MANAGEMENT REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2004

The following management report should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of March 31, 2004 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2003 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, communications, 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 for the purposes of exploiting Rafael's technology in non-military markets. Our group companies include both publicly traded and privately held companies.

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.

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, minority 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, budgetary control, legal support, market analysis, risk management, identifying joint venture opportunities, introductions to potential customers and investors, business plan preparation, strategic planning and research and development guidance.

We expect to continue to build and realize value for our shareholders from our group companies through the sale of a portion or all of our holdings in, or the issuance of shares by any of our group companies to third parties, 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 capital to support the growth of our group companies.

Our net income (or loss) in any given period is due, in 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. 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. The downturn in the world economy and, in particular, in the technology sector, during 2001 and through the middle of 2003, affected our group companies ability to raise additional financing from other sources, the results of operations of our group companies and our ability to successfully "exit" some of our group companies and record capital gains at the same level that we experienced in the years prior to the downturn. Since the second half of 2003, there have been initial indications of 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 the raising of funds from new strategic and other investors in private placements completed by some of our group companies. We anticipate that a recovery in the world economy and, in particular, in the technology sector, 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.

RECENT DEVELOPMENTS

Investment in ChipX (formerly, Chip Express). In March 2004, ChipX, a manufacturer of late-stage programmable application-specific integrated circuits, or structured ASICs, completed a financing round led by a new investor, Vantage Point Venture Partners, raising $12.0 million, out of which we invested approximately $2.6 million. Following the investment, our holding in ChipX decreased from approximately 33% to approximately 27%.

Sale of KIT eLearning ("KIT"). In March 2004, KIT, a provider of online academic programs, in which we held 45%, was sold to Online Higher Education, a subsidiary of Sylvan Learning Systems, Inc. (Nasdaq: SLVN), a global leader in higher education, for cash payment of $9.4 million and a future payment of up to an additional $10.0 million based on future earnings of KIT in 2006 and 2007. The other selling shareholders of KIT were Discount Investment Corporation ("DIC"), our controlling shareholder, and Kidum IT Ltd., a privately held Israeli company. Of the $9.4 million immediate proceeds of the sale, we received approximately $5.7 million and we recorded a gain of approximately $5.3 million.

NetVision. On March 30, 2004, NetVision, one of Israel's largest Internet Service Providers (ISP), in which we hold 46%, filed a request with the Israeli Securities Authority and the Tel Aviv Stock Exchange ("TASE") for a proposed public offering of its shares on the TASE. The other major shareholder of NetVision is our controlling shareholder, DIC, which also holds 46% of NetVision, following DIC's purchase of the NetVision shares from Tevel, in March 2004. The request is a preliminary step in the proposed offering and there is no assurance that the proposed offering will take place.

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 2003 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, 2003. The following is a significant new accounting policy which we recently adopted:

Consolidation of Variable Interest Entities. In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*, ("FIN 46"). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is a corporation, partnership, limited liability corporation, trust, or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. FIN 46 provides several exceptions to its scope, such as that an entity that is deemed to be a business need not to be evaluated to determine if it is a VIE unless one of the conditions specified in the interpretation exists.

FIN 46 requires a VIE to be consolidated by the party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) that will absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no other variable interests absorb a majority of the VIE's losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

FIN 46 was effective immediately for VIEs created after January 31, 2003. For VIEs created before January 31, 2003 the provisions of FIN 46, as revised, were adopted as of March 31, 2004.

As an operational holding company, we have investments in and loans to various companies that are engaged primarily in the fields of high technology. Some of these companies are in their early stages of development and will require substantial external investments until they can finance their activities without additional support from other parties and may be considered variable interests. These companies are currently primarily funded with financing from venture capital funds, other holding companies and private investors.

Towards the end of 2003, RDC and Elbit Systems Ltd., an affiliated company, formed a new company, Starling Advanced Communications Ltd. ("Starling") in order to develop connectivity solutions for broadband access for commercial aircraft. Both RDC and Elbit Systems contributed technologies in exchange for a 50% ownership interest each in Starling. In addition, RDC and Elbit Systems granted Starling convertible loans in the amount of $300 thousand each. Upon the adoption of FIN 46 we consolidated Starling as it was determined to be a VIE, and we are its primary beneficiary.

