.0 million in the three and nine month periods ended September 30, 2005, compared to $5.9 million and $6.5 million for the same periods of 2004.

Finance income (expense), net. Finance income in the three and nine month periods ended September 30, 2005 amounted to $0.0 million and $0.2 million compared to finance expenses of $0.2 million and $0.7 million in the same periods in 2004, primarily as a result of the repayment of the majority of Elron Telesoft's bank loans (financed by an investment by us) and currency translation gains resulting from the devaluation of the New Israeli Shekel (NIS) against the US Dollar.

The ability of Elron TeleSoft to increase its revenues and improve its operating results in the near future is dependent upon its ability to penetrate the international market with its revenue assurance products.

Other Holdings and the 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 our group companies. The following table sets forth this segment's operating results:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(millions of $)		(millions of $)	
Net revenues	2.9	3.7	9.1	7.3
Net loss from equity investments	(5.2)	(3.3)	(13.1)	(5.4)
Gains from disposal of business and affiliated companies and changes in holdings in affiliated companies	1.1	104.5	23.5	132.3
Other income, net	1.5	0.6	58.0	4.8
Total income	0.3	105.5	77.6	139.0
Cost of revenues	1.6	2.0	5.2	4.4
Operating expenses*	5.3	4.5	13.6	13.4
Amortization of other assets	-	0.1	0.2	0.1
Finance income, net	(1.0)	(0.7)	(5.1)	(1.1)
Total costs and expenses	5.9	5.9	13.9	16.8
Gain from continuing operations before income taxes	(5.7)	99.6	63.7	122.2
Tax benefit (Income taxes)	9.7	(22.8)	(16.2)	(30.9)
Minority interest	1.5	(0.2)	2.1	(3.7)
Net income	5.5	77.0	49.6	87.6

* Excluding amortization of intangible assets which are presented separately.

Income

Net revenues. Net revenues in the three and nine month periods ended September 30, 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 September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(millions of $)			
Galil Medical	1.9	2.3	6.0	5.7
SELA[1]	0.9	1.3	2.9	1.3
Other	0.1	0.1	0.2	0.3
	2.9	3.7	9.1	7.3

[1] SELA's results have been consolidated since July 1, 2004

In the three and nine month periods ended September 30, 2005, Galil Medical recorded revenues of $1.9 million and $6.0 million, compared to $2.3 million and $5.7 million in the same periods of 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 $0.9 million and $2.9 million in the three and nine month periods ended September 30, 2005 compared to $1.3 million and $3.1 milllion in the same periods of 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"). Our share in net losses of affiliated companies amounted to $5.2 million and $13.1 million in the three and nine month periods ended September 30, 2005, compared to $3.3 million and $5.4 million in the same periods in 2004. The increase in our share in net losses of our affiliated companies is primarily due to the sale of our holding in Elbit Systems during the third quarter of 2004, which positively contributed $4.7 million to our net income in the nine month periods ended September 30, 2004 and due to impairment charges of $1.9 million, with respect to our investment in Oncura (through Galil) in the third quarter of 2005. 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 three and nine month periods ended September 30, 2005 to $2.0 million and $5.4 million, from $2.0 million and $3.4 million in the comparable periods 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 nine month periods ended September 30, 2005 also includes our share in Oren's net loss in the amount of $1.8 million, which will not recur in future periods due to the sale of all of our shares in Oren, as described above under "RECENT DEVELOPMENTS".

