MANAGEMENT REPORT FOR THE SECOND QUARTER ENDED JUNE 30, 2004

The following management report should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of June 30, 2004 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2003 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, 2003 ("2003 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. 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 pursuant to a joint venture agreement entered into in July 1993 for the purposes of exploiting Rafael's technology in non-military markets. RDC has first rights to exploit commercially technologies of Rafael in non-military markets, which rights are dependent primarily upon RDC’s identification of new and existing military technology developed by Rafael, for commercial exploitation 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, 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.

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 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. In addition, we recorded gains from realizing certain of our holdings and will record a significant gain in the third quarter of 2004 as a result of the sale of our holdings in Elbit Systems Ltd. (see below under "RECENT DEVELOPMENTS").

We anticipate that if a recovery in the world economy and, in particular, in the technology sector, will continue, this 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 a few new companies, mainly in the fields of medical devices and semiconductors. In this regard, on August 10, 2004, we announced an investment in a new company (see below under "RECENT DEVELOPMENTS").

RECENT DEVELOPMENTS

Secondary public offering of Given Imaging (Nasdaq: GIVN). On June 23, 2004, Given Imaging completed its secondary public offering of 2,880,750 shares at $32.00 per share of which 1,500,000 were sold by Given Imaging and 1,380,750 (including 375,750 shares as a result of the exercise of the underwriters' over allotment option) were sold by existing shareholders. Given Imaging received net proceeds of approximately $44.4 million. Our subsidiary, RDC, sold 300,000 shares in consideration for approximately $9.0 million. Elron did not sell any shares in this secondary offering. As a result of RDC's sale and the decrease in our direct and indirect interest in Given Imaging from approximately 16% to approximately 15%, we recorded a gain, of $15.2 million ($6.7 million net of tax and minority interest).

Subsequent to June 30, 2004 and through August 10, 2004, we purchased 550,000 shares of Given Imaging for an aggregate purchase consideration of approximately $19.2 million. As a result, our direct and indirect (through RDC) interest in Given Imaging increased from approximately 15% to approximately 16.9%. Elron may consider from time to time during the short term the purchase of additional shares of Given Imaging.

Investment of $3 million in AMT Advanced Metal Technologies Ltd. ("AMT"). On June 30, 2004, AMT completed a $6.0 million round of financing of convertible notes in which an international strategic partner invested $3.0 million and we invested an additional $3.0 million of which $0.2 million was invested in the first quarter. In addition, existing AMT shareholders, converted shareholder loans into convertible notes in the amount of approximately $2.7 million, of which approximately $1.6 million was converted by us, as part of the aggregate investment. The notes are convertible into preferred shares of AMT or into shares held by AMT in certain of its subsidiaries. Following the investment, our ownership interest in AMT rose to approximately 35% from 28% on a fully diluted basis (excluding warrants) and on an "as converted" basis.

Sale of all of our holdings in Elbit Systems Ltd. (Nasdaq: ESLT). On July 8, 2004 we announced the signing of a definitive agreement for the sale of all of our holdings in Elbit Systems constituting approximately 19.6% of the outstanding share capital of Elbit Systems to Tadiran Communications Ltd., in consideration for approximately $197 million. Elbit Systems develops, manufactures and integrates advanced high-performance defense electronic systems. The closing of the transaction was subject to the right of first refusal of the Federmann group, the other major shareholder of Elbit Systems. On July 28, 2004, we received notification by the Federmann group of the exercise of its right of first refusal, following which the shares were sold on the same date to the Federmann group for approximately $197 million. As a result, Elron will record in the third quarter a gain, net of tax, of approximately $80 million, of which approximately $10.0 million will result from the decrease in our previous valuation allowance in respect of losses incurred in prior periods. The decrease in our previous valuation allowance is in light of the transaction, following which we revised our judgment about the realizability of deferred tax.

