MANAGEMENT REPORT FOR THE SECOND QUARTER ENDED JUNE 30, 2003

The following management report should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of June 30, 2003 and notes thereto and with our Consolidated Financial Statements as of December 31, 2002 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, 2002 ("2002 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.

GENERAL

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 advanced defense electronics, communications, medical devices, semiconductors, software products and services and amorphous metals. Our group companies include both publicly traded and privately held companies.

Our activities range from complete operational control over the business of our group companies to involvement in the management of our group companies in which we maintain controlling or significant holdings, and, in a limited number of cases, minority holdings. We participate in the management of most of our group companies by means of active membership on their boards of directors and board committees. As a result, we are involved in matters of policy, strategic planning, marketing, selecting and manning senior management positions, approving investments and budgets, financing and the overall ongoing monitoring of our group companies’ performance. In addition to our representation on the boards of directors of our group companies, we provide hands-on assistance to the group companies' management in support of their growth. We view our hands-on involvement in the operations of our group companies as a key element of our business. Our group companies therefore benefit from the experience of our management team in various areas in which they need support and leadership, including, but not limited to, budgetary control, legal support, market analysis, risk management, identifying joint venture opportunities, introductions to potential customers and investors, business plan preparation, strategic planning and research and development guidance.

We expect to continue to build and realize value to our shareholders from our group companies through the sale of a portion or all of our holdings in any such group company or the issuance of shares by any of our group companies to third parties, and simultaneously pursue the acquisition of, or investment in, new and existing companies. However, as we hold interests in early-stage technology companies, which invest considerable resources in research and development and marketing and which have not reached the income-producing stage, we have experienced, and expect to continue to experience, losses in respect of these companies. Therefore, our net income (or loss) in any given period is due, in the most part, to the results of operations of our group companies and dispositions and changes in our holdings of group companies.

Our shares are publicly traded on Nasdaq National Market under the symbol “ELRN” and on the Tel Aviv Stock Exchange. Elron’s corporate headquarters are located at 3 Azrieli Center, 42nd Floor, Tel-Aviv 67023, Israel, Tel. 972-3-607-5555, Fax. 972-3-607-5556, e-mail: elron@elron.net. Our web site address is www.elron.com. Information contained on our web site is not part of the management report.

RECENT DEVELOPMENTS

New Investment in Notal Vision ("Notal"). In January 2003, we completed a new investment of $2.0 million in Notal, an Israel-related medical device company operating in the field of early detection of Age Related Macular Deterioration (AMD) for an approximately 23.6% ownership interest. Our investment formed part of an aggregate investment in Notal of approximately $4.5 million, including an investment by an existing shareholder, Innomed Ventures L.P., a venture capital fund focused on the medical field and in which we hold a 14% interest. In January 2003, Notal signed a distribution agreement with a strategic partner, Carl Zeiss Meditec, Inc., one of the leading manufacturers of professional optics equipment.

Purchase of Given Imaging shares. On May 12, 2003, we and Rafael Armament Development Authority Ltd. ("Rafael"), the minority shareholder of RDC Rafael Development Corporation Ltd. (“RDC”), purchased two million unregistered shares of Given Imaging Ltd. (“Given Imaging”)(one million each) from RDC for a total consideration of $12.2 million. Of the proceeds, a total of $5.0 million was used by RDC to repay shareholders’ loans to each of Rafael and us and $2.5 million was used to repay its bank loan. This transaction did not have any effect on our consolidated results of operations. As a result of the above sales as well the sale of an additional 320,000 shares of Given Imaging in the open market during the first half of 2003, RDC's ownership interest in Given Imaging decreased from 23.6% at the beginning of the year to 14.4% at June 30, 2003. As of June 30, 2003, our direct ownership interest in Given was 10.7% and our beneficial ownership interest was 25.1%, taking into account our direct holding and that of RDC, or approximately 17.6%, taking into account our direct ownership and our share in the ownership of RDC.

Investment in Wavion Inc. ("Wavion"). On June 1, 2003, Wavion completed a financing round led by Sequoia Seed Capital, raising $6 million out of which we invested $2 million. In addition to the investment, Elron converted loans in the amount of approximately $1.6 million, previously granted to Wavion in 2001 and 2002. Following the financing, we hold approximately 52% of the outstanding shares of Wavion. Wavion, founded in 2000 by entrepreneurs together with Elron, specializes in the development of "smart antenna" technology to enhance the performance of wireless systems. The investment in Wavion is continuing to be accounted for under the equity method, as Elron does not have control over Wavion.

Galil Medical and Amersham merge urology therapy units. On July 1, 2003 our subsidiary, Galil Medical Ltd. ("Galil Medical"), completed the merger of its urology business and the brachytherapy business of Amersham plc (LSE, NYSE, OSE: AHM) – originally announced on April 22, 2003. According to the merger agreement, a new company was incorporated, named Oncura. Oncura is expected to have a global presence in the treatment of prostate cancer. Oncura will provide minimally invasive treatment options for prostate cancer using brachytherapy (radio-active seeds) and cryotherapy (hyper-cooling) technologies. The combined sales of the contributed businesses in 2002 were approximately $90 million. At the closing, Amersham and Galil Medical each contributed the assets necessary for Oncura to conduct the cryotherapy business and the brachytherapy business, respectively, in the urology field, and in exchange for such assets, Amersham received 78% and Galil Medical received 22%, of the outstanding shares of Oncura. In addition, at the closing, Galil Medical purchased 3% of Oncura from Amersham in consideration for $4.5 million in cash, of which $1.5 million was paid and the balance will be paid in two equal installments in December 2003 and June 2004, resulting in Galil Medical's aggregate ownership interest of 25% of Oncura. Until the payment of the balance, 4% of Oncura shares held by Galil, are pledged in favor of Amersham.