Highlights of the Results of Operations of Our Major Affiliates:

Given Imaging (Nasdaq: GIVN) (a 19.5% holding directly and indirectly through RDC). Given Imaging Ltd. ("Given Imaging"), a medical device company that develops, manufactures and markets innovative diagnostic system for visualizing the gastrointestinal tract, using a disposable miniature swallowable capsules, recorded revenues of $19.8 million and $62.3 million in the three and nine month periods ended September 30, 2005, an increase of 36% and 46% over the revenues recorded in the same periods of 2004 of $14.6 million and $42.8 million. Given Imaging's net income in the three and nine month periods ended September 30, 2005 was $1.9 million and $2.8 million, compared to $0.1 million and $0.4 million in the same periods in 2004. Given Imaging's net income for the nine month period ended September 30, 2005 included a special provision recorded in the second quarter, net of tax benefits, of $1.2 million for certain taxes related to its U.S. subsidiary

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 and nine month periods ended September 30, 2005 of approximately $16.6 million and $54.9 million, compared to $16.7 million and $50.6 million in the same periods of 2004 and its net loss amounted to $1.9 million and $4.1 million , compared to $0.7 million and $1.0 million in the same periods of 2004. The increase in the net loss resulted primarily due to the increase in operating expenses, mainly selling and marketing expenses. In light of Oncura's results of operations, an impairment charge of $1.9 million was recorded in the third quarter of 2005 ($0.9 million after minority interest).

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 in the nine month periods ended September 30, 2005 of approximately $0.1 million compared to approximately $0.3 million in the same period of 2004 and its net loss increased to $1.9 million, compared to $1.5 million in the same period in 2004, mainly as a result of an increase in research and development expenses. In May 2005, Notal appointed TLC Vision Corporation ("TLC"), as it exclusive distributor for the sale and distribution of its home device in North America. TLC also signed an investment agreement with Notal, pursuant to which TLC committed to invest $4.25 million in Notal (of which $1 million has already been invested) subject to achievement of milestones, primarily for the purpose of funding the development of the home device.

NetVision (a 39% holding) (TASE: NTSN). NetVision provides Internet services and solutions in Israel and, commencing in the fourth quarter of 2004, international telephony services through Voice over IP technology (VoIP). NetVision’s revenues increased in the three and nine month periods ended September 30, 2005 by 14.8% and 11.3% to $19.0 million and $55.0 million (of which $1.1 million and $2.4 million derived from international telephony services) from $16.6 million and $49.4 million in the same periods in 2004 and its customer base at September 30, 2005 reached approximately 415,000 (of which approximately 260,000 were broadband) compared to 390,000 at the end of 2004 (of which approximately 225,000 were broadband). NetVision's operating income in the three and nine month periods ended September 30, 2005 increased by 66% and 3.7% to $3.0 million and $6.7 million, compared to $1.8 million and $6.5 million in the same periods in 2004 and its net income amounted to $2.0 million and $3.3 million compared to $1.2 million and $3.6 million in the same periods in 2004. 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 September 30, 2005 according to which $1.00 equaled NIS 4.598.

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 costs incurred in connection with penetrating the highly competitive international telephony services market in Israel.

On May 19, 2005, NetVision completed its initial public offering on the TASE of shares and convertible securities in consideration for aggregate immediate net proceeds of approximately $31 million (see above under "RECENT DEVELOPMENT").

Wavion (a 38% holding). Wavion is a developer of broadband wireless access systems for wireless LANs. Wavion's net loss amounted to $1.5 million and $4.6 million in the three and nine month periods ended September 30, 2005, as compared to $1.2 million and $4.3 million in the comparable periods 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 and nine month periods ended September 30, 2005 amounted to $2.3 million and $11.3 million, compared to $3.8 million and $11.6 million in the same period in 2004, and its net loss amounted to $2.6 million and $4.4 million, compared to $1.7 million and $4.8 million in the same periods in 2004.

AMT (a 42% holding). The AMT group develops technologies and products based on amorphous metals. AMT's consolidated revenues in the three and nine month periods ended September 30, 2005, amounted to $0.9 million and $2.8 million, compared to $0.9 million and $1.8 million in the same periods of 2004 and its consolidated net loss amounted to $0.8 million and $2.2 million, compared to $0.5 million and $1.6 million in the same periods in 2004. AMT's main subsidiary, AHT, which uses amorphous metals for heating products, recorded revenues of $0.6 million and $1.8 million in the three and nine month periods ended September 30, 2005, compared to $0.3 million and $0.7 million in the same period in 2004, and recorded a net loss of $0.4 million and $1.1 million, in the three and nine month periods ended September 30, 2005 , the same as in the same periods in 2004.