In addition, based on a preliminary analysis we conducted, it is more likely than not that as a result of the transaction, Elron will be characterized as a "passive foreign investment company" (PFIC) for U.S. federal income tax purposes, for 2004, which would result in adverse tax consequences for our U.S. shareholders. However, we are still in the process of reviewing Elron's position with the assistance of our advisors. The tests for determining passive foreign investment company status involve assessments of income and assets, which are relevant to this determination. The tests are impacted by changes in our holdings and in the value of our group companies which are difficult to predict. We will make a further announcement following completion of our review.

Following these transactions, Elron has more than $200 million in cash and in other liquid instruments and our board of directors may consider, from time to time, a dividend distribution, taking into consideration our financial status, profitability and our investment plans in existing and new companies.

Tender offer to purchase 7.5% of our shares. On July 16, 2004 we announced that Discount Investment Corporation Ltd. ("DIC") commenced a tender offer to purchase 2,203,425 of our ordinary shares for $15 per share, net to the seller in cash, less any required withholding taxes and without interest. Currently, DIC beneficially owns 11,240,233 ordinary shares of Elron, representing approximately 38.5% of our outstanding shares. Following the consummation of the tender offer, DIC will own approximately 46% of our outstanding shares.

Investment in New Company. On August 10, 2004, we signed a definitive agreement to invest approximately $6.7 million in Jordan Valley Applied Radiation Ltd. ("Jordan Valley"), an Israeli private company engaged in developing solutions for advanced in-line thin film metrology for the semi-conductor industry. Jordan Valley is 57% owned (indirectly) by Clal Industries and Investments Ltd. ("Clal"), an approximately 64% held subsidiary of IDB Development Corporation Ltd. ("IDBD"). IDBD also owns approximately 65% of our parent company, DIC. Clal, IDBD, and DIC are publicly traded on the Tel Aviv Stock Exchange. Following the investment, we will initially hold a 25% ownership interest of Jordan Valley, on a fully diluted basis, subject to adjustment based on Jordan Valley's future performance. The investment is subject to regulatory and other approvals including the approval of the shareholders of Elron and Clal.

New Corporate Tax Rate in Israel. On June 29, 2004 the Israeli parliament approved an amendment to the Income Tax Ordinance which gradually reduces the corporate tax rate from 36% in 2003 to 30% in 2007. The amendment was signed and published in July 2004 and is therefore considered enacted in July 2004. As a result, we will record a tax benefit due to the change in the tax rate in the amount of approximately $2.0 million in the third quarter of 2004.

CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States (“US GAAP”). Our significant accounting policies are more fully described in Note 2 of the Notes to our Consolidated Financial Statements as of December 31, 2003, filed under item 18 to our 2003 20-F. The accounting policies which are particularly important to the assessment of our financial position and results of operations are described under item 5 to our 2003 20-F, under "Critical Accounting Policies".

As more fully described in our 2003 20-F, we adopted Interpretation No. 46 (Revised 2003), Consolidation of Variable Interest Entities (“VIEs”) - an interpretation of ARB No. 51 ("FIN 46"). Upon the adoption of FIN 46 we began consolidating Starling as it was determined to be a VIE, and we are its primary beneficiary; and determined that AMT is considered to be a VIE, however as we are not the primary beneficiary of AMT, we are not consolidating AMT.

BASIS OF PRESENTATION

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

Three and Six months ended June 30,					
2004			2003		
Elron TeleSoft	RDC	3DV [2]	Elron TeleSoft	RDC	ESW [1]
Elbit	Galil Medical	Starling	Elbit	Galil Medical	
DEP	MediaGate	ESW [1]	DEP	MediaGate	

[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.

At the end of the second quarter of 2004, as a result of conversion of shareholders loans granted by RDC to Sela Semiconductor ("Sela"), RDC's ownership interest in Sela increased from approximately 49% to approximately 54% and accordingly, Sela's assets and liabilities are included within our consolidated balance sheet as of June 30, 2004. The statement of operations of Sela will be included in our consolidated financial statements commencing in the third quarter of 2004.

