MANAGEMENT REPORT FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2004

The following management report should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of September 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 to third parties of a portion or all of our holdings in, or the issuance of shares by our group companies, while simultaneously pursuing the acquisition of, or investment in, new and existing companies. We believe that this strategy provides the ability to increase shareholder value as well as creating 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 has been some 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, mainly 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 new companies, mainly in the fields of medical devices, semiconductors and communications. In this regard, we invested in October 2004, approximately $6.7 million in a new company, Jordan Valley Applied Radiation Ltd. ("Jordan Valley"), operating in the field of semiconductors and $3.0 million in a direct investment in Starling Advanced Communications ("Starling"), operating in the field of broadband communication (see below under "RECENT DEVELOPMENTS").

RECENT DEVELOPMENTS

Sale of all of our holdings in Elbit Systems Ltd. (Nasdaq: ESLT). On July 28, 2004, we sold all of our holdings in Elbit Systems, constituting approximately 19.6% of the outstanding share capital of Elbit Systems, to the Federmann group, following the exercise of its right of first refusal, for approximately $196.6 million. As a result, we recorded in the third quarter a gain, net of tax, of approximately $79.9 million, of which approximately $10.0 million resulted from the increase in deferred tax assets with respect to losses incurred in prior periods. The decrease in our previous valuation allowance is in light of the transaction, following which we revised our estimate about the realizability of deferred tax.

Concurrently with the announcement of the transaction, we announced that, as a result of the transaction, Elron may be characterized as a "passive foreign investment company" (PFIC) for U.S. federal income tax purposes, for 2004. This would result in adverse tax consequences for our U.S. shareholders. Following a review of our position and based on an opinion received by our advisors on this matter, we may be able to rely on the "change of business exception" to PFIC status provided under Section 1298(b)(3) of the Internal Revenue Code of 1986, as amended. The ability to rely on this exception is dependent, in part, on the results of our operations in 2004, which cannot be accurately predicted at this stage. Pursuant to this exception, the determination of our status as a PFIC for the year 2004 depends, in part, on whether we will be PFIC in 2005 and 2006 and whether we were a PFIC in any year prior to 2004. If we (i) were not a PFIC in any year prior to 2004 (as we believe was the case), (ii) will not be a PFIC in 2005 and 2006, and (iii) the "passive income" we earned in 2004 will be substantially attributable to the disposition of our holdings in Elbit Systems, then we may not be a PFIC in 2004. The tests for determining PFIC status are impacted, among others, by changes in our holdings and in the value of our group companies which are difficult to predict. Accordingly, there can be no assurance that we will not become a PFIC in 2005 or 2006 or in any subsequent year or that we will otherwise be eligible to apply this exception. In addition, there can be no assurance that the Internal Revenue Service will not challenge our reliance on the exception.

Acquisition of Shares of Given Imaging (Nasdaq: GIVN). During the third quarter of 2004, we purchased 550,000 shares of Given Imaging, a medical device company that develops, produces and markets a disposable miniature video camera for detecting gastrointestinal disorders, for an aggregate consideration of approximately $19.2 million. As a result, our direct and indirect (through RDC) interest in Given Imaging increased from approximately 15% at the end of the second quarter of 2004 to approximately 17%. The excess cost of the purchase price over our share in the equity acquired amounted to $17.4 million and was allocated, based, among others, on an appraisal performed by valuation experts, as follows: $12.2 million to intangible assets other than goodwill, such as customer base and technology, $0.7 million to in-process research and development activities, and $4.5 million to goodwill. Products which did not receive marketing clearance by regulatory authorities as of the acquisition date, were considered to be incomplete and accordingly the amount allocated to such products is considered to be in-process research and development activities ("IPR&D"). The amount allocated to IPR&D was charged immediately to the Company's results of operations in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method" ("FIN 4"). The amounts allocated to intangible assets other than goodwill are amortized on a straight-line basis over their expected useful life of 10-15 years. The amortization of the identifiable intangible assets as well as the write-off of the IPR&D were recorded in the third quarter of 2004 in the amount of approximately $1.0 million as part of our share in the income or losses of our equity investments.

