ELRON ELECTRONIC INDUSTRIES LTD.

-FOR IMMEDIATE RELEASE-

ELRON ELECTRONIC INDUSTRIES ANNOUNCES THIRD QUARTER 2008 RESULTS

Tel Aviv, Israel, November 13, 2008 – Elron Electronic Industries Ltd. (Nasdaq: ELRN) (TASE: ELRN) ("Elron" or the "Company") today reported financial results for the third quarter and first nine months of 2008.

KEY BUSINESS AND FINANCIAL DEVELOPMENTS:

- Invested a total of $6.1 million in the third quarter; $70.6 million during the first nine months of 2008;
- Business developments in group companies included – ***Starling*** announcing a multi-year arrangement under which it may supply antennas for up to approximately $60 million; ***Brainsgate*** completing additional financing round led by Johnson & Johnson Development Corporation; ***Galil Medical*** signing a definitive merger agreement with Endocare (NASDAQ: ENDO);
- Loss for the third quarter totaled $23.5 million, primarily resulting from the losses of group companies.

THIRD QUARTER 2008 FINANCIAL RESULTS:

Elron's net loss in the third quarter and first nine months of 2008 amounted to $23.5 million, or $0.79 per share, and $51.6 million, or $1.74 per share, respectively. Net loss in the third quarter and first nine months of 2007 amounted to $20.0 million, or $0.69 per share, and $16.7 million, or $0.57 per share, respectively. The net loss reported in the third quarter and first nine months of 2008 resulted mainly from $20.4 million and $44.2 million of losses, respectively, recorded with respect to Elron's group of companies, which included impairment charges in the aggregate amount of $8.8 million and $11.5 million, respectively.

The net loss in the third quarter and first nine months of 2007 resulted mainly from $18.0 million and $31.9 million of losses, respectively, recorded with respect to Elron's group of companies which included $8.3 million impairment charges. The loss in the first nine months of 2007 was offset mainly by a $9.1 million gain, net of tax, from the merger between NetVision, Barak and GlobCall which was completed in the first quarter of 2007 and a gain, net of tax, of $4.1 million from the sale of real estate in the second quarter of 2007.

INVESTMENTS DURING THE FIRST NINE MONTHS OF 2008:

During the first nine months of 2008, Elron invested $70.6 million in its group companies which included the purchase of 5% of ***Given Imaging Ltd.*** then outstanding shares for $24.5 million and a $4 million investment in RDC – Rafael Development Corporation Ltd. ("RDC"), Elron's 50.1% held subsidiary, in connection with the agreement between Elron and Rafael Advanced Defense Systems Ltd. signed in December 2007. Other investments in existing group companies included ***BrainsGate Ltd***., ***Medingo Ltd.***, ***Aqwise – Wise Water Solutions Ltd***., ***BPT (Bio-Pure Technology) Ltd.***, ***Safend Ltd.***, ***Impliant Inc.***, ***Pocared Diagnostics Ltd., Wavion Inc., Atlantium Inc., ChipX, Inc.*** and ***3DV Systems Inc.***, as well as investments in two new companies, ***PLYmedia Inc.*** and ***Kyma Medical Technologies Ltd.***

RECENT NOTABLE DEVELOPMENTS IN GROUP COMPANIES:

Starling Advanced Communications Ltd., a developer and manufacturer of innovative airborne broadband antenna systems, announced on September 23, 2008 that an international communication service provider signed a detailed non-binding agreement with EMS, a satellite communications systems manufacturer, for the supply of innovative, two-way Ku band antenna systems for aircraft over a period of seven years. The antenna systems to be supplied will incorporate Starling's technology pursuant to the agreement signed between Starling and EMS. Starling estimates the value of its share in the non-binding agreement, if fully executed, at approximately $60 million. There can be no assurance that any purchase orders will be issued.

On September 28, 2008 Elron announced a framework for the execution of several actions, the purpose of which is to strengthen the financial position of Starling, including the purchase by Elron of Starling Convertible Debentures in private transactions and by way of a tender offer for a total amount of approximately NIS 16 million (approximately $4.4 million). In addition, Elron and RDC extended a loan to Starling in the amount of up to $2 million.

