-EARNINGS RELEASE-

ELRON ELECTRONIC INDUSTRIES ANNOUNCES THIRD QUARTER 2007 RESULTS

Tel Aviv, Israel, November 20, 2007 - Elron Electronic Industries Ltd. (NASDAQ & TASE:ELRN) today reported a net loss for the third quarter and for the first nine months of 2007 of $20.0 million, or $0.69 per share, and $16.7 million, or $0.57 per share, respectively. In the third quarter and first nine months of 2006, Elron reported a net loss of $4.4 million, or $0.16 per share, and $14.4 million, or $0.50 per share, respectively.

Elron's net loss in the third quarter and the first nine months of 2007 resulted primarily from the following:

- an $8.3 million write off in Impliant Inc., during the third quarter, as a result of material adverse events in connection with Impliant's main product during clinical trials, which occurred during the third quarter and beginning of the fourth quarter of 2007. Impliant temporarily ceased FDA clinical trials and is currently conducting a technical reassessment of its main product which could cause a delay in bringing its product to the market and will require additional financing;
- Elron's share in the net losses of its group companies, amounting to $9.7 million and $23.6 million, respectively; and
- the absence of gains from sales of shares of group companies.

The loss in the first nine months of 2007 was offset mainly by a gain, net of tax, of approximately $4.1 million from the sale of real estate in Carmiel, Israel, by Elron's wholly owned subsidiary, Elbit Ltd., and from a tax benefit of approximately $3.0 million, both recorded in the second quarter of 2007 and by $9.1 million gain (net of tax) from the merger between NetVision, Barak and GlobCall which was completed in the first quarter of 2007.

Elron's net loss in the third quarter and the first nine months of 2006 resulted primarily from Elron's share in the net losses of its group companies, amounting to $7.2 million and $19.1 million, respectively.

Major developments in Elron's group companies:

In October 2007, Intel Capital, Intel's global investment organization, completed an $11 million investment in **Jordan Valley Semiconductors Ltd**, then held 27% by Elron. Following the investment, Elron holds approximately 21% of the outstanding shares of Jordan Valley, subject to adjustment based on Jordan Valley's future performance. Jordan Valley's metrology solutions enable accurate and precise measurements for various thin-film applications in semiconductor manufacturing.

In November 2007, Elron invested approximately $4.2 million in **NuLens Ltd** as part of an aggregate financing of $8 million in which other existing shareholders also participated. Following the transaction, Elron's holdings in NuLens increased from 29% to approximately 34% of NuLens' outstanding shares.

Liquidity and Shareholders' Equity

As of September 30, 2007, Elron's cash, debentures and deposits amounted to approximately $71.6 million compared with $123.5 million at December 31, 2006. During the first nine months of 2007, Elron invested approximately $51.9 million, of which $13.2 million were invested in six new companies and the balance in existing group companies, of which $18.7 million were for the purchase of shares of Given Imaging.

Shareholders' equity at September 30, 2007, was approximately $285 million, representing approximately 92% of the total assets compared with $297.5 million representing approximately 91% of the total assets at December 31, 2006.

"The significant loss reported in the third quarter does not reflect the positive developments in many of our group companies, including the completion of private placements in Nulens and Jordan Valley in the fourth quarter" said Doron Birger Elron's President and CEO. "During the third quarter many of our group companies, mainly BrainsGate, Galil Medical, Teledata, Medingo and more have seen good progress in developing their products and growing revenues. In addition, Medingo, wholly owned by RDC, is rapidly proceeding with the development of its innovative insulin dispensing device, which is expected to receive FDA approval and to commence sales in 2008. As we continue to build our group companies and do not have exits or one time gains, we will continue to report quarterly losses. Our strong balance sheet will enable us to continue to invest in new opportunities and in our group companies to ensure the growth in our net asset value" concluded Doron Birger.

Investors may access Elron's third quarter financial report and a detailed management report on the company's web site: www.elron.com

Conference call details:

Tuesday, November 20, 2007, 9:00 a.m. (EST); 4:00 p.m. Israel

Dial in numbers:

In the US: 1 888 935 4577

In the UK: 0 800 028 1277

In Israel: 1 809 246 002

International Participants: +44 207 806 1955

For your convenience, a **replay of the call** will be available starting two hours after the call ends until midnight, Thursday November 22nd, 2007. To access the replay please dial **+1 718 354 1112, with a passcode of: 6233674#.**

A replay of the call will also be available for ninety days on the company website.

Elron Electronic Industries Ltd. (TASE & NASDAQ: ELRN), a member of the IDB Holding group, is a leading Israel-based technology holding company directly involved in the long-term performance of its group companies. Elron identifies potential technologies, creates strategic partnerships, secures financing, and recruits highly qualified management teams. Elron's group companies currently comprise a diverse range of publicly-traded and privately held companies primarily in the fields of medical devices, information & communications technology, clean technology and semiconductors. For further information, please visit www.elron.com

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(Any statements in this press release that may be considered forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. Actual results may differ from such forward-looking statements due to the risk factors discussed in periodic reports filed by the Company with the Securities and Exchange Commission, which the Company urges investors to consider).

Tables to follow

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands of U.S. Dollars

	September 30, 2007 Unaudited	December 31, 2006
ASSETS		
Total current assets	$82,385	$ 134,033
INVESTMENTS AND LONG-TERM RECEIVABLES		
Restricted Cash	7,256	
Investments in affiliated companies	134,020	100,392
Investments in other companies and long-term receivables	68,654	68,215
Deferred taxes	9,490	9,182
Severance pay deposits	2,047	1,662
Total investments and long-term receivables	221,467	179,451
PROPERTY AND EQUIPMENT, NET	1,643	7,223
INTANGIBLE ASSETS	5,529	5,542
Total assets	$ 311,024	$ 326,249
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total current liabilities	$13,924	$ 20,535
LONG-TERM LIABILITIES		
Long-term loans from banks and others	2,215	2,113
Convertible Debentures	5,697	-
Accrued severance pay and retirement obligations	2,779	2,209
Deferred taxes	155	1,408
Total long-term liabilities	10,846	5,730
MINORITY INTEREST	1,343	2,480
Total Shareholders' Equity	284,911	297,504
Total liabilities and shareholders' equity	$311,024	$ 326,249

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands of U.S. Dollars, except share and per share data

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				
INCOME					
Net revenues	$ 3,163	$ 9,522	$ 999	$ 2,384	$ 12,863
Equity in losses of affiliated companies	(13,827)	(16,566)	(5,478)	(4,701)	(17,740)
Gain (loss) from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	12,515	2,278	(26)	2,283	2,547
Other income, net	(2,538)	4,012	(8,668)	645	29,310
Financial income, net	2,586	3,410	781	1,133	4,051
	1,899	2,656	(12,392)	1,744	31,031
COSTS AND EXPENSES	22,093	25,927	8,537	8,137	36,113
Income (loss) before taxes on income	(20,194)	(23,271)	(20,929)	(6,393)	(5,082)
Tax benefit (Taxes on income)	(471)	(122)	97	(23)	(1,110)
Income (loss) after taxes on income	(20,665)	(23,393)	(20,832)	(6,416)	(6,192)
Minority interest in losses of subsidiaries	3,995	9,021	786	1,982	9,224
Net income (loss)	(16,670)	(14,372)	(20,046)	(4,434)	3,032
Income (loss) per share:					
Basic:					
Net income (loss)	(0.56)	(0.49)	(0.68)	(0.15)	0.10
Diluted:					
Net income (loss)	(0.57)	(0.50)	(0.69)	(0.16)	0.07
Weighted average number of ordinary shares used in computing basic net income per share (thousands)	29,609	29,526	29,621	29,533	29,532
Weighted average number of ordinary shares used in computing diluted net income per share (thousands)	29,609	29,526	29,621	29,533	29,624

MANAGEMENT REPORT FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2007

The following discussion should be read in conjunction with our Condensed Unaudited Interim Consolidated Financial Statements as of September 30, 2007 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2006 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, 2006 ("2006 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. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those discussed in our filings with the Securities and Exchange Commission from time to time.

OVERVIEW

We are a high technology operational holding company that operates through subsidiaries and affiliated companies, referred to as our group companies. Founded in 1962, we have been a major force in the development of the Israeli high technology industry by building Israeli and Israel-related companies with technologies in the fields of medical imaging, advanced defense electronics, telecommunications, semiconductors and software products and services. Elron's group companies currently comprise of a group of publicly-traded and privately held companies primarily in the fields of medical devices, information & communications technology, clean technology and semiconductors.

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

Technology industries are characterized by the high degree of risk inherent in their products, their continuous technological innovation and their penetration into world markets, which requires investment of considerable resources and continuous development efforts. The future success of our group companies is dependent upon their technological quality, prices and nature of their products in comparison to their competitors and their ability to introduce new products to the markets at the right time, while offering cost effective solutions suitable to their customers' needs as well as their ability to raise financing and the condition of the capital markets.

We expect to continue to build and realize value for our shareholders through the sale to third parties of a portion or all of our holdings in, or the issuance of shares by, our group companies, while simultaneously pursuing the acquisition of, or investment in, new and existing companies at different stages of development including early stage and more mature companies. We believe that this strategy provides the ability to increase shareholder value as well as to create capital to support the growth of our group companies and to invest in new opportunities. The nature of our business, therefore, will result in volatility in our results of operations, depending on the transactions that occur within a particular period.

Our net income (or loss) in any given period is due, for the most part, to the results of operations of those of our group companies which are accounted by us under the consolidation or equity method of accounting and dispositions and changes in our holdings of group companies. As most of our group companies are technology companies which have not yet generated significant revenues and which invest considerable resources in research and development and in marketing activities, without exit transactions, we have experienced, and expect to continue to experience, losses in respect of these companies to the extent they are accounted by us under the consolidation or equity method of accounting.

Our capital resources in any given period are primarily affected by the extent of our investment in existing and new companies and the realization of certain holdings as well as the impact of any dividends or distributions to our shareholders. The results of operations of our group companies, and consequently, our results of operations and capital resources, are affected by general economic conditions as well as by factors specifically related to the technology markets, which also affect the ability of our group companies to raise financing and our ability to dispose of holdings and realize gains from our holdings.

TREND INFORMATION

Technology industries are affected by economic trends and the condition of the capital markets. Since the second half of 2003, there has been a recovery in the technology sectors and capital markets from the downturn which commenced in 2001. This trend was reflected in the improvement in the results of operations of most of our group companies as well as the raising of funds from new strategic and other investors in private placements completed by some of our group companies. In addition, we recorded significant gains from realizing certain of our holdings, mainly in 2004 as a result of the sale of our holdings in Elbit Systems Ltd. (Nasdaq: ESLT) ("Elbit Systems"), and from the sale of our shares in Partner Communications Company Ltd. (Nasdaq: PTNR) ("Partner") in 2005 and 2006. Total proceeds from exit transactions since 2004 amounted to approximately $375 million. We used the proceeds to distribute a dividend, in 2005, of $88.5 million to our shareholders and to continue investing in existing and new group companies. Since 2004 we and our subsidiary, RDC Rafael Development Corporation Ltd. ("RDC"), invested approximately $230 million of which approximately $104 million was in 17 new companies and the balance of approximately $104 million was in existing group companies (mainly in Given Imaging). Should the improvement in the technology sectors and capital markets continue, we anticipate that it will have a positive effect on our group companies and their ability to raise additional capital. However, there is no assurance that a downturn will not re-occur or that the technology sector will continue to grow.