Subsequent to September 30, 2004 and through November 9, 2004, we purchased an additional 823,513 shares of Given Imaging for an aggregate purchase price of approximately $24.7 million. As a result, our direct and indirect (through RDC) interest in Given Imaging increased from approximately 17% to approximately 20%.

Tender offer to purchase 7.5% of our shares. On August 22, 2004 we announced that Discount Investment Corporation Ltd. ("DIC") completed 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. Following the consummation of the tender offer, DIC owns approximately 46% of our outstanding shares.

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 recorded in the third quarter of 2004 a tax benefit in the amount of approximately $2.1 million due to the change in the tax rate.

Investment in Jordan Valley. On October 21, 2004, we invested approximately $6.7 million in Jordan Valley, an Israeli private company engaged in developing solutions for advanced in-line thin film metrology for the semi-conductor industry. Following the investment we hold 25% of Jordan Valley on a fully diluted basis. Our holding percentage is subject to adjustment based on Jordan Valley's future performance. Jordan Valley is also 40% indirectly owned (following the investment) by Clal Industries and Investments Ltd. ("Clal"), an approximately 64% held subsidiary of IDB Development Corporation Ltd. ("IDBD"), which also owns approximately 67% of our parent company, DIC. Clal, IDBD, and DIC are publicly traded on the Tel Aviv Stock Exchange. The investment was approved by the shareholders of Elron and Clal.

Investment in Starling. On October 21, 2004 we completed an investment of $3.0 million in Starling of which $1.5 million was invested immediately and an additional $1.5 million will be invested no later than April 21, 2005. Starling was formed in November 2003 and was equally held by Elbit Systems and our subsidiary RDC, prior to our investment. Following the investment, our direct and indirect interest in Starling is approximately 50%. Starling develops connectivity solutions for broadband access for commercial aircraft.

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 Nine months ended September 30,					
2004			2003		
Elron TeleSoft	RDC	3DV [1]	Elron TeleSoft	RDC	ESW[3]
Elbit	Galil Medical	Sela [2]	Elbit	Galil Medical	
DEP	Starling	MediaGate	DEP	MediaGate	
		ESW [3]			

[1] Following the purchase of a controlling interest in 3DV during the first quarter of 2004 from the majority of the other shareholders of 3DV.

[2] Following the conversion of shareholder loans granted by RDC to Sela Semiconductor ("Sela") at the end of the second quarter of 2004.

[3] Elron SW ("ESW"), formerly Elron Software.

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

Three and Nine months ended September 30,			
2004		2003	
Elbit Systems[1]	Notal Vision	Elbit Systems	Notal Vision
NetVision	Oncura	NetVision	3DV
ChipX	Sela[2]	ChipX	Sela
Wavion	Pulsicom	Wavion	Oncura[3]
Given Imaging	CellAct	Given Imaging	Pulsicom
Oren Semiconductor		Oren Semiconductor	CellAct
AMT		KIT	Avantry[4]
		AMT	

[1] Through June 30, 2004.
[2] Through June 30, 2004.
[3] Since July 1, 2003.
[4] formerly known as Witcom

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2004 compared to three and nine months ended September 30, 2003.

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

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(millions of $, except per share data)			
Net income (loss)	70.8	3.0	80.0	(10.3)
Net Income (loss) per share	2.42	0.10	2.74	(0.35)

The net income we reported in the third quarter of 2004 was affected mainly by the gain, net of tax, of approximately $79.9 million resulting from the sale of our holdings in Elbit Systems for approximately $196.6 million. This gain includes approximately $10.0 million resulting from a decrease in our previous valuation allowance in respect of losses incurred in prior periods. The decrease in our previous valuation allowance was in light of the transaction, following which we revised our estimate about the realizability of deferred tax. This gain was offset mainly by our share in the losses of our group companies in the third quarter of 2004 in the amount of $10.2 million, which included $4.9 million in impairment charges relating to Elron TeleSoft's operations.

