MANAGEMENT REPORT FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2003

The following management report should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of September 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, while simultaneously pursuing the acquisition of, or investment in, new and existing companies. We believe that this strategy provides the ability to increase shareholders value as well as capital to support the growth of our group companies.

As we often 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. During the third quarter of 2003, Notal commenced sales to Carl Zeiss Meditec, according to the above agreement.

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 of September 30, 2003, our direct ownership interest in Given was 10.7% and our combined aggregate ownership interest was 23.3%, taking into account our direct holding and that of RDC, or approximately 16.8%, 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.
On October 28, 2003, Wavion increased the amount of the above financing round by $6.5 million, of which an additional $1.0 million was invested by us and the balance from new investors. Elron's ownership interest in Wavion following the investment is approximately 38%.
Wavion, founded in 2000 by entrepreneurs together with Elron, specializes in the development of "smart antenna" technology to enhance the performance of wireless systems.

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). 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. 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. At the closing, Amersham and Galil Medical each contributed the assets necessary for Oncura to conduct the brachytherapy business and the cryotherapy 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 at the closing 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 Medical, are pledged in favor of Amersham. As a result of the transaction, a gain in the amount of $21.3 million was recorded in the third quarter of 2003. Our share in this gain (net of minority interest and income taxes) amounted to $4.4 million. The investment in Oncura is accounted for under the equity method of accounting. (See also "Critical Accounting Policies").

Galil Medical and Amersham each entered, separately, into supply and R&D service agreements pursuant to which Galil Medical and Amersham shall provide Oncura with certain exclusive supply, manufacturing and R&D services, upon a cost plus basis, according to the terms and conditions stipulated in the relevant agreements.

Galil Medical plans to continue developing its cryotherapy technology for applications in other health care fields, including women's health and cardiovascular fields.

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. K.I.T. eLearning was previously the operating subsidiary of Kidum Elron IT Ltd. ("KIT") in which we held approximately 29%. As part of the investment round, our holding in 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 ("Oren"). 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 our 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.

As a result of this transaction Elron is able to exercise significant influence in Oren. In accordance with APB 18, “The Equity Method of Accounting for Investments in Common Stock”, Elron’s interest in Oren, which was previously accounted for by Elron at cost, is accounted for retroactively under the equity method of accounting (“step-by-step acquisition”). Implementing step-by-step acquisition resulted in a restatement of Elron’s financial statements for all prior periods in which Elron’s investments in Oren were recorded at cost. The aforementioned restatement resulted in increased net losses of approximately $0.8 million, or $0.03 per share, and $2.0 million, or $0.08 per share, for the three and nine month period ended September 30, 2002, respectively, by $2.3 million, or $0.08 per share for the year ended December 31, 2002 and by $1.3 million, or $0.04 per share, for the first half of 2003.

Sale of shares of Partner Communications Company Ltd. (“Partner”). During the second and the third quarters of 2003, we sold 3,500,000 and 2,778,226 shares of Partner, in which we previously held 12.2%, in consideration for approximately $15.2 million and $14.1 million, resulting in a gain, after tax, of approximately $3.2 million and $3.9 million, respectively. Following these sales, we hold approximately 8.7% of the outstanding shares of Partner.

Sale of substantially all of Elron SW (formerly: Elron Software) assets and business. On September 2, 2003, our majority owned subsidiary, Elron Software Inc. ("ESI"), sold substantially all of its assets and business to Zix Corporation (Nasdaq: ZIXI) ("Zix"), a global provider of e-messaging protection and transaction services, in consideration for 1,709,402 unregistered shares of Zix's common stock, with a market value of approximately $6.0 million and a 5.75% convertible note of $1.0 million. As part of the transaction, Zix assumed certain liabilities of ESI in the net amount of approximately $1.0 million.

As a result of the transaction, ESI changed its name to Elron SW Inc. ("ESW").

As of September 30, 2003, the common shares held by us constitute approximately 6% of the outstanding share capital of Zix and are accounted for as available for sale securities in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities".

As a result of the sale, Elron recorded in the third quarter of 2003 a gain of approximately $1.6 million. An additional gain in the amount of approximately $2.5 million will be recorded in the fourth quarter of 2003, which represents the elimination of the liability to minority shareholders previously recorded by us in respect of ESW's employee stock options. The elimination of this liability will result from the expected expiration of these options. The results of operations of ESW and the gain on the sale have been classified as discontinued operations in the statement of operations. (See also "Critical Accounting Policies"). As a result of the discontinuation of ESW's operations, we will no longer record losses with respect to ESW, resulting in a positive effect on our results of operations in future periods.

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. Except for the policies described below, all other accounting policies which are particularly important to an understanding of our financial position and results of operations are described under Item 5 to our 2002 20-F, under the title "Critical Accounting Policies".