In August 2002, Elron completed an investment of approximately $5.0 million in A.M.T Advanced Metal Technologies Ltd. ("AMT") as part of an aggregate investment of $8.7 million. AMT develops, markets and licenses technologies, through its group companies, for amorphous and nano-crystalline advanced materials, for a wide range of commercial applications. Currently, AMT is focusing on two of its group companies, namely A.H.T. Advanced Heating Technologies Ltd., which uses amorphous metals for heating products, and Confirm Technology Ltd. ("Confirm") (formerly: ACS Advanced Coding Systems Ltd.), which develops, markets and sells products using amorphous metals for brand protection against counterfeiting and diversion and anti-shoplifting electronic article surveillance. The investment was in the form of notes which are convertible into preferred shares of AMT or into shares held by AMT in certain of its subsidiaries. In addition, we are entitled to the rights attached to the convertible notes on an "as converted" basis as a shareholder of AMT and have special voting rights in certain specified circumstances. Our interest in AMT on a diluted basis and on an "as converted" basis (excluding loans) amounts to 28%. Since December 2002 we granted AMT and its subsidiary convertible loans in the amount of approximately $2.2 million. AMT is considered to be a VIE, however as we are not the primary beneficiary of AMT, we did not consolidate AMT. As of March 31, 2004, our maximum exposure to loss as a result of our involvement in AMT does not exceed our investment in AMT in the amount of approximately $3.8 million.

Under FIN 46, certain events can require a reassessment of our investment in our group companies to determine if they are variable interests and which of the variable interest owners is the primary beneficiary. As a result of such events, we may be required to make additional disclosures or consolidate these entities.

BASIS OF PRESENTATION

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

Three months ended March 31,					
2004			2003		
Elron TeleSoft	DEP	MediaGate	Elron TeleSoft	RDC	MediaGate
Elbit	RDC	3DV[2]	Elbit	Galil Medical	
Galil Medical	ESW[1]	Starling	DEP	ESW[1]	

[1] Elron SW ("ESW"), formerly Elron Software.
[2] Following the purchase of a controlling interest in 3DV during the first quarter of 2004, from the majority of the other shareholders of 3DV.

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

Three months ended March 31,					
2004			2003		
Elbit Systems	ChipX	CellAct	Elbit Systems	ChipX	3DV
NetVision	Wavion	AMT	NetVision	Wavion	CellAct
Given Imaging	Notal Vision	Pulsicom	Given Imaging	KIT	AMT
Oren Semiconductor	Oncura		Oren Semiconductor	Notal Vision	Pulsicom
					Witcom

RESULTS OF OPERATIONS

Three months Ended March 31, 2004 compared to Three months Ended March 31, 2003.

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

	Three months ended March 31,	
	2004	2003
	(millions of $, except per share data)	
Net income (loss)	3.7	(9.3)
Basic net income (loss) per share	0.13	(0.32)

The net income we reported in the three months ended March 31, 2004, as compared to the net loss we reported in three months ended March 31, 2003, was mainly due to the following factors:

(i) a gain of approximately $5.3 million resulting from the sale of our shares in KIT eLearning to a subsidiary of Sylvan.
(ii) a gain, net after tax, of approximately $2.0 million resulting from the sale of 362,416 Zix Corporation shares, received in consideration for the assets and business of ESW which was sold in September 2003 to Zix.
(iii) the decrease in losses we recorded with respect to our group companies in the amount of $6.1 million, mainly due to the sale of business of ESW and MediaGate, the decrease in Galil Medical losses following the formation of Oncura as a result of the merger of its and Amersham's urology units and the improvements in the results of some of our group companies such as Given Imaging and ChipX.

Reportable Segments

Subsequent to the sale of ESW on September 2, 2003 to Zix, 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.

At March 31, 2004, the main group companies were classified into the following segments:

	Systems and projects	Other holdings and corporate operations	Internet products (Discontinued Operations)
Consolidated	Elron TeleSoft	Elbit; DEP; RDC; Galil Medical; MediaGate, 3DV, Starling	ESW
Equity basis		Elbit Systems; NetVision; Chip X; Wavion; Pulsicom; Given Imaging; CellAct; AMT; Notal Vision; Oren Semiconductor; Oncura	
Cost		Witcom	
Available-for-sale Securities		Partner Communication Company ("Partner"), Elbit Vision Systems; Zix	

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, 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
Gain (loss) from discontinuing operations	-	-	(0.3)	(0.3)
Net income (loss)	(0.5)	4.5	(0.3)	3.7

