MANAGEMENT REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2003

The following management report should be read in conjunction with our Condensed Interim Consolidated Financial Statements as of March 31, 2003 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2002 and notes thereto. This report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements may be identified by the words “anticipate”, “believe”, “estimate”, “expect”, “plan” and similar expressions. The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those discussed in our filings with the Securities and Exchange Commission from time to time.

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, 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 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

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. Accordingly, our results of operations include the results of operations of Elbit and DEP subsequent to the acquisition date.

As a result of the DEP share purchase, our interest in Given Imaging, Galil Medical, Witcom and 3DV Systems, in which we had direct and indirect interests through RDC, increased. This enables us to exercise significant influence over these companies and in accordance with APB 18, which requires that we apply the “step-by-step acquisition” method of accounting, we have restated our financial statements for all prior periods in which our investments in these companies were recorded at cost. The aforementioned restatements resulted in increased net losses of approximately $0.7 million, or $0.03 per share for the first quarter of 2002.

In the second half of 2002 we acquired a controlling interest in both Galil Medical Ltd. (“Galil”) 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.

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 occurred at the beginning of each reporting period presented (see Note 4 to the Condensed Interim Consolidated Financial Statements as of March 31, 2003).

Investment in Notal Vision ("Notal"). In January 2003, we invested $2.0 million in Notal, an Israel-related medical device company operating in the field of early detection of Age Related Macular Deterioration (AMD). Our investment formed part of an aggregate investment in Notal of approximately $4.0 million, including an investment by an existing shareholder, Innomed Ventures L.P., a venture capital fund focused on the medical field in which we hold a 14% interest. Following the transaction, we hold directly approximately 25% of Notal. 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.

Galil Medical and Amersham merge urology therapy units. On April 22, 2003, Galil announced the signing of a definitive agreement with Amersham (LSE, NYSE, OSE: AHM) to merge Amersham Health's brachytherapy business with Galil's urology business. The new company will have a major global presence in the treatment of prostate cancer. The new company 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. According to the agreement, at the closing Amersham will hold 78% and Galil will hold 22% of the new company. In exchange for Galil's shares and Amersham's share in the new company, each will contribute the assets necessary for the new company to conduct the cryo business and the brachytherapy business, respectively, in the urology field. In addition, at the closing Galil will purchase 3% of the new company from Amersham in consideration for $4.5 million in cash, resulting in an aggregate ownership interest of 25% upon the completion of the transaction. The transaction is subject to regulatory approvals and is expected to close before the end of July 2003.

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 and rapidly growing technology, increasingly used to treat advanced stages of prostate cancer or recurrent disease. It complements the brachytherapy in which Amersham is the market leader. Both minimally invasive techniques offer physicians and patients effective alternatives to prostatectomy surgery.

Purchase of Given Imaging shares. On May 13, 2003, we and Rafael Armament Development Authority Ltd. ("Rafael"), the minority shareholder of RDC, purchased two million unregistered shares of Given Imaging (one million each) from RDC for a total consideration of $12.2 million. Of the proceeds a total of $4.0 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. As a result of the above sales, RDC's ownership interest in Given decreased to 14.8% and Elron's direct ownership interest in Given increased to 10.8%. Our direct and indirect ownership interest as of May 13, 2003 was 18.2%.

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 2002 Annual Consolidated Financial Statements. The accounting policies which are particularly important to the description of our financial position and results of operations are described in the management report for the year ended December 31, 2002. In addition, the following new standard is applicable in 2003.

Consolidation of Variable Interest Entities. In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51* (the interpretation). In general, according to the interpretation, a variable interest entity (VIE) is an entity that has (1) insufficient amount of equity for the entity to carry on its principal operations, without additional subordinated financial support from other parties, (2) a group of equity investors that do not have the ability through voting or similar rights to make decisions about the entity's activities, or (3) a group of equity investors that do not have the obligation to absorb the entity's losses or have the right to receive the benefits of the entity. The interpretation requires the consolidation of a VIE by the primary beneficiary. The primary beneficiary is the entity that absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Presently, entities are generally consolidated by an enterprise that has a controlling financial interest through ownership of a majority voting interest in the entity.