BrainsGate, a developer of a broad treatment platform technology for brain diseases, completed in August 2008 a $27.5 million financing round led by Johnson & Johnson Development Corporation (JJDC) joined by VC-Fund Agate Medical Investments LP. Elron's portion in this round amounted to $6.5 million. Following the financing round, Elron holds 23.3% of BrainsGate's outstanding shares.

Galil Medical, a developer of minimally invasive cryotherapy systems and solutions, announced on November 10, 2008 that it has signed a definitive merger agreement with Endocare, Inc. (NASDAQ: ENDO), the terms of which call for a stock-for-stock merger transaction. The exchange ratio in the merger gives Galil Medical stockholders 48% of the post-merger stock. Prior to the financing transaction (described below), upon the closing of the merger, if completed, Elron and RDC together will hold approximately 7.7% of the merged company. Upon the closing of the merger, Endocare announced that it will sell $16 million of newly issued shares of its common stock in a private placement to several current investors of Endocare and Galil Medical. The merger will combine the complementary clinical, technological and marketing strengths of the two companies, which both have expertise in cryoablation, forming a company whose pro forma combined revenues and gross profit in the twelve months ended September 30, 2008 were approximately $55.6 million and $39.1 million. The transactions are expected to close in the first quarter of 2009. There is no assurance that the merger will be completed.

As of September 30, 2008, Elron's **cash, debentures and deposits** amounted to approximately $9.3 million compared with $55.2 million at December 31, 2007. In the second quarter of 2008, Elron secured a $30 million bank credit facility, all of which was utilized as a long-term loan as of September 30, 2008.

On October 30, 2008 Elron entered into a **loan agreement with its principal shareholder**, Discount Investment Corporation Ltd. ("DIC"), which holds approximately 49% of Elron's outstanding shares, pursuant to which DIC will provide Elron with a loan in an amount equivalent to $6 million. The granting of the loan is subject to receipt of all required corporate approvals.

Shareholders' equity at September 30, 2008, was approximately $215.4 million, which represented approximately 71% of Elron's total assets, compared to approximately $265.8 million, representing approximately 89% of Elron's total assets at December 31, 2007.

Doron Birger, Elron's Chief Executive Officer stated: "The ongoing global financial crisis and economic downturn create challenges for our young technology group companies, despite the business and technological progress achieved to date. These times require our group companies to keep a tight rein on expenses, while preserving cash, without compromising their long term growth prospects. We, at Elron, are currently reviewing a variety of alternatives to raise the necessary resources in order to support our group companies. As required, we are constantly monitoring our companies and their operating environment and may amend, if necessary, their carrying value should a longer term crisis affect certain companies' valuation or growth prospects. We do, however, remain confident in the long term potential of our group, and will continue to work with our companies to accompany them through this difficult time."

CONFERENCE CALL DETAILS:

Elron will be hosting a conference call on Thursday, November 13, 2008 at 10:00 am ET (7:00am PT, 3:00pm UK time, 5:00 pm Israel time) to discuss its second quarter 2008 results. To participate, please call one of the following teleconferencing numbers. Please begin placing your calls at least 10 minutes before the conference call commences.

US: 1 866 345 5855, UK: 0 800 404 8418; Israel: 03 918 0609; International: +972 3 918 0609.

For your convenience, a replay of the call will be available for two days following the call. The replay numbers are: 1 888 326 9310 (US), 0 800 028 6837 (UK) and +972 3 925 5937 (International). A replay of the call will also be available from a link on Elron's website.

ABOUT ELRON ELECTRONIC INDUSTRIES:

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 the Company's Annual Report on Form 20-F and other periodic reports filed by the Company with the Securities and Exchange Commission, which the Company urges investors to consider. The restricted availability of financing for young technology companies, the limited availability of profitable "exits" and the increased volatility in the securities markets may affect our business results and compliance with bank covenants.

****** FINANCIAL TABLES FOLLOW ******

ELRON ELECTRONIC INDUSTRIES LTD.