Non-Monetary transactions

The basic principle in APB 29 "Accounting for Non-monetary transactions" is that the accounting for non-monetary transactions should be based on the fair values of the assets exchanged. The cost of a non-monetary asset acquired in exchange for another non-monetary asset is the fair value of the asset received or the fair value of the asset surrendered to obtain it (if more clearly evident than the asset received .

Galil Medical and Amersham merger of urology therapy units. As part of the consideration for its investment in Oncura’s shares, Galil Medical contributed non-monetary assets that were determined to constitute a business under the definition of EITF 98-3, "Determining whether a non-monetary transaction involved receipt of productive assets or of a business". According to EITF 01-2, "Interpretations of APB Opinion No. 29", transactions by SEC registrants that involve the exchange of a business for any non-monetary asset, including an equity method investment that is not an interest in a joint venture, are not exchanges of productive assets and must be accounted for at fair value unless fair value is not determinable within reasonable limits. The fair value of the transaction was determined based on an independent valuation of Oncura according to which the fair value of Oncura was approximately $150.0 million. Since Galil Medical retains an interest in the business that it transferred, the portion of the gain relating to the interest retained is to be deferred until realization by sale or amortization by Oncura. Accordingly, the investment in Oncura, which is to be accounted for under the equity method, was recorded in the amount of $30.0 million, and a gain from the transaction of approximately $21.3 million was recorded in the statement of operations as other income. This gain includes realization of goodwill in the amount of $0.5 million. Our share in this gain (net of minority interest and income taxes) amounted to $4.4 million.

Determining whether the assets transferred constitute a business requires significant judgment and is dependent on the particular facts and circumstances, mainly regarding the determination of the degree of difficulty or level of investment necessary to obtain access or to acquire missing elements in the set of assets transferred.
In addition, determining the fair value of the transaction is judgmental in nature and often involves the use of significant estimates and assumptions. As mentioned above, Oncura obtained appraisals from an independent appraiser in order to assist in the valuation of its assets. As more fully described in our 2002 20-F, the discounted cash flow method, which was applied in the valuation study, includes significant estimates and assumptions. As Oncura operates in an industry which is rapidly evolving and extremely competitive, its value, as well as the value of its intangible assets, including goodwill, can be exposed to future adverse changes which can result in a charge to its, and in turn, to our results of operations.

Sale of substantially all of ESW's assets and business to Zix. The gain from the sale recorded in the third quarter of 2003 amounted to approximately $1.6 million. In calculating the gain, we valued the Zix common stock at $5.4 million (a discount from market value of approximately 10% due to the restrictions on their sale). Such valuation is judgmental in nature and involved the use of estimates and assumptions.

According to SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” since the operations and cash flows of the business sold have been eliminated from the operations of ESW and ESW will no longer have continuing involvement in the operations of the business after its sale, the results of operations of the business and the gain on the sale have been classified as discontinued operations in the statement of operations.
The shares of Zix common stock which were received as a consideration in the transaction are accounted for as available for sale securities in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities".

Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51 ("the interpretation"). As more fully described our 2002 20-F, according to the interpretation issued in January 2003 by the Financial Accounting Standards Board, the consolidation of a variable interest entity ("VIE") by its primary beneficiary is required. Prior to the application of the interpretation, entities have been 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.

Pursuant to FASB Staff Position FIN 46-6, we have decided to apply the provisions of this interpretation as of December 31, 2003, in respect of variable interests in VIEs created before February 1, 2003. The provisions of this interpretation apply immediately to variable interests in VIEs created after January 31, 2003. Since we have no such interests in VIEs created after January 31, 2003, the application of this interpretation had no impact on our consolidated results of operations or consolidated balance sheet to date. However, since it is possible that some of our investees may be considered VIEs in accordance with the interpretation, we are currently evaluating the effects of this interpretation in respect of our investments. 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 as of December 31, 2003. Our maximum exposure to loss with respect to these companies at September 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 beginning 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 September 30, 2003). The reported results for the third quarter of 2002, already reflect these transactions and therefore pro forma results are presented only for the nine month period ended September 30, 2002.

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 September 30,		Nine months ended September 30,	
2003	2002	2003	2002
ESW	ESW	ESW	ESW
Elron TeleSoft	Elron TeleSoft	Elron TeleSoft	Elron TeleSoft
Elbit	Elbit	Elbit	Elbit[1]
DEP	DEP	DEP	DEP[1]
RDC	RDC	RDC	RDC[1]
Galil Medical	Galil Medical	Galil Medical	Galil Medical[2]
MediaGate	MediaGate	MediaGate	MediaGate[2]

[1] Since May 2002, following the completion of the merger and DEP share purchase.
[2] Since July 1, 2002, following the acquisition of a controlling interest.