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

Three and Six months ended June 30,			
2004		2003	
Elbit Systems	Notal Vision	Elbit Systems	AMT
NetVision	Oncura	NetVision	Notal Vision
ChipX	Pulsicom	ChipX	Witcom
Wavion	CellAct	Wavion	3DV
Given Imaging	Sela	Given Imaging	Pulsicom
Oren Semiconductor		Oren Semiconductor	CellAct
AMT		KIT	Sela

RESULTS OF OPERATIONS

Three and six months Ended June 30, 2004 compared to three and six months Ended June 30, 2003.

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

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(millions of $, except per share data)			
Net income (loss)	5.5	(4.1)	9.2	(13.3)
Net income (loss) per share	0.19	(0.14)	0.31	(0.45)

The net income we reported in the second quarter of 2004, as compared to the net loss we reported in the second quarter of 2003, was mainly due to the following factors:

(i) 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; and

(ii) the decrease in losses we recorded with respect to our group companies in the amount of $5.2 million, mainly due to the sale of businesses of ESW and MediaGate, the sale of our holding in KIT, our share in the net income reported for the first time by Given Imaging, 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 ChipX, Oren Semiconductor and AMT;

The net income we reported in the first half of 2004 included the additional following main factors:

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

(ii) a gain, net after tax, of approximately $3.3 million (of which $1.3 million in the second quarter of 2004) resulting from the sale of 634,228 Zix Corporation shares (of which 271,812 were sold during the second quarter of 2004) in consideration for $7.0 million (of which $2.8 million was received during the second quarter of 2004).

Reportable Segments

Subsequent to the sale of the business 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 June 30, 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, Sela.	ESW
Equity basis		Elbit Systems; NetVision; ChipX; Wavion; Given Imaging; CellAct; AMT; Notal Vision; Oren Semiconductor; Oncura; Pulsicom.	
Cost		Avantry (formerly known as Witcom)	
Available-for-sale Securities		Partner Communication Company ("Partner"), Elbit Vision Systems; Zix	

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 June 30, 2004			
Income*	1.8	23.6	-	25.4
Costs and Expenses	2.4	4.5	-	6.9
Income (loss) from continuing operations	(0.6)	6.1	- -	5.5
Loss from discontinuing operations	-	-	-	-
Net income (loss)	(0.6)	6.1	-	5.5
	Three months ended June 30, 2003			
Income*	2.1	6.2	-	8.3
Costs and Expenses	2.8	7.4	-	10.2
Loss from continuing operations	(0.7)	(1.7)	-	(2.4)
Loss from discontinuing operations	-	-	(1.6)	(1.6)
Net loss	(0.7)	(1.7)	(1.6)	(4.1)
	Six months ended June 30, 2004			
Income*	3.4	33.6	-	37.0
Costs and Expenses	4.5	10.9	-	15.4
Income (loss) from continuing operations	(1.1)	10.7	-	9.6
Loss from discontinuing operations	-	-	(0.4)	(0.4)
Net income (loss)	(1.1)	10.7	(0.4)	9.2
	Six months ended June 30, 2003			
Income*	4.2	4.1	-	8.3
Costs and Expenses	5.4	15.0	-	20.4
Loss from continuing operations	(1.2)	(9.0)	-	(10.2)
Income (loss) from discontinuing operations	-	0.4	(3.5)	(3.1)
Net loss	(1.2)	(8.6)	(3.5)	(13.3)

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

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(millions of $)			
Net revenues	1.8	2.1	3.4	4.2
Cost of revenues	1.3	1.3	2.2	2.8
Gross profit	0.5	0.8	1.2	1.4
Operating expenses*	0.7	0.8	1.4	1.3
Amortization of other assets	0.2	0.2	0.4	0.4
Operating loss	(0.4)	(0.2)	(0.6)	(0.3)
Finance expenses, net	0.2	0.5	0.5	0.9
Net loss	(0.6)	(0.7)	(1.1)	(1.2)

*Excluding amortization of other assets which is presented separately.

Revenues. Elron TeleSoft's net revenues decreased by $0.3 million and $0.8 million, or 14% and 19%, to $1.8 million and $3.4 million in the three and six month periods ended June 30, 2004, compared to $2.1 million and $4.2 million for the same periods of 2003. The decrease in the six month period resulted mainly from the decrease in revenues derived from sale of third parties' products. The decrease in the three month period resulted mainly from the decrease in project revenues while revenues from the sale of third parties' products remained at the same level.