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands of U.S. Dollars

	September 30, 2008 Unaudited	December 31, 2007
ASSETS		
Total current assets	$ 46,124	$ 82,406
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments in affiliated companies	155,159	131,351
Investments in other companies and long-term receivables	83,574	73,718
Deferred taxes	15	2,204
Severance pay deposits	3,854	1,808
Total long-term assets	242,602	209,081
PROPERTY AND EQUIPMENT, NET	4,347	1,936
INTANGIBLE ASSETS	9,328	5,524
Total assets	$ 302,401	$ 298,947
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total current liabilities	$26,287	$ 21,448
LONG-TERM LIABILITIES		
Long-term loans from banks and others	33,389	2,244
Accrued severance pay and retirement obligations	4,904	2,451
Convertible Debentures	7,022	-
Deferred taxes	-	373
Total long-term liabilities	45,315	5,068
MINORITY INTEREST	15,444	6,614
Total Shareholders' Equity	215,355	265,817
Total liabilities and shareholders' equity	$ 302,401	$ 298,947

ELRON ELECTRONIC INDUSTRIES LTD.

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,
	2008	2007	2008	2007	2007
	Unaudited				
INCOME					
Net revenues	$ 3,539	$ 3,163	$ 1,266	$ 999	$ 4,371
Equity in losses of affiliated companies	(12,068)	(13,827)	(2,080)	(5,478)	(20,416)
Gain (loss) from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	(31)	12,515	(184)	(26)	14,854
Other income (expenses), net	(10,706)	(2,538)	(8,865)	(8,668)	(3,214)
Financial income, net	2,460	2,586	1,220	781	3,945
	(16,806)	1,899	(8,643)	(12,392)	(460)
COSTS AND EXPENSES	47,951	22,093	15,497	8,537	34,341
Income (loss) before taxes on income	(64,757)	(20,194)	(24,140)	(20,929)	(34,801)
Tax benefit (Taxes on income)	(1,257)	(471)	(1,159)	97	(7,544)
Income (loss) from continuing operations after taxes on income	(66,014)	(20,665)	(25,299)	(20,832)	(42,345)
Minority interest in losses of subsidiaries	14,419	3,995	1,782	786	5,250
Net income (loss)	(51,595)	(16,670)	(23,517)	(20,046)	(37,095)
Income (loss) per share:					
Basic:					
Net income (loss)	(1.74)	(0.56)	(0.79)	(0.68)	(1.25)
Diluted:					
Net income (loss)	(1.74)	(0.57)	(0.79)	(0.69)	(1.27)
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	29,650	29,609	29,650	29,621	29,619
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	29,650	29,609	29,650	29,621	29,619

MANAGEMENT REPORT FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2008

The following discussion should be read in conjunction with our unaudited Condensed Interim Consolidated Financial Statements as of September 30, 2008 and notes thereto and with our Annual Consolidated Financial Statements as of December 31, 2007 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, 2007 ("2007 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 and 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 take an active and long term role in the development and growth of our group companies. We participate in the management of most of our group companies by means of active membership on their boards of directors and board committees and active involvement in all aspects of their business to guide them through their long-term objectives. 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, financial advice 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 require investment of considerable resources and continuous development efforts. The future success of our group companies is dependent upon their technological quality, patent protection, 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 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. See below a discussion regarding the effect of the current global financial crisis and economic downturn on our business.

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 well as impairment charges. 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. See below a discussion regarding the effect of the current global financial crisis and economic downturn on our business results of operations.

Our capital resources in any given period are primarily affected by the extent of our investment in existing and new companies, the realization of certain holdings and available credit lines or loans, 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 and capital markets, which significantly affect the ability of our group companies to raise financing and our ability to dispose of holdings and realize gains from our holdings. See below a discussion regarding the effect of the current global financial crisis and economic downturn on our capital resources and our business results of operations.

GLOBAL FINANCIAL CRISIS AND ECONOMIC DOWNTURN

The global markets are currently experiencing a financial crisis and economic downturn which may adversely affect our and our group companies business. Events pertaining to the financial crisis affect the securities markets which are facing increased volatility, including in securities of companies in the high-technology field. As a result, high-technology companies, such as our group companies may experience difficulties in raising additional financing required to effectively operate and grow their businesses. It also may affect our ability to raise additional capital, meet banks covanents, secure additional bank facilities and sell holdings of our group companies. This may also affect our financial results, which are directly impacted by our ability to conclude profitable "exit" transactions of companies in our group.