MAJOR TRANSACTIONS AND INVESTMENTS DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND SUBSEQUENTLY

NetVision Ltd. ("NetVision") (TASE: NTSN). On January 25, 2007, NetVision, then held 36% by Elron and 36% by Discount Investment Corporation Ltd. ("DIC"), a 49% shareholder of Elron, completed a merger with Barak I.T.C (1998) International Telecommunications Services Corp Ltd. ("Barak") and a merger between NetVision and GlobCall Communications Ltd. ("Globcall"). Barak was prior to the merger a subsidiary of Clal Industries and Investments Ltd. ("Clal"). Elron, Clal and DIC, are all part of the IDB group. Following the transactions, Elron’s, DIC's and Clal's holdings in NetVision were approximately 18%, 25% and 29%, respectively. As a result of the Barak merger and GlobCall merger, we recorded a gain of $10.3 million ($9.1 million net of tax) in the first quarter of 2007.

On June 26, 2007, NetVision consummated a transaction according to which its wholly owned subsidiary, NANA, and Channel 10 established a new company under common control, namely NANA10. Nana is a portal that provides a variety of content and e-commerce services. Channel 10 is an Israeli commercial television channel. Following the transaction, NANA10 holds exclusive rights for use of television contents of Channel 10 on the Internet. As a result of the transaction NetVision recorded a gain (net of tax) of approximately $5.3 million, of which Elron's share was approximately $1 million, recorded in the second quarter of 2007.

In June 2007, NetVision raised in a private placement an amount of approximately NIS 52 million (approximately $12 million). As a result, our holdings in NetVision decreased to approximately 17%, resulting in a gain of approximately $1 million.

Elron continues to account for NetVision under the equity method due to a shareholders agreement between DIC, Elron and Clal in connection with voting at shareholders meetings including the appointment of directors.

ChipX Inc. ("ChipX"). In February 2007, ChipX, a provider of differentiated ASIC (application specific integrated circuits) solutions, in which we hold 29%, completed the acquisition of the US ASIC business assets of Oki Semiconductor Company, a division of Oki America Inc. Oki is a global semiconductor company headquartered in Japan with offices worldwide offering a full range of digital integrated circuits from real time controllers to micro processors and network devices focusing on the communications and security industries. In addition, ChipX and Oki Semiconductor have signed a collaboration agreement which will enable ChipX to gain access to Oki Semiconductor’s technology, libraries and foundry services. This transaction will boost ChipX’s ASIC team capabilities and enable it to offer its customers a range of differentiated ASIC solutions of embedded arrays, gate arrays, structured ASICs and standard cell ASICs. In April, 2007 ChipX completed a private placement of $4.0 million from existing shareholders, of which we invested $1.3 million. The proceeds will be used mainly to finance ChipX sales and marketing activities in connection with the acquisition of the US ASIC business of Oki Semiconductors.

New Investment in AqWise – Wise Water Solutions Ltd. ("AqWise"). On March 15, 2007 we completed the acquisition of approximately 34% of the outstanding shares of AqWise, an Israeli-based water technology company, from certain existing shareholders of AqWise in consideration for approximately $3.4 million. AqWise provides advanced biological wastewater treatment technologies which increase capacity and nutrient removal in wastewater treatment plants, utilizing advanced bio film technology. AqWise's solutions have been implemented worldwide in over 20 municipal and industrial plants, in various fields: pulp and paper, food and beverage, agricultural wastewater, chemical plants and aquaculture farms.

New Investment in BPT (Bio-Pure Technology) Ltd. ("BPT"). On April 19, 2007, Elron completed a new investment of approximately $1.1 million in BPT out of a $2.5 million financing round in consideration for approximately 20% of BPT's equity on a fully diluted basis and on an as converted basis. BPT, an Israeli based water technology company, provides advanced membrane-based separation solutions that address the unique needs of the water, wastewater treatment and chemical process industries, employing its proprietary HMT™ (Hybrid Membrane Treatment) solution, based on NF (Nano-Filtration) membranes. BPT's solutions address aggressive wastewater streams and water-intensive applications in a wide range of industries, such as pharmaceuticals, chemicals, agrochemicals, metals, food & beverage, drinking water, water re-use and desalination.

Purchase of Given Imaging Ltd. ("Given Imaging") Shares. During May 2007, we purchased 717,367 shares of Given Imaging on the open market for an aggregate purchase price of approximately $18.7 million. As a result, our direct and indirect (through our subsidiary RDC) interest in Given Imaging increased from approximately 21% to approximately 23% of the outstanding shares of Given Imaging. DIC simultaneously purchased the same number of shares of Given Imaging for the same aggregate purchase price and now owns approximately 16% of the outstanding shares of Given Imaging. The excess cost of the purchase price over our share in the equity acquired amounted to approximately $16.1 million and was allocated as follows: $8.3 million to intangible assets other than goodwill, such as customer base and technology, $1.4 million to in-process research and development activities, and $6.4 million to goodwill. Products which did not receive marketing clearance by regulatory authorities as of the acquisition date, were considered to be incomplete and accordingly the amount allocated to such products is considered to be in-process research and development activities ("IPR&D"). The amount allocated to IPR&D was charged immediately to the Company's results of operations in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method". The amounts allocated to intangible assets other than goodwill are being amortized on a straight-line basis over their expected useful life of 7.75-12.75 years.

New Investment in RADLIVE Ltd. ("RADLIVE"). On May 30, 2007, Elron completed a new investment of approximately $3.75 million in RADLIVE as part of an aggregate investment of approximately $7.65 million, in consideration for approximately 25% of RADLIVE's equity on a fully diluted basis and on an as converted basis. RADLIVE, an Israeli company is engaged in the development of high definition telephony technologies and applications. RADLIVE is developing infrastructure and applications for high definition telephony, providing high quality voice for telephony calls.

New Investment in Pocared Diagnostics Ltd. ("Pocared"). On June 12, 2007, Elron completed a new investment of approximately $5.35 million in Pocared as part of an aggregate investment of $10.7 million. The investment was in two installments: the first of $3.5 million was invested immediately, and an additional $1.9 million is subject to the fulfillment of a milestone by Pocared. Following our aggregate investment, we will hold approximately 20% of Pocared's equity on a fully diluted basis and on an as converted basis. Pocared, an Israeli-based medical device company provides an innovative solution for real-time, reagentless In-Vitro Diagnostics (IVD). Pocared's wide technological platform may be used to address a wide range of medical and industrial diagnostic applications.

New Investments in the Internet and cellular field. On July 1, and November 1, 2007, we provided a convertible loan of $0.6 million in two installments of $0.3 million each to ***Journeys Ltd. ("Journeys")***, an Israeli company which is in the Massive Multiplayer On-line Gaming (MMOG) arena. Journeys is engaged in the development of a casual Internet multiplayer game appealing to a wide audience. On July 11, 2007, Elron completed a new investment of $1 million in ***MuseStorm Ltd. ("MuseStorm")***, an Israeli company engaged in developing innovative technology for the distribution of a variety of content over the web. Following the investment, Elron holds approximately 23% of MuseStorm's equity on a fully diluted basis and on an as converted basis. MuseStorm's technology enables media suppliers to easily distribute their content to many bloggers, social networks, Internet sites, computers and mobile telephones with the ability to monitor effectiveness of the content after distribution. Users of MuseStorm's technology include Globes, a leading Israeli financial on-line and print newspaper, The Washington Post and record and media companies in the United States.

Sale of Real Estate. On June 18, 2007, Elron's wholly owned subsidiary, Elbit Ltd. completed the sale of Elbit's real estate in Carmiel, Israel, for approximately $11.6 million. As a result of the sale, we recorded a gain, net of tax of approximately $4.1 million, in the second quarter of 2007.

Starling Advanced Communications Ltd. ("Starling") – Initial Public Offering ("Starling IPO") (TASE: STLG). On June 13, 2007, Starling completed its initial public offering on the Tel Aviv Stock Exchange ("TASE"), in Israel, of shares and convertible securities (convertible interest-bearing and NIS, Israeli CPI linked debentures ("Convertible Debentures") and options to the Convertible Debentures ("Options to Convertible Debentures")) for aggregate gross proceeds of approximately NIS 57 million (approximately $14 million), approximately half of which consists of Convertible Debentures. An amount of $7.3 million (denominated in NIS) proceeds from the issuance of the Convertible Debentures is restricted and will be released from the restrictions and will be used by Starling only upon achieving certain milestones, no later than November 30, 2008. We invested approximately $4 million as part of the offering. In addition, immediately prior to the IPO, existing shareholders of Starling, including us and our subsidiary, RDC, converted shareholder loans in the amount of approximately $6.5 million into equity and Options to Convertible Debentures of Starling. As a result of Starling's IPO, our combined holding in Starling decreased from 73% to approximately 68% (or 50%, Elron's direct holding and its share in the holding of RDC). Starling is considered a development stage company. Accordingly, the changes in our and RDC's proportional shares of Starling's equity, resulting from the decrease in our and RDC's holdings in Starling, have been accounted for as an equity transaction and as a result a capital reserve of approximately $3.4 million ($2.5 million after minority interest) was recorded. Since we still have control over Starling, we continue to account for Starling as a consolidated subsidiary.
According to SFAS No. 133 “Accounting For Derivative instruments And Hedging Activities”, as amended by SFAS 155 “Accounting For Certain Hybrid Financial Instruments”, the Convertible Debentures and the Options to Convertible Debentures are to be presented, in each reporting period, at their fair value in the balance sheet and the changes in fair value will be charged to finance income, net. As of September 30, 2007 the minority portion in the Convertible Debentures and in the Options to Convertible Debentures amounted to $5.7 million and $1.1 million, respectively. The Convertible Debentures are presented as part of long term liabilities in our consolidated balance sheets and the Options to Convertible Debentures are presented as part of short term liabilities. Accordingly, our future results of operations will be affected from changes in the market value of the Convertible Debentures and the Options to Convertible Debentures.

Wavion Inc. ("Wavion"). On September 30, 2007, we, together with certain other stockholders ("Participating Stockholders"), signed a stock purchase agreement with Wavion relating to an aggregate investment of up to $10 million in Wavion, of which an aggregate of $3.6 million was invested immediately in consideration for Series A preferred shares, of which we invested approximately $1.7 million. The balance of the investment may be invested by the Participating Stockholders pro rata to their holdings in Wavion, in two installments, during the fourth quarter of 2007 and the second quarter of 2008, respectively. As part of the financing, all previously existing series of preferred shares were converted into ordinary shares. In addition, the Participating Stockholders purchased the shares held by another shareholder in Wavion. Following these transactions, we hold approximately 49.5% of the outstanding share capital of Wavion, Inc.