Galil Medical has developed innovative third-generation cryotherapy, a minimally invasive advanced hyper-cooling technology, that allows extremely fast, high-resolution and controlled destruction of cancerous tissue. Cryotherapy is a new technology, used to treat advanced stages of prostate cancer or recurrent disease. It complements the brachytherapy in which Amersham is a market leader. Both minimally invasive techniques offer physicians and patients alternatives to prostatectomy surgery.

Investment in K.I.T. eLearning. On July 14, 2003 we completed an investment of $2.0 million in K.I.T. eLearning B.V ("K.I.T. eLearning ", formerly Kidum Holding B.V) as part of an aggregate investment round of $4.0 million, the balance of which was invested by Discount Investment Corporation Ltd. ("DIC"), which holds approximately 38.5% of our shares. Elron and DIC previously each advanced $0.5 million in 2002 and 2003, respectively, on account of the investment. K.I.T. eLearning was previously the operating subsidiary of KIT in which Elron held approximately 29%. As part of the investment round, our holding in Kidum Elron IT Ltd. ("KIT") and loan in the amount of $1.5 million granted by us to KIT in 2001 and 2002 were converted into shares of K.I.T. eLearning. Following the transaction, we hold approximately 45% of the outstanding shares of K.I.T. eLearning.

Investment in Oren Semiconductor. On July 31 ,2003, we completed an investment of $3.0 million in Oren, a developer of chips for the digital television market, in which we previously held approximately 17%, as part of an aggregate investment of $8.0 million from existing shareholders and from Zoran Corporation (Nasdaq: ZRAN). In addition to the investment, we and other shareholders converted all the loans previously granted to Oren, in the amount of approximately $8.4 million into shares, of which Elron's portion was approximately $4.4 million. Following the investment and the loan conversion, we hold approximately 41% in Oren. Zoran and Oren have agreed to cooperate to sell Oren's front-end solution with Zoran's back-end chips to major players in the digital television market. Zoran is the second strategic investor in Oren after Sony Corporation invested in April 2001. Oren will use the proceeds of this equity investment to finance its marketing and sales operations in the United States and Japan and to complete the development of its new products for those markets.

Sale of shares of Partner Communications Company Ltd. ("Partner"). In the second quarter of 2003, we sold 3,500,000 shares of Partner, in which we previously held 12.2%, in consideration for approximately $15.2 million, resulting in a gain, after tax, of approximately $3.2 million. Subsequent to the balance sheet date, on August 11, 2003, we sold an additional 2,778,226 shares of Partner in consideration for approximately $14.1 million. As a result of the sale, we will record in the third quarter of 2003, an estimated gain, after tax, of approximately $3.9 million. Following these sales, we hold approximately 8.7% of the outstanding shares of Partner.

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 under Item 18 to our 2002 20-F. The accounting policies which are particularly important to the description of our financial position and results of operations are described under Item 5 to our 2002 20-F, under the title "Critical Accounting Policies".

As more fully described under this item and under "Principle of accounting for holding in Group companies", the Financial Accounting Standards Board issued in January 2003 Interpretation No. 46, ***Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51*** ("the interpretation"), according to which the consolidation of a variable interest entity ("VIE") by its primary beneficiary is required. Presently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity. One of the characteristics of a VIE is that it does not have sufficient amount of equity to carry on its principal operations, without additional subordinated financial support from other parties. As an operating holding company, we have investments in and loans to various companies that are engaged in the fields of high technology. Most of these companies are in their early stages of development and will require substantial external investments until they can finance their activities without additional support from other parties. These companies are currently primarily funded with financing from venture capital funds, other holding companies and private investors. We account for the investments in these companies either by the consolidation, equity or cost method.

We are currently evaluating the effects of this interpretation in respect of our investments. As of June 30, 2003, the interpretation had no impact on our consolidated results of operations or consolidated balance sheet. However, it is possible that some of our investees may be considered VIEs in accordance with the interpretation. Accordingly, if it is determined that we are the primary beneficiary of a VIE, we will be required to consolidate the financial statements of such a VIE with our own financial statements commencing from July 1, 2003. Our maximum exposure to loss with respect to these companies at June 30, 2003 does not exceed our investment in any of these companies.

BASIS OF PRESENTATION

In May 2002, we completed our merger with Elbit Ltd. ("Elbit") and the share purchase of DEP Technology Holdings Ltd. ("DEP"). As a result of these transactions, Elbit and DEP became wholly owned subsidiaries of Elron, and accordingly, our results of operations include the results of operations of Elbit and DEP subsequent to the acquisition date.

In the second half of 2002, we acquired a controlling interest in both Galil Medical and MediaGate N.V. ("MediaGate"). Accordingly, the financial results of Galil and MediaGate are consolidated within our results of operations subsequent to the acquisition date. Galil Medical's assets and liabilities are included within our consolidated balance sheet as of June 30, 2002.

For comparison purposes, we have provided pro forma information in accordance with SFAS 141, which gives effect to the merger with Elbit, the share purchase of DEP and the acquisition of a controlling interest in Galil and in MediaGate as if these transactions had been in effect at January 1, 2002 (see Note 4 to the Condensed Interim Consolidated Financial Statements as of June 30, 2003).

Consolidation. Our consolidated financial statements include the accounts of the Company and all of its direct or indirect controlled subsidiaries. Our consolidated financial statements include the following main subsidiaries:

Three months ended June 30,		Six months ended June 30,	
2003	2002	2003	2002
Elron Software	Elron Software	Elron Software	Elron Software
Elron TeleSoft	Elron TeleSoft	Elron TeleSoft	Elron TeleSoft
Elbit	Elbit[1]	Elbit	Elbit[1]
DEP	DEP[1]	DEP	DEP[1]
RDC	RDC[1]	RDC	RDC[1]
Galil Medical		Galil Medical	
MediaGate		MediaGate	

[1] Since May 2002, following the completion of the merger and DEP share purchase.