	Elron TeleSoft	Other holdings and corporate operations	Discontinued operations of ESW	Consolidated
	(millions of $)			
	Three months ended March 31, 2003			
Income*	2.1	(2.1)	-	-
Costs and expenses	(2.6)	(7.6)	-	(10.2)
Loss from continuing operations	(0.6)	(7.4)	-	(7.9)
Gain (loss) from discontinuing operations	-	0.5	(1.8)	(1.3)
Net loss	(0.6)	(6.9)	(1.8)	(9.3)

* 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,	
	2004	2003
	(millions of $)	
Net revenues	1.7	2.1
Cost of revenues	(1.0)	(1.5)
Gross profit	0.7	0.6
Operating expenses*	(0.7)	(0.6)
Amortization of other assets	(0.2)	(0.2)
Operating loss	(0.2)	(0.2)
Finance expenses, net	(0.3)	(0.4)
Other expenses, net	-	-
Net loss	(0.5)	(0.6)

* Excluding amortization of other assets which are presented separately.

Revenues. Elron TeleSoft's net revenues decreased by $0.4 million, or 19%, from $2.1 million in the three months ended March 31, 2003 to $1.7 million in the same period in 2004 mainly as a result of the decrease in revenues derived from the sale of third parties' products.

Cost of revenues. Cost of revenues of Elron TeleSoft in the three months ended March 31, 2004 was $1.0 million, representing a gross margin of 41%, compared to $1.5 million in the same period in 2003, representing a gross margin of 29%. The increase in gross margin was due to change in revenue mix as revenues derived from Elron Telesoft's products with higher gross margins increased relative to revenues derived from sale of third parties' products.

Operating loss. Elron TeleSoft's operating loss amounted to $0.2 million in the three months ended March 31, 2004, the same level as in the comparable period in 2004.

Finance expenses, net. Finance expenses amounted to $0.3 million in the three months ended March 31, 2004 compared to approximately $0.4 million in the same period in 2003. The majority of the finance expenses were due to loans associated with the purchase of its main operations in 1998.

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, 2004	Three months ended March 31, 2003
	(millions of $)	
Net revenues	1.8	1.7
Net loss from equity investments	(0.4)	(2.9)
Gain from disposal and changes in holdings in related companies, net	6.1	0.4
Other income (expenses), net	2.4	(1.3)
Total income	9.9	(2.1)
Cost of revenues	1.1	0.8
Operating expenses*	5.5	6.8
Amortization of other assets	-	0.1
Finance expenses (income), net	(0.3)	(0.1)
Total costs and expenses	6.3	7.6
Income (loss) from continuing operations before taxes	3.6	(9.7)
Tax benefit (income tax)	(0.6)	0.4
Minority interest	1.5	2.0
Income (loss) from continuing operations	4.5	(7.3)
Gain from discontinued operations	-	0.5
Net income (loss)	4.5	(6.9)

* Excluding amortization of other assets which are presented separately.

Income

Net revenues. Net revenues in the three months ended March 31, 2004 and 2003 of the Other Holdings and Corporate Operations segment consisted of sales of products and services by our subsidiaries, mainly Galil Medical. In the three months ended March 31, 2004 Galil Medical recorded revenues of $1.7 million, the same level as in the same period in 2003. Following the formation of Oncura as a result of the merger of the urology therapy units of Galil Medical and Amersham in July 1, 2003, 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.

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 $0.4 million in the three months ended March 31, 2004, compared to $2.9 million in the same period in 2003. The decrease in our share in net losses of our affiliated companies in the first quarter of 2004 resulted mainly from the decrease in our share in the net losses of some of our group companies whose results have been improved, and in particular, Given Imaging, ChipX and AMT. The above decrease was partially offset mainly as a result of the increase in our share in the net losses of Wavion.

Highlights of the Results of Operations of Our Major Affiliates:

Elbit Systems Ltd. (Nasdaq: ESLT) (a 20% holding). Elbit Systems develops, manufactures and integrates advanced high-performance defense electronic systems. Our share in net income of Elbit Systems amounted to $2.5 million in the three months ended March 31, 2004 compared to $2.4 million in the same period in 2003.