As an operating holding company, we have investments in and loans to various companies that are engaged primarily 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.

The provisions of this interpretation are to be applied commencing from July 1, 2003, to variable interests in VIEs created before February 1, 2003 and 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 interpretation had no impact on our consolidated results of operations or consolidated balance sheet to date.

We are currently evaluating the effects of this interpretation in respect of our investments. It is likely that some of our investees may be considered a VIE in accordance with the interpretation. Accordingly, when 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 at March 31, 2003, does not exceed our investment in any of these companies.

BASIS OF PRESENTATION

Consolidation. The consolidated financial statements include the accounts of the Company and all its subsidiaries in which we directly or indirectly own more than 50% of the outstanding voting securities. Our consolidated financial statements include the following main subsidiaries:

Three months ended March 31,	
2003	2002
Elron Software	Elron Software
Elron TeleSoft	Elron TeleSoft
Elbit	
DEP	
RDC	
Galil Medical	
MediaGate	

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

Three months ended March 31,			
2003		2002	
Elbit Systems	Given Imaging	Elbit Systems	KIT
NetVision	Witcom	Elbit	Pulsicom
Chip Express	3DV	NetVision	Given Imaging
Wavion	CellAct	MediaGate	Galil Medical
KIT	AMT	Chip Express	Witcom
Pulsicom	Notal Vision	DEP	3DV
		Wavion	

RESULTS OF OPERATIONS

Three months Ended March 31, 2003 compared to Three months Ended March 31, 2002.
The following tables set forth our results of operations in the reported period:

	Three months ended March 31,	
	2003	2002
	(millions of $, except per share data)	
Net loss	8.6	8.3*
Net loss per share	$0.30	$0.39*

* Restated (see "Recent Developments")

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 and in MediaGate as if these transactions had occurred at the beginning of each reporting period presented, was as follows:

	Three months ended March 31,	
	2003	2002
	As reported	Pro forma
	(millions of $, except per share data)	
Pro forma net loss	8.6	17.8
Pro forma net loss per share	$0.30	$0.61

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. However, as reflected in the pro forma information, we reported a significant decrease in our pro forma net loss, primarily as a result of the following: (i) the reorganization of Elron, Elbit, and DEP group companies which resulted in a significant decrease of $6.6 million in losses of certain group companies which were sold following the completion of our merger with Elbit and DEP; (ii) non recurring merger expenses of $3.6 million which are reflected in the pro forma net loss in the first quarter of 2002; (iii) significant reduction in corporate costs of $1.1 million; and (iv) the decrease in the operating losses of certain of our subsidiaries and the decrease in our share in the losses of our affiliated companies due to the restructuring plans and cost reduction programs taken by most of our group companies during 2002, which enabled these companies to reduce their losses notwithstanding the adverse economic and market conditions.

Reportable Segments

Our reportable segments are i) Elron Software, the Internet products segment; ii) Elron TeleSoft, the systems and projects segment; and iii) Other holdings and 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 March 31, 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
Cost			Oren Semiconductor, EVS
Marketable securities presented as available-for-sale			Partner Communications Company; 24/7 Real Media

The following table reflects our consolidated data by reported segments:

	Elron Software	Elron TeleSoft	Other holdings and corporate operations	Consolidated
	(millions of $)			
	Three months ended March 31, 2003			
Income	1.8	2.1	(1.5)	2.4
Costs and Expenses	3.6	2.6	7.6	13.8
Net loss	1.8	0.6	6.2	8.6
	Three months ended March 31, 2002			
Income	1.9	4.0	(5.0)	0.9
Costs and Expenses	4.6	4.6	0.8	10.0
Net loss	2.7	0.6	5.0	8.3

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 March 31,	
	2003	2002
	(millions of $)	
Net revenues	1.8	1.9
Cost of revenues	0.2	0.2
Gross profit	1.6	1.7
Operating expenses*	3.0	4.0
Amortization of other assets	0.3	0.3
Restructuring charges, net	-	-
Operating loss	1.7	2.6
Finance expenses, net	0.1	0.1
Net loss	1.8	2.7

*Excluding amortization of other assets in the amount of $0.3 million in both three months period ended March 31, 2003 and 2002, which are presented separately. Operating expenses for the same periods, including amortization of other assets, amounted to $3.3 million and $4.3 million, respectively.