Cost of revenues. Cost of revenues of Elron TeleSoft in the three and six month periods ended June 30, 2004 were $1.3 million and $2.2 million, representing a gross margin of 28% and 35%, compared to $1.3 million and $2.8 million in the three and six month periods ended June 30, 2003, representing a gross margin of 38% and 33%. The variance in gross margins was due to changes in revenue mix. The gross margin for the three months period was lower due to the decrease in project revenues. The gross margin for the six months period was higher due to the decrease in sales of third party products.

Operating loss. Elron TeleSoft's operating loss amounted to $0.4 million and $0.6 million in the three and six month periods ended June 30, 2004, compared to $0.2 million and $0.3 million for the same periods of 2003. The increase in operating loss resulted primarily from the decrease in revenues.

Finance expense, net. Finance expenses amounted to $0.2 million and $0.5 million in the three and six month periods ended June 30, 2004 compared to approximately $0.5 million and $0.9 million in the same periods in 2003. The decrease in finance expenses in the second quarter of 2004 resulted mainly from the significant decrease in loan balances following the repayment of $30.3 million of bank loans by the Company at the end of the first quarter of 2004.

The ability of Elron TeleSoft to increase its revenues and improve its operating results in the near future is dependent upon general economic conditions and, in particular, on an increase in telecom capital expenditure, its ability to penetrate the international market and whether its efforts to bring enhanced and new products to market are successful.

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

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
	(millions of $)		(millions of $)	
Net revenues	1.8	1.9	3.6	3.6
Net loss from equity investments	(1.7)	(3.9)	(2.1)	(6.9)
Gains from disposal of business and affiliated companies and changes in holdings in affiliated companies	21.8	0.9	27.9	1.3
Other income, net	1.7	7.3	4.2	6.1
Total income	23.6	6.2	33.6	4.1
Cost of revenues	1.2	0.6	2.3	1.5
Operating expenses*	3.4	6.4	9.0	13.2
Amortization of other assets	-	0.1	-	0.2
Finance expenses (income), net	(0.1)	0.3	(0.4)	0.1
Total costs and expenses	4.5	7.4	10.9	15.0
Gain (loss) from continuing operations before income taxes	19.1	(1.2)	22.7	(10.9)
Income taxes	(7.5)	(2.2)	(8.1)	(1.8)
Minority interest	(5.5)	1.7	(3.9)	3.7
Income (loss) from continuing operations	6.1	(1.7)	10.7	(9.0)
Loss from discontinued operations	-	-	-	0.4
Net income (loss)	6.1	(1.7)	10.7	(8.6)

*Excluding amortization of other assets which is presented separately.

Income

Net revenues. Net revenues in the three and six month periods ended June 30, 2004 and 2003 of the Other Holdings and Corporate Operations segment, in the amount of $1.8 million and $3.6 million compared to $1.9 million and $3.6 million, consisted of sales of products and services by our subsidiaries, mainly Galil Medical. In the three and six month periods ended June 30, 2004, Galil Medical recorded revenues of $1.7 million and $3.4 million, compared to $1.9 million and $3.5 million in the same periods of 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 companies that are accounted for under the equity method (see above under "Basis of Presentation"). The share in net losses of affiliated companies in the three and six month periods ended June 30, 2004 amounted to $1.7 million and $2.1

million, compared to $3.9 million and $6.9 million in the same period in 2003. The decrease in our share in net losses of our affiliated companies in the reported periods of 2004 resulted mainly from our share in the net income reported for the first time by Given Imaging, the sale of our holding in KIT eLearning in the first quarter of 2004 and the decrease in our share in the net losses of some of our group companies whose losses decreased, in particular, ChipX, Oren Semiconductor and AMT. The above decrease was partially offset mainly as a result of $2.0 million loss representing the funding of NetVision's previous years' losses and 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 19.6% holding as of June 30, 2004). As described under "Recent Developments", on July 28, 2004 we completed the sale of all of our holdings in Elbit Systems. Accordingly, the second quarter of 2004 was the last quarter in which we reported our share in the net income of Elbit Systems which amounted to $2.2 million and $4.7 million in the three and six month periods ended June 30, 2004, compared to $1.8 million and $4.3 million in the same periods of 2003.