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

Three months ended September 30,		Nine months ended September 30,	
2003	2002	2003	2002
Elbit Systems	Elbit Systems	Elbit Systems	Elbit Systems
NetVision	NetVision	NetVision	Elbit[1]
Chip Express	Chip Express	Chip Express	DEP[1]
Wavion	Wavion	Wavion	NetVision
KIT	KIT	KIT	MediaGate[2]
Pulsicom	Pulsicom	Pulsicom	Chip Express
Given Imaging	Given Imaging	Given Imaging	Wavion
Witcom	Witcom	Witcom	KIT
3DV	3DV	3DV	Pulsicom
CellAct	Cellenium	CellAct	Given Imaging
AMT	CellAct	AMT	Galil Medical[2]
Notal Vision	AMT	Notal Vision	Witcom
Oren Semiconductor	Oren Semiconductor[3]	Oren Semiconductor[3]	3DV
Oncura		Oncura	Cellenium
			CellAct
			AMT
			Oren Semiconductor[3]

[1] Through May 2002, the date in which the merger and DEP share purchase were completed.
[2] Through June 30 2002, the date in which the acquisition of a controlling interest was completed.
[3] Restated (see "Critical accounting polices: Restatement").

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2003 compared to three and nine months ended September 30, 2002.

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

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
	(millions of $, except per share data)			
Net income (loss)	3.0	(8.7)	(10.3)	(33.4)
Net Income (loss) per share	0.10	(0.30)	(0.35)	(1.32)

The net income we reported in the third quarter of 2003 is mainly due to the following transactions which we and our subsidiaries completed during the third quarter of 2003:

(i) our share in the gain, net of tax, resulting from the merger of the urology therapy units of Galil Medical and Amersham of approximately $4.4 million;
(ii) a gain, net after tax, of approximately $3.9 million, resulting from the sale of 2,778,226 of Partner shares held by us; and
(iii) a gain of approximately $1.6 million resulting from the sale of substantially all of ESW assets and business to Zix.

These gains were partially offset by write-downs and losses we recorded with respect to most of our group companies. However, these losses are significantly lower than in the comparable period in 2002 as most of our group companies reported increased revenues as well as decreased costs, as a result of restructuring and cost reduction programs undertaken by most of them.

Our net loss for the nine month period ended September 30, 2003 decreased significantly as compared to the net loss in the same period of 2002 mainly as a result of the following factors:

(i) a gain, net after tax, of approximately $7.1 million, resulting from the sale of 6,278,226 Partner shares during the nine month period ended September 30, 2003;
(ii) our share in the gain resulting from merger of the urology therapy units of Galil Medical and Amersham, as described above, in the amount of approximately $4.4 million;
(iii) a gain of approximately $1.6 million resulting from the sale of the business of ESW, as described above; and
(iv) a decrease, net, of approximately $12.2 million in losses we recorded with respect to our group companies, of which $9.9 million was due to a decrease in losses with respect to certain group companies which were sold or discontinued their operations in the second half of 2002 as part of the reorganization of Elron, Elbit, and DEP group companies following the completion of our merger and the reminder reflects the decrease, net, in the losses of most of our group companies, mainly ESW (which business was sold on September 2, 2003) and Elron TeleSoft, as a result of restructuring and cost reduction programs taken by most of them, which enabled these companies to reduce their losses.

Although there have been improvements in our and our group companies' results, the general economic slowdown continues to affect the results of operations of most of our group companies which continue to report net losses. Therefore, we expect to continue to record losses in respect of some of our group companies and our net income (or loss) 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 results. Pro forma net loss for the nine month period ended September 30, 2002 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, amounted to approximately $46.5 million, or $1.59 per share, compared to the net loss in the same period in 2003 of approximately $10.3 million, or $0.35 per share. The following factors contributed to the significant decrease in net loss:

(i) An increase of $9.0 million in gains we recorded with respect to realization of investments by way of selling shares in the open market, such as the sale of shares of Partner, Given Imaging and 24/7 Real Media, and by way of merger and acquisition transactions, such as the merger of the urology therapy units of Galil Medical and Amersham and the sale of the business of ESW;
(ii) the decrease, net, in losses with respect to our group companies in the amount of $23.5 million, of which $18.1 million was due to a decrease in losses with respect to certain group companies which were sold or discontinued their operations in the second half of 2002 as part of the reorganization of Elron, Elbit, and DEP group companies following the completion of our merger;
(iii) non-recurring merger expenses in the amount of $3.6 million which are reflected in the pro forma net loss in the nine month period ended September 30, 2002, and;

(iv) The corporate operating expenses in 2003 were lower by $1.3 million than the pro-forma corporate operating expenses in 2002, reflecting the cost savings we achieved as a result of the merger.