The net income we reported in the period of nine months ended September 30, 2004, included the additional following main factors:

(i) a gain, net of tax and minority interest, of approximately $6.7 million which we recorded in the second quarter of 2004 resulting from 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;
(ii) a gain of approximately $5.3 million resulting from the sale in the first quarter of 2004 of our shares in KIT eLearning;
(iii) a gain, net after tax, of approximately $3.6 million (of which $0.3 million was recognized in the third quarter of 2004) resulting from the sale of 854,701 Zix Corporation shares (of which 220,473 were sold during the third quarter of 2004) in consideration for $8.1 million (of which $1.1 million was received during the third quarter of 2004);
(iv) a tax benefit in the amount of approximately $2.1 million due to the change in the tax rate enacted in the third quarter of 2004; and
(v) amortization of intangible assets and write off of IPR&D in the amount of $1.0 million, related to the acquisition of additional shares of Given Imaging in the third quarter of 2004.

During the nine month period ended September 30,2004, losses, net, which we recorded with respect to our group companies decreased by approximately $7.5 million relative to the same period of 2003, mainly due to the sale of the businesses of ESW and MediaGate, the sale of our holding in KIT, our share in the net income reported by Given Imaging in the last two consecutive quarters, our share in the net income of NetVision, the decrease in Galil Medical's losses following the formation of Oncura as a result of the merger of its and the urology unit of Amersham (Amersham was subsequently acquired by General Electric Company (NYSE: GE) ("GE")) and the improvements in the results of some of our group companies such as ChipX and AMT. This amount includes offsetting effects resulting from the amortization of intangible assets and write-off of IPR&D related to the acquisition of additional shares of Given Imaging in the amount of $1.0 million, an impairment charges relating to Elron TeleSoft's operations in the amount of $4.9 million, a $2.0 million loss representing the funding of NetVision's previous years' losses, and the effect of the sale of our holding in Elbit Systems, following which we ceased including our share in its net income.

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 September 30, 2004, our 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		NetVision; ChipX; Wavion; Given Imaging; CellAct; AMT; Notal Vision; Oren Semiconductor; Oncura; Pulsicom.	
Cost		Avantry	
Available-for-sale Securities		Partner Communication Company ("Partner"), Elbit Vision Systems	

The following tables reflect our consolidated data by reported segments:

	Systems and projects - Elron TeleSoft	Other holdings and corporate operations	Discontinued operations of ESW	Consolidated
	(millions of $)			
	Three months ended September 30, 2004			
Income*	0.8	105.5	-	106.3
Costs and Expenses	6.9	5.9	-	12.8
Income (loss) from continuing operations	(6.1)	77.0	-	70.9
Net income (loss)	(6.1)	77.0	(0.1)**	70.8
	Three months ended September 30, 2003			
Income*	1.7	29.9	-	31.6
Costs and Expenses	2.1	7.3	-	9.4
Income (loss) from continuing operations	(0.4)	3.1	-	2.7
Net income (loss)	(0.4)	3.1	0.3**	3.0
	Nine months ended September 30, 2004			
Income*	4.3	139.0	-	143.3
Costs and Expenses	11.4	16.8	-	28.2
Income (loss) from continuing operations	(7.2)	87.6	-	80.5
Net income (loss)	(7.2)	87.6	(0.4) **	80.0
	Nine months ended September 30, 2003			
Income*	5.9	34.0	-	39.9
Costs and Expenses	7.5	22.3	-	29.8
Loss from continuing operations	(1.6)	(6.0)	-	(7.6)
Net loss	(1.6)	(5.6)	(3.1) **	(10.3)

* Income in the Other holdings and corporate operations includes net losses from equity investments
** The composition of the discontinued operations of ESW is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(millions of $)			
Loss from operations	-	(1.3)	-	(4.7)
Gain on disposal	(0.1)	1.6	(0.4)	1.6
Gain (loss) from discontinued operations	(0.1)	0.3	(0.4)	(3.1)