In addition, due to the depressed prices of stocks in the securities markets and the downturn of the economy which may affect the demand for our group companies products, we may have to record impairment charges if the fair value of certain investments decrease below their carrying amount in an other than temporary manner.

EXCHANGE RATE FLUCTUATIONS

Our group companies are exposed to foreign exchange rate fluctuations. Our functional currency, as well as that of most of our group companies, is the U.S. dollar. However, salaries and related expenses, which comprise a significant portion of our and most of our group companies' expenses, are denominated in NIS. Since 2007, the NIS materially strengthened against the U.S. dollar, which negatively affected our and our group companies' results of operations. If this trend continues, there will continue to be a negative impact on our and our group companies' results of operations. Since September 2008, the NIS has begun to weaken against the U.S. dollar, but it is still relatively strong as compared to its level at the begining of 2007.

MAJOR TRANSACTIONS AND INVESTMENTS DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND SUBSEQUENTLY

Agreement with Rafael and settlement of claim by Rafael against Elron's subsidiaries, DEP and Rafael Development Corporation Ltd ***("RDC").*** On December 30, 2007, Elron, DEP Technology Holdings Ltd. ("DEP") (100% held by Elron), RDC (50.1% held by DEP and 49.9% held by Rafael) and Rafael Advanced Defense Systems Ltd. ("Rafael") signed an agreement (the "Addendum") effective as of January 1, 2008 which was subsequently approved by the court. The Addendum amended the existing agreement between the parties pertaining to the rights granted to RDC to commercialize certain technologies of Rafael, and settled a claim filed by Rafael in September 2006 against DEP and RDC. Pursuant to the Addendum, RDC's rights to commercialize certain technologies of Rafael will continue without time restrictions. In January 2008 we made a one-time investment in RDC of $4 million and are committed to make further investments of $0.75 million in RDC for each company established by RDC based on Rafael's technologies. The Addendum settles all claims between Rafael and RDC and DEP as well as resolves other issues which will facilitate cooperation between the parties.

In 2008, RDC established two new companies, each of which is based on Rafael's technologies. Pursuant to the terms of the Addendum, Elron is to invest in the fourth quarter of 2008 $750 thousand in RDC for each of these companies, totaling $1.5 million, of which $1.0 million was invested during October 2008.

Medingo Ltd. ("Medingo"). In February 2008 Medingo received the second installment in the amount of $12.5 million out of the total amount of approximately $29 million it raised in November 2007. Medingo is developing a minature insulin pump for diabetic patients. As part of the financing round RDC invested $18 million, we invested $6.1 million (including $4.2 million resulting from the conversion of convertible loans previously granted to Medingo) and a U.S. venture capital fund together with other investors invested $5.1 million. As a result of the above transaction, we and RDC hold 7% and 70%, respectively, of Medingo's shares on a fully diluted basis and on an as converted basis (or 42%, representing Elron's direct and indirect fully diluted share (through RDC)).

Brainsgate Ltd. ("BrainsGate"). In August 2008 BrainsGate completed a financing round of $27.5 million. BrainsGate is developing a broad treatment platform technology for brain diseases. The round was initially an internal financing round (which was signed in January 2008) of $12.5 million of which we invested approximately $5.5 million. The financing round was extended in August 2008 by an additional $15 million of which $12.5 million is to be invested by Johnson & Johnson Development Corporation joined by VC-Fund Agate Medical Investments LP and the rest by existing shareholders, of which we invested additional $1 million. The investment was granted in two equal installments: the first installment was granted immediately and the second investment is to be invested at the beginning of 2009. Following payment of all aggregate investments, we will hold approximately 21% of BrainsGate on a fully diluted and on an as converted basis.

BPT (Bio-Pure Technology) Ltd. ("BPT"). In January 2008, BPT, a provider of advanced membrane-based separation solutions, completed an internal round of $3.2 million of which Elron invested $1.6 million. As a result Elron's holdings in BPT increased from 20% to 29% of BPT's equity on a fully diluted basis and on an as converted basis. In October 2008, we and other existing shareholders of BPT granted a convertible loan in the amount $2.0 million to BPT in two installments of which we granted approximately $1.0 million. The first installment in the amount of $1.0 million was granted immediately (of which we invested approximately $0.5 million) and the second installment will be granted in January 2009.