Net revenues. Elron Software's net revenues decreased by $0.1 million, or 5%, to $1.8 million in the three months ended March 31, 2003 from $1.9 million in the same period in 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 $0.2 million in the three months ended March 31, 2002 and 2003, representing a gross margin of 89% in both periods.

Operating loss. Elron Software's operating loss decreased by $0.9 million, or 35%, from $2.6 million in the three months ended March 31, 2002 to $1.7 million in the same period in 2003. The decrease in losses was primarily a result of a decrease in operating expenses (excluding amortization of other assets and restructuring charges) in the amount of $1.0 million, or 25%, from $4.0 million in the three months ended March 31, 2002 to $3.0 million in the same period in 2003, which resulted from the restructuring and cost reduction programs implemented by Elron Software during 2002.

Elron Software's ability to further decrease operating losses and reach breakeven is dependent upon its ability to grow its revenues in the next quarters.

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 March 31,	
	2003	2002
	(millions of $)	
Net revenues	2.1	4.0
Cost of revenues	1.5	2.8
Gross profit	0.6	1.2
Operating expenses*	0.6	1.3
Amortization of other assets	0.2	0.2
Restructuring charges, net	-	-
Operating loss	0.2	0.3
Finance expenses, net	0.4	0.3
Other expenses, net	-	-
Tax provision	-	-
Net loss	0.6	0.6

*Excluding amortization of other assets in the amount of $0.2 million in the three months ended March 31, 2003 and 2002 which are presented separately. Operating expenses for the same periods, including amortization of other assets, amounted to $0.8 million and $1.5 million, respectively.

Revenues. Elron TeleSoft's net revenues decreased by $1.9 million, or 48%, from $4.0 million in the three months ended March 31, 2002 to $2.1 million in the same period in 2003. The decrease resulted from the slowdown in telecom capital expenditures as well as longer sales cycles as telecom service providers postponed purchase decisions.

Cost of revenues. Cost of revenues of Elron TeleSoft in the three months ended March 31, 2003 was $1.5 million, representing a gross margin of 29%, compared to $2.8 million in the same period in 2002, representing a gross margin of 30%.

Operating loss. Elron TeleSoft's operating loss decreased by $0.1 million, or 33%, from $0.3 million in the three months ended March 31, 2002 to $0.2 million in the same period in 2003. The decrease in losses was a result of a decrease in operating expenses (excluding amortization of other assets) in the amount of $0.7 million, or 54%, from $1.3 million in the three months ended March 31, 2002 to $0.6 million in the same period in 2003, which resulted from the restructuring and cost reduction programs implemented by Elron TeleSoft during 2002.

Finance expense, net. Finance expenses increased by $0.1 million, or 33%, to $0.4 million in the three months ended March 31, 2003 from approximately $0.3 million in the same period 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 March 31,	
	2003	2002
	(millions of $)	
Net revenues	1.7	-
Net loss from equity investments	(2.3)	(5.7)
Gain from disposal and changes in holdings in related companies, net	0.4	0.2
Other income (expenses), net	(1.3)	0.5
Total income	(1.5)	(5.0)
Cost of revenues	0.8	-
Operating expenses*	6.8	1.4
Amortization of other assets	0.1	-
Restructuring charges, net	-	-
Finance expenses (income), net	(0.1)	(0.6)
Total costs and expenses	7.6	0.8
Loss from continuing operations before tax benefit	9.1	5.8
Tax benefit	0.4	0.7
Minority interest	2.0	0.1
Loss from continuing operations	6.7	5.0
Gain from discontinued operations	0.5	-
Net loss	6.2	5.0

*Excluding amortization of other assets and restructuring charges, net, in the amount of $0.1 million and $0 million in the three months ended March 31, 2003 and 2002, respectively, which are presented separately. Operating expenses for the same periods, including amortization of other assets, amounted to $6.9 million and $1.4 million, respectively.