Jordan Valley Semiconductors Ltd. ("Jordan Valley"). On October 16, 2007, Intel Capital, Intel's global investment organization, completed an $11 million investment in Jordan Valley, then held 27% by Elron. Clal Electronics Industries Ltd., a wholly owned subsidiary of Clal Industries and Investments Ltd. ("CII""), is the other major shareholder of Jordan Valley. Both CII and Elron are part of the IDB group of companies. Following the investment, Elron holds approximately 21% of the outstanding shares of Jordan Valley, subject to adjustment based on Jordan Valley's future performance. Jordan Valley, an Israeli based company, has been developing tools for semiconductor metrology based on x-ray technology for over twelve years with additional offices in the U.S., Europe and Asia. Jordan Valley's metrology solutions enable accurate and precise measurements for various thin-film applications in semiconductor manufacturing.

NuLens Ltd. ("NuLens"). On November 1, 2007, we invested approximately $4.2 million in NuLens in consideration for Series C Preferred Shares as part of an aggregate financing of $8 million in which other existing shareholders, including Warburg Pincus, a leading private equity fund, also participated. Following the transaction, our holdings in NuLens increased from 29% to approximately 34% of NuLens' outstanding shares.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

See our 2006 20-F under Item 10 "Additional Information – Taxation – U.S. Federal Income Tax Considerations - Tax Consequences if we are a Passive Foreign Investment Company ("PFIC")", concerning Elron's status with respect to the U.S. tax provisions regarding PFIC.

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 2006 Annual Consolidated Financial Statements. The accounting policies which are particularly important to the assessment of our financial position and results of operations are described under item 5 to our 2006 20-F under "Critical Accounting Policies".

On January 1, 2007 we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). For more information regarding FIN 48, see our Condensed Interim Consolidated Financial Statements as of September 30, 2007. The adoption of FIN 48 as of January 1, 2007 did not have any effect on the Company's retained earnings and financial position.

BASIS OF PRESENTATION

Consolidation. Our consolidated financial statements include the accounts of Elron and all of our direct or indirect (through Elbit and DEP) controlled subsidiaries. The following are our main subsidiaries:

Nine months ended September 30,			
2007	2006		
RDC	RDC	Starling	Enure[2]
SELA	Galil Medical[1]	3DV[1]	
Medingo	SELA	Medingo	
Starling			

[1] Galil Medical and 3DV had been consolidated through December 2006.
[2] Enure had been consolidated through August 2006.

Equity Method. Our main group companies held by us or through Elbit, DEP and/or RDC accounted for under the equity method of accounting include:

Nine months ended September 30,					
2007			2006		
Given Imaging	3DV[1]	RADLIVE[5]	Given Imaging	Wavion	CellAct[3]
NetVision	Ellara (formerly AMT)	Journeys[6]	Oncura[2]	Ellara (formerly AMT)	
ChipX	Notal Vision		NetVision	Notal Vision	
Wavion	AqWise[4]		ChipX	Pulsicom	
Galil Medical[1]					

[1] Galil Medical and 3DV have been accounted based on the equity method since December 2006
[2] Oncura was sold in December 2006
[3] CellAct was sold in February 2007
[4] AqWise was purchased in March 2007
[5] RADLIVE was purchased in May 2007
[6] Journeys was purchased in July 2007

Other investments. Our main group companies held by us which are accounted for under the cost method or as available-for-sale include:

Cost Basis:

Nine months ended September 30,				
2007			2006	
Jordan Valley	NuLens	Enure[1]	Jordan Valley	BrainsGate
Impliant	Safend	Pocared[2]	Impliant	NuLens
Teledata	Neurosonix	BPT[3]	Teledata	Enure[1]
BrainsGate	Atlantium	MuseStorm[4]		

[1] Enure has been accounted at cost from August 2006
[2] Pocared was purchased in June 2007
[3] BPT was purchased in April 2007
[4] MuseStorm was purchased in July 2007

Available-for-sale Securities **-** As of September 30, 2007 – Elbit Vision Systems and M-Wise.

RESULTS OF OPERATIONS

Three and nine months ended September 30, 2007 compared to three and nine months ended September 30, 2006.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(millions of $, except per share data)			
	Unaudited			
Net loss	(20.0)	(4.4)	(16.7)	(14.4)
Net loss per share	(0.68)	(0.15)	(0.56)	(0.49)

The net loss we reported in the three and nine months period ended September 30, 2007 resulted mainly from our share in the net loss of our group companies in the amount of $9.7 million and $23.6 million, respectively, which included our share in the net losses mainly of Starling, Medingo, ChipX, Wavion, Ellara (formerly AMT), Galil Medical and 3DV. Our share in the net loss of our group companies which we recorded in the nine months ended September 30, 2007 also included: (i) a $1.4 million write-off of IPR&D recorded in the second quarter of 2007 related to the acquisition of additional shares of Given Imaging; (ii) a $1.8 million gain, our portion in Notal's net income in the second quarter of 2007 as a result of an approximately $10 million gain recorded by Notal from the arbitration award in favor of Notal in connection with its dispute with its former distributor; and (iii) $1.0 million, our share in the gain recorded by NetVision as a result of the establishment of NANA10 .

The above net loss in the nine months ended September 30, 2007 also included the following:

(i) an $8.3 million write off in Impliant Inc. as a result of material adverse events in connection with Impliant's main product during clinical trials, which occurred during the third quarter and beginning of the fourth quarter of 2007. Impliant temporarily ceased FDA clinical trials and is currently conducting a technical reassessment of its main product which could cause a delay in bringing its product to the market and will require additional financing. (see also "Highlights of the Results of Operations of our Major Affiliates and Other Investments");

(ii) a gain, net of tax, of approximately $9.1 million from the merger between NetVision, Barak and Globcall, which was completed during the first quarter of 2007;

(iii) a gain, net of tax, of approximately $4.1 million resulting from the sale of Elbit's real estate in Carmiel, Israel; and

(iv) a tax benefit of approximately $3.0 million resulting from the decrease in our previous valuation allowance in respect of carryforward tax losses incurred in prior periods as a result of a continued increase in the market price of certain of our marketable securities.

The net loss we reported in the three and nine months ended September 30, 2006 resulted from our share in the net loss of our group companies in the amount of $7.2 million and $19.1 million, respectively, which included a $1.0 million write-off of IPR&D related to the acquisition of additional shares of Given Imaging purchased during August 2006 and a $1.7 million gain from the decrease in holdings in Ellara (formerly AMT). In addition, the net loss for the period of nine months ended September 30, 2006 included our share in an impairment charge related to Galil Medical's investment in Oncura in the amount of $6.1 million ($2.5 million after minority interest).

The following table summarizes our operating results:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(millions of $)			
	Unaudited			
Net revenues	1.0	2.4	3.2	9.5
Equity in losses of affiliated companies	(5.5)	(4.7)	(13.8)	(16.6)
Gains from disposal of business and affiliated companies and changes in holdings in affiliated companies	-	2.3	12.5	2.3
Other income (loss), net	(8.7)	0.6	(2.5)	4.0
Finance income, net	0.8	1.1	2.6	3.4
Total income (loss)	(12.4)	1.7	1.9	2.6
Cost of revenues	0.4	1.3	1.3	5.2
Operating expenses	8.1	6.8	20.8	20.8
Total costs and expenses	8.5	8.1	22.1	25.9
Loss before income taxes	(20.9)	(6.4)	(20.2)	(23.3)
Tax benefit (Income taxes)	0.1	-	(0.5)	(0.1)
Minority interest	0.8	2.0	4.0	9.0
Net loss	(20.0)	(4.4)	(16.7)	(14.4)

Income

Net revenues. Net revenues consisted of sales of products and services by our subsidiary, SELA (and in 2006 – also Galil Medical). The following table sets forth these revenues:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	(millions of $)			
	Unaudited			
SELA	1.0	0.6	3.2	3.5
Galil Medical [1]	-	1.8	-	5.9
Other	-	-	-	0.1
	1.0	2.4	3.2	9.5

[1] Galil Medical had been consolidated through December 2006.

Equity in 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”). Our share in net losses of affiliated companies amounted to $5.5 million and $13.8 million in the three and nine months period ended September 30, 2007, compared to $4.7 million and $16.6 million in the comparable periods in 2006. The decrease in the nine months period derived primarily from the following: (i) a $1.8 million gain, our portion in Notal's net income in the second quarter of 2007 as a result of an approximately $10 million gain recorded by Notal from the arbitration award in favor of Notal in connection with its dispute with its former distributor; (ii) our share in the amount of approximately $1 million in the gain recorded by NetVision as a result of the establishment of NANA10 and (iii) a $6.1 million impairment charge recorded in 2006, in Galil Medical's investment in Oncura ($2.5 million after minority interest). This decrease was offset mainly by $1.6 million and $5.3 million, our share in the net losses of Galil Medical and 3DV in the three and nine months ended September 30, 2007, while their results in the same period last year were consolidated with ours.

***Highlights of the Results of Operations of Our Major Affiliates and other Investments**:*

Given Imaging Ltd. (Nasdaq: GIVN) (23% holding directly and indirectly through RDC as of September 30, 2007). Given Imaging Ltd. ("Given Imaging"), a medical device company that develops, manufactures and markets innovative diagnostic systems for visualizing the gastrointestinal tract, using a disposable miniature swallowable video capsule, recorded revenues of $27.7 million and $78.6 million in the three and nine months period ended September 30, 2007 compared to $24.0 million and $67.6 million in the same periods in 2006. Given Imaging's net income in the three and nine month periods ended September 30, 2007 was $1.7 million and $2.35 million, compared to a net income of $0.7 million in the three month periods ended September 30, 2006 and a net loss in the nine month period ended September 30, 2006 of $3.0 million. On November 8, 2007 Given Imaging announced that InScope, a division of Ethicon Endo-Surgery, Inc., a Johnson & Johnson company, has ended its agreement to market and sell Given Imaging's PillCam® ESO in the U.S. Ethicon Endo-Surgery cited a shift in its strategic priorities within gastroenterology and other areas as the reason for ending the relationship. InScope will pay Given Imaging $7.6 million in fees associated with the termination. InScope will continue to support reimbursement activities for PillCam ESO and maintain its market development field force for up to six months. InScope has also agreed to continue to fund ongoing clinical trials associated with esophageal diseases. Given Imaging announced that as a result of the foregoing, it will record income of approximately $13.5 million in the fourth quarter of 2007 and an additional income of approximately $12.5 million during the first two quarters of 2008.