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 may increase.

Results of operations of significant group companies which are accounted for other than under the equity method of accounting and whose results do not affect our results of operations.

Partner (Nasdaq: PTNR) (a 2% holding). Partner is a Global System for Mobile Communications, or GSM, mobile telephone network operator in Israel. Our investment in Partner is accounted for as available-for-sale securities. Following the sale of the majority of our shares in Partner during the second quarter of 2005 (see above under "RECENT DEVELOPMENTS"), the market value of our investment in Partner as of September 30, 2005 amounted to $26.6 million. The majority of the remaining Partner shares held by us, amounting to approximately 3.1 million shares, are subject to certain transfer restrictions under Partner's Israeli communications license but are no longer pledged to Partner's lending banks.
In the three and nine month periods ended September 30, 2005, Partner recorded revenues of $294.1 million and $ 840.3 million compared to $293.3 million and $831.1 million in the same periods in 2004 and its net income amounted to $6.7 million and $59.0 million, compared to $25.0 million and $74.0 million in the comparable periods in 2004. Partner's subscriber base as of September 30, 2005 was 2,480,000 compared to 2,340,000 at the end 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 September 30, 2005 according to which $1.00 equaled NIS 4.598.

Teledata (a 21% holding). Teledata provides innovative access products and solutions for both traditional and next generation networks to telecom operators and service providers. Teledata's revenues in the three and nine month periods ended September 30, 2005 amounted to $14.2 million and $40.8 million, respectively.

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 three and nine month periods ended September 30, 2005 increased to $1.8 million and $8.2 million from $1.3 million and $2.4 million in the same periods in 2004, primarily due to the launch of new products. Jordan Valley's net loss in the three month period ended September 30, 2005 was $0.4 million and its net income in the nine month period ended September 30, 2005 was $0.1 million, compared to a net loss of $0.6 million and $2.4 million in the same periods in 2004.

Impliant (a 22% holding). Impliant is engaged in the development of an innovative posterior motion preservation system for spine surgery. Impliant's net loss in the three and nine month periods ended September 30, 2005 amounted to $1.1 million and $4.3 million, compared to $0.9 million and $2.1 million in the same periods in 2004, mainly as a result of increase in research and development expenses.

BrainsGate (a 22% holding). BrainsGate is engaged in the development of implantable medical devices to treat various central nervous system (CNS) diseases related pathologies. BrainsGate's net loss in the three and nine month periods ended September 30, 2005 amounted to $1.0 million and $2.9 million, compared to $0.6 million and $2.3 million in the same periods in 2004, mainly as a result of increase in research and development expenses.