Systems and Projects - Elron TeleSoft

Elron TeleSoft is focused on revenue assurance, network management and IP products for telecom carriers. The following table sets forth the operating results of Elron TeleSoft:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(millions of $)			
Net revenues	0.8	1.7	4.3	5.9
Cost of revenues	0.6	1.0	2.8	3.8
Gross profit	0.2	0.7	1.5	2.1
Operating expenses*	0.8	0.6	2.3	2.0
Amortization of other assets	0.2	0.2	0.6	0.6
Restructuring charges, net	0.2	-	0.2	-
Impairment of long-lived assets	2.9	-	2.9	-
Impairment of goodwill	2.0	-	2.0	-
Operating loss	(5.9)	(0.1)	(6.5)	(0.5)
Finance expenses, net	0.2	0.3	0.7	1.1
Taxes on income	-	-	-	-
Net loss	(6.1)	(0.4)	(7.2)	(1.6)

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

Revenues. Elron TeleSoft's net revenues decreased by $0.9 million and $1.6 million, or 53% and 27%, to $0.8 million and $4.3 million in the three and nine month periods ended September 30, 2004, compared to $1.7 million and $5.9 million in the same periods of 2003. The decrease in the nine 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 license and project revenues while revenues from the sale of third parties' products remained at the same level. The decrease in revenues resulted mainly from longer sale cycles in its efforts to penetrate the international market with its new revenue assurance line of products.

Cost of revenues. Cost of revenues of Elron TeleSoft in the three and nine month periods ended September 30, 2004 were $0.6 million and $2.8 million, representing a gross margin of 25% and 34%, compared to $1.0 million and $3.8 million in the three and nine month periods ended September 30, 2003, representing a gross margin of 39% and 35%. The variance in gross margins was due to changes in revenue mix. The gross margin for the three month period was lower due to the decrease in license and project revenues.

Operating expenses. Elron TeleSoft's operating expenses (excluding amortization of other assets, impairment charges and restructuring charges which are presented separately) in the three and nine month periods ended September 30, 2004 were $0.8 million and $2.3 million, an increase of 33% and 15% over the $0.6 million and $2.0 million in the three and nine month periods ended September 30, 2003. The increase in operating expenses resulted from an increase in development expenses of the company's new revenue assurance line of products and an increase in sales and marketing expenses associated with launching these products to the international market.

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

Impairment. In light of Elron TeleSoft's results of operations and its difficulties in penetrating international markets, Elron Telesoft tested for impairment its technology and fixed assets and subsequently the goodwill associated with its operations, resulting in an impairment loss of $2.9 million and $2.0 million relating to the technology and fixed assets and goodwill, respectively, based, among others, on an appraisal performed by valuation experts using a discounted cash flow approach.

Operating loss. As a result of all the above, Elron TeleSoft's operating loss increased to $5.9 million and $6.5 million in the three and nine month periods ended September 30, 2004, compared to $0.1 million and $0.5 million in the same periods of 2003.

Finance expense, net. Finance expenses decreased to $0.2 million and $0.7 million in the three and nine month periods ended September 30, 2004 compared to approximately $0.3 million and $1.1 million in the same periods in

2003. The decrease in finance expenses resulted mainly from the significant decrease in loan balances following the repayment of $50.9 million of bank loans by Elron TeleSoft (financed by an investment by us) during the nine month period ended September 30, 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 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 September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(millions of $)		(millions of $)	
Net revenues	3.7	3.0	7.3	6.6
Share in net losses of affiliated companies	(3.3)	(1.2)	(5.4)	(8.1)
Gain from disposal of business and affiliated companies and changes in holdings in affiliated companies, net	104.5	24.4	132.3	25.6
Other income, net	0.6	3.6	4.8	9.8
Total income	105.5	29.9	139.0	33.9
Cost of revenues	2.0	2.4	4.4	3.9
Operating expenses*	4.5	5.3	13.4	18.5
Amortization of other assets	0.1	0.1	0.1	0.3
Finance income, net	(0.7)	(0.5)	(1.1)	(0.4)
Total costs and expenses	5.9	7.3	16.8	22.3
Gain from continuing operations before income tax	99.6	22.6	122.2	11.6
Income tax	(22.8)	(3.9)	(30.9)	(5.7)
Minority interest	0.2	(15.6)	(3.7)	(11.9)
Gain (loss) from continuing operations	77.0	3.1	87.6	(6.0)
Gain from discontinued operations	-	-	-	0.4
Net gain (loss)	77.0	3.1	87.6	(5.6)

* Excluding amortization of other assets which are presented separately.