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

Three months ended June 30,		Six months ended June 30,	
2003	2002	2003	2002
Elbit Systems	Elbit Systems	Elbit Systems	Elbit Systems
NetVision	Elbit[1]	NetVision	Elbit[1]
Chip Express	DEP[1]	Chip Express	DEP[1]
Wavion	NetVision	Wavion	NetVision
KIT	MediaGate	KIT	MediaGate
Pulsicom	Chip Express	Pulsicom	Chip Express
Given Imaging	Wavion	Given Imaging	Wavion
Witcom	KIT	Witcom	KIT
3DV	Pulsicom	3DV	Pulsicom
CellAct	Given Imaging	CellAct	Given Imaging
AMT	Galil Medical	AMT	Galil Medical
Notal Vision	Witcom	Notal Vision	Witcom
	3DV		3DV
	Cellenium		Cellenium
	CellAct		CellAct

[1] Through May 2002, following the completion of the merger and DEP share purchase.

RESULTS OF OPERATIONS

Three and six months Ended June 30, 2003 compared to three and six months Ended June 30, 2002.

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

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	(millions of $, except per share data)			
Net loss	3.4	15.2	12.0	23.4
Net loss per share	0.12	0.59	0.41	1.00

Our net loss for the three and six month periods ended June 30, 2003 decreased significantly as compared to the net loss in the same periods of 2002 mainly as a result of the following factors: (i) a gain, net after tax, of approximately $3.2 million, resulting from the sale of 3,500,000 of Partner's shares held by us during the second quarter of 2003; (ii) a decrease of approximately $3.1 million and $4.1 million in the three and six month periods ended June 30, 2003, as compared to the same periods of 2002, in losses we recorded with respect to certain group companies, mainly Elron Software and Elron TeleSoft, as a result of restructuring and cost reduction programs taken by most of them during 2002 and the first half of 2003, which enabled these companies to reduce their losses despite the adverse economic and market conditions; and (iii) the non-recurrence of losses of approximately $6.1 million and $8.4 million recorded in the three and six month periods ended June 30, 2002 with respect to certain group companies which were sold or discontinued their operations as part of the reorganization of Elron, Elbit, and DEP group companies following the completion the merger. However, the general slowdown in spending for technology products continues to affect the results of operations of our group companies which continue to report net losses. The current economic conditions continue to limit our ability to successfully “exit” some of our group companies and to record capital gains. Therefore, we expect to continue to record losses in respect of some of our group companies and our net loss (or income) in future quarters will be affected by the extent of these losses and our ability to dispose of and exit from certain of our group companies.

Pro forma net loss, which gives effect to the merger with Elbit, the share purchase of DEP and the acquisition of a controlling interest in Galil Medical and in MediaGate as if these transactions had been in effect at January 1, 2002, was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	As reported	Pro forma	As reported	Pro forma
	(millions of $, except per share data)			
Pro forma net loss	3.4	18.7	12.0	36.5
Pro forma net loss per share	0.12	0.64	0.41	1.25

The following factors contributed to the significant decrease in our pro forma net loss: (i) the decrease, net, in losses we recorded with respect to our group companies in the amount of $11.6 million and $17.8 million in the three and six month periods ended June 30, 2003, as compared to the same periods of 2002, of which $10.0 million and $16.5 million was due to a decrease in losses with respect to certain group companies which were sold or discontinued their operations as part of the reorganization of Elron, Elbit, and DEP group companies following the completion of our merger; (ii) non-recurring merger expenses of $3.6 million which are reflected in the pro forma net loss in the first half of 2002; (iii) reduction in corporate costs of $0.3 million and $1.4 million in the three and six month periods ended June 30, 2003, as compared to the same periods of 2002; and (iv) a gain, net after tax, of approximately $3.2 million, resulting from the sale of 3,500,000 of Partner's shares held by us during the second quarter of 2003.

Reportable Segments

Our reportable segments are i) The Internet Products Segment - Elron Software, ii) The Systems and Projects Segment - Elron TeleSoft; and iii) 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.

At June 30, 2003, the main group companies were classified into the following segments:

	Internet products	Systems and projects	Other holdings and corporate operations
Consolidated	Elron Software	Elron TeleSoft	Elbit; DEP; RDC; Galil Medical; MediaGate
Equity basis			Elbit Systems; NetVision; Chip Express; Wavion; KIT; Pulsicom; Given Imaging; Witcom Ltd.; 3DV; CellAct; AMT, Notal Vision
Non-marketable securities presented at cost			Oren Semiconductor
Marketable securities presented as available-for-sale			Partner Communications Company;

The following tables reflect our consolidated data by reported segments:

	Internet products - Elron Software	Systems and projects - Elron TeleSoft	Other holdings and corporate operations		Consolidated
	(millions of $)				
	Three months ended June 30, 2003				
Income	2.0	2.1	6.8	*	10.9
Costs and Expenses	3.6	2.8	7.4		13.8
Net loss	(1.6)	(0.7)	(1.1)		(3.4)
	Three months ended June 30, 2002				
Income	2.4	3.4	(7.9)	*	(2.1)
Costs and Expenses	4.6	4.9	1.7		11.2
Net loss	(2.2)	(1.6)	(11.4)		(15.2)
	Six months ended June 30, 2003				
Income	3.8	4.2	5.4	*	13.4
Costs and Expenses	7.2	5.4	15.0		27.6
Net loss	(3.5)	(1.2)	(7.3)		(12.0)
	Six months ended June 30, 2002				
Income	4.2	7.4	(12.9)	*	(1.3)
Costs and Expenses	9.1	9.6	2.4		21.1
Net loss	(4.9)	(2.2)	(16.3)		(23.4)