The following are highlights of the results of operations of Elbit Systems:

- Elbit Systems' revenues increased from $202.2 million in the three months ended March 31, 2003 to $213.7 million in the same period in 2004. As of March 31, 2004, Elbit Systems' backlog of orders was $1,821 million, of which approximately 74% was scheduled to be performed in the next three quarters of 2004 and in 2005, compared to a backlog of orders of $1,752 million on December 31, 2003.

- Elbit Systems' operating income in the three months ended March 31, 2004 was $15.8 million (7.4% of revenues) compared to $14.9 million (7.4% of revenues) in the same period in 2003.

- Elbit Systems' net income in the three months ended March 31, 2004 was $12.7 million (6.0% of revenues) compared to $12.3 million (6.1% of revenues) in the same period in 2003.

Given Imaging (Nasdaq: GIVN) (an 17% holding directly and indirectly through RDC). Given Imaging, a medical device company that developed and markets a disposable miniature video camera for visualizing the gastrointestinal tract, reached record sales of $12.7 million in the first quarter of 2004, a 47.8% increase over sales in the first quarter of 2003. During the quarter, total capsules sold reached a record of 19,000, 85% higher than the first quarter of 2003. Gross profit amounted to 70.1% of revenues compared to 67.2% in the first quarter of 2003. Given Imaging's net loss for the first quarter was $0.6 million, a substantial improvement compared to a net loss of $3.6 million in the first quarter of 2003.

Oncura (a 25% holding by Galil). Oncura commenced its operations on July 1, 2003 following the completion of the merger of the urology therapy units of Galil and Amersham which created Oncura. Oncura markets and sells therapeutic device systems and related consumables used primarily in the performance of minimally-invasive, urologic cancer treatment. Oncura's revenues in the three months ended March 31, 2004 amounted to $17.4 million compared to $15.3 million in the previous quarter (the fourth quarter of 2003). Oncura's net income in the three months ended March 31, 2004 amounted to $0.3 million compared to a net loss of $1.5 million in the fourth quarter of 2003.

Notal Vision (a 24% holding). Notal Vision, a medical device company operating in the field of early detection of Age Related Macular Deterioration (AMD), recorded revenues of $0.3 million in the three months ended March 31, 2004 compared to $0 million in the same period in 2003 and its net loss decreased to $0.3 million from $0.6 million, mainly as a result of the increase in revenues and the decrease in research and development expenses.

NetVision (a 46% holding). NetVision provides Internet services and solutions in Israel. Although NetVision continues to experience increased competition in gaining broadband communication market share, resulting from the transition of customers to broadband communication, NetVision recorded in the three month period ended March 31, 2004, an increase of 15% in revenues to $16.4 million, from $14.3 million in the same period in 2003 and its customer base at March 31, 2004 reached approximately 368,000 (of which approximately 169,000 are broadband) compared to 332,000 at the end of the first quarter of 2003 (of which approximately 70,000 are broadband). NetVision's operating income increased to $2.1 million, compared to $0.4 million in the same period in 2003, and its net income increased to $0.6 million compared to net loss of $0.1 million in the first quarter of 2003. 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, 2004 according to which $1.00 equaled NIS 4.528.

Wavion (a 38% holding). Wavion is a developer of broadband wireless access systems for wireless LANs. In 2002 and in the beginning of 2003, as a result of the downturn in the broadband wireless communications market, which delayed the release of Wavion's products, Wavion significantly reduced its research and development expenses and began to sell subcontracting services for the development of wireless sub-systems. In the second half of 2003, Wavion completed a financing round in which it raised $12.5 million, as a result of which Wavion directed resources away from its subcontracting activities to R&D activities and its revenues in the three month period ended March 31, 2004 amounted to $0.1 million, compared to $0.7 million in the same period in 2003. The increase in its research and development costs resulted in an increase in Wavion's net loss which amounted to $1.7 million in the three month period ended March 31, 2004, compared to a net income of $20 thousand in the same period in 2003.

ChipX (formerly: Chip Express) (a 27% holding). ChipX is a manufacturer of structured ASICs. ChipX's revenues in the three month period ended March 31, 2004 increased to $3.9 million, compared to $3.0 million in the same period in 2003, 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, 2004 decreased to $1.5 million, compared to $2.4 million in the same period in 2003.
In March 2004, ChipX raised $12.0 million in a private placement, the proceeds of which will be used to finance its sales, marketing and development investments in its structured ASIC technology.