Income

Net revenues.

Net revenues of the Other Holdings and Corporate Operations segment consisted of sales of products and services by our subsidiaries, mainly Galil Medical and Sela (which results are consolidated since July 1, 2004). The following table sets forth the segment revenues:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(millions of $)			
Galil Medical	2.3	2.1	5.7	5.7
Sela	1.3	-	1.3	-
MediaGate	-	0.9	-	0.9
3DV*	0.1	-	0.3	-
	3.7	3.0	7.3	6.6

***** consolidated since January 1, 2004

Galil Medical's revenues derived mainly from the supply of cryo products and R&D services to Oncura, in which it has a 25% ownership interest, as a result of the merger of the urology therapy units of Galil Medical and GE on July 1, 2003.

Sela recorded revenues of $1.3 million and $3.1 million in the three and nine month periods ended September 30, 2004 compared to $1.2 million and $3.0 million in the same periods of 2003.

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 nine month periods ended September 30, 2004 amounted to $3.3 million and $5.4 million, compared to $1.2 million and $8.1 million in the same period in 2003.

As a result of the completion of the sale of our holding in Elbit Systems during the third quarter of 2004, our share in net income of Elbit Systems is included through the end of the second quarter of 2004. Our share in the net income of Elbit Systems in the three and nine month periods ended September 30, 2004 amounted to $0 million and $4.7 million, compared to $2.4 million and $6.6 million in the same period in 2003.

Factors which positively affected our share in net losses of our affiliated companies in the reported periods of 2004 were as follows: (i) the net income reported by Given Imaging; (ii) the sale of our holding in KIT eLearning in the first quarter of 2004; (iii) our share in the net income of Netvision; and (iv) the decrease in the net losses of some of our group companies, in particular, ChipX and AMT.

Factors which negatively affected our share in net losses of our affiliated companies in the reported periods of 2004 were as follows: (i) the sale of our holding in Elbit Systems in the third quarter of 2004, (ii) $1.0 million amortization of intangible assets and IPR&D write off relating to the acquisition of additional shares of Given Imaging; (iii) a $2.0 million loss representing the funding of NetVision's previous years’ losses; and (iv) the increase in our share in the net losses of Wavion.

Highlights of the Results of Operations of Our Major Affiliates:

Given Imaging (Nasdaq: GIVN) (a 17% holding directly and indirectly through RDC as of September 30, 2004). Given Imaging recorded sales of $14.6 million and $42.8 million in the three and nine month periods ended September 30, 2004, an increase of 51% and 53% over the revenues recorded in the same periods in 2003 of $9.7 million and $28.0 million. The total number of capsules sold in the third quarter was 22,400, 67% higher than in the third quarter of 2003. As of September 30, 2004, cumulative unit sales of Given Imaging capsule have reached 145,200. Given Imaging's gross profit increased to 75.1% and 73.9% of revenues in the three and nine month periods ended September 30, 2004, compared to 63.0% and 65.1% in 2003 and it reported net income of $0.1 million and $0.4 million in the three and nine month periods ended September 30, 2004, compared to net loss of $2.1 million and $9.0 million in the same periods of 2003.

During the second quarter of 2004 Given Imaging completed a secondary offering to the public in which it raised net proceeds of $44.3 million. In addition, 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 in the United States Given Imaging's Pillcam™ ESO video capsule for visualization of the esophagus following marketing clearance from the U.S. Food and Drug Administration (FDA). 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 GE 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 nine month periods ended September 30, 2004 amounted to $16.7 million and $50.6 million. Oncura's net loss in the three and nine month periods ended September 30, 2004 amounted to $0.7 million and $1.0 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), formally launched its product in October 2004 through Carl Ziess Meditec Inc., one of the leading manufacturers of professional optics equipment. During the three and nine month periods ended September 30, 2004 Notal's revenues amounted to approximately $33 thousand and $0.3 million and its net loss amounted to $0.7 million and $1.5 million.