* includes net losses from equity investments

Internet products - Elron Software

Elron Software is focused on web access control and e-mail content filtering for organizations. The following table sets forth the operating results of Elron Software:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	(millions of $)			
Net revenues	2.0	2.4	3.8	4.2
Cost of revenues	0.2	0.2	0.4	0.4
Gross profit	1.8	2.2	3.4	3.8
Operating expenses*	3.1	3.7	6.2	7.7
Amortization of other assets	0.2	0.3	0.5	0.5
Restructuring charges, net	-	0.3	-	0.3
Operating loss	(1.5)	(2.1)	(3.3)	(4.7)
Finance expenses, net	0.1	0.1	0.2	0.2
Net loss	(1.6)	(2.2)	(3.5)	(4.9)

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

Net revenues. Elron Software's net revenues decreased by $0.4 million in both periods of three and six months ended June 30, 2003, or 17% and 10%, to $2.0 million and $3.8 million, compared to $2.4 million and $4.2 million for the same periods of 2002. The decrease was primarily due to increased competition in the web access monitoring market and the continued economic slowdown, which continues to cause customers to delay or postpone purchases of IT products.

Cost of revenues. Elron Software's cost of revenues were at the same level of $0.2 million and $0.4 million in the three and six month periods ended June 30, 2003 and 2002, representing a gross margin of approximately 90% in all of these periods.

Operating loss. Elron Software's operating loss decreased by $0.6 million and $1.4 million, or 29% and 30%, to $1.5 million and $3.3 million in the three and six month periods ended June 30, 2003, compared to $2.1 million and $4.7 million for the same periods in 2002. The decrease in losses was primarily due to a decrease in operating expenses as a result of restructuring and cost reduction programs implemented by Elron Software during the second half of 2002.

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,	
	2003	2002	2003	2002
	(millions of $)			
Net revenues	2.1	3.4	4.2	7.4
Cost of revenues	1.3	2.3	2.8	5.1
Gross profit	0.8	1.1	1.4	2.3
Operating expenses*	0.8	1.4	1.3	2.7
Amortization of other assets	0.2	0.2	0.4	0.4
Restructuring charges, net	-	0.7	-	0.7
Operating loss	(0.2)	(1.2)	(0.3)	(1.5)
Finance expenses, net	0.5	0.4	0.9	0.7
Net loss	(0.7)	(1.6)	(1.2)	(2.2)

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

Revenues. Elron TeleSoft's net revenues decreased by $1.3 million and $3.2 million, or 38% and 43%, to $2.1 million and $4.2 million in the three and six month periods ended June 30, 2003, compared to $3.4 million and $7.4 million for the same periods of 2002. The decrease resulted mainly from the decrease in revenues derived from sale of third parties' products as well as from the slowdown in telecom capital expenditures.

Cost of revenues. Cost of revenues of Elron TeleSoft in the three and six month periods ended June 30, 2003 were $1.3 million and $2.8 million, representing a gross margin of 38% and 33%, compared to $2.3 million and $5.1 million in the three and six month periods ended June 30, 2002, representing a gross margin of 31% and 32%. The increase in gross margins in 2003 is mainly due to change in revenue mix as revenues derived from Elron TeleSoft's products with higher gross margins increased relative to revenues derived from sale of third parties' products, as well as due to increased efficiency as a result of the restructuring programs implemented by Elron TeleSoft in 2002.

Operating loss. Elron TeleSoft's operating loss decreased by $1.0 million and $1.2 million, or 83% and 80%, to $0.2 million and $0.3 million in the three and six month periods ended June 30, 2003, compared to $1.2 million and $1.5 million for the same periods of 2002. The decrease in operating losses, notwithstanding the decrease in revenues, was primarily due to a decrease in operating expenses as a result of restructuring and cost reduction programs implemented by Elron TeleSoft during the second half of 2002 which enabled Elron TeleSoft to adjust its operating expenses to the decreased revenue levels.

Finance expense, net. Finance expenses increased by $0.1 million and $0.2 million to $0.5 million and $0.9 million in the three and six month periods ended June 30, 2003 from approximately $0.4 million and $0.7 million in the same periods in 2002. The increase in finance expenses resulted mainly from foreign currency losses due to the devaluation of the US dollar against the Israeli Shekel of about 9% during the first half of 2003. The majority of the finance expenses are due to loans associated with the purchase of the main operations and net assets of Network, Communications and Computer Systems (NCC) Ltd by Elron TeleSoft in 1998.

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,	
	2003	2002	2003	2002
	(millions of $)		(millions of $)	
Net revenues	1.9	-	3.6	-
Net loss from equity investments	(3.3)	(9.6)	(5.6)	(15.2)
Gain from disposal and changes in holdings in related companies, net	0.9	1.9	1.3	2.0
Other income (expenses), net	7.3	(0.2)	6.1	0.3
Total income	6.8	(7.9)	5.4	(12.9)
Cost of revenues	0.6	-	1.5	-
Operating expenses**	6.4	1.3	13.2	2.7
Amortization of other assets	0.1	-	0.2	-
Restructuring charges, net	-	0.4	-	0.4
Finance expenses (income), net	0.3	-*	0.1	(0.7)
Total costs and expenses	7.4	1.7	15.0	2.4
Gain (loss) from continuing operations before tax benefit (taxes on income)	(0.6)	(9.6)	(9.6)	(15.3)
Tax benefit (taxes on income)	(2.2)	0.5	(1.8)	1.2
Minority interest	1.7	0.1	3.7	0.2
Loss from continuing operations	(1.1)	(9.0)	(7.7)	(13.9)
Gain (loss) from discontinued operations	-	(2.4)	0.4	(2.4)
Net loss	(1.1)	(11.4)	(7.3)	(16.3)

* Income in the amount of $0.05 million.