Galil Medical Ltd. (a 20.5% holding directly and indirectly through RDC). Galil Medical is a medical device company that develops, manufactures and markets medical supplies based on innovative cryotherapy technology while incorporating powerful freezing technology and revolutionary needle design to destroy malignant and benign tumors. Galil Medical's revenues in the three and nine month periods ended September 30, 2007 amounted to $6.4 million and $19.3 million, compared to $1.8 million and $5.9 million in the same periods in 2006. Through December 2006 Galil Medical's revenues derived mainly from the supply of cryo products and R&D services to Oncura, Inc., in which it held a 25% interest and which Galil Medical sold in December 2006. At the same time Galil purchased from Oncura its urology related cryotherapy business, thereby resulting in an increase in Galil Medical's revenues. Galil Medical's operating loss in the three and nine month periods ended September 30, 2007 amounted to $1.7 million and $6.2 million, compared to $0.1 million and $0.2 million in the same periods in 2006, resulting from higher level of research and development and sales and marketing activities as a result from the purchase of the cryotherapy business.

NetVision Ltd. (a 17% holding) (TASE: NTSN). The following results of NetVision for the three and nine months periods ended September 30, 2007 reflect the combined results of NetVision, Barak and GlobCall (hereafter: "NetVision Group") based on generally accepted accounting principles ("GAAP") in Israel. NetVision Group's revenues in the three and nine month period ended September 30, 2007 amounted to $77.0 million and $225.6 million, compared to $74.6 million and $223.8 million in the comparable periods in 2006. NetVision Group's operating income in the three and nine month period ended September 30, 2007 amounted to $1.1 million and $6.3 million, compared to $5.8 million and $20.3 million in the same periods of 2006 and its net income amounted to $0.4 million and $10.0 million compared to net income of $1.7 million and $6.3 million, respectively in the comparable periods of 2006. NetVision Group's net income in the three month period ended September 30, 2007 includes one time expenses in the amount of approximately $4.7 million mainly with respect to restructuring expenses, impairment of communication lines, inventory and fixed assets and other one time maintenance expenses. NetVision Group's net income in the nine month period of 2007 included approximately $7.1 million one time expenses with respect to the merger and restructuring expenses and also included a gain net of tax in the amount of approximately $5.3 million resulting from the NANA10 transaction (see above under "MAJOR TRANSACTIONS AND INVESTMENTS DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND SUBSEQUENTLY").
NetVision Group's broadband customer base at September 30, 2007 reached approximately 517,000 compared to 498,000 at December 31, 2006. NetVision Group's operating currency is the New Israeli Shekel (NIS) and accordingly, all figures above are translations for convenience purposes of NetVision's NIS figures into US dollars at the representative rate of exchange prevailing at September 30, 2007 according to which $1.00 equaled NIS 4.013.

Medingo Ltd. (a 50.1% holding indirectly through RDC). Medingo, wholly-owned by RDC, is developing solutions specifically for the needs of insulin-dependent diabetic patients. Medingo's device is a miniature dispensing patch, which is convenient, easy to use, discreet and more cost-effective than standard insulin pumps. Medingo is in advanced stages of the development of its innovative insulin-dispensing device with respect to which it expects to receive FDA approval and to commence sales in 2008. During 2006 and the nine months ended September 30, 2007, we funded

Medingo's operations through convertible loans in the aggregate amount of $5.0 million which were mainly used to finance Medingo's development and marketing activities. Medingo's operating loss during the nine month period ended September 30, 2007, amounted to $5.6 million.

Impliant Inc. (a 22.3% holding). Impliant is engaged in the development of a novel posterior motion preservation system for spine surgery. As a result of material adverse events in connection with Impliant's main product during clinical trials, which occurred during the third quarter and beginning of the fourth quarter of 2007, Impliant temporarily ceased FDA clinical trials and is currently conducting a technical reassessment of its main product which could cause a delay in bringing its product to the market and will require additional financing. Therefore, an impairment charge of $8.3 million was recorded in the third quarter of 2007. As of September 30, 2007, the remaining balance of the investment in Impliant amounted to $1.4 million. We cannot assure the outcome of the reassessment.

Other companies in our group (including companies which are accounted under the cost method) such as Wavion, Starling, 3DV, Enure, NuLens, Brainsgate, Pocared and Neurosonix, are progressing in the development of their products, and ChipX, Jordan Valley, Ellara (formerly AMT), Safend, AqWise and Atlantium recorded in the nine month period ended September 30, 2007 higher revenues as compared to the nine month period ended September 30, 2006. Teledata's revenues in the nine months ended September 30, 2007 decreased as compared to the nine months period ended September 30, 2006, however, in July 2007, Teledata announced that it has won a $22 million deal from a major telecommunications company in Central Asia, which will enable Teledata to grow its revenues in 2007.

We expect that most of our group companies as well as new companies in which we will invest will continue to recognize losses in future periods, as they invest significant resources in research and development and sales and marketing activities and have not yet generated significant revenues. Our results of operations will therefore be affected by the extent of our share in their net losses (to the extent they are reported under the equity or consolidation method of accounting).

Gains from Disposal of Businesses and Affiliated Companies and Changes in Holdings in Affiliated Companies. Gains from disposal of businesses and affiliated companies and changes in our holdings in affiliated companies in the three and nine month periods ended September 30, 2007 amounted to $0 and $12.5 million, as compared to $2.3 million in both the three and nine month periods ended September 30, 2006, mainly as a result of a $10.3 million gain ($9.1 million net of tax) from the merger between NetVision, Barak and Globcall in the first quarter of 2007, a $1.8 million gain from the private placement and the exercise of options and debentures in NetVision and a $0.5 million gain from the sale of our 45% interest in CellAct in consideration for $0.8 million the first quarter of 2007.

Other Income (loss), net. Other income (loss), net, amounted to a loss of $4.6 million and income of $1.6 million in the three and nine months ended September 30, 2007, respectively, compared to a gain of $0.6 million and $4.0 million in the comparable periods in 2006. The loss in the three month period ended September 30, 2007 resulted mainly from the impairment charge in the amount of $4.2 million with respect to our investment in Impliant. The gain in the nine month period ended September 30, 2007 included also a gain in the amount of $5.5 million ($4.1 million net of tax) resulting from the sale of Elbit's real estate in Carmiel during the second quarter of 2007 and the sale of some of M-Wise's shares held by us for $0.8 million. The income for the nine months period ended September 30, 2006 derived mainly from a $2.7 million gain resulting from the settlement of Mediagate's bank loan and from a dividend distributed by Partner in the amount of $1.4 million.

Finance income, net. Finance income, net, amounted in the three and nine months ended September 30, 2007 amounted to $0.8 million and $2.6 million, compared to $1.1 million and $3.4 million in the same periods in 2006. The decrease resulted mainly from $0.8 million issuance expenses in the second quarter of 2007 relating to the issuance of Convertible Debentures and Options to Convertible Debentures by our subsidiary, Starling and due to the effect of lower cash and debenture balances.

Expenses

Cost of revenues. Cost of revenues consisted primarily of expenses related to salaries and materials associated with delivering products and services of our subsidiary, SELA (in 2006 – also Galil Medical). Cost of revenues in the three and nine month periods ended September 30, 2007 amounted to $0.4 million and $1.3 million, compared to $1.3 million and $5.2 million in the same periods in 2006.

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 SELA, Medingo and Starling (and in 2006 also Galil Medical and 3DV). The following table sets forth the operating expenses:

	Three months ended September 30		Nine months ended September 30	
	2007	2006	2007	2006
	(millions of $)			
	Unaudited			
Corporate	2.3	1.3	6.0	4.6
Galil Medical[1]	-	0.9	-	2.4
SELA	0.8	0.5	2.1	2.6
Starling	2.1	2.0	5.2	4.3
3DV[1]	-	0.4	-	1.9
Enure[2]	-	0.4	-	1.9
Medingo	2.4	0.8	5.6	2.0
RDC	0.5	0.4	1.9	1.1
	8.1	6.8	20.8	20.8

[1] Galil Medical and 3DV had been consolidated through December 2006.
[2] Enure had been consolidated through August 2006.

Corporate operating expenses in the three and nine month periods ended September 30, 2007 amounted to $2.3 million and $6.0 million, compared to $1.3 million and $4.6 million in the comparable periods of 2006. The increase resulted mainly from an increase in donations in the amount of approximately $0.5 million and in salaries and related expenses.

Medingo's operating expenses and operating loss amounted to $2.4 million and $5.6 million in the three and nine months ended September 30, 2007, compared to $0.8 million and $2.0 million in the same periods in 2006. Medingo's operating expenses include mainly research and development expenses incurred in the development of its miniature dispensing insulin patch for insulin-dependent diabetic patients.

Starling's operating expenses and operating loss amounted to $2.1 million and $5.2 million in the three and nine month periods ended September 30, 2007, compared to $2.0 million and $4.3 million in the same periods in 2006. The increased loss resulted mainly from the increase in development and marketing expenses.

SELA's operating expenses amounted to $0.8 million and $2.1 million in the three and nine months ended September 30, 2007, compared to $0.5 million and $2.6 million in the same periods in 2006 and its operating loss was 0.3 million and $0.4 million in the three and nine months period ended September 30, 2007 as compared to an operating loss of $0.3 million and $0.7 million in the same periods of 2006.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits at September 30, 2007, were approximately $83.1 million (of which $7.3 million (denominated in NIS) of proceeds from the issuance of Convertible Debentures by Starling is restricted and will be used by Starling only upon achieving certain milestones) compared with $128.7 million at December 31, 2006. At September 30, 2007, corporate cash, debentures and deposits were $71.6 million compared with $123.5 million at December 31, 2006.

The main sources of corporate cash and other liquid instruments in the nine months ended September 30, 2007, were $11.6 million of proceeds from Elbit's sale of its real estate in Carmiel (of which approximately $2.3 million were used for a tax payment and $1.6 million was still held in trust) and $0.8 million and $0.4 million of proceeds from the sale of M-Wise and CellAct shares, respectively.

The main uses of the corporate cash and other liquid instruments in the nine months ended September 30, 2007, were $51.9 million of investments and loans to our group companies and a tax payment during the first quarter of tax liability in the amount of $7.6 million, mainly with respect to the sale of Partner shares at the end of 2006.

The investments and loans to our group companies during the nine month period ended September 30, 2007 are detailed in the following table:

Consolidated companies (**)	
Starling (mainly participation in Starling's IPO)	4.2
RDC	1.0
Medingo	3.0
SELA	0.4
	8.6
Affiliated companies and other investments	
Given Imaging	18.7
RADLIVE (*)	3.8
Pocared (*)	3.5
AqWise(*)	3.5
Ellara (formerly AMT)	3.7
ChipX	1.3
Wavion	2.6
BPT(*)	1.1
Impliant	1.4
MuseStorm(*)	1.0
Atlantium	0.9
Other	1.8
	43.3
Total corporate investments	51.9

(*) New investments
(**) These investments do not affect the cash included in the consolidated financial statements.

Consolidated working capital at September 30, 2007 amounted to $68.5 million compared to $113.5 million at December 31, 2006.

Consolidated loans at September 30, 2007, were approximately $5.4 million, compared to $6.3 million at December 31, 2006. Convertible Debentures at September 30, 2007 amounted to $5.7 million and represent the minority portion of the Convertible Debentures issued by Starling.