Gains from Disposal of Business and Affiliated Companies and Changes in Holdings in Affiliated Companies. Our 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, 2005 amounted to $1.1 million and $23.5 million, compared to $104.5 million and $132.3 million in the same periods in 2004. The gain in the nine month periods ended September 30, 2005 resulted primarily from the following: (i) a gain of approximately $19.7 million (which after income taxes amounted to $17.2 million) resulting from the sale of Oren's shares in consideration for $20.3 million; (ii) a gain of approximately $3.0 million from the decrease in our interest in NetVision following its initial public offering; and (iii) a gain of $1.2 million (which after minority interest and income taxes amounted to $0.5 million) resulting from the exercise of a call option granted to a former senior executive of RDC to purchase 70,200 shares of Given Imaging for the aggregate exercise price of approximately $12 thousand.
The gain recorded in the nine month period ended September 30, 2004 resulted primarily from the following: (i) a $104.6 million gain (which after income taxes amounted to $79.9 million, before an additional reduction in valuation allowance recorded in the fourth quarter of 2004 of $11.6 million) resulting from the sale of our holding in Elbit Systems; (ii) a $15.2 million gain (which after minority interest and income taxes amounted to $6.7 million) resulting from the sale of 300,000 shares of Given Imaging by RDC and the decrease in our direct and indirect interest in Given Imaging following Given Imaging's secondary public offering; and (iii) a gain of $5.8 million (which after minority interest and income taxes amounted to $1.4 million) resulting from the purchase by RDC of treasury shares amounting to approximately 3% of its outstanding shares from one of its shareholders (a former senior executive of RDC) in consideration for distribution of 200,000 shares of Given Imaging; and (iv) a $5.3 million gain from the sale of our share of KIT eLearning, for a cash payment of $9.4 million (from which we received $5.7 million) and a future payment of up to an additional $10.0 million based on future earnings of KIT in 2006 and 2007 (from which our share will be up to $5.7 million).

Other Income, net. Other income, net, of the other holdings and corporate operations segment amounted to $1.5 million and $ 58.0 million in the three and nine months period ended September 30, 2005 compared to $0.6 million and $4.8 million in same period in 2004. The gain in the nine month periods ended September 30, 2005 was primarily due to a $56.4 million gain (which after income taxes amounted to $45.4 million) from the sale of 12,765,190 shares of Partner for approximately $94.0 million. The gain in the third quarter of 2005 includes $1.1 million ($0.7 million net of tax) from the sale of Zoran's shares received as part of the consideration for Oren's shares. The gain in the nine month period ended September 30, 2004 resulted mainly from a $5.4 million gain, before tax, from the sale of 854,701 shares of Zix which were received in consideration for ESW's assets and business sold to Zix in 2003. This gain was partially offset by $0.5 million, representing 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 (whose results have been consolidated since July 1, 2004). Cost of revenues of the Other Holdings and Corporate Operation segment in the three and nine month periods ended September 30, 2005 amounted to $1.6 million and $5.2 million, compared to $2.0 million and $4.4 million in the same periods 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 intangible assets which is presented separately and amounted to $0.0 million and $0.2 million in the three and nine months ended September 30, 2005 and $0.1 million in the same periods of 2004, which also constitute part of operating expenses under US GAAP but for presentation purposes are included as a separate item):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
		(millions of $)		
Corporate	1.6	2.0	5.6	5.7
Galil Medical	1.0	0.7	2.5	2.0
SELA[1]	0.8	0.7	2.4	0.7
Starling	0.7	0.3	1.8	0.9
3DV	0.5	0.4	1.3	1.2
Other	0.7	0.4	-	2.9
	5.3	4.5	13.6	13.4

[1]SELA's results have been consolidated since July 1, 2004

Operating expenses of Galil Medical in the three and nine month periods ended September 30, 2005 amounted to $1.0 million and $2.5 million, as compared to $0.6 million and $2.0 million in the same periods in 2004 and its operating results amounted to operating loss of $0.3 million and $0.4 million compared to operating income of $0.2 million and $0 million in the same periods in 2004.The increase in operating loss is due to the commencement by Galil of the development of its cryotherapy technology for application in the women's health field at the end of 2004.

SELA's operating expenses amounted to $0.8 million and $2.4 million in the three and nine month periods ended September 30, 2005, compared to $0.7 million and $1.9 million in the same periods in 2004 and its operating loss amounted to $0.3 million and $0.7 million compared to an operating income of $0.1 million and an operating loss of $0.1 million in the same periods in 2004. The increase in the operating loss resulted from the increase in operating expenses,comprising mainly research and development and selling and marketing expenses.

Other operating expenses included mainly the operating expenses of RDC which included, in the nine month period ended September 30, 2005 income of $1.3 million relating to RDC's employee stock option plans resulting from the decrease in the fair value of call options to purchase shares of affiliated companies, compared to a $2.5 million expense in the same period of 2004.