Oren Semiconductor (a 41% holding). Oren is a developer of integrated circuits for digital broadcasting. In the three months ended March 31, 2004, Oren's revenues increased to $1.0 million compared to $0.6 million in the same period in 2003, mainly due to an increase in revenues from development projects. Oren's net loss in the three months ended March 31, 2004 decreased to $1.0 million compared to $1.4 million in the same period in 2003 mainly as a result of the increase in revenues.

AMT (a 28% holding). The AMT group develops technologies and products based on amorphous metals. AMT's two main operating companies are AHT, which uses amorphous metals for heating products, and Confirm Technology (formerly, ACS), which uses amorphous metals for identification, authentication an anti-shoplifting solutions. In the three month period ended March 31, 2004, AHT recorded revenues of $0.2 million compared to $0.1 million in the same period in 2003, and a net loss of $0.4 million, compared to a net loss of $0.5 million in the same period in 2003. Confirm Technology recorded in the three month period ended March 31, 2004 revenues of $0.2 million compared to $0.1 million in the same period in 2003, and a net loss of $0.3 million, compared to a net loss of $0.4 million in the three month period ended March 31, 2003.

Despite the decrease in our share in the net losses from our group companies, 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 these companies will continue to negatively affect our results of operations.

Results of operations of significant group companies which are accounted for other than under the equity method of accounting. In addition to companies accounted for under the equity method, we have a significant investment in Partner (Nasdaq: PTNR), which is accounted for as available-for-sale securities, whose results do not affect our results of operation.

Partner (Nasdaq: PTNR) (a 9% holding through Elbit). At March 31, 2004, the market value of our investment in Partner amounted to $126.1 million. Partner is a Global System for Mobile Communications, or GSM, mobile telephone network operator in Israel. The following are highlights of the results of operations of Partner for the three months ended March 31, 2004 (all figures below are convenience translations of Partner's nominal New Israeli Shekel (NIS) figures into US dollars at the rate of the exchange prevailing at March 31, 2004 according to which $1.00 equaled NIS 4.528):

- Partner's revenues for the three months ended March 31, 2004 increased by 18.2% to $269.1 million from $227.8 million in the same period in 2003. Partner's subscriber base at the end of the first quarter in 2004 rose 14.3% to 2,165,000 compared to 1,894,000 at the end of the same period in 2003.
- Partner's operating income for the three months ended March 31, 2004 increased to $52.0 million from $28.8 million in the same period in 2003, an increase of 80.6%. Operating income in the three months ended March 31, 2004, as a percentage of revenues, reached 19.3% as compared to 12.6% in the same period in 2003. The substantial increase in the quarterly operating income and operating income as a percentage of revenues resulted primarily from strong revenue growth of 18.2% and stable expense levels.
- Partner's net income for the three months ended March 31, 2004 was $20.3 million compared to net income of $7.7 million for the same period in 2003.

Partner has a line of credit agreement with a consortium of banks that provides for borrowings of up to $683 million. As of March 31, 2004, $380 million was outstanding under this facility. The line of credit is guaranteed by shares held by the original shareholders of Partner, pro rata to their respective holdings. All of the shares held by us as of March 31, 2004, amounting to approximately 15.9 million shares, are pledged by us in favor of the consortium of banks.

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 $6.1 million in the three months ended March 31, 2004 compared to $0.4 million in the same period in 2003. 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. The gain in the first quarter of 2003 resulted primarily from a $0.4 million gain from the sale of 92,500 shares of Given Imaging held by RDC.

Other Income (expenses), net. Other income, net, of the other holdings and corporate operations segment amounted to $2.4 million in the three months ended March 31, 2004 compared to a loss of $1.2 million in the same period in 2003. The gain in the first quarter of 2004 resulted mainly from a $3.1 million gain, before 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 represents the funding of 3DV's previous years losses. The loss in the first quarter of 2003 resulted mainly from a $1.2 million write-down of our investment in Cellenium.

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. Cost of revenues of the Other Holdings and Corporate Operation segment in the three month period ended March 31, 2004 were $1.1 million compared to $0.8 million in the same period in 2003.