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 March 31,	
	2003	2002
	(millions of $)	
Galil Medical	1.7	-*
MediaGate	-	-*
	1.7	-

* Company's results were presented under the equity method.

Galil Medical, a medical device company performing minimally invasive cryotherapy, recorded revenues of $1.7 million in the three months ended March 31, 2003 compared to $0.9 million in the same period in 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, did not have any recognizable revenue in the three months ended March 31, 2003 compared to $0.1 million in the same period in 2002. MediaGate's deferred revenues increased by $0.2 million in the first quarter of 2003 to $0.3 million. MediaGate's revenues and operating results have been and will continue to be affected by the slowdown in the telecommunication market as well as by the competition from more established companies in the market.

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 $2.3 million in the three months ended March 31, 2003 compared to $5.7 million in the same period in 2002. The decrease in our share in net losses of our affiliated companies in 2003 resulted mainly from ceasing accounting for the results of operations of Elbit, DEP, MediaGate and Galil Medical under the equity method and from the decrease in the losses of some of our group companies, in particular, Wavion.

The above decrease was partially offset mainly as a result of the increase in our share of the net losses of Given Imaging and 3DV as a result of the share purchase of DEP, the increase in the losses of Chip Express and 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 $2.4 million in the three months ended March 31, 2003 compared to $2.5 million in the same period in 2002.

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

- Elbit Systems' revenues increased from $185.8 million in the three months ended March 31, 2002 to $202.2 million in the same period in 2003. As of March 31, 2003, Elbit Systems' backlog of orders was $1,691 million, of which approximately 80% was scheduled to be performed in the next three quarters of 2003 and in 2004 compared to a backlog of orders of $1,689 million on December 31, 2002.

- Elbit Systems' operating income in the three months ended March 31, 2003 was $14.9 million (7.4% of revenues) compared to $15.2 million (8.2% of revenues) in the same period in 2002. The decrease in Elbit Systems' operating income was as a result of higher operating expenses, mainly due to its investment in the development of future technologies and products and in generating new business.

- Elbit Systems' net income in the three months ended March 31, 2003 was $12.3 million (6.1% of revenues) compared to $11.7 million (6.3% of revenues) in the same period in 2002.

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 $8.6 million in the three months ended March 31, 2003, compared to $5.2 million in the same period in 2002, and a gross profit of 67% of revenues, compared to 52% in the first quarter of 2002. Given Imaging's net loss in the three months ended March 31, 2003 was $3.6 million compared to $5.7 million in the same period in 2002.

In light of longer sales cycle of Given's new systems and the anticipated continued overall slowdown in capital expenditure by its potential customers, Given now expects its revenues for 2003 to increase by 40% to 50% over its 2002 revenues of $28.9 million, compared to its previous expectation of 100% year to year growth. Accordingly, Given's target to reach breakeven has been delayed to early 2004.

Notal Vision (a 25% holding). In January 2003, we completed an investment of $2.0 million, out of $4.0 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 $0.6 million in the three months ended March 31, 2003, consisting mainly of research and development costs.

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, NetVision's revenues amounted to $14.2 million in the three months ended March 31, 2003 compared to $14.3 million in the same period in 2002 and its operating income amounted to $0.3 million in the three months ended March 31, 2003 compared to $1.0 million in the same period in 2002. NetVision's net loss amounted to $0.1 million in the three months ended March 31, 2003 compared to net income of $1.6 million in the same period in 2002. At March 31, 2003, NetVision has a customer base of approximately 350,000 (340,000 at the end of 2002).

NetVision expects that its revenues in the next three 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 45% holding). Wavion, a developer of broadband wireless access systems for wireless LANs, recorded a net profit in the three months ended March 31, 2003 of $20 thousand compared to a net loss of $0.4 million in the same period in 2002. In light 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, recording revenues of $0.7 million in the three months ended March 31, 2003 compared to $0.2 million in the same period in 2002.