Given Imaging (Nasdaq: GIVN) (a 15% holding directly and indirectly through RDC as of June 30, 2004). Given Imaging, a medical device company that developed and markets a disposable miniature video camera for visualizing the gastrointestinal tract, reached record sales of $15.5 million and $28.2 million in the three and six month periods ended June 30, 2004, an increase of 60% and 54% over the revenues recorded in the same periods of 2003 of $9.7 million and $18.3 million. During the second quarter, total capsules sold reached a record of 22,500, 87% higher than the second quarter of 2003. Given Imaging's gross profit increased to 75.5% and 73.4% of revenues in the three and six month periods ended June 30, 2004, compared to 65.3% and 66.2% in 2003 and it reported for the first time in its history net income of $0.9 million and $0.3 million in the three and six month periods ended June 30, 2004, compared to net loss of $3.3 million and $7.0 million in the same periods of 2003. As described under "Recent Developments" Given Imaging completed during the second quarter a secondary offering to the public in which it raised $44.4 million.
During the second quarter of 2004 Given Imaging entered into an exclusive sales representation and co-promotion agreement with Ethicon Endo-Surgery, Inc., a Johnson & Johnson company, according to which Ethicon will have exclusive rights to market Given Imaging's Esophageal Capsule in the United States following clearance from the U.S. Food and Drug Administration. This agreement may be expanded to other countries, except Japan.

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 and six month periods ended June 30, 2004 amounted to $16.2 million and $33.5 million and its net loss amounted to $0.5 million and $0.2 million.

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 in the three and six month periods ended June 30, 2004 revenues of approximately $40 thousand and $0.3 million, compared to no revenue in the same periods in 2003 and its net loss decreased to $0.6 million and $0.9 million, compared to $0.7 million and $1.3 million in the same periods in 2003.

NetVision (a 46% holding). 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. NetVision provides Internet services and solutions in Israel. NetVision continues to experience increased competition in gaining broadband communication market share, resulting from the transition of customers to broadband communication, however, NetVision revenues increased in the three and six month periods ended June 30, 2004 by 13% and 14% to $17.1 million and $33.6 million from $15.1 million and $29.5 million in the same periods in 2003 and its customer base at June 30, 2004 reached approximately 374,000 (of which approximately 187,000 were broadband) compared to 338,000 at the end of the second quarter of 2003 (of which approximately 95,000 were broadband). NetVision's operating income increased by 101% and 173% to $2.7 million and $4.8 million in the three and six month periods ended June 30, 2004 compared to $1.3 million and $1.7 million in the same periods in 2003 and its net income increased to $1.8 million and $2.4 million in the three and six month periods ended June 30, 2004 compared to $0.7 million and $0.6 million in the same period in 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 June 30, 2004 according to which $1.00 equaled NIS 4.497. NetVision future period results will be affected by the competitive broadband market environment, which will affect market prices and penetration costs.

On March 30, 2004, NetVision filed a request with the Israeli Securities Authority and the Tel Aviv Stock Exchange ("TASE") for a proposed initial public offering of its shares on the TASE. The request is a preliminary step in the proposed offering and there is no assurance that the proposed offering will take place and NetVision is considering, in parallel, alternative venues to enable it to further grow its business.
During the first quarter of 2004, we and DIC granted NetVision a $2.0 million loan each, in order to enable NetVision to repay a portion of its line of credit to a lending bank. The loan was scheduled to be repaid in July 2004 and was

extended. As a result of the extension of the repayment period and the delay in executing the public offering and in accordance with EITF 02-18, we recorded the $2.0 million loan as a loss, representing the funding of NetVision's previous years losses. In July 2004 we and DIC granted NetVision an additional loan in the amount of $1.9 million each, in order to enable NetVision to repay the remainder of its line of credit to the bank.
On August 3, 2004, NetVision received a license from the Israeli Ministry of Communications to provide international telephony services, which NetVision intends to provide through VoIP (Voice over IP) technology.