Reportable Segments

Subsequent to the sale of ESW on September 2, 2003 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 indirectly through ESW in a third business segment – Internet Products – which has been reclassified as discontinued operations. At September 30, 2003, the main group companies were classified into the following segments:

	Internet products (Discontinued operations)	Systems and projects	Other holdings and corporate operations
Consolidated	ESW	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; Oren Semiconductor, Oncura
Marketable securities presented as available-for-sale			Partner Communications Company; Zix Corporation

The following tables reflect our consolidated data by reported segments:

	Internet products - Elron SW (Discontinued operations)	Systems and projects - Elron TeleSoft	Other holdings and corporate operations	Consolidated
	(millions of $)			
	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)	0.3*	(0.4)	3.1	3.0
	Three months ended September 30, 2002			
Income**	-	0.8	1.7	2.5
Costs and Expenses	-	3.0	6.9	9.9
Loss from continuing operations	-	(2.2)	(4.7)	(6.9)
Net loss	(1.9)*	(2.2)	(4.6)	(8.7)
	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	(3.1)*	(1.6)	(5.6)	(10.3)
	Nine months ended September 30, 2002			
Income**	-	8.2	(12.6)	(4.4)
Costs and Expenses	-	12.6	9.3	21.9
Loss from continuing operations	-	(4.5)	(19.8)	(24.3)
Net loss	(6.8)*	(4.5)	(22.1)	(33.4)

* Income (loss) from discontinued operations
** Income in the Other holdings and corporate operations includes net losses from equity investments

Internet Products - Elron SW – Discontinued operations

As described under "Recent Developments", Elron SW which was focused on web access control and e-mail content filtering for organizations, sold substantially all of its assets and business to Zix, and accordingly, its results of operations and the gain on the sale have are considered discontinued operations. The following table sets forth the composition of the discontinued operating of Elron SW:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
	(millions of $)			
Gain (loss) from discontinued operations:				
Loss from operations	(1.3)	(1.9)	(4.7)	(6.8)
Gain on disposal	1.6	-	1.6	-
Gain (loss) from discontinued operations	0.3	(1.9)	(3.1)	(6.8)
Net gain (loss)	0.3	(1.9)	(3.1)	(6.8)

The decrease in loss from operation in the reported period was primarily due to a decrease in operating expenses as a result of restructuring and cost reduction programs implemented by Elron Software at the end of 2002 and at the beginning of 2003.

Systems and Projects - Elron TeleSoft

Elron TeleSoft is focused on telecom network management products and services. The following table sets forth the operating results of Elron TeleSoft:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
	(millions of $)			
Net revenues	1.7	0.8	5.9	8.2
Cost of revenues	1.0	1.4	3.8	6.5
Gross profit (loss)	0.7	(0.6)	2.1	1.7
Operating expenses*	0.6	0.9	2.0	3.6
Amortization of other assets	0.2	0.2	0.6	0.6
Restructuring charges, net	-	0.1	-	0.8
Operating loss	(0.1)	(1.8)	(0.5)	(3.3)
Finance expenses, net	0.3	0.4	1.1	1.1
Taxes on income	-	-	-	0.1
Net loss	(0.4)	(2.2)	(1.6)	(4.5)

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

Revenues. Elron TeleSoft's net revenues in the third quarter of 2003 amounted to $1.7 million. Revenues in the comparable period of 2002 amounted to $0.8 million, as Elron Telesoft was affected significantly in this quarter from the slowdown in telecom capital expenditures, as a result of which Elron Telesoft adopted in the fourth quarter of 2002 a restructuring plan in order to adjust itself to market conditions. Revenues for the nine month period ended September 30, 2003 decreased by $2.3 million, or 28%, to $5.9 million, compared to $8.2 million for the same period of 2002. The decrease resulted mainly from the decrease in revenues derived from sale of third parties' products as well as from the continued slowdown in telecom capital expenditures.

Cost of revenues. Cost of revenues of Elron TeleSoft in the three and nine month periods ended September 30, 2003 were $1.0 million and $3.8 million, representing a gross margin of 41% and 36%, compared to $1.4 million and $6.5 million in the three and nine month periods ended September 30, 2002, representing a gross loss in the third quarter of 2002 and a gross margin of 21% in the nine month period ended September 2002. 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.

Operating loss. Elron TeleSoft's operating loss decreased by $1.7 million and $2.8 million, or 94% and 85%, to $0.1 million and $0.5 million in the three and nine month periods ended September 30, 2003, compared to $1.8 million and $3.3 million for the same periods of 2002. The decrease in operating loss, 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 which enabled Elron TeleSoft to adjust its operating expenses to the decreased revenue levels.