Subsequent to September 30, 2007 and through November 19, 2007, we invested an additional aggregate amount of approximately $8.6 million, which includes mainly a $4.2 million investment in NuLens , $1.7 loans to Medingo a $1.4 million investment in Enure.

Our investment policy for managing our funds is in general to invest in bank deposits and U.S. government securities with high liquidity and corporate debentures with high liquidity and a high quality rating.

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, 2007, was approximately $285.0 million, representing approximately 92% of the total assets compared with $297.5 million representing approximately 91% of total assets at December 31, 2006.

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CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2007
(Unaudited)

ELRON ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2007
(Unaudited)

ELRON ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2007

UNAUDITED

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CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	September 30, 2007	December 31, 2006
	Unaudited	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,989	$ 52,954
Short-term investments	26,162	19,917
Available for sale marketable securities	37,718	55,862
Trade receivables	1,014	642
Other receivables and prepaid expenses*	3,464	3,043
Inventories	2,038	1,615
Total current assets	82,385	134,033
INVESTMENTS AND LONG-TERM RECEIVABLES		
Restricted cash (See Note 3g)	7,256	-
Investments in affiliated companies	134,020	100,392
Investments in other companies and long-term receivables*	68,654	68,215
Deferred taxes	9,490	9,182
Severance pay deposits	2,047	1,662
Total investments and long-term receivables	221,467	179,451
PROPERTY AND EQUIPMENT, NET	1,643	7,223
INTANGIBLE ASSETS		
Goodwill	2,742	2,742
Other intangible assets	2,787	2,800
Total intangible assets	5,529	5,542
Total assets	$ 311,024	$ 326,249

* Includes short-term receivables from related parties in the aggregate amount of $85 and $95 as of September 30, 2007 and December 31, 2006, respectively, and long-term receivables from related parties in the aggregate amount of $467 as of December 31, 2006.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands, except share and per share data

	September 30, 2007	December 31, 2006
	Unaudited	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term loans from banks and others	$ 853	$ 1,891
Current maturities of long-term loans from banks and others	2,368	2,249
Trade payables	2,832	2,988
Options to convertible debentures (See Note 3g)	1,063	-
Other payables and accrued expenses	6,808	13,407
Total current liabilities	13,924	20,535
LONG-TERM LIABILITIES		
Long-term loans from banks and others	2,215	2,113
Convertible debentures (See Note 3g)	5,697	-
Accrued severance pay and retirement obligations	2,779	2,209
Deferred taxes	155	1,408
Total long-term liabilities	10,846	5,730
MINORITY INTEREST	1,343	2,480
SHAREHOLDERS' EQUITY:		
Ordinary shares of NIS 0.003 par value; Authorized - 35,000,000 shares as of September 30, 2007 and December 31, 2006; Issued and outstanding: 29,632,017 and 29,592,748 shares as of September 30, 2007 and December 31, 2006, respectively.	9,573	9,573
Additional paid-in capital	275,784	272,930
Accumulated other comprehensive income	2,521	1,298
Retained earnings	(2,967)	13,703
Total shareholders' equity	284,911	297,504
Total liabilities and shareholders' equity	$ 311,024	$ 326,249

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except share and per share data

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31,
	2007	2006	2007	2006	2006
	Unaudited				
INCOME					
Net revenues*	$ 3,163	$ 9,522	$ 999	$ 2,384	$ 12,863
Equity in losses of affiliated companies	(13,827)	(16,566)	(5,478)	(4,701)	(17,740)
Gain (loss) from disposal of businesses and affiliated companies and changes in holdings in affiliated consolidated companies, net	12,515	2,278	(26)	2,283	2,547
Other income, net	(2,538)	4,012	(8,668)	645	29,310
Financial income, net	2,586	3,410	781	1,133	4,051
	1,899	2,656	(12,392)	1,744	31,031
COSTS AND EXPENSES					
Cost of revenues	1,297	5,150	403	1,288	6,625
Research and development costs, net	8,896	8,871	3,930	2,993	11,758
Marketing and selling expenses, net	1,839	3,100	766	970	4,717
General and administrative expenses	10,047	8,792	3,433	2,881	12,995
Amortization of intangible assets	14	14	5	5	18
	22,093	25,927	8,537	8,137	36,113
Income (loss) before taxes on income	(20,194)	(23,271)	(20,929)	(6,393)	(5,082)
Tax benefit (taxes on income)	(471)	(122)	97	(23)	(1,110)
Income (loss) after taxes on income	(20,665)	(23,393)	(20,832)	(6,416)	(6,192)
Minority interest in losses of subsidiaries	3,995	9,021	786	1,982	9,224
Net income (loss)	$ (16,670)	$ (14,372)	$ (20,046)	$ (4,434)	$ 3,032
Income (loss) per share:					
Basic :					
Net income (loss)	$ (0.56)	$ (0.49)	$ (0.68)	$ (0.15)	$ 0.10
Diluted:					
Net income (loss)	$ (0.57)	$ (0.50)	$ (0.69)	$ (0.16)	$ 0.07
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	29,609	29,526	29,621	29,533	29,532
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	29,609	29,526	29,621	29,533	29,624

* Includes revenues from related parties, in the amount of $5,132 and $1,626 for the nine and three months ended September 30, 2006, respectively, and an amount of $6,699 for the year ended December 31, 2006.

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share and per share data

	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total Shareholders' equity	Total comprehensive income (loss)
Audited							
Balance as of January 1, 2006	29,483,455	$ 9,572	$ 271,132	$ 10,741	$ 10,671	$ 302,116	
Exercise of options	109,293	1	527			528	
Stock - based compensation	-	-	344	-	-	344	
Capital transaction in affiliated company (gain on purchase by affiliate of its subsidiary's preferred stock)	-	-	927	-	-	927	
Other comprehensive loss, net of tax:							
Unrealized gain on available for sale securities	-	-	-	6,493	-	6,493	6,493
Reclassification adjustment for gain realized included in net income	-	-	-	(16,645)	-	(16,645)	(16,653)
Foreign currency translation adjustments	-	-	-	709		709	709
Net income	-	-	-	-	3,032	3,032	3,032
Balance as of December 31, 2006	29,592,748	$ 9,573	$ 272,930	$ 1,298	$ 13,703	$ 297,504	
Total comprehensive loss							$ (6,419)
Exercise of options	39,269	-	140	-	-	140	
Stock - based compensation	-	-	231	-	-	231	
Increase in investment due to issuance of shares by a development stage subsidiary company (see note 3.g.)	-	-	2,483	-	-	2,483	
Other comprehensive loss, net of tax:							
Unrealized gain on available for sale securities	-	-	-	1,108	-	1,108	$ 1,108
Reclassification adjustment for gain realized included in net loss	-	-	-	(487)	-	(487)	(487)
Foreign currency translation adjustments included in net income due to decrease in holdings in affiliated company	-	-	-	(265)	-	(265)	(265)
Foreign currency translation adjustments	-	-	-	867	-	867	867
Net loss	-	-	-	-	(16,670)	(16,670)	(16,670)
Balance as of September 30, 2007 (Unaudited)	29,632,017	$ 9,573	$ 275,784	$ 2,521	$ (2,967)	$ 284,911	
Total comprehensive income							$ (15,447)
Balance as of January 1, 2006	29,483,455	$ 9,572	$ 271,132	$ 10,741	$ 10,671	$ 302,116	
Exercise of options	69,031	-	257			257	
Stock - based compensation	-	-	284	284	-	284	
Issuance of shares in a development stage investee	-	-	989	-	-	989	
Other comprehensive loss, net of tax:							
Unrealized gain on available for sale securities	-	-	-	1,959	-	1,959	$ 1,959
Reclassification adjustment for loss realized and other than temporary impairment included in net loss	-	-	-	761	-	761	761
Foreign currency translation adjustments	-	-	-	521		521	521
Net loss	-	-	-	-	(14,372)	(14,372)	(14,372)
Balance as of September 30, 2006 (Unaudited)	29,483,455	$ 9,572	$ 272,662	$ 9,553	$ (3,071)	$ 292,515	
Total comprehensive loss							$ (11,131)

The accompanying notes are an integral part of the consolidated financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share and per share data

	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings (Accumulated deficit)	Total Shareholders' equity	Total comprehensive income (loss)
Unaudited							
Balance as of July 1, 2007	29,620,775	$ 9,573	$ 275,710	$ 1,110	$ 17,079	$ 303,472	
Exercise of options	11,242	-	-	-	-	-	
Stock based compensation	-	-	74	-	-	74	
Increase in investment due to issuance of shares by a development stage subsidiary company (see note 3.g.)	-	-	-	-	-	-	
Other comprehensive income (loss), net of tax:							
Unrealized gain on available for sale securities	-	-	-	150	-	150	$ 150
Reclassification adjustment for loss realized included in net loss	-	-	-	(83)	-	(83)	(83)
Foreign currency translation adjustments	-	-	-	1,344	-	1,344	1,344
Net loss	-	-	-	-	(20,046)	(20,046)	(20,046)
Balance as of September 30, 2007 (Unaudited)	29,632,017	$ 9,573	$ 275,784	$ 2,521	$ (2,967)	$ 284,911	
Total comprehensive loss							$ (18,635)
Unaudited							
Balance as of July, 2006	29,531,955	$ 9,572	$ 271,564	$ 9,553	$ 733	$ 291,422	
Exercise of options	3,000	-	15	-	-	15	
Stock based compensation	-	-	94	-	-	94	
Issuance of shares in a development stage investee	-	-	989	-	-	989	
Other comprehensive income (loss), net of tax:							
Unrealized gain on available for sale securities	-	-	-	3,791	-	3,791	$ 3,791
Reclassification adjustment for loss realized included in net loss and other than temporary impairment included in net loss	-	-	-	375	-	375	375
Foreign currency translation adjustments	-	-	-	263	-	263	263
Net loss	-	-	-	-	(4,434)	(4,434)	(4,434)
Balance as of September 30, 2006 (Unaudited)	29,531,955	$ 9,572	$ 271,662	$ 13,982	$ (3,701)	$ 292,515	
Total comprehensive loss							$ (5)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months Ended September 30, 2007	Nine months Ended September 30, 2006	Year ended December 31, 2006
	Unaudited	Unaudited	
Cash flows from operating activities			
Net income (loss)	$ (16,670)	$ (14,372)	$ 3,032
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Equity in losses of affiliated companies	13,827	16,566	17,740
Minority interest in losses of subsidiaries	(3,881)	(9,021)	(9,224)
Loss (gain) from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	(12,515)	(2,278)	(2,547)
Loss (gain) from sale of investments in available - for - sale securities	(1,303)	322	(24,899)
Gain from settlement of a subsidiary's loan	-	(2,708)	(2,708)
Depreciation and amortization	608	848	1,192
Equity in losses (gains) of partnerships	801	521	672
Stock - based compensation and changes in liability in respect of call options	1,225	811	771
Impairment of investment	8,340	-	-
Deferred taxes, net	(2,022)	(87)	(4,243)
Convertible debentures and options to convertible debentures issuance costs recognized , included in net income	976	-	-
Gain from sale of real estate	(5,460)	-	-
Changes in operating assets and liabilities			
Decrease (increase) in trade receivables	(372)	1,014	(457)
Decrease (increase) in other receivables and prepaid expenses	3,722	(28)	(738)
Decrease in trading securities, net	-	(2)	(2)
Decrease (increase) in inventories and contracts-in-progress	(423)	(855)	(1,069)
Increase (decrease) in trade payables	(271)	1,102	2,589
Increase (decrease) in other payables and accrued expenses (mainly provision for income taxes)	(7,310)	119	7,195
Other	765	795	843
Net cash used in operating activities	(19,963)	(7,253)	(11,853)
Cash flows from investing activities			
Investment in affiliated companies	(34,054)	(16,673)	(18,395)
Proceeds from sale of affiliated companies shares	413	992	992
Proceeds from repayment of loans and sale of shares of former subsidiary	-	-	2,633
Change in cash and cash equivalents resulting from disposal of businesses and decrease in holdings in formerly consolidated subsidiaries (Schedule A)	-	(1,056)	(3,441)
Investment in other companies	(9,172)	(9,795)	(25,153)
Proceeds from sale and maturity of available for sale securities	36,039	25,384	82,332
Investments in deposits	(31,203)	(35,457)	(40,183)
Investment in available for sale securities	(16,920)	(35,227)	(35,377)
Proceeds from deposits	25,206	66,229	72,878
Investment in restricted deposits	(7,256)	-	-
Purchase of property and equipment	(759)	(907)	(1,308)
Proceeds from sale of real estate and property and equipment	7,656	16	19
Net cash provided by investing activities	(30,050)	(6,494)	34,997
Cash flows from financing activities			
Proceeds from options exercised	140	257	527
Receipt of long-term loans from banks	-	381	-
Repayment of long-term loans	(5)	(2)	(105)
Decrease in short-term bank loan, net	(414)	(415)	208
Proceeds from issuance of shares to minority of subsidiary, net	3,814	-	-
Proceeds from issuance of Convertible Debentures and Options to Convertible Debentures	5,188	-	-
Receipt of short-term loans, convertible loans and long-term loans from minority shareholders of a subsidiary	325	2,000	2,660
Net cash used in financing activities	9,048	2,221	3,290
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(40,965)	(11,526)	26,434
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	52,954	26,520	26,520
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 11,989	$ 14,994	$ 52,954