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 and six month periods ended June 30, 2004 decreased to $0 million and $0.1 million, compared to $0.5 million and $1.3 million in the same periods in 2003. The increase in its research and development costs resulted in an increase in Wavion's net loss which amounted to $1.4 million and $3.1 million in the three and six month periods ended June 30, 2004 compared to $0.2 million and $0.1 million in the same periods in 2003.

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 six month periods ended June 30, 2004, increased by $0.6 million and $1.4 million, or 18% and 22%, to $3.9 million and $7.8 million, from $3.3 million and $6.4 million in the same periods in 2003, primarily due to the launch of new products and the recovery in the semiconductor industry, and its net loss in the three and six month periods ended June 30, 2004 decreased to $1.5 million and $3.0 million compared to $2.2 million and $4.6 million in the same periods in 2003. In March 2004, ChipX raised $12.0 million in a private placement, led by a new investor, Vantage Point Venture Partners, 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 and six month periods ended June 30, 2004, Oren's revenues were $0.7 million and $1.7 million compared to $1.2 million and $1.7 million in the same periods in 2003. The decrease in revenues during the three month period was mainly as a result of a decrease in product revenues due to longer sale cycle and delay in product development. The decrease was offset by increase in revenues from development projects. Oren's net loss in the three and six month periods ended June 30, 2004 was $0.7 million and $1.7 million compared to $1.4 million and $2.9 million in the same periods in 2003 mainly as a result of decrease in operating expenses.

AMT (a 40% 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 and anti-shoplifting solutions. During the second quarter of 2004, AMT raised $6.0 million (see under "Recent Developmments").
In the three and six months ended June 30, 2004, ***AHT*** recorded revenues of $0.3 million and $0.5 million, compared to $0.2 million and $0.3 million in the same period of 2003 and its net loss amounted to $0.4 million and $0.7 million, compared to $0.5 million and $0.9 million in the same periods of 2003.
Confirm Technology recorded in the three and six months ended on June 30, 2004 revenues of $0.2 million and $0.4 million, compared to $0.1 million and $0.2 million in the same periods of 2003 and its net loss amounted to $0.3 million and $0.6 million, compared to $0.3 million and $0.7 million in the same periods of 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. In addition, following the completion of the sale of our holding in Elbit Systems in the third quarter of 2004, and in light of expected investments in new and existing companies, our share in net losses of our group companies is expected to increase.

Results of operations of significant group companies which are accounted for other than under the equity method of accounting. In addition to companies accounted for under the equity method, we have a significant investment in Partner (Nasdaq: PTNR), in which we hold approximately 9%, and which is accounted for as available-for-sale securities, whose results do not affect our results of operation. At June 30, 2004, the market value of our investment in Partner amounted to $123.7 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 and six month periods ended June 30, 2004 (all figures below are convenience translations of Partners' nominal New Israeli Shekel (NIS) figures into US dollars at the rate of the exchange prevailing at June 30, 2004 according to which $1.00 equals NIS 4.497):

- Partner’s revenues in the three and six month periods ended June 30, 2004, increased by 16% and 17% to $279.0 million and $550.0 million from $239.5 million and $468.9 million in the same periods of 2003. Increased revenues for the second quarter of 2004 were driven primarily by a larger subscriber base and increasing minutes of use. Partner’s subscriber base at the end of the second quarter of 2004 was 2,202,000, up 13% from 1,949,000 at the end of the second quarter of 2003.

- Partner’s operating income in the three and six month periods ended June 30, 2004 increased to $59.1 million and $111.4 million from $48.5 million and $77.5 million in the same periods in 2003, an increase of 22% and 44%. Operating income in the three and six month periods ended June 30, 2004, as a percentage of revenues, reached 21% and 20% versus 20% and 17% in the same periods in 2003.