**Excluding amortization of other assets and restructuring charges, net, 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, Galil Medical and MediaGate, which were consolidated for the first time in the second half of 2002. The following table sets forth the segment revenues:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	(millions of $)			
Galil Medical	1.9	-*	3.5	-*
MediaGate	**	-*	0.1	-*
	1.9	-	3.6	-

* In the periods in 2002 the companies' results were presented under the equity method.
** $ 0.05 million.

Galil Medical recorded revenues of $1.9 million and $3.5 million in the three and six month periods ended June 30, 2003 compared to $1.0 million and $2.0 million in the same periods of 2002. The increase in revenues is mainly due to increased penetration in the US market as a result of the growing awareness and acceptance of the cryotherapy technology by physicians and patients as an effective treatment for prostate cancer. The majority of the revenues derived from sales of disposable products.

MediaGate, which is engaged in developing and marketing of advanced messaging systems, recorded revenues of approximately $0.1 million in both periods of three and six months ended June 30, 2003 compared to $0.4 million and $0.5 million in the same periods of 2002. MediaGate's revenues and operating results have been and will continue to be affected by the slowdown in the telecommunications market as well as by the competition from more established companies in the market with larger resources. Due to increased competition, during the first half of 2003, MediaGate's results of operations severely deteriorated. MediaGate's ability to continue to operate is dependent upon its ability to generate sufficient revenues or raise additional capital from shareholders and other investors.

Share in net losses of affiliated companies. Our share in net losses of affiliated companies resulted from our holdings in certain investments that are accounted for under the equity method (see above under "Basis of Presentation"). The share in net losses of affiliated companies amounted to $3.3 million and $5.6 million in the three and six month periods ended June 30, 2003 compared to $9.6 million and $15.2 million in the same periods of 2002.

The decrease in our share in net losses of our affiliated companies in 2003 resulted mainly from the following: (i) Following the completion of the merger between Elron, Elbit and DEP, we ceased accounting for the results of operations of Elbit and DEP under the equity method of accounting. Losses with respect to Elbit and DEP group companies, most of which were sold or underwent restructuring and cost reduction programs following the completion of our merger, have decreased significantly. (ii) During the second half of 2002, we acquired a controlling interest in MediaGate and in Galil Medical, and accordingly, we consolidated these companies' results of operations into our results of operations subsequent to their acquisition date and ceased accounting for them under the equity method of accounting. (iii) We recognized an increase in our share in the net income of Elbit Systems for 2003. The above decrease was partially offset mainly by the following: (i) the increase in the losses of Chip Express; and (ii) our share in the losses of new group companies accounted under the equity method, namely AMT and Notal Vision.

Highlights of the Results of Operations of Our Major Affiliates:

Elbit Systems Ltd. (Nasdaq: ESLT) (a 20% holding). Elbit Systems develops, manufactures and integrates advanced high-performance defense electronic systems. Our share in net income of Elbit Systems amounted to $1.8 million and $4.3 million in the three and six month periods ended June 30, 2003, compared to $1.0 million and $3.5 million in the same periods of 2002.

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

- Elbit Systems' revenues increased by 13% and 11% from $193.2 million and $379.0 million in the three and six month periods ended June 30, 2002, to $218.8 million and $420.9 million in the same periods in 2003. As of June 30, 2003, Elbit Systems' backlog of orders was $1,695 million, of which approximately 71% was scheduled to be performed in the next two quarters of 2003 and during 2004. Backlog of orders as of December 31, 2002 was $1,689 million.

- Elbit Systems' operating income in the three and six month periods ended June 30, 2003 was $12.7 million and $27.6 million (5.8% and 6.6% of revenues) compared to $5.4 million and $20.7 million (2.8% and 5.5% of revenues) in the same periods in 2002.

- Elbit Systems' net income in the three and six month periods ended June 30, 2003 was $9.2 million and $21.5 million (4.2% and 5.1% of revenues) compared to $4.8 million and $16.5 million (2.5% and 4.4% of revenues) in the same periods in 2002.

  Elbit Systems' results of operations in the three and six month periods ended June 30, 2003 included $4.1 million and $5.1 million non-cash, share price linked compensation expenses, after tax, associated with its phantom option plan, as compared to an immaterial amount in the same periods in 2002.
  In the three and six month periods ended June 30, 2002, Elbit Systems' results of operations included a $7.8 million non-recurring charge, after tax, in connection with El-Op's (Elbit Systems' wholly-owned subsidiary) agreement with the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade.

Given Imaging (Nasdaq: GIVN) (an 18% holding directly and indirectly through RDC). Given Imaging, a medical device company using a disposable miniature video camera in a capsule to examine the gastrointestinal tract, recorded revenues of $9.7 million and $18.3 million in the three and six month periods ended June 30, 2003, an increase of 35% and 48% over the revenues recorded in the same periods of 2002 of $7.2 million and $12.4 million, and a gross profit of 65% and 66% of revenues, compared to 54% and 53% in 2002. Given Imaging's net loss in the three and six month periods ended June 30, 2003 was $3.3 million and $7.0 million compared to $4.9 million and $10.7 million in the same periods of 2002.