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 nine month periods ended September 30, 2004 by 5% and 11% to $17.0 million and $50.7 million from $16.2 million and $45.8 million in the same periods in 2003 and its customer base at September 30, 2004 reached approximately 386,000 (of which approximately 205,000 were broadband) compared to 352,000 at December 31, 2003 (of which approximately 146,000 were broadband). NetVision's operating income increased by 45% and 120% to $1.8 million and $6.6 million in the three and nine month periods ended September 30, 2004 compared to $1.3 million and $3.0 million in the same periods in 2003 and its net

income increased to $1.3 million and $3.7 million in the three and nine month periods ended September 30, 2004 compared to a net loss of $0.4 million and net income of $0.2 million in the same periods 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 September 30, 2004 according to which $1.00 equaled NIS 4.482.
NetVision future period results will be affected mainly by the competitive broadband market environment, which will affect market prices and penetration costs.

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 Voice over IP technology (VoIP) commencing from the end of 2004.

During the first nine moths of 2004, we and DIC granted NetVision a $3.9 million loan each, in order to enable NetVision to repay a portion of its line of credit to a lending bank. As a result of the extension of the repayment period of the loan and the uncertainty of the public offering (announced by NetVision on March 30, 2004) and in accordance with EITF 02-18, we recorded a portion of the loan, in the amount of $2.0 million, as a loss, representing the funding of NetVision's previous years' losses. In October 2004, we and DIC granted NetVision an additional loan in the amount of approximately $1.4 million each, in order to enable NetVision to set up its international telephony services.

Wavion (a 38% holding). Wavion is a developer of broadband wireless access systems for wireless LANs. Wavion's revenues from subcontracting services for the development of wireless sub-systems in the three and nine month periods ended September 30, 2004 amounted to $0 million and $0.1 million, compared to $0.3 million and $1.5 million in the same periods in 2003. The decrease in Wavion's revenues resulted from directing resourses away from its subcontracting activities to R&D activities which resulted in increase in its research and development costs and an increase in Wavion's net loss which amounted to $1.2 million and $4.3 million in the three and nine month periods ended September 30, 2004 compared to $0.7 million and $0.9 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 nine month periods ended September 30, 2004, increased by $0.2 million and $1.7 million, or 7% and 17%, to $3.8 million and $11.6 million, from $3.6 million and $9.9 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 nine month periods ended September 30, 2004 amounted to $1.7 million and $4.8 million compared to $1.5 million and $6.1 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 nine month periods ended September 30, 2004, Oren’s revenues were $0.9 million and $2.6 million compared to $1.6 million and $3.3 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 a longer sale cycle and delay in product development. The decrease in products revenues in the nine month period ended September 30, 2004, was offset by an increase in revenues from development projects. Oren's net loss in the three and nine month periods ended September 30, 2004 was $1.2 million and $2.8 million compared to $0.5 million and $3.3 million in the same periods in 2003.

AMT (a 40% holding). The AMT group develops technologies and products based on amorphous metals. AMT's two main operating subsidiaries 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 completed a private placement of $6.0 million, in which an international strategic partner invested $3.0 million and we invested an additional $3.0 million.
In the three and nine months ended September 30, 2004, AMT’s consolidated revenues amounted to $0.9 million and $1.8 million, compared to $0.4 million and $0.9 million in the same period of 2003 and its net loss amounted to $0.5 million and $1.6 million, compared to $0.8 million and $3.0 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 Communications (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 September 30, 2004, the market value of our investment in Partner amounted to $108.6 million. Partner is a Global System for Mobile Communications, or GSM, mobile telephone network operator in Israel. Partner's results of operations for the third quarter of 2004 were not published as of the date of the release of our third quarter results.

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 September 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. Partner took part in the hearing process during September 2004 and submitted its position. 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, net. Our gains from disposal of businesses and affiliated companies and changes in our holdings in affiliated companies amounted to $104.5 million and $132.3 million in the three and nine month periods ended September 30, 2004 compared to $24.4 million and $25.6 million in the same periods in 2003. The gain in the third quarter of 2004 consisted primarily from $104.6 million gain (which after income taxes amounted to $79.9 million) resulting from the sale of our holding in Elbit Systems. The gain in the nine month period ended September 30, 2004 also included:

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;

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; and

iv. 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 nine month periods ended September 30, 2003 resulted primarily from $21.3 million gain (which after minority interest and income taxes amounted to $4.4 million) resulting from the merger in the third quarter of 2003 of the urology therapy units of Galil Medical and GE and a gain of $4.4 million (of which $3.1 million in the third quarter of 2003) resulting from the sale by RDC of 753,600 shares of Given Imaging (of which 433,600 were sold in the third quarter of 2003).