Finance expense, net. Elron Telesoft's finance expenses amounted to $0.3 million and $1.1 million in the three and nine month periods ended September 30, 2003, compared to approximately $0.4 million and $1.1 million in the same periods in 2002. 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 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,	
	2003	2002	2003	2002
	(millions of $)		(millions of $)	
Net revenues	3.0	2.7	6.6	2.7
Net loss from equity investments	(1.2)	(4.3)	(8.1)	(20.8)
Gain from disposal and changes in holdings in related companies, net	3.1	3.2	4.4	5.2
Other income (expenses), net	24.9	-	31.0	0.3
Total income	29.9	1.7	33.9	(12.6)
Cost of revenues	2.4	1.5	3.9	1.5
Operating expenses*	5.3	5.5	18.5	8.2
Amortization of other assets	0.1	0.2	0.3	0.2
Restructuring charges, net	-	-	-	0.4
Finance expenses (income), net	(0.5)	(0.4)	(0.4)	(1.0)
Total costs and expenses	7.3	6.8	22.3	9.3
Gain (loss) from continuing operations before tax benefit (taxes on income)	22.6	(5.2)	11.6	(21.8)
Tax benefit (taxes on income)	(3.9)	0.4	(5.7)	1.7
Minority interest	(15.6)	0.1	(11.9)	0.3
Gain (loss) from continuing operations	3.1	(4.7)	(6.0)	(19.8)
Gain (loss) from discontinued operations	-	0.1	0.4	(2.3)
Net gain (loss)	3.1	(4.6)	(5.6)	(22.1)

* 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 September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
		(millions of $)		
Galil Medical	2.1	1.3	5.7	1.3
MediaGate	0.9	1.4	0.9	1.4
	3.0	2.7	6.6	2.7

* Through June 30, 2002 the companies' results were presented under the equity method.

Galil Medical recorded revenues of $2.1 million and $5.7 million in the three and nine month periods ended September 30, 2003 compared to $1.3 million and $3.3 million in the same periods of 2002. The increase in revenues is mainly due to the growing awareness and acceptance of the cryotherapy technology by physicians and patients as an effective treatment for prostate cancer. Galil's revenues in the third quarter of 2003 derived mainly from the supply and R&D service agreements Galil has with Oncura, in which it has a 25% ownership interest.

MediaGate, which is engaged in developing and marketing of advanced messaging systems, recorded revenues of approximately $0.9 million in both periods of three and nine months ended September 30, 2003 compared to $1.4 million and $1.8 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. 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 $1.2 million and $8.1 million in the three and nine month periods ended September 30, 2003 compared to the $4.3 million and $20.8 million in the same periods of 2002 (as restated).

The decrease in our share in net losses of our affiliated companies in the nine month period ended September 30, 2003, compared to the same period in 2002, 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) The decrease in our share in net losses of most of our group companies, mainly Given Imaging, Oren Semiconductor, Witcom and Pulsicom.

The above decrease was partially offset mainly by our share in the losses of new group companies accounted under the equity method, namely AMT and Notal Vision.

The decrease in our share in net losses of our affiliated companies in the third quarter of 2003 resulted from the decrease in our share in net losses of almost all of our group companies, mainly Given Imaging, Oren Semiconductor, Chip Express, AMT, KIT, Witcom, 3DV and Pulsicom. This decrease was partially offset by a decrease in our share in Elbit Systems' net income.

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 the net income of Elbit Systems amounted to $2.4 million and $6.6 million in the three and nine month periods ended September 30, 2003, compared to $3.3 million and $6.7 million in the same periods of 2002.

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

- Elbit Systems' revenues increased from $210.2 million and $589.1 million in the three and nine month periods ended September 30, 2002, to $214.3 million and $635.2 million in the same periods in 2003. The third quarter sales were affected by delays in receipt of new orders which were planned to be sold during the quarter, as well as by delays in achieving milestones in advanced technological programs. As of September 30, 2003, Elbit Systems' backlog of orders was $1,702 million, of which approximately 58% was scheduled to be performed in the fourth quarter of 2003 and during 2004. The backlog of orders as of December 31, 2002 was $1,689 million.

- Elbit Systems' operating income in the three and nine month periods ended September 30, 2003 was $15.1 million and $42.7 million (7.0% and 6.7% of revenues) compared to $16.5 million and $37.2 million (7.9% and 6.3% of revenues) in the same periods in 2002.

- Elbit Systems' net income in the three and nine month periods ended September 30, 2003 was $12.0 million and $33.5 million (5.6% and 5.3% of revenues) compared to $15.5 million and $32.0 million (7.4% and 5.4% of revenues) in the same periods in 2002.