Finance income, net. Finance income, net, in the corporate operations and other holdings segment amounted in the three and nine month periods ended September 30, 2005 to $1.0 million and $5.1 million, compared to $0.7 million and $1.1 million in the same periods in 2004. The increase is mainly due to higher cash resources during the period as a result of the sale of our holding in Elbit Systems in 2004 for approximately $197 million and from the sale of Partner shares in the second quarter of 2005 for approximately $94.0 million. Income from interest in future periods is expected to decrease due to a decrease in cash resources mainly as a result of a cash dividend payment on September 27, 2005 (see also " LIQUIDITY AND CAPITAL RESOURCES ").

Income Taxes. Income taxes, net, amounted in the nine month period ended September 30, 2005 to $16.2 million which resulted mainly from the sale of Partner shares and the sale of Oren Shares. In the third quarter of 2005 we recorded a tax benefit of $9.4 million, mainly as a result of a decrease in our previous valuation allowance in respect of losses incurred in prior periods following our receipt of a final tax assessment. Income taxes, net, in the three and nine month periods ended September 30, 2004 were $22.8 million and $30.9 million. Income taxes for the nine month period of 2004 resulted mainly from the sale of our holding in Elbit Systems, the secondary public offering of Given Imaging, the purchase of treasury stock in RDC in consideration for distribution of Given Imaging's shares and the sale of Zix shares. Income taxes were partially offset by a tax benefit in the amount of $2.1 million due to the change in the Israeli tax rate enacted in the third quarter of 2004.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits at September 30, 2005, were approximately $154.2 million compared with $188.6 million at December 31, 2004. At September 30, 2005, corporate cash, debentures and deposits were $145.5 million compared with $175.7 million at December 31, 2004.

The main sources of corporate cash and other liquid instruments in the nine month period ended September 30, 2005, were $94.0 million of proceeds from the sale of Partner shares, $10.5 million cash proceeds from the sale of our shares in Oren, $8.8 million from the sale of Zoran's shares that were received as part of the consideration for Oren's shares; and $2.2 million repayment of loan by NetVision.

The main uses of corporate cash and other liquid instruments in the nine month period ended September 30, 2005, were an $85.0 million dividend paid (an additional $3.5 million witholding tax at source was paid in October 2005), an income tax payment of approximately $26.7 million (mainly with respect to the sale of Elbit Systems in 2004 and Partner in 2005) and $32.3 million of investments in new and existing group companies (which mainly include investments of $16.0 million in Teledata, $6.9 million in BrainsGate, $1.7 million in NuLens, $1.4 million in Wavion and $1.5 million in Starling).

Consolidated working capital at September 30, 2005 amounted to $140.8 million compared to $158.8 million at December 31, 2004. The decrease is mainly due to the decrease in corporate cash and other liquid instruments.

Consolidated loans at September 30, 2005, were approximately $9.4 million (of which $2.1 million was attributed to Elron TeleSoft, and which is guaranteed by us), compared to $9.1 million at December 31, 2004. 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. MediaGate's bank loan in the amount of approximately $2.8 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.

The remaining Partner shares held by us as of September 30, 2005, amounting to approximately 3.1 million shares, are subject to certain transfer restrictions under Partner's Israeli communications license but are no longer pledged to Partner's lending banks.

Subsequent to September 30, 2005 and through November 8, 2005, we have invested an additional aggregate amount of approximately $6.4 million, which mainly included $3.5 million in Gaia, $1.4 million in Jordan Valley and $1.0 million in Impliant.

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 September 30, 2005, was approximately $301.6 million, representing approximately 83% of the total assets compared with $389.1 million representing approximately 78% of total assets at December 31, 2004. The decrease in the shareholders' equity is mainly due to dividend payment on September 27, 2005.

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