Other Income, net. Other income, net, of the other holdings and corporate operations segment amounted to $0.6 million and $4.8 million in the three and nine month periods ended September 30, 2004 compared to $3.6 million and $9.8 million in the same periods in 2003. The gain in the third quarter of 2004 resulted mainly from a $0.4 million gain, before tax, from the sale of 220,473 shares of Zix (Nasdaq: ZIXI) which were received in consideration for ESW's assets and business sold to Zix in 2003. The gain in the nine month period ended September 30, 2004 also included a $5.0 million gain, before tax, from the sale of 634,228 shares of Zix during the first half of 2004 which was partially offset by $0.5 million, representing the funding of 3DV's previous years' losses. As of September 30, 2004, all the shares of Zix were sold.

The gain in the third quarter of 2003 was primarily due to a $6.1 million gain, before tax, from the sale of approximately 2.8 million shares of Partner in the third quarter of 2003 in consideration for approximately $14.2 million. The gain in the first nine months of 2003 also included a $5.0 million gain, before tax, from the sale of 3.5 million shares of Partner in the second quarter of 2003 in consideration for approximately $15.3 million and 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 a total consideration of approximately $5.2 million. For the nine months ended September 30, 2003 the gain was partially offset by $3.9 million of write-downs mainly with respect to our investments in Cellenium and Textology.

Finance income, net. Finance income, net, of the other holdings and corporate operations segment amounted to $0.7 million and $1.1 million in the three and nine month periods ended September 30, 2004 compared to $0.5 million and $0.4 million in same periods in 2003. The increase in finance income is primarily due to the increase in cash balances following the completion of the sale of our holding in Elbit Systems for $196.6 million.

Expenses

Cost of revenues. Cost of revenues consisted primarily of expenses related to salaries and hardware associated with delivering products and services of our subsidiaries, mainly Galil Medical and Sela (which results are consolidated since July 1, 2004). Cost of revenues of the Other Holdings and Corporate Operation segment in the three and nine month periods ended September 30, 2004 amounted to $2.0 million and $4.4 million, compared to $2.4 million and $3.9 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 both the three and nine month periods ended September 30, 2004 exclude amortization of other assets in the amount of $0.1 million ($0.1 million and $0.3 million in the same periods of last year), which also constitute part of operating expenses under US GAAP but for presentation purposes is included as a separate item:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(millions of $)			
Corporate	2.0	1.7	5.7	4.9
Galil Medical	0.7	2.5	2.0	9.8
Sela	0.7	-	0.7	-
MediaGate	-	0.6	-	2.7
Starling	0.3	-	0.9	-
3DV	0.4	-	1.2	-
Other	0.4	0.5	2.9	1.1
	4.5	5.3	13.4	18.5

Our corporate operating costs were $2.0 million and $5.7 million in the three and nine month periods ended September 30, 2004, compared to $1.7 million and $4.9 million in the same periods of 2003. The increase in the corporate costs in the nine month period resulted mainly from the increase of $0.4 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 nine month periods ended September 30, 2004 decreased to $0.7 million and $2.0 million from $2.5 million and $9.8 million in the same periods in 2003, resulting in operating income of $0.2 million and $0 million, compared to an operating loss of $2.4 million and $7.5 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 GE 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 healthcare fields, and to supply Oncura manufacturing and research and development 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 development 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 nine month period ended September 30, 2004 was primarily due to the increase of $2.5 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 nine month periods ended September 30, 2004 were $22.8 million and $30.9 million, which included in the nine month period mainly $24.7 million of income taxes with respect to the gain resulted from the sale of our holdings in Elbit Systems (which include an offset of $10.0 million due to the reduction in our valuation allowance with respect to previous years losses), $6.7 million resulting 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

$1.8 million resulting from the sale of Zix shares. These amounts were offset by a tax benefit in the amount of $2.1 million due to the change in the Israeli tax rate enacted in the third quarter of 2004.