KIT (a 29% holding). KIT provides online academic programs. KIT's net loss in the three months ended March 31, 2003 amounted to $0.9 million compared to $0.7 million in the same period in 2002, primarily due to an increase of $0.5 million in marketing and sales expenses as KIT expanded its sales efforts, mainly in Holland and in the United Kingdom. As a result of these efforts, KIT generated revenues of $1.3 million in the three months ended March 31, 2003 compared to $0.5 million in the same period in 2002. At March 31, 2003, KIT had approximately 1,400 students, mainly from the United Kingdom, Holland, Canada, Germany, China and Singapore.

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 in the three months ended March 31, 2003 compared to $1.3 million in the same period in 2002. The decrease in Witcom's revenues was a result of the slowdown in the telecommunications industry. Witcom's net loss in the three months ended March 31, 2003 was $1.0 million compared to $1.5 million in the same period 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 months ended March 31, 2003, its net loss amounted to $0.1 million, consisting mainly of research and development costs, compared to $0.2 million in the same period in 2002. Pulsicom is expecting to complete its first prototype and commence field tests during 2003 and therefore sales are not anticipated to commence before 2004.

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 $2.9 million, or 49%, from $5.9 million in the three months ended March 31, 2002 to $3.0 million in the same period in 2003. As a result of the decrease in revenues, Chip Express' net loss in the three months ended March 31, 2003 increased to $2.4 million compared to $0.1 million in the same period in 2002. Chip Express expects that the introduction of new products during the second half of 2003 will contribute to increasing its revenues.

3DV (a 25% holding directly and indirectly through RDC). 3DV, a developer of products in the field of 3-D cameras, recorded a net loss of $1.1 million in the three months ended March 31, 2003 compared to $1.3 million in the same period in 2002. The decrease in 3DV's net loss was a result of restructuring and cost reduction programs. In the first quarter of 2003, 3DV recorded revenues of $0.2 million. 3DV is a development stage company and its future revenues are largely dependent on the demand for three dimensional applications, such as three-dimensional video games.

AMT (a 28% holding). Since our investment in the company in August 2002, AMT's two operating companies, namely AHT and ACS, started to introduce their amorphous metals technology-based products to the market and have recorded initial sales of a few hundred thousand dollars. In addition, both companies have built up their operating and manufacturing infrastructure and completed staffing of management positions. In the first quarter of 2003, both AHT and ACS recorded revenues of $0.1 million (each), and net losses of $0.5 million and $0.4 million, respectively.

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) through Elbit, which is accounted for as available-for-sale securities, and Oren Semiconductor, which is presented at cost.

Partner (Nasdaq: PTNR) (a 12% holding through Elbit). At March 31, 2003, the market value of our investment in Partner amounted to $74.6 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 free cash flow. The following are highlights of the results of operations of Partner for the three months ended March 31, 2003:

- Partner's revenues for the three months ended March 31, 2003 increased by 11% to $220.0 million from $198.3 million in the same period in 2002. Partner's subscriber base at the end of the first quarter in 2003 was 1,894,000 compared to 1,596,000 at the end of the same period in 2002.

- Partner's operating income for the three months ended March 31, 2003 increased to $27.8 million from $22.1 million in the same period in 2002, an increase of 26%. Operating income in the three months ended March 31, 2003, as a percentage of revenues, reached 13% as compared to 11% in the same period in 2002.

- Partner's net income for the three months ended March 31, 2003 was $7.4 million compared to a net loss of $4.9 million for the same period in 2002.

Partner has a line of credit agreement with a consortium of banks that provides for borrowings of up to $683 million. As of March 31, 2003, $514 million was outstanding under this facility. The line of credit is guaranteed by shares held by the original shareholders of Partner, pro rata to their respective holdings. Accordingly, Elbit has pledged approximately 70% of the Partner shares held by it in favor of the consortium of banks.