Given Imaging (Nasdaq: GIVN) (a 17% 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 $28.0 million in the three and nine month periods ended September 30, 2003, an increase of 30% and 41% over the revenues recorded in the same periods of 2002 of $7.5 million and $19.9 million, and a gross profit of 63% and 65% of revenues, compared to 59% and 55% in 2002. Given Imaging's net loss continued to decline and amounted to $2.1 million and $9.0 million in the three and nine month periods ended September 30, 2003, compared to $3.9 million and $14.6 million in the same periods of 2002, reflecting the success of initiatives taken earlier in 2003 to control its costs.

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). In the third quarter of 2003, Notal Vision commenced selling its product pursuant to its distribution agreement with Carl Zeiss Meditec and recorded revenues of $0.6 million, and its net loss decreased to $47 thousands. For the nine month period ended September 30, 2003, Notal Vision recorded net losses of $1.3 million, consisting mainly of research and development costs.

Oncura (a 25% holding by Galil). Oncura commenced its operations following the completion of the merger of the urology therapy units of Galil and Amersham which created Oncura. Oncura's revenues in its first quarter of operations amounted to $16.1 million and its net income amounted to $0.5 million.

NetVision (a 46% holding). NetVision provides Internet services and solutions in Israel. 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 September 30, 2003 according to which $1.00 equaled NIS 4.441.

NetVision's revenues increased in the three and nine month periods ended September 30, 2003 by 13% and 4% to $16.4 million and $46.5 million, from $14.5 million and $44.7 million in the same periods in 2002. NetVision's operating income in the nine month period ended September 30, 2003 amounted to $2.9 million compared to $3.3 million in the same period in 2002. In the third quarter of 2003, operating income improved and increased to $1.3 million, compared to $0.9 million in the third quarter of 2002. However, due to higher finance expenses, mainly as a result of the devaluation of the NIS against the US dollar, NetVision recorded in the third quarter of 2003 a net loss of $0.3 million, compared to net income of $0.4 million in the same quarter of 2002. Net income for the nine month period ended September 30, 2003 amounted to $0.1 million, compared to $3.7 million in the same period in 2002.

NetVision expects that its revenue growth will continue to be affected by the transition of customers to broadband communication from narrow-band dial-up connections and by increased competition in gaining broadband communication market share, which will result in lower prices.

Wavion (a 52% holding as of September 30, 2003). Wavion is a developer of broadband wireless access systems for wireless LANs. In 2002, as a result of the downturn in the broadband wireless communications market, which delayed the release of Wavion's products, Wavion significantly reduced its research and development expenses and began to sell subcontracting services for the development of wireless sub-systems. In the third quarter of 2003, Wavion raised $6.0 million in a private placement, the amount of which was subsequently increased by an additional $6.5 million in the fourth quarter of 2003. Wavion intends to use the proceeds of this equity investment to finance its development efforts and accordingly, Wavion directed resources away from its subcontracting activities and its revenues in the third quarter of 2003 decreased to $0.3 million, compared to $0.6 million in the same quarter of 2002. Revenues in the nine month period ended September 30, 2003 amounted to $1.5 million, compared to $1.0 million in the same period in 2002. The increase in its research and development costs resulted in an increase in Wavion's net loss which amounted to $0.7 million in the third quarter of 2003, compared to a net profit of $32,000 in the same period in 2002. Net loss in the nine month period ended September 30, 2003 amounted to $0.9 million, compared to $0.8 million in the same period in 2002.

Following the completion of the private placement in the fourth quarter of 2003, our ownership interest in Wavion decreased to 38%.

K.I.T. eLearning (a 45% holding). K.I.T. eLearning provides online academic programs. K.I.T. eLearning's revenues increased in the three and nine month periods ended September 30, 2003 by 88% and 73% to $1.7 million and $4.5 million compared to $0.9 million and $2.6 million in the same periods in 2002 as a result of the increase in student enrollments. KIT eLearning's operating loss decreased to $0.5 million and $2.3 million compared to $1.2 million and $3.6 million in the same periods in 2002, primarily due to the increase in revenues. At September 30, 2003, K.I.T. eLearning had approximately 1,800 students, mainly from the United Kingdom, Holland, Canada, Germany, China and Singapore, as compared to approximately 1,100 students at the end of 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 in the nine month period ended September 30, 2003 amounted to $9.9 million, compared to $12.9 million in the same period in 2002, and its net loss in the respective periods amounted to $6.1 million, compared to $3.6 million. However, the third quarter of 2003 reflects an improvement in Chip Express results; revenues increased to $3.6 million, compared to $3.0 million in the third quarter of 2002, and net loss decreased to $1.5 million, compared to $1.8 million in the respective period in 2002.