Notal Vision (a 24% holding). In January 2003, we completed an investment of $2.0 million, out of $4.5 million raised by Notal Vision, a medical device company operating in the field of early detection of Age Related Macular Deterioration (AMD). Notal Vision recorded net losses of $0.7 million and $1.3 million in the three and six month periods ended June 30, 2003, consisting mainly of research and development costs. In the third quarter of 2003, Notal Vision commenced selling its product, pursuant to its distribution agreement with Carl Zeiss Meditec.

NetVision (a 46% holding). NetVision provides Internet services and solutions in Israel. In light of the intensive competition in gaining broadband communication market share and due to the economic slowdown affecting business and corporate spending, revenues in the reported periods in 2003 remained at almost the same level as in 2002. In 2003 NetVision changed its operating currency to the New Israeli Shekel (NIS). Accordingly, all figures below are translations for convenience purposes of NetVision's NIS figures into US dollars at the representative rate of exchange prevailing at June 30, 2003 according to which $1.00 equals NIS 4.312.
NetVision's revenues were $16.0 million and $31.3 million in the three and six month periods ended June 30, 2003 compared to $15.8 million and $31.4 million in the same periods in 2002 and its operating income amounted to $1.3 million and $1.7 million in the three and six months period ended June 30, 2003 compared to $1.4 million and $2.5 million in the same periods in 2002. NetVision's net income amounted to $0.5 million and $0.4 million in the three and six month periods ended June 30, 2003 compared to net income of $1.6 million and $3.4 million in the same periods in 2002. As of July 31, 2003, NetVision had a broadband Internet customer base of approximately 110,000 compared to 43,000 at the end of 2002.

NetVision expects that its revenues in the next two quarters of 2003 will continue to be affected by the transition of customers to broadband communication from narrow-band dial-up connections and by increased competition, which will result in lower prices.

Wavion (a 52% holding). Wavion, a developer of broadband wireless access systems for wireless LANs, recorded net loss in the three and six months period ended June 30, 2003 of $0.2 million and $0.1 million compared to $0.4 million and $0.8 million in the same periods in 2002. In light of the downturn in the broadband wireless communications market in 2002 which delayed the release of Wavion's products, Wavion significantly reduced its research and development expenses in 2002 and began to sell subcontracting services for the development of wireless sub-systems, recording revenues of $0.5 million and $1.3 million in the three and six month periods ended June 30, 2003 compared to $0.2 million and $0.4 million in the same periods in 2002. In the second quarter of 2003, Wavion raised $6.0 million, of which we invested $2.0 million, and it intends to use the proceeds of this equity investment to finance its development efforts. Accordingly, Wavion will direct resources away from its subcontracting activities and it is expected that its revenues will decrease while its research and development costs increase, resulting in an increase in Wavion's net loss.

K.I.T. eLearning (a 29% holding as of June 30, 2003). K.I.T. eLearning provides online academic programs. K.I.T. eLearning's revenues increased by 73% and 72% to $1.4 million and $2.8 million in the three and six month periods ended June 30, 2003 compared to $0.8 million and $1.6 million in the same periods in 2002 as a result of increase in student enrollments. At June 30, 2003, K.I.T. eLearning had approximately 1,500 students, mainly from the United Kingdom, Holland, Canada, Germany, China and Singapore, as compared to approximately 1,000 students at the end of 2002. K.I.T. eLearning's operating loss decreased in the three and six month periods ended June 30, 2003 to $0.9 million and $1.7 million compared to $1.3 million and $2.3 million in the same periods in 2002, primarily due to the increase in revenues.

Witcom (a 20% holding directly and indirectly through RDC). Witcom, a company operating in the field of radio-based point-to-point digital networking solutions, recorded revenues of $1.2 million and $2.4 million in the three and six month periods ended June 30, 2003 compared to $1.5 million and $2.8 million in the same periods in 2002. The decrease in Witcom's revenues was a result of the continued slowdown in the telecommunications industry. Witcom's net loss in the three and six month periods ended June 30, 2003 was $0.6 million and $1.5 million compared to $2.1 million and $3.6 million in the same periods in 2002. The decrease in net loss resulted from a cost reduction program implemented by Witcom during 2002.

Pulsicom (a 17% holding). Pulsicom is engaged in the development of high accuracy real time location and tracking systems. In the three and six month periods ended June 30, 2003, its net loss amounted to $0.2 million and $0.3 million, consisting mainly of research and development costs, compared to $0.2 million and $0.4 million in the same periods in 2002.

Chip Express (a 33% holding). Chip Express, a manufacturer of late stage programmable gate array ASICs (Application Specific Integrated Circuits) continued to be affected in 2003 by the slowdown in the semiconductor industry and its revenues decreased by $0.7 million and $3.5 million, or 17.5% and 35%, from $4.0 million and $9.9 million in the three and six month periods ended June 30, 2002 to $3.3 million and $6.4 million in the same periods in 2003. As a result of the decrease in revenues, Chip Express' net loss in the three and six month periods ended June 30, 2003 increased to $2.2 million and $4.6 million compared to $1.7 million and $1.8 million in the same periods in 2002. Chip Express expects that the introduction of new products during the second half of 2003 will contribute to increasing its revenues.

3DV Systems ("3DV") (a 24% holding directly and indirectly through RDC). 3DV designs and develops three dimensional image sensors chip sets that generates both color and depth information, for each object captured by the camera, in real time. The technology may be used in variety of applications such as the gaming, automotive and medical markets. During the first half of 2003, 3DV did not record significant revenues and it continues to incur losses. In order to reduce its losses the company underwent in the second quarter of 2003 a significant restructuring. Currently, 3DV is experiencing difficulties in raising capital to continue its operations and its continued operations are largely dependent upon financial support of its shareholders.