Oren Semiconductor (a 17% holding). Oren is a developer of integrated circuits for digital broadcasting. During the first quarter of 2003, we invested additional $0.6 million in Oren by way of bridge loans, bringing the book value of our holding in Oren at March 31, 2003 to $8.6 million compared to $8.0 million at December 31, 2002. In the three months ended March 31, 2003, Oren's revenues were $0.6 million compared to $0.3 million in the same period in 2002. Oren's net loss in the three months ended March 31, 2003 was $1.4 million compared to $1.6 million in the same period in 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 $0.4 million in the three months ended March 31, 2003 compared to $0.2 million in the same period in 2002. The gain in 2003 resulted primarily from a $0.4 million gain from the sale of 92,500 shares of Given Imaging held by RDC. As a result, our direct and indirect holdings in Given Imaging decreased minimally to 18.43%.

Other Income (expenses), net. Other income, net, of the Other Holdings and Corporate Operation segment amounted to a loss of $1.2 million in the three months ended March 31, 2003 compared to a gain of $0.5 million in the same period in 2002. The loss in the first quarter of 2003 resulted mainly from a $1.2 million write-down of our investment in Cellenium. The gain in 2002 resulted mainly from a $0.6 million gain from the sale of NetManage 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 first quarter of 2003 were $0.8 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 million in the first quarter of 2003 and 2002, respectively, which also constitute part of operating expenses under US GAAP but for presentation purposes are included as a separate item:

	Three months ended March 31,	
	2003	2002
	(millions of $)	
Corporate	1.7	1.4
Galil Medical	3.7	-*
MediaGate	1.2	-*
Other	0.2	-*
	6.8	1.4

* Company's results were presented under the equity method.

Our corporate operating costs in the three months ended March 31, 2003, which also include Elbit's corporate costs, amounted to $1.7 million compared to $1.4 million in the same period in 2002, which only include Elron's corporate costs. Since the merger with Elbit, corporate operating costs reflect the costs of the combined management. In the first quarter of 2002 the aggregate corporate expenses of both Elron and Elbit, which then operated as separate companies, were approximately $2.8 million. This reflects potential annual savings of more than $4.0 million in corporate operating costs.

Operating expenses of Galil Medical in the three months ended March 31, 2003 were $3.7 million compared to $2.8 million in the same period in 2002. Galil Medical's operating loss in the three months ended March 31, 2003 amounted to $2.7 million compared to $2.3 million in the same period 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 months ended March 31, 2003 were $1.2 million compared to $1.4 million in the same period in 2002. MediaGate's operating loss in the three months ended March 31, 2003 amounted to $1.3 million compared to $1.4 million in the same period 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 months ended March 31, 2003 in the amount of $0.1 million relates 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 months ended March 31, 2003 to an income of $0.1 million compared to an income of $0.6 million in the same period in 2002. The decrease is mainly due to the decrease in interest rates and lower cash resources.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures, deposits and marketable securities (including short and long-term) at March 31, 2003 were approximately $92.0 million compared with $100.0 million at December 31, 2002. At March 31, 2003, the corporate cash, debentures, deposits and marketable securities (including short and long term) were $87.1 million compared with $94.1 million at December 31, 2002. An amount of $30.1 million is collateralized to secure bank loans of Elron Software and Elron TeleSoft and is classified as long-term assets. The total bank loan of Elron Software and Elron TeleSoft, substantially all of which are guaranteed by us, amounted to $70.7 million at March 31, 2003.

Company's main cash and other liquid instruments applications in the three months ended March 31, 2003 were mainly $6.9 million investments in companies.

Consolidated working capital at March 31, 2003 was $25.1 million compared to $31.8 million at December 31, 2002. The decrease resulted mainly from (i) investment in our group companies and new companies in the amount of $6.9 million; (ii) increase of $1.2 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 March 31, 2003 were approximately $81.6 million, of which $70.7 million are attributed 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 March 31, 2003 was approximately $21.7 million. The comfort letters were jointly provided with the other major shareholder of NetVision.

Subsequent to March 31, 2003 and through May 19, 2003, we have invested an additional aggregate amount, net, of approximately $2.8 million in our group companies (excluding $3.5 million pursuant to the purchase of shares of Given Imaging from RDC, net of the repayment of loan made to RDC by Elron, as described under "RECENT DEVELOPMENT").

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

Shareholders' equity at March 31, 2003, was approximately $255.4 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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