Oren Semiconductor (a 41% holding). Oren is a developer of chips for the digital television market. In the three and nine months period ended September 30, 2003, Oren's revenues increased to $1.6 million and $3.3 million from $0.5 million and $1.5 million in the same periods in 2002, mainly due to revenues derived from development projects. As a result of the increased revenues, Oren's net loss in the three and nine month periods ended September 30, 2003 decreased to $0.5 million and $3.3 million compared to $1.6 million and $4.4 million in the same periods in 2002.
Oren raised, in the third quarter of 2003, $8.0 million the proceeds of which it intends to use 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.

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 nine months ended September 30, 2003, AHT recorded revenues of $0.3 million and $0.6 million, and net losses of $0.4 million and $1.3 million. ACS recorded in the three and nine months ended on September 30, 2003 revenues of $0.2 million and $0.4 million, and net losses of $0.3 million and $1.0 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 future quarters, 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 significant investment in Partner (Nasdaq: PTNR) which is accounted for as available-for-sale securities and whose results do not affect our results of operations.

Partner (Nasdaq: PTNR) (a 8.73% holding). At September 30, 2003, the market value of our investment in Partner amounted to $93.2 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 third quarter of 2003, Partner continued to improve its financial performance and demonstrate its ability to sustain revenue growth, profitability and positive cash flow. The following are highlights of the results of operations of Partner for the three and nine month periods ended September 30, 2003 (all figures below are convenience translations of Partner's nominal New Israeli Shekel (NIS) figures into US dollars at the rate of the exchange prevailing at September 30, 2003 according to which $1.00 equaled NIS 4.441):

- Partner's revenues in the three and nine month periods ended September 30, 2003, increased by 11% and 10% to $269.4 million and $744.2 million from $241.2 million and $673.8 million in the same periods of 2002. Increased revenues as compared to last year were driven primarily by increased usage and subscriber growth. Partner's subscriber base at the end of the third quarter of 2003 was 2,032,000 up 15% from 1,758,000 at the end of the third quarter of 2002.

- Partner's operating income in the three and nine month periods ended September 30, 2003 increased to $60.1 million and $138.6 million from $36.6 million and $91.0 million in the same periods in 2002, an increase of 64% and 52%. Operating income in the three and nine month periods ended September 30, 2003, as a percentage of revenues, increased to 22% and 19 % versus 15% and 14% in the same periods in 2002.

- Partner's net income in the three and nine month periods ended September 30, 2003 was $38.0 million and $80.7 million compared to $11.5 million and $12.1 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 $449 million had been drawn as of September 30, 2003. 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, 2003, amounting to approximately 15.9 million shares, are pledged by us in favor of the consortium of banks.

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 $3.1 million and $4.4 million in the three and nine month periods ended September 30, 2003 compared to $3.2 million and $5.2 million in the same periods in 2002. The gain in the nine month period ended September 30, 2003 resulted from the sale of 753,600 shares of Given Imaging held by RDC (of which 433,600 were sold in the third quarter of 2003) for approximately $7.8 million (of which approximately $5.0 million was in the third quarter of 2003).

The gain in the comparable periods in 2002 was also mainly with respect to the sale of Given Imaging shares by us and RDC.

Other Income (expenses), net. Other income, net, of the Other Holdings and Corporate Operation segment amounted to $24.9 million and $31.0 million in the three and nine month periods ended September 30, 2003 compared to $30 thousand and $0.3 million in the same periods in 2002. The gain in the nine month period ended September 30, 2003 resulted primarily from the following: (i) the sale of 6,278,226 Partner shares (of which 2,778,226 were sold in the third quarter of 2003) which resulted in a $11.1 million gain before tax (of which $6.1 million was recorded in the third quarter of 2003), for approximately $29.3 million (of which approximately $14.1 million was in the third quarter of 2003); (ii) the gain resulting from the merger of the urology therapy units of Galil Medical and Amersham of approximately $21.3 million (which after minority interest and income taxes amounted to $4.4 million); and (iii) 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 approximately $5.2 million. These gains were partially offset by $3.9 million of write-downs (of which $2.7 million were in the third quarter of 2003) mainly with respect to Cellenium and Textology.
The gain in the period of nine months ended September 30, 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 Operations segment in the three and nine month periods ended September 30, 2003 were $2.4 million and $3.9 million. For both periods of three and nine month ended September 30, 2002, cost of revenues of the Other Holdings and Corporate Operations segment were $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 $0.3 million in the three and nine months ended September 30, 2003, and $0.2 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 September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
	(millions of $)			
Corporate	1.7	1.5	4.9	4.3
Galil Medical*	2.5	3.2	9.8	3.2
MediaGate*	0.6	0.9	2.7	0.9
Other*	0.5	(0.1)	1.1	(0.2)
	5.3	5.5	18.5	8.2

* In the first half of 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 $1.7 million and $4.9 million in the three and nine month periods ended September 30, 2003, compared to $1.5 million and $4.3 million in the same periods of 2002.