- Partner’s net income in the three and six month periods ended June 30, 2004 was $29.7 million and $50.1 million compared to $34.5 million and $42.2 million in the same periods in 2003. Net income for the second quarter of 2004 was lower than the second quarter of 2003 since the second quarter of 2003 did not include a provision for income taxes as Partner did not record income taxes until the fourth quarter of 2003 when it recorded a deferred tax asset derived from its carryforward tax losses.

Partner has a line of credit agreement with a consortium of banks that provides for borrowings of up to $583 million of which $348 million had been drawn as of June 30, 2004. The line of credit is guaranteed by shares held by the original shareholders of Partner, pro rata to their respective original holdings. All of the shares held by us as of June 30, 2004, amounting to approximately 15.9 million shares, are pledged by us in favor of the consortium of banks. We are taking steps in an effort to release these shares from the pledge, however there is no assurance that our effort will be successful in the near future. If and upon such release, and subject to receiving all the necessary regulatory approvals, we may sell all or some of these shares.

On July 29, 2004, Partner received notification from the Ministry of Communications (the "Ministry") stating the Ministry is considering regulatory changes for reducing certain rates charged by cellular operators, which if adopted will have a material adverse effect on its earnings and financial position. The Ministry invited Partner to take part in a hearing process and to submit its position before August 29, 2004, which Partner intends to do. Partner rejects these proposals and will vigorously oppose their adoption. However, at this time Partner is unable to predict the outcome of the hearing process. As described above, Partner's results of operations do not affect our results of operation.

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 amounted to $21.8 million and $27.9 million in the three and six month periods ended June 30, 2004 compared to $0.9 million and $1.3 million in the same periods in 2003. The gain in the second quarter of 2004 resulted primarily from the following: (i) 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; (ii) 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 (iii) a gain of $0.6 million resulting from the exercise of a call option granted to the chairman of our board of directors to purchase 21,751 shares of Given Imaging for the aggregate exercise price of approximately $49 thousand. The gain in the six month period ended June 30, 2004 also included a $5.3 million gain from the sale of our share of KIT eLearning, a provider of online academic programs, to a subsidiary of Laureate Education, Inc. (formerly known as Sylvan Learning Systems) (Nasdaq: LAUR), a global leader in higher education, 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).
The gain in the three and six month periods ended June 30, 2003 resulted primarily from the sale of 227,500 and 320,000 shares of Given Imaging held by RDC in the respective periods.

Other Income, net. Other income, net, of the other holdings and corporate operations segment amounted to $1.7 million and $4.2 million in the three and six months period ended June 30, 2004 compared to $7.3 million and $6.1 million in same period in 2003. The gain in the second quarter of 2004 resulted mainly from a $1.9 million gain, before tax, from the sale of 271, 812 shares of Zix which were received in consideration for ESW's assets and business sold to Zix in 2003. The gain in the six month period ended June 30, 2004 also included a $3.1 million gain, before tax, from the sale of 362,416 shares of Zix during the first quarter of 2004 which was partially offset by $0.5 million, representing the funding of 3DV's previous years’ losses.
The gain in both of the three and six month periods ended June 30, 2003 was primarily due to a $5.0 million gain, before tax, from the sale of 3,500,000 shares of Partner for consideration of approximately $15.3 million, and due to a $2.0 million gain, before tax, from the sale of all the shares of 24/7 Real Media shares (Nasdaq: TFSM), received in consideration for the sale of the main assets and business of our subsidiary Vflash to 24/7 Real Media in 2002, for total consideration of approximately $5.2 million. For the six months ended June 30, 2003 the gain was partially offset by $1.2 million of write-downs mainly with respect to our investments 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 and six month periods ended June 30, 2004 amounted to $1.2 million and $2.3 million, compared to $0.6 million and $1.5 million in the same periods 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. The following table sets forth the segment operating expenses. The operating expenses presented below for the three and six months ended June 30, 2003 exclude amortization of other assets in the amount of $0.1 million and $0.2 million, which also constitute part of operating expenses under US GAAP but for presentation purposes is included as a separate item:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
		(millions of $)		
Corporate	1.7	1.7	3.7	3.2
Galil Medical	0.6	3.6	1.4	7.4
MediaGate	-	0.8	-	2.0
Starling	0.1	-	0.5	-
3DV	0.4	-	0.8	-
Other	0.6	0.3	2.6	0.6
	3.4	6.4	9.0	13.2