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended September 30, 2007	Nine months ended September 30, 2006	Year ended December 31, 2006
	Unaudited	Unaudited	
Supplemental cash flow information:			
Cash paid for:			
Income taxes	$ 9,909	$ 707	$ 794
Interest	$ 64	$ 58	$ 69
Non cash transaction:			
Modification of convertible debentures and loans	$ 98	$ -	$ -
Proceeds from sale of shares of an affiliate not yet received	$ 413	$ -	$ -

SCHEDULE A:

Change in cash and cash equivalents resulting from disposal of businesses and decrease in holdings in formerly consolidated subsidiaries

	Nine months ended September 30, 2007	Nine months ended September 30, 2006	Year ended December 31, 2006
Assets and liabilities at date of sale:			
Working capital (working capital deficiency), net (except cash and cash equivalents)	$ -	$ 735	$ 2,826
Investment in affiliated Company	-	-	13,207
Investment in other companies	-	(2,702)	-
Property and equipment	-	99	709
Minority interest	-	(135)	(10,036)
Capital reserve from issuance of shares in a development stage company	-	989	-
Accrued severance pay, net	-	(42)	(215)
Long term loans	-	-	(1,401)
Proceeds from repayment of loans and sale of shares of former subsidiary	-	-	2,633
Other investments	-	-	(1,713)
Investment in affiliated Companies	-	-	(6,818)
Net decrease in cash and cash equivalents	$ -	(1,056)	$ (3,441)

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1:- GENERAL

The accompanying unaudited condensed interim consolidated financial statements have been prepared as of September 30, 2007, and for the three and nine months then ended in accordance with accounting principles generally accepted in the United States (U.S. GAAP) relating to the preparation of financial statements for interim periods. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States but which are not required for interim reporting purposes, have been condensed or omitted. See Note 6 for the reconciliation from U.S. GAAP to accounting principles generally accepted in Israel ("Israeli GAAP").

These financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2006, included in Form 20-F for the year ended December 31, 2006 filed with the Securities and Exchange Commission ("the Company's annual financial statements").

The condensed interim consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the period presented.

Results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. The significant accounting policies followed in the preparation of these financial statements are identical to those applied in preparation of the latest annual financial statements.

b. The financial statements have been prepared in U.S. dollars, since the functional currency of the Company and its principal subsidiaries is the U.S. dollar.

c. In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain position may be recognized only if it is “more likely than not” that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. The adoption of FIN 48 as of January 1, 2007 did not have any effect on the Company's retained earnings and financial position.

d. In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS 157 applies only to fair value measurements that are already required or permitted by other accounting standards. FASB 157 is effective for fiscal years beginning after November 15, 2007. The company will adopt SFAS 157 no later than January 1, 2008. The Company is currently reviewing this new standard to determine its effects, if any, on its financial position and results of operations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 159 no later than January 1, 2008. The Company is currently reviewing this new standard to determine its effects, if any, on its financial position and results of operations.

NOTE 3:- MAJOR TRANSACTIONS

a. **NetVision**

On January 25, 2007, NetVision Ltd. ("NetVision"), then held 36% by Elron and 36% by Discount Investment Corporation Ltd. ("DIC"), completed the merger with Barak I.T.C (1998) International Telecommunications Services Corp Ltd. ("Barak") and the merger with GlobCall Communications Ltd. ("Globcall"), following which NetVision purchased from Barak shareholders all of Barak’s issued share capital in exchange for approximately 46.5% of NetVision’s share capital immediately after the transaction ("Barak Merger"), and from DIC, all of GlobCall's issued share capital in exchange for approximately 7% of NetVision’s share capital immediately after the Barak Merger and the transaction ("GlobCall Merger"). The above mentioned exchange ratios were based upon companies valuations, that were issued to the parties by independent appraisers, according to which NetVision’s value was estimated to be between 533,000 NIS (approximately $122,000) and 621,000 NIS (approximately $142,000), Barak’s value was estimated to be between 456,000 NIS (approximately $105,000) and 529,000 NIS (approximately $121,000), and GlobCall’s value was estimated to be between 67,000 NIS (approximately $15,000) and 90,000 NIS (approximately $21,000). Barak is a subsidiary of Clal Industries and Investments Ltd. ("Clal"). Elron, Clal and DIC, are part of the IDB group and are considered entities under common control.

Following the transactions, Elron’s, DIC's and Clal's holdings in NetVision decreased to approximately 18%, 25% and 29%, respectively. The merger was recorded in NetVision's financial statements based on the fair market value of NetVision ordinary shares issued, according to the purchase method of accounting. As a result of the Barak merger and GlobCall merger, Elron recorded gain of approximately $10,300 ($9,100 net of tax).

On June 26, 2007, Netvision consummated a transaction according to which its wholly owned subsidiary, NANA, and Channel 10 established new Israeli company under common control, namely NANA10. Nana is a portal that provides a variety of content and e-commerce services. Channel 10 is an Israeli commercial television channel. Following the transaction, Nana 10 holds exclusive rights for use of television content of Channel 10 on the Internet. As a result of the transaction Netvision recorded in the second quarter of 2007, a gain net of tax of approximately $5,300, of which Elron's share was $1,000.

In June 2007, NetVision raised in a private placement an amount of approximately 52,000 NIS (approximately $12,000). As a result, Elron's holding in NetVision decreased to approximately 17%, resulting in a gain of approximately $1,100 ($800 net of tax).
In addition, Elron recorded gain in the amount of approximately $1,100 ($800 net of tax) as a result of exercise of options and debentures in NetVision.

Elron continues to account for NetVision under the equity method of accounting as together with DIC and Clal, Elron has a significant influence over Netvision.

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

b. **AqWise**

On March 15, 2007, Elron completed the acquisition of approximately 34% of the outstanding ordinary shares of AqWise – Wise Water Solutions Ltd., an Israeli-based water technology company ("AqWise"), from Polar Investments Ltd. (TASE: PLR) and other existing shareholders in consideration for approximately $3,400.

AqWise headquartered in Israel with offices in Mexico, provides advanced biological wastewater treatment technologies. AqWise's patented AGAR® (Attached Growth Airlift Reactor) technology increases capacity and nutrient removal in wastewater treatment plants, utilizing advanced bio film technology to be used in existing plants or in new plants with limited space.

The excess of the purchase price over the company's share in the assets acquired and liability assumed amounted to approximately $3,400 and was allocated to intangible assets other then goodwill such as customers contracts and technology. The amounts allocated to the above intangible assets will be amortized on a straight-line basis over their weighted average expected useful life of 11 years.

Since the investment was in ordinary shares, the investment in AqWise is accounted for under the equity method of accounting under the provisions of APB 18.

c. **Given Imaging**

During May 2007, Elron has completed the purchase of 2.5% of the ordinary shares of Given Imaging Ltd. ("Given") in a series of open market transactions for an aggregate purchase consideration of approximately $18,700. As a result of these transactions, Elron's direct and indirect ownership interest in Given (through its direct holdings and its holdings in its subsidiary, RDC-Rafael Development Corporation Ltd. ("RDC")) increased to approximately 23%. In parallel transactions, Discount Investment Corporation Ltd. ("DIC"), a 49% shareholder of Elron, also purchased 2.5% of the ordinary shares of Given for the same aggregate consideration, increasing its holding in Given to approximately 16%. Following these transactions, Elron, DIC and RDC together held approximately 44% of the ordinary shares of Given.

The excess of the purchase price over the Company's share in the equity acquired amounted to approximately $16,100 and was allocated as follows: approximately $8,300 to intangible assets other than goodwill, such as customer base and technology, approximately $1,400 to in-process research and development ("IPR&D") and approximately $6,400 to goodwill. Products which did not receive marketing clearance by regulatory authorities as of the acquisition date are considered to be incomplete and accordingly the amount allocated to such products is considered to be IPR&D. The amount allocated to IPR&D was charged immediately to the Company's results of operations in accordance with FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method" ("FIN 4"). The amounts allocated to intangible assets other than goodwill are amortized on a straight-line basis over their weighted average expected useful life of 10 years. The amortization of the identifiable intangible assets as well as the write-off of the IPR&D are included as part of the line item "Equity in losses of affiliated companies" in the statements of operations.