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. The following table sets forth the segment operating expenses. The operating expenses presented below exclude amortization of other assets in the amount of $0 million and $0.1 million in the first quarter of 2004 and 2003, respectively, 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,	
	2004	2003
	(millions of $)	
Corporate	2.0	1.7
Galil Medical	0.7	3.7
MediaGate	-	1.2
Starling	0.4	-
3DV	0.4	
Other	2.0	0.2
	5.5	6.8

Our corporate operating costs in the three months ended March 31, 2004, amounted to $2.0 million compared to $1.7 million in the same period in 2003. The increase in the corporate costs resulted mainly from the increase of $0.4 million in costs related to the company's employee stock option plans and call options in favor of employees to purchase shares of affiliated companies.

Operating expenses of Galil Medical in the three months ended March 31, 2004 were $0.7 million compared to $3.7 million in the same period in 2003. Galil Medical's operating loss in the three months ended March 31, 2004 amounted to $0.2 million compared to $2.7 million in the same period in 2003. The decrease in Galil Medical's operating expenses and operating loss was mainly due to the merger of the urology therapy units of Galil Medical and Amersham which resulted in a significant decrease in Galil Medical's marketing and selling expenses. Galil plans to continue developing its cryotherapy technology for application in other health care fields, and to supply Oncura manufacturing and research and developments services on a cost plus basis. Galil Medical's results of operations will be affected in the future quarters by the extent of future research and developments activities for the development of new cryotherapy applications.

The decrease in MediaGate's operating expenses was as a result of the sale of its assets and business to Telrad at the end of 2003, following which MediaGate ceased its operations.

Other operating expenses include mainly the operating expenses of RDC. The increase in other operating expenses was due primarily to the increase of $1.9 million in costs related to RDC's employee stock option plans and the increase 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, 2004 to $0.3 million compared to $0.1 million in the same period in 2003. The increase is mainly due to higher cash resources.

Income Taxes. Income taxes, net, in the three month period ended March 31, 2004 were $0.6 million, which were mainly due to income taxes with respect to the sale of shares of Zix. In the three month period ended March 31, 2003, we recorded a tax benefit of $0.4 million mainly with respect to corporate expenses.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits (including short and long-term) at March 31, 2004, were approximately $75.5 million compared with $114.6 million at December 31, 2003. At March 31, 2004, the corporate cash, debentures and deposits (including short and long term) were $70.2 million compared with $107.3 million at December 31, 2003. The decrease in consolidated and corporate cash and other liquid instruments resulted primarily from the repayment of approximately $40.5 million loans of Elron Telesoft and ESW. The total bank loan of ESW and Elron TeleSoft, substantially all of which are guaranteed by us, amounted to $27.3 million at March 31, 2004 compared to $67.5 million at December 31, 2003.

The main sources of corporate cash and other liquid instruments in the first quarter of 2004, were $5.7 million proceeds from the sale of all of our shares in KIT eLearning and the $4.2 million proceeds from the sale of Zix shares.

The main uses of the corporate cash and other liquid instruments in the first quarter of 2004, were the $40.5 million repayment of bank loans, $3.8 million of investments in our group companies (of which $2.6 was invested in ChipX) and a $2.0 million loan granted to NetVision.

Consolidated working capital at March 31, 2004 amounted to $52.8 million compared to $57.0 million at December 31, 2003.

Consolidated loans at March 31, 2004, were approximately $32.8 million, of which $27.3 million were attributed to Elron TeleSoft and ESW. During the first quarter of 2004, we refinanced Elron TeleSoft's and ESW's loans. As part of this refinancing we repaid approximately $40.5 million to the lending banks out of $67.5 million outstanding at December 31, 2003. The lending terms, including interest and maturity dates were not significantly changed. The majority of the remaining loans are guaranteed to banks by us and of which $3.5 million are also secured by a pledge on our debentures and deposits. 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. During the first quarter of 2004, we and DIC granted NetVision a $4.0 million loan ($2.0 million each) in order to enable NetVision to repay a portion of its line of credit. The loan is to be repaid in July 2004. The amount outstanding under NetVision's credit lines at March 31, 2004, was approximately $16.2 million.

MediaGate's bank's loan in the amount of approximately $2.6 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.

All of Partner's shares held by us as of March 31, 2004, amounting to approximately 15.9 million shares, are pledged by us in favor of Partner's consortium of banks.

Subsequent to March 31, 2004 and through May 9, 2004, we have invested an additional aggregate amount of approximately $1.2 million in our group companies.

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, 2004, was approximately $302.4 million representing approximately 72% of the total assets compared with $296.1 million representing approximately 66% of total assets at December 31, 2003.

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