AMT (a 28% holding). Since our investment in the company in August 2002, AMT's two operating companies, namely AHT and ACS, commenced introducing their amorphous metals technology-based products to the market, built up their operating and manufacturing infrastructure and completed staffing of management positions. In the three and six months ended on June 30, 2003, AHT recorded revenues of $0.2 million and $0.3 million, and net losses of $0.5 million and $0.9 million. ACS recorded in the three and six months ended on June 30, 2003 revenues of $0.1 million and $0.2 million, and net losses of $0.3 million and $0.7 million.

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 2003, as they invest significant resources in research and development and sales and marketing activities and have not yet generated significant revenues. Therefore, we anticipate they will continue to negatively affect our results of operations.

Results of operations of significant group companies which are accounted for other than under the equity method of accounting. In addition to companies accounted for under the equity method, we have several significant investments in companies which we account for on a cost basis or as available-for-sale and whose results do not affect our results of operations. These significant investments mainly include our holdings in Partner (Nasdaq: PTNR), which is accounted for as available-for-sale securities, and Oren Semiconductor, which is presented at cost.

Partner (Nasdaq: PTNR) (a 10% holding as of June 30, 2003). At June 30, 2003, the market value of our investment in Partner amounted to $91.3 million. Partner is a Global System for Mobile Communications, or GSM, mobile telephone network operator in Israel. In 2002, Partner reached a significant milestone, as it became a profitable company and generated cash flow. In the first half of 2003, Partner continued to improve its financial performance, notwithstanding the adverse macroeconomic environment and recorded five consecutive quarters of positive earnings. The following are highlights of the results of operations of Partner for the three and six month periods ended June 30, 2003 (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, 2003 according to which $1.00 equals NIS 4.312):

- Partner's revenues in the three and six month periods ended June 30, 2003, increased by 8.6% and 9.8% to $249.8 million and $489.0 million from $230.0 million and $445.5 million in the same periods of 2002. Increased revenues for the second quarter of 2003 were driven primarily by increased usage from a larger subscriber base, seasonal factors and tariff adjustments. Partner's subscriber base at the end of the second quarter of 2003 was 1,949,000, up 14.4% from 1,703,000 at the end of the second quarter of 2002.

- Partner's operating income in the three and six month periods ended June 30, 2003 increased to $50.6 million and $80.8 million from $32.0 million and $56.1 million in the same periods in 2002, an increase of 58% and 44%. Operating income in the three and six month periods ended June 30, 2003, as a percentage of revenues, reached 20.2% and 16.5% versus 13.9% and 12.6% in the same periods in 2002.

- Partner's net income in the three and six month periods ended June 30, 2003 was $36.0 million and $44.0 million compared to $5.9 million and $0.6 million in the same periods in 2002.

Partner has a line of credit agreement with a consortium of banks that provides for borrowings of up to $683 million of which $498 million had been drawn as of June 30, 2003. The line of credit is guaranteed by shares held by the original shareholders of Partner, pro rata to their respective original holdings. As of August 11, 2003, all of the remaining shares held by us of approximately 15.9 million shares, are pledged by us in favor of the consortium of banks.

Oren Semiconductor (a 17% holding as of June 30, 2003). Oren is a developer of chips for the digital television market. The book value of our investment in Oren as of June 30, 2003 was $9.1 million. In the three and six months period ended June 30, 2003, Oren's revenues were $1.2 million and $1.7 million compared to $0.7 million and $1.0 million in the same periods in 2002. Oren's net loss in the three and six months period ended June 30, 2003 was $1.4 million and $2.8 million compared to $1.7 million and $3.3 million in the same periods in 2002.
On July 31, 2003, Oren raised $8.0 million from Zoran Corporation and from existing shareholders, of which we invested $3.0 million. Following the investment we hold approximately 41% in Oren.

As a result of this transaction we will be able to exercise significant influence in Oren, and in accordance with APB 18, "The Equity Method of Accounting for Investments in Common Stock", which requires that we apply the "step-by-step acquisition" method of accounting, we will restate our financial statements in the third quarter of 2003 for all prior periods in which our investments in Oren was recorded at cost. We anticipate that the aforementioned restatement will result in increase in the net loss as follows: Approximately $2.3 million for the year ended December 31, 2002; approximately $0.7 million and $0.6 million for the three months ended June 30, 2003 and 2002, respectively, and approximately $1.3 million for both period of six months ended June 30, 2003 and 2002.

Gains from Sale of Shares and Changes in Holdings in Related Companies. Our gains from the sale of shares and changes in our holdings in related companies amounted to $0.9 million and $1.3 million in the three and six month periods ended June 30, 2003 compared to $1.9 million and $2.0 million in the same periods in 2002. The gain in the three and six month periods ended June 30, 2003 resulted from the sale of 227,500 and 320,000 shares of Given Imaging held by RDC in the respective periods. As a result, our direct and indirect holdings in Given Imaging as of June 30, 2003 was 17.6%.

Other Income (expenses), net. Other income, net, of the Other Holdings and Corporate Operation segment amounted to $7.3 million and $6.1 million in the three and six months period ended June 30, 2003 compared to a loss of $0.2 million and an income of $0.3 million in the same periods in 2002. The gain in both period of three and six month 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 a 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) held by us 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. The gain in 2002 resulted mainly from a $0.6 million gain from the sale of NetManage Inc. shares (Nasdaq: NETM) held by us at that time.

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 MediaGate, which were consolidated for the first time in the second half of 2002. Cost of revenues of the Other Holdings and Corporate Operation segment in the three and six month periods ended June 30, 2003 were $0.6 million and $1.5 million.