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

d. **BPT**

On April 19, 2007, Elron completed a new investment of $1,125 in BPT (Bio-Pure Technology) Ltd. ("BPT"), in consideration for 1,292,782 series A preferred shares of BPT. The aggregate financing round of $2,400 was led by Elron and Aurum Ventures M.K.I. In addition, as part of the transaction, Elron was issued with warrants to purchase an additional 430,927 preferred A shares at a price and upon conditions determined in the agreement. Following the investment, Elron holds approximately 20% of BPT on a fully diluted basis and on an as converted basis.

BPT, an Israeli based water technology company, provides advanced membrane-based separation solutions that address the unique needs of the water, wastewater treatment and chemical process industries, employing its proprietary HMT™ (Hybrid Membrane Treatment) solution, based on NF (Nano-Filtration) membranes. BPT's solutions address aggressive wastewater streams and water-intensive applications in a wide range of industries, such as pharmaceuticals, chemicals, agrochemicals, metals, food & beverage, drinking water, water re-use and desalination.

Since the investment in preferred A shares and in warrants to preferred A shares are not considered to be an investment that is in- substance common stock, the investment in BPT is accounted for under the cost method. BPT is considered to be a variable interest entity, however, the Company is not the primary beneficiary of BPT, and accordingly has not consolidated BPT. As of September 30, 2007, the company's maximum exposure to loss as a result of its investment in BPT does not exceed the carrying value of its investment in BPT in the amount of $1,125.

e. **Radlive**

On May 30, 2007 Elron completed a new investment of approximately $3,750 in Radlive Ltd. ("Radlive"), an Israeli company in consideration for 3,750,000 series A Preferred shares of Radlive. The aggregate financing round of $7,650 was jointly led by Elron and Gemini Israel Funds. As a result of the investment, Elron holds approximately 25% of RADLIVE's equity on a fully diluted basis and on an as converted basis.
Radlive is engaged in the development of high definition telephony technologies and applications.

Since the investment in Preferred A shares is considered to be an investment that is in-substance common stock, the investment in Radlive is accounted for under the equity method.

f. **Pocared**

On June 12, 2007, Elron completed a new investment of approximately $5,350 in Pocared Diagnostics Ltd. ("Pocared"), an Israeli-based medical device company in consideration for 2,294,536 preferred D shares. The aggregate financing round of $10,700 was led by Elron and SCP Vitalife Partners II, L.P.
The investment was in two installments: the first of $3,500 was invested immediately, and an additional $1,900 is subject to the fulfillment of a milestone by Pocared. Following the aggregate investment, Elron hold approximately 20% of Pocared's equity on a fully diluted basis and on an as converted basis.

Pocared provides an innovative solution for real-time, reagentless In-Vitro Diagnostics (IVD). Pocared's wide technological platform may be used to address a wide range of medical and industrial diagnostic applications.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

f. **Pocared (Cont.)**

Since the investment in Preferred D shares is not considered to be an investment that is in-substance common stock, the investment in Pocared is accounted for under the cost method.

g. **Starling**

On June 13, 2007, Starling Advanced Communications Ltd. ("Starling"), then a 72.5% subsidiary of Elron, completed an initial public offering on the Tel Aviv Stock Exchange (TASE) in Israel of shares and convertible securities (convertible interest-bearing and NIS, Israeli CPI linked debentures ("Convertible Debentures") and options to the Convertible Debentures ("Options to Convertible Debentures") in consideration for aggregate gross proceeds of approximately NIS 57,000 (approximately $14,000). An amount of approximately $7,300 (amount denominate in NIS) proceeds from the issuance of the Convertible Debentures is restricted and will be released from the restrictions and used by Starling upon achieving certain milestones, no later than November 30, 2008. Elron invested approximately $4,000 as part of the offering in consideration for 619,700 ordinary shares, 8,675,800 convertible debentures and 86,758 options to convertible debentures. In addition, immediately prior to the offering, existing shareholders of Starling, including Elron and its subsidiary, RDC, converted shareholder loans in the amount of approximately $6,500 into 6,488,783 ordinary shares and 393,126 Options to Convertible Debentures. Following the offering, Elron's consolidated holdings (directly and through RDC) in Starling's outstanding shares decreased from 72.5% to approximately 68%. Since Elron still have control over Starling, Elron continues to account for Starling as consolidated subsidiary.

According to SFAS No. 133 “Accounting For Derivative instruments And Hedging Activities” (“FAS 133”) as amended by SFAS 155 “Accounting For Certain Hybrid Financial Instruments” (“FAS 155”) the Convertible Debentures and the Options to Convertible Debentures is to be presented, in each reporting period, at their fair value in the balance sheet and the changes in fair value will be charged to finance income, net. As of September 30, 2007 the minority portion in the Convertible Debentures and in the Options to Convertible Debentures amounted to $5,697 and $1,063, respectively. The Convertible Debentures were presented as part of long term liabilities and the Options to Convertible Debentures were presented as part of short term liabilities in the consolidated balance sheets.

Starling is considered a development stage Company. Accordingly, the changes in Elron's proportional shares of Starling's equity, resulting from the decrease in Elron's shares in Starling, have been accounted for as an equity transaction and as a result a capital reserve of approximately 3,300 (approximately $2,480 net of minority interest) was recorded.

h. **Journeys**

On July 1, 2007, Elron completed a new investment by providing a convertible loan of $300 followed by an additional $300 convertible loan granted subsequent to balance sheet date, to Journeys Ltd. ("Journeys"). Journeys engaged in the development of a casual internet multiplayer game appealing to a wide audience.

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

i. **MuseStorm**

On July 11, 2007, Elron completed a new investment of $1,000 in MuseStorm Ltd. ("MuseStorm"), in consideration of 358,387 series A-2 preferred shares. As part of the transaction, Elron was issued with warrants to purchase an additional 53,758 preferred A-2 shares at a price and upon conditions determined in the agreement. Following the investment, Elron holds approximately 23% of MuseStorm's outstanding shares.

MuseStorm, an Israeli company engaged in developing innovative technology for the distribution of a variety of content over the web. MuseStorm's technology enables media suppliers to easily distribute their content to many bloggers, social networks, internet sites, computers and mobile telephones with the ability to monitor effectiveness of the content after distribution.

Since the investment in Preferred A-2 shares and warrants to preferred A-2 shares are not considered to be an investment that is in- substance common stock, the investment in MuseStorm is accounted for under the cost method.

j. **Impliant**

As a result of material adverse events in connection with Impliant's main product, during clinical trials, which occurred during the third quarter of 2007 and the beginning of the fourth quarter of 2007, Impliant temporarily ceased FDA clinical trials and is currently conducting a technical reassessment of its main product which could cause a delay in bringing its product to the market and will require additional financing. As a result, Elron's management evaluates that the decline in Impliant value is other than temporary, and as such recorded an impairment provision of $8,340 in the third quarter of 2007.

k. **Wavion**

During the third quarter of 2007, Elron together with certain other stockholders ("Participating Stockholders") signed a stock purchase agreement with Wavion Inc. ("Wavion") relating to an aggregate investment of up to $10,000, in three separate installments, , of which an aggregate of $3,600 was invested immediately in consideration for Series A preferred shares, of which Elron invested approximately $1,700. The remaining balance of the investment may be invested by the Participating Stockholders pro rata to their holdings in Wavion, in two installments, during the fourth quarter of 2007 and the second quarter of 2008 respectively. As part of the financing, all previously existing series of preferred shares were converted into ordinary shares. In addition, the Participating Stockholders purchased the shares held by another shareholder in Wavion on a pro-rata basis. Following these transactions, Elron hold approximately 49.5% of the outstanding share capital of Wavion.

Wavion is considered to be a variable interest entity. However, the Company is not the primary beneficiary of Wavion, and accordingly has not consolidated Wavion. As of September 30, 2007, the company's maximum exposure to loss as a result of its investment in Wavion does not exceed the carrying value of its investment in Wavion in the amount of $393.

l. **Atlantium**

During the third Quarter of 2007, Elron entered into a convertible loan agreement with Atlantium ("Atlantium") pursuant to which Elron advanced an amount of $948 out of an aggregate amount of $2,000. The loan is convertible into preferred B shares of Atlantium upon the terms and conditions set forth in the agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

l. **Atlantium (Cont.)**

Since the investment in preferred B shares of Atlantium and in the convertible loan are not considered to be an investment that is in- substance common stock, the investment in Atlantium is accounted for under the cost method. Atlantium is considered to be a variable interest entity, however, the Company is not the primary beneficiary of Atlantium, and accordingly has not consolidated Atlantium. As of September 30, 2007, the company's maximum exposure to loss as a result of its investment in Atlantium does not exceed the carrying value of its investment in Atlantium in the amount of $10,954.

m. **Jordan Valley**

Subsequent to the balance sheet date, on October 16, 2007, Intel Capital, Intel's global investment organization, has completed an $11,000 investment in Jordan Valley Semiconductors. Following the transaction, Elron holds approximately 21% of the outstanding shares of Jordan Valley, subject to adjustment based on Jordan Valley's future performance.

Jordan Valley has been developing tools for semiconductor metrology based on x-ray technology. The advanced X-ray metrology solutions from Jordan Valley enable accurate and precise measurements for various thin-film applications in semiconductor manufacturing, and drive new advancements for the technology industry.

n. **NuLens**

Subsequent to the balance sheet date, on November 1, 2007, NuLens Ltd. ("NuLens") completed an internal financing round, of $8,000 in consideration for 892,857 Series C preferred shares. Elron participated in the internal financing round through investment of $4,185 in consideration for 467,130 Series C preferred shares. Following the investment, Elron holds approximately 34% of NuLens outstanding shares.

NOTE 4:- SALE OF REAL ESTATE

On April 25, 2007, an agreement for the sale by our wholly owned subsidiary, Elbit Ltd., of its real estate in Carmiel, Israel, was signed for approximately $11,600. The transaction was completed during June 2007 and as a result, Elron recorded in the second quarter of 2007 a gain, in the amount of $5,500 (approximately $4,100 net of tax). The gain recorded is included in the line item "other income" in the statement of operations.

NOTE 5:- CONTINGENT LIABILITIES

There were no material changes in the status of the Company’s contingent liabilities as described in the Company's annual financial statements, the details of which are as follows:

1. During September 1999, the Company received a copy of a claim and a request to approve such claim as a class action on behalf of public shareholders of Elscint (formerly an affiliated company) against the Company and others. The allegation raised by the claimants related to the decision regarding the sale of Elscint’s substantial assets. The class action claim is for an amount of approximately $158,000, alternatively $123,000. The claim alleges that the defendants, by their decisions regarding the sale of Elscint’s assets, caused damage to Elscint and its minority shareholders. The plaintiff seeks a court order requiring Elscint, or the other defendants, to purchase from each of the members of the represented class all shares held by them at a price of $27.46 per share. The claim has been stayed pursuant to an arrangement reached by the parties pending the outcome of

NOTE 5:- CONTINGENT LIABILITIES (Cont.)

the appeal in the claim described in paragraph 2 below. The arrangement provides that if the appeal as described in paragraph 2 below is accepted, then the proceedings to recognize the lawsuit as a class action will proceed. Otherwise, the application to recognize the claim as a class action suit will be dismissed. In light of the decision on the said appeal by the Supreme Court as described in paragraph 2 below, the Company has requested directions from the Court in regard to this action. On June 14, 2007, the plaintiff notified the defendants that it intends to ask the Court to renew proceedings in the case. No such motion has been received yet.