Operating expenses of Galil Medical in the three and nine month periods ended September 30, 2003 were $2.4 million and $9.8 million compared to $3.2 million and $8.8 million in the same periods in 2002. Operating expenses in the third quarter of 2003 includes approximately $1.2 million of costs related to the merger of the urology therapy units of Galil Medical and Amersham. Galil Medical's operating loss in the three and nine month periods ended September 30, 2003 amounted to $2.4 million and $7.5 million compared to $2.4 million and $6.8 million in the same periods in 2002. Following the merger of the urology therapy units of Galil Medical and Amersham, Galil plans to continue developing its cryotherapy technology for application in other health care fields, and to supply Oncura manufacturing and research and developments services on a cost plus basis, and therefore its operating loss is expected to decrease.

Operating expenses of MediaGate in the three and nine month periods ended September 30, 2003 were $0.6 million and $2.7 million compared to $3.3 million and $ 0.9 million in the same periods in 2002. MediaGate’s operating loss in the three and nine month periods ended September 30, 2003 amounted to $ 0.1 million and $ 2.1 million compared to $0.5 million and $2.8 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 nine month periods ended September 30, 2003 in the amount of $0.1 million and $0.3 million and $0.2 million in both periods in 2002 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. As a result of the merger of the urology therapy units of Galil Medical and Amersham, 75% of the carrying amount of the intangibles related to the business sold was realized and 25%, representing the retained interest in the intangible assets transferred, are included in the deferred gain which is presented as a deduction from the investment in Oncura.

Finance expenses, net. Finance expenses, net, in the corporate operations and other holdings segment in the three and nine month periods ended September 30, 2003 amounted to $0.5 million and $0.4 million compared to income of $0.4 million and $1.0 million in the same periods in 2002.

Income Taxes. Income taxes, net, in the three and nine month periods ended September 30, 2003 were $3.9 million and $5.7 million, which were mainly due to 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 Amersham and net of a tax benefit, mainly with respect to corporate losses. In the three and nine month periods ended September 30, 2002, we recorded a tax benefit of $0.4 million and $1.7 million mainly with respect to corporate losses.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits (including short and long-term) at September 30, 2003 were approximately $109.6 million compared with $96.8 million at December 31, 2002. At September 30, 2003, the corporate cash, debentures and deposits (including short and long term) were $101.8 million compared with $94.1 million at December 31, 2002. An amount of $26.6 million is collateralized to secure current maturities of long-term bank loans of ESW and Elron TeleSoft.

The main sources of the corporate cash and other liquid instruments in the nine month period ended September 30, 2003 were $29.3 million proceeds from the sale of 6,278,226 shares of Partner, $5.2 million proceeds from the sale of 24/7 Real Media shares, a $4.3 million repayment of loan granted to RDC, and a $2.2 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, 2003 were an aggregate of $24.4 million investments in new and existing group companies, (including $6.0 million for the purchase of shares of Given Imaging from RDC) and $5.8 million repayment of bank loans.

Consolidated working capital at September 30, 2003 was $41.3 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 and 24/7 Real Media shares in the aggregate amount of $34.5 million;
(ii) increase in marketable securities as a result of the Zix's shares received as consideration for the sale of ESW's business. The value of Zix shares as of September 30, 2003 amounted to approximately $13.2 million; and
(iii) The classification of $23.7 million as short-term deposits which are used to secure Elron Telesoft and ESW's loan and which were previously classified as long-term deposits.

This increase was partially offset by $24.4 million investment in our group companies and new companies and by the classification as short-term loans of $43.4 million which was previously classified as long-term loans.

Consolidated loans at September 30, 2003 were approximately $72.0 million, of which $67.0 million are attributed to Elron TeleSoft and ESW, and of which an amount of $26.6 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, together with other major shareholder of NetVision, provided letters of comfort in connection with the credit line granted to NetVision by banks pursuant to which we jointly undertook not to reduce our joint holdings beyond a certain percentage. The amount outstanding under the credit line at September 30, 2003 was approximately $23.5 million.

Subsequent to September 30, 2003 and through November 10, 2003, we invested an additional aggregate amount of approximately $1.2 million in our group companies, which include mainly $1.0 million in Wavion.

We believe that our existing capital will be sufficient to fund our and our subsidiaries' operations and our investment plan in existing and new companies for at least the next twelve months.

Shareholders' equity at September 30, 2003, was approximately $277.0 million representing approximately 64% of the total assets compared with $259.4 million representing approximately 66% of total assets at December 31, 2002.

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