Income taxes, net, in the three and nine month periods ended September 30, 2003 were $3.9 million and $5.7 million, which included in the nine month period mainly $7.0 million of income taxes with respect to the sale of Partner, Given Imaging and 24/7 Real Media shares as well as with respect to the merger of the urology therapy units of Galil Medical and GE and a tax benefit of $1.7 million mainly with respect to corporate losses.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits at September 30, 2004, were approximately $230.1 million compared with $113.9 million at December 31, 2003. At September 30, 2004, the corporate cash, debentures and deposits were $217.5 million compared with $106.6 million at December 31, 2003. The increase in consolidated and corporate cash and other liquid instruments resulted primarily from the sale of our holding in Elbit Systems for approximately $196.6 million. This increase was offset mainly by the repayment of approximately $67.8 million loans of Elron Telesoft and ESW. As of September 30, 2004, the total bank loan of Elron TeleSoft, all of which is guaranteed by us, amounted to $1.0 million as compared to $67.5 million at December 31, 2003 (which include also loans of ESW).

The main sources of corporate cash and other liquid instruments in the nine month period ended September 30, 2004, were approximately $196.6 million of proceeds from the sale of all of our shares in Elbit Systems, $5.7 million of proceeds from the sale of all of our shares in KIT eLearning, $8.1 million proceeds from the sale of Zix shares and a $1.7 million dividend received from Elbit Systems.

The main uses of the corporate cash and other liquid instruments in the nine month period ended September 30, 2004, were the $67.8 million repayment of bank loans, $9.5 million of investments in our group companies, $19.2 million acqusition of additional shares of Given Imaging and a $3.9 million loan granted to NetVision. Investments in group companies included mainly $2.6 million in ChipX, $3.0 million in AMT, $1.0 million in Galil Medical, $0.8 million in Oren, and $0.8 million in Innomed.

Consolidated working capital at September 30, 2004 amounted to $192.2 million compared to $57.0 million at December 31, 2003. The increase is a result of the sale of our share in Elbit Systems in consideration for $196.6 million.

Consolidated loans at September 30, 2004, were approximately $8.7 million, of which $1.0 million was attributed to Elron TeleSoft compared to $67.5 million at December 31, 2003 (which include also loans of ESW). During the first nine months of 2004, we repayed Elron TeleSoft's and ESW's loans to the lending banks in the amount of approximately $67.8 million. As a result of the repayment of the loans, the line of credit of ESW was closed and the line of credit of Elron TeleSoft was reduced from $53.6 million at December 31, 2003, to $2.7 million (of which $1.0 million are used as of September 30, 2004). Elron TeleSoft's lines of credit are guaranteed to the banks by us. In addition, we have provided to a certain 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 September 30, 2004, was approximately $12.7 million. During the first nine months of 2004, we granted NetVision a $3.9 million loan, in order to enable NetVision to repay its line of credit to one of the lending banks. In October 2004 we granted NetVision an additional loan in the amount of $1.4 million, in order to enable NetVision to set up its international telephony services.

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. The loan is not guaranteed by us.

All of Partner's shares held by us as of September 30, 2004, amounting to approximately 15.9 million shares, are pledged by us in favor of Partner's consortium of banks.

Subsequent to September 30, 2004 and through November 9, 2004, we have invested an additional aggregate amount of approximately $34.8 million, which mainly includes $24.7 million in Given Imaging, $6.7 million in Jordan Valley, $1.5 million in Starling and a $1.4 million loan to NetVision.

Our investment policy for managing 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.

In September 2004, our board of directors and audit committee approved the renewal of the leases with respect to our corporate headquarters. We lease our corporate headquarters from a non-affiliated party together with other companies directly and indirectly owned by IDBD. The terms of the renewal were determined by our board of directors and audit committee not to be materially different from the terms applicable to the other companies in the IDBD group.

Shareholders' equity at September 30, 2004, was approximately $365.9 million representing approximately 77% of the total assets compared with $296.1 million representing approximately 66% of total assets at December 31, 2003.

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