2. On November 2, 1999, the Company received a copy of a claim, and a request to approve such a claim, as a class action on behalf of some institutional investors and others and those who held shares in Elscint on September 6, 1999. The allegations raised against the Company and certain of its officers including former officers, among others, relate to the period prior to the sale of the Company's holdings in Elbit Medical Imaging ("EMI") (the parent company of Elscint and formerly an affiliated company). The claimants sought a court order pursuant to which EMI would be compelled to execute the alleged buy-out of Elscint's share at $14 per share or other remedies. On August 16, 2000, the Haifa District court dismissed the application to recognize the claim as a class action. Some of the claimants applied for and were granted permission to appeal to the Supreme Court in Israel. On December 14, 2006, the Supreme Court referred the matter back to the Haifa District Court in order to decide whether the claim should be recognized as a class action. On June 10, 2007, in accordance with the directions of the Haifa District Court issued on April 11, 2007, the plaintiffs submitted an updated statement of claim and motion to recognize the claim as a class action. Pursuant to the updated claim, the plaintiffs are no longer seeking an order compelling EMI to execute the alleged buy-out of Elscint's share at $14 per share but instead are claiming compensation for damages sustained due to the alleged failure of EMI to execute the buy-out, as well as due to other allegations. The amended statement of claim does not specify the monetary amount claimed, however it does include various allegations relating to the manner of determining the damages claimed, which depends, amongst other things, upon verification of the specific circumstances with regard to each shareholder of Elscint separately and the substance of each damage claimed. On October 25, 2007, the defendants responded to the revised motion to recognize the claim as a class action and filed statements of defense to the updated statement of claim.

   In addition, in February 2001, the claimants submitted a revised claim similar to the previous one but not as a class action.

3. During September 2006, two claims were filed by a certain individual in the Haifa District Court against the same defendants (including the Company and certain officers and former officers of the Company) of the action described in paragraph 2 above and based substantially on the same facts of such action. The claims are for an undisclosed amount and also include a request to recognize the claims as class actions. The Court has determined that the defendants do not yet have to file statements of defense.

   The Company denies all the allegations set forth as described in paragraphs 1, 2 and 3, and based on legal advice received, management is of the opinion that the Company has good defense arguments which, more likely than not, will cause dismissal of the above claims.

4. On September 20, 2006 Rafael Armaments Development Authority Ltd. ("Rafael") filed a claim with the Tel Aviv District Court against the company's 100% subsidiary, DEP

U.S. dollars in thousands, except share and per share data

NOTE 5:- CONTINGENT LIABILITIES (Cont.)

Technology Holdings Ltd. ("DEP"), and RDC, 50.1% held by DEP and 49.9% held by Rafael, requesting the court to issue a declaratory order that Rafael is entitled to terminate the rights granted to RDC to commercialize technologies of Rafael for future development of products for use in non-military markets, pursuant to an agreement between DEP, RDC and Rafael. In December 2006, DEP and RDC filed statements of defense. The parties are conducting informal discussions in an effort to reach a mutually acceptable solution, however there is no assurance that these discussions will be successful in achieving such a solution.

Based on legal advice, the management is of the opinion that DEP and RDC have good defense arguments, which, more likely than not, will cause dismissal of the claim.

NOTE 6:- RECONCILIATION TO ISRAELI GAAP

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. Had the consolidated financial statements been prepared in accordance with Israeli GAAP, the effects on the financial statements would have been as follows:

a. Effect on the statement of operations:

	Nine months ended September 30, 2007		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Net loss	$ (16,670)	$ (17,432)	$ (34,102)
Basic net loss per share	(0.56)	(0.59)	(1.15)
Diluted net loss per share	(0.57)	(0.58)	(1.15)

	Nine months ended September 30, 2006		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Net loss	$ (14,372)	$ (11,602)	$ (25,974)
Basic net loss per share	(0.49)	(0.39)	(0.88)
Diluted net loss per share	(0.50)	(0.40)	(0.90)

	Year ended December 31, 2006		
	As reported	Adjustments	As per Israeli GAAP
		Audited	
Net income (loss)	$ 3,032	$ (15,130)	$ (12,098)
Basic net income (loss) per share	0.10	(0.51)	(0.41)
Diluted net income (loss) per share	0.07	(0.50)	(0.43)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 6:- RECONCILIATION TO ISRAELI GAAP (Cont.)

	Three months ended September 30, 2007		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Net loss	$ (20,046)	$ 2,661	$ (17,385)
Basic net loss per share	(0.68)	0.09	(0.59)
Diluted net loss per share	(0.69)	0.1	(0.59)

	Three months ended September 30, 2006		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Net loss	$ (4,434)	$ (3,575)	$ 8,009
Basic net loss per share	(0.15)	(0.12)	(0.27)
Diluted net loss per share	(0.16)	(0.12)	(0.28)

b. Effect on the balance sheet:

	As of September 30, 2007		
	As reported	Adjustments	As per Israeli GAAP
		Unaudited	
Total assets	$ 311,024	$ (65,429)	$ 245,595
Total liabilities including minority interest	$ 26,113	$ 648	$ 26,761
Total equity	$ 284,911	$ (66,077)	$ 218,834

	As of December 31, 2006		
	As reported	Adjustments	As per Israeli GAAP
		Audited	
Total assets	$ 326,249	$ (58,970)	$ 267,279
Total liabilities including minority interest	$ 28,745	$ (957)	$ 29,702
Total equity	$ 297,504	$ (59,927)	$ 237,577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
U.S. dollars in thousands, except share and per share data

NOTE 6:- RECONCILIATION TO ISRAELI GAAP (Cont.)

c. Material adjustments:

1. The abovementioned adjustments result primarily from the differences between U.S. GAAP and Israeli GAAP detailed in Note 26 to the Company's annual financial statements for 2006 and from the following:

a. NetVision

As described in Note 3a, under U.S GAAP the Barak Merger and GlobCall Merger were accounted in NetVision's financial statement at fair value according to the purchase method. Under Israeli GAAP, the Barak Merger and GlobCall Merger accounted as "as pooling" since these transactions are considered business combination between parties under common control. The difference between Elron's share in NetVision's shareholder's equity before and after the transactions was recorded by Elron as capital reserve, while under U.S GAAP it was recognized as a gain in the statement of operations.

b. Starling IPO

As described in note 3g, under U.S GAAP since Starling is considered a development stage company, the changes in Elron's proportional share of Starling's equity, resulting from the decrease in Elron's share in Starling, have been accounted for as an equity transaction and as a result a capital reserve of approximately 3,300 (approximately $2,480 net of minority interest) was recorded. According to Israeli GAAP, the changes in the Company's proportionate share of Starling's equity will be recorded as gain from disposal of businesses in the higher amount between the accumulated losses to be recorded by the Company and a portion of the gain over a period of three years. During the third quarter of 2007, Elron recognized $1,388 out of $2,211 total gain.

c. Impliant

As described in note 3l, under U.S GAAP since Implaint's book value in Elron's financial statements which is accounted for according to the cost method exceeded its estimated fair value, impairment loss in the amount of $8,340 was recorded. According to Israeli GAAP Elron's investment in Impliant was accounted for according to the equity

method. Since Impliant accrued significant losses since Elron's initial investment date, Implaint's book value according to Israeli GAAP does not exceed its fair value. Therefore the above-mentioned impairment was not recorded.

d. Sale of real estate

As described in Note 4, during June 2007, Elbit sold its real estate in Carmiel. According to accepted practice in Israel, the merger between Elron and Elbit which occurred in May 2002, was considered a transaction with controlling shareholders and therefore the assets and liabilities of Elbit were recorded by Elron according to their carrying values in Elbit at the date of the merger. Therefore the gain net of tax recorded in respect of the above sale based on Israeli GAAP amounted to approximately $5,400, as compared to approximately $4,100 under U.S GAAP.

2. Accounting Standard No. 29 - Adoption of International Financial Reporting Standards (IFRS):
In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("the

NOTE 6:- RECONCILIATION TO ISRAELI GAAP (Cont.)

c. Material adjustments: (Cont.)

Standard"). Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008.

Since the financial statements are in accordance to US GAAP, the Company includes in its financial statements a note of reconciliation between US GAAP and Israeli GAAP. Commencing January 1, 2008 the Company will include reconciliation between US GAAP to IFRS in a note to its financial statements.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

Details relating to major investments as of September 30, 2007:

	% of ownership interest (1)	Carrying value of the investment as of September 30, 2007 (2)	Market value of the publicly traded investments as of: September 30, 2007	November 12, 2007
Consolidated Companies:				
Starling Ltd. (3) (4)	50%	2,918	13,399	11,758
SELA Ltd. (3)	44%	979	-	-
Medingo Ltd. (3)	50%	(849)	-	-
Affiliated Companies (equity):				
Given Imaging Ltd. (Nasdaq: GIVN) (3)	23%	81,855	183,863	165,176
NetVision Ltd. (TASE: NTSN)	17%	28,526	47,576	49,097
ChipX, Inc.	29%	1,734	-	-
Ellara Ltd. (formerly AMT)	37%	3,923	-	-
Wavion, Inc.	50%	393	-	-
Galil Medical Ltd. (3)	20%	2,180	-	-
3DV Systems Ltd. (3)	44%	1,041	-	-
Notal Vision, Inc.	23%	1,288	-	-
Aqwise Ltd.	34%	3,531	-	-
Radlive Ltd.	29%	3,440	-	-
Journeys Ltd. (5)	-	112	-	-
Available for sale:				
EVS (Nasdaq: EVSNF.OB)	10%	1,677	1,677	2,121
MWise Inc.	5%	790	790	825
Partnership:				
Gemini Israel Fund L.P.	5%	16	-	-
InnoMed Ventures L.P.	14%	2,512	-	-
Cost:				
Jordan Valley Ltd.	27%	8,137	-	-
Impliant Inc.	22%	1,452	-	-
Teledata Ltd.	21%	16,825	-	-
NuLens Ltd.	29%	4,360	-	-
BrainsGate Ltd.	23%	7,036	-	-
Enure Networks Ltd.	41%	2,215	-	-
Safend Ltd.	26%	3,700	-	-
Neurosonix Ltd.	16%	2,850	-	-
Atlantium Inc.	30%	10,954	-	-
BPT Ltd.	19%	1,125	-	-
Pocared Ltd.	17%	3,468	-	-
MuseStorm Ltd.	24%	1,000	-	-

(1) On the basis of the outstanding share capital.
(2) Includes loans and convertible notes.
(3) Represents the carrying value and the ownership interest of the investment in Elron's books and Elron's share in the carrying value and ownership interest of the investment in RDC's books.
(4) Includes Convertible Debentures and Options to Convertible Debentures.
(5) Investment by loans.

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