Operating expenses. Operating expenses are comprised of research and development expenses, sales and marketing and general and administrative expenses of our and RDC's corporate operations and of our subsidiaries, mainly Galil Medical and MediaGate, which were consolidated for the first time in the second half of 2002. The following table sets forth the segment operating expenses. The operating expenses presented below exclude restructuring expenses and amortization of other assets, in the amount of $0.1 million and $0.2 million in the three and six months ended June 30, 2003, and $0.4 million in both periods of 2002, which also constitute part of operating expenses under US GAAP but for presentation purposes are included as a separate item:

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	(millions of $)			
Corporate	1.7	1.6	3.3	2.9
Galil Medical	3.6	-*	7.4	-*
MediaGate	0.8	-*	2.0	-*
Other	0.3	(0.3)	0.5	(0.2)
	6.4	1.3	13.2	2.7

* In the periods in 2002, the company's results were presented under the equity method.

Our corporate operating costs, which following the merger with Elbit in May 2002, represent the costs of the combined management, were $1.8 million and $3.5 million in the three and six month periods ended June 30, 2003, compared to $1.7 million and $3.1 million in the same periods of 2002.

Operating expenses of Galil Medical in the three and six month periods ended June 30, 2003 were $3.6 million and $7.4 million compared to $2.9 million and $5.6 million in the same periods in 2002. Galil Medical's operating loss in the three and six month periods ended June 30, 2003 amounted to $2.4 million and $5.1 million compared to $2.2 million and $4.4 million in the same periods in 2002. The increase in Galil Medical's operating loss in 2003 is mainly due to increased selling and marketing expenses resulting from its effort to penetrate the market in the United States. The increase in operating expenses was partially offset by the increase in Galil Medical's revenues.

Operating expenses of MediaGate in the three and six month periods ended June 30, 2003 were $0.8 million and $2.0 million compared to $1.0 million and $2.3 million in the same periods in 2002. MediaGate's operating loss in the three and six month periods ended June 30, 2003 amounted to $0.8 million and $2.0 million compared to $0.8 million and $2.2 million in the same periods in 2002. The decrease in the operating loss of MediaGate resulted primarily from the decrease in operating expenses due to cost reduction programs implemented by MediaGate during 2002.

Amortization of other assets. Amortization of other assets in the three and six month periods ended June 30, 2003 in the amount of $0.1 million and $0.2 million related to the excess costs in the acquisition of a controlling interest in Galil Medical and MediaGate which were attributed to these companies' intangible assets.

Finance expenses, net. Finance expenses, net, in the corporate operations and other holdings segment amounted in the three and six month periods ended June 30, 2003 to $0.3 million and $0.1 million compared to an income of $0.05 million and $0.7 million in the same periods in 2002, as a result of the decrease in interest rates and lower cash resources and foreign currency losses as a result of the devaluation of the US dollar against the Israeli Shekel of about 9% during the first half of 2003.

Income Taxes. 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. In the three and six month periods ended June 30, 2002, we recorded a tax benefit of $0.5 million and $1.2 million mainly with respect to corporate losses.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures, deposits and marketable securities (including short and long-term) at June 30, 2003 were approximately $107.2 million compared with $100.0 million at December 31, 2002. At June 30, 2003, the corporate cash, debentures, deposits and marketable securities (including short and long term) were $96.8 million compared with $94.1 million at December 31, 2002. An amount of $31.4 million is collateralized to secure long-term bank loans of Elron Software and Elron TeleSoft and is classified as long-term assets.

The main sources of the corporate cash and other liquid instruments in the six month period ended June 30, 2003 were $15.2 million proceeds from the sale of 3,500,000 shares of Partner, $5.2 million proceeds from the sale of 24/7 Real Media shares, $2.5 million repayment of loan granted to RDC, and a $1.4 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, 2003 were an aggregate of $18.2 million investments in our group companies, including $6.0 million for the purchase of shares of Given Imaging from RDC.

Consolidated working capital at June 30, 2003 was $40.3 million compared to $31.8 million at December 31, 2002. The increase was primarily due to the following: (i) increase in cash and cash equivalents mainly as a result of the sale of Partner's and 24/7 Real Media's shares in the aggregate amount of $20.4 million; and (ii) the repayment by RDC of its bank loans and its loan to its other shareholder, Rafael, in the aggregate amount of $6.5 million. This increase was partially offset by the following: (i) $18.2 investment in our group companies and new companies; and (ii) the increase of $2.4 million in long-term loans which are secured by our debentures and securities and which are classified from current assets to long-term assets.

Consolidated loans at June 30, 2003 were approximately $78.1 million, of which $71.9 million are attributed to Elron TeleSoft and Elron Software. Elron provided guarantees to banks of up to approximately $76.2 million of which $71.9 million have been utilized as of June 30, 2003 and of which an amount of $31.4 million has been secured by our pledged debentures, marketable securities and deposits to secure bank loans made available to Elron TeleSoft and Elron Software. In addition, in connection with some of Elron TeleSoft’s bank loans, we have provided to the lending bank a comfort letter.

In 2001, we provided a letter of comfort in connection with 50% of the credit line granted to NetVision by banks. The amount outstanding under the credit line at June 30, 2003 was approximately $23.5 million. The comfort letters were jointly provided with the other major shareholder of NetVision, which secured the remaining 50% of the credit line.

Subsequent to June 30, 2003 and through August 12, 2003, we invested an additional aggregate amount of approximately $4.3 million in our group companies, which include mainly $2.5 million in Oren and $1.5 million in K.I.T.eLearning. In addition, on August 11, 2003, we sold an additional 2,778,226 shares of Partner in consideration for $14.1 million.

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, 2003, was approximately $271.4 million representing approximately 66% of the total assets compared with $266.5 million representing approximately 66% of total assets at December 31, 2002.

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