Our corporate operating costs were $1.7 million and $3.7 million in the three and six month periods ended June 30, 2004, compared to $1.7 million and $3.2 million in the same periods of 2003. The increase in the corporate costs in the six month period resulted mainly from the increase of $0.5 in costs related to the company's employee stock option plans and call options in favor of employees and officers to purchase shares of affiliated companies.

Operating expenses of Galil Medical in the three and six month periods ended June 30, 2004 decreased to $0.6 million and $1.4 million from $3.6 million and $7.4 million in the same periods in 2003 and its operating loss decreased to $0 million and $0.2 million compared to $2.4 million and $5.1 million in the same periods 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 is 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 in the reported periods ended June 30, 2004 was primarily due to the increase of $0.5 million and $2.4 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.

Income Taxes. Income taxes, net, in the three and six month periods ended June 30, 2004 were $7.5 million and $8.2 million, which included in the six month period mainly $6.7 million of income taxes with respect to the gain resulted from the secondary public offering of Given Imaging and the purchase of treasury stock in RDC in consideration for distribution of Given Imaging's shares and $1.7 million from the sale of Zix shares.
Income taxes, net, in the three and six month periods ended June 30, 2003 were $2.2 million and $1.8 million, which included in the six month period mainly $3.4 million of income taxes with respect to the sale of Partner's, Given Imaging's and 24/7 Real Media's shares and a tax benefit of $1.7 million mainly with respect to corporate losses.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits at June 30, 2004, were approximately $82.9 million compared with $113.9 million at December 31, 2003. At June 30, 2004, the corporate cash, debentures and deposits were $69.5 million compared with $106.6 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 $27.7 million at June 30, 2004 compared to $67.5 million at December 31, 2003.

The main sources of corporate cash and other liquid instruments in the six month period ended June 30, 2004, were $5.7 million of proceeds from the sale of all of our shares in KIT eLearning, $7.0 million proceeds from the sale of Zix shares (of which $2.8 million in the second quarter of 2004) and a $1.7 million dividend received from Elbit Systems.

The main uses of the corporate cash and other liquid instruments in the six month period ended June 30, 2004, were the $40.5 million repayment of bank loans, $8.3 million of investments in our group companies and a $2.0 million loan granted to NetVision in the first quarter of 2004. Investment in the first quarter amounted to $3.8 million which included mainly $2.6 million in ChipX. Investment in the second quarter amounted to $4.5 million, which includes mainly a $2.8 million investment in AMT.

Consolidated working capital at June 30, 2004 amounted to $42.0 million compared to $57.0 million at December 31, 2003.

Consolidated loans at June 30, 2004, were approximately $35.4 million, of which $27.7 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 is 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, provided letters of comfort to the lending banks pursuant to which we jointly undertook not to reduce our joint holdings beyond a certain percentage. The amount outstanding under NetVision's credit lines at June 30, 2004, was approximately $16.2 million. In March 2004 and in July 2004, we granted NetVision a $2.0 million loan and $1.9 million, respectivelly, in order to enable NetVision to repay its line of credit to a lending bank.

MediaGate's bank 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 June 30, 2004, amounting to approximately 15.9 million shares, are pledged by us in favor of Partner's consortium of banks.

Subsequent to June 30, 2004 and through August 10, 2004, we have invested an additional aggregate amount of approximately $21.5 million in our group companies, including $19.2 million in Given Imaging and $1.9 million loan to NetVision.

On July 28, 2004, upon the closing of the sale of our holdings in Elbit Systems, we received the proceeds from the sale of approximately $197 million.

Our investment policy for manging our funds is in general to invest in time 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 June 30, 2004, was approximately $303.4 million representing approximately 71% of the total assets compared with $296.1 million representing approximately 66% of total assets at December 31, 2003.

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