Safend Ltd. ("Safend"). In February 2008, Safend, a leading provider of endpoint data leakage prevention solutions, completed a financing round of $9 million, led by a European-based asset management fund. As part of the financing round Elron invested $2.75 million. Following the above investment, Elron's share in the equity of Safend, on a fully diluted and on an as converted basis remains approximately 22%.

AqWise – Wise Water Solutions Ltd. ("AqWise"). In March 2008, AqWise, 34% held by Elron, completed a financing round of $3.6 million (which included conversion of previously granted convertible loans from existing shareholders) in three equal installments, of which Elron invested its pro rata amount of $1.2 million. AqWise is a provider of advanced biological wastewater treatment technologies which increase capacity and nutrient removal in wastewater treatment plants, utilizing advanced bio film technology.

Wavion Inc. ("Wavion"). In March and June 2008, Elron together with another shareholder of Wavion, a provider of metro WI-FI access points, in accordance with an agreement signed in August 2007, invested the second and third installments of a previous financing round. Each installment was in the amount of $3.2 million of which Elron invested in each approximately $2.0 million. In addition, simultaneously with the second installment, Elron together with such other shareholder purchased all the shares then held by a former shareholder in Wavion, of which Elron purchased 75% of the purchased shares. Following the above transactions, Elron holds approximately 57% of Wavion's share capital on a fully diluted and on an as converted basis.
Wavion is considered to be a variable interest entity and we are the primary beneficiary of Wavion. Accordingly we consolidated Wavion commencing at the end of the first quarter of 2008.
As a result of the initial consolidation of Wavion, an amount of approximately $1.8 million was allocated mainly to intangible assets such as technology. The amount allocated to the above intangible assets is amortized by us on a straight-line basis over their weighted average expected useful life of 5 years.

Impliant Inc. ("Impliant"). Impliant is engaged in the development of a novel posterior motion preservation system for spine surgery. Impliant has made positive progress since adverse clinical trial events occurred in the third quarter of 2007, which caused clinical trials to cease, and has restarted, and is now continuing, the clinical trial process after having received in May 2008 FDA approval to continue the study.
In March 2008, we and other existing shareholders of Impliant granted a convertible loan in the amount $10.0 million to Impliant in two installments of which we granted $6.0 million. The first installment in the amount of $5.0 million was invested immediately (of which we granted $3.0 million) and the second installment was invested in June 2008 upon completion of a certain milestone event by Impliant. Impliant is considered to be a variable interest entity and we are the primary beneficiary of Impliant. Accordingly, we consolidated Impliant commencing the end of the first quarter of 2008.

The excess of Impliant's equity fair value over its reported equity and convertible loan amounted to approximately $4.5 million and was allocated to in process research and development ("IPR&D"). 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 IPR&D. The amount allocated to IPR&D was charged immediately to our results of operations in the first quarter of 2008 and was included as part of "Amortization of intangible assets and acquired in-process- research and development write-off" in the statement of operations.

Pocared Diagnostics Ltd. ("Pocared"). In March, 2008, we granted Pocared a convertible loan in the amount of $5.0 million out of an aggregate amount of $14.0 million. The balance of the loan was granted by other existing shareholders of Pocared and a new investor. The loan was advanced in two equal installments, the first installment immediately and the second installment was advanced during June 2008. Pocared provides an innovative solution for real-time, reagentless In-Vitro Diagnostics (IVD). Pocared's technological platform may be used to address a wide range of medical diagnostic applications.

ChipX Inc. ("ChipX"). In May 2008, ChipX, a provider of differentiated ASIC (application specific integrated circuits) solutions, completed a private placement of $4.0 million from a new investor and existing shareholders, of which we invested approximately $0.7 million. Following this investment, our holdings in ChipX remain approximately 23% on fully diluted basis and on as converted basis.

Given Imaging Ltd. ("Given Imaging"). On June 20, 2008 we completed a tender offer to purchase 1,462,640 ordinary shares of Given Imaging (Nasdaq & TASE: GIVN), representing 5% of Given Imaging's issued outstanding shares, for $16.54 per share in the aggregate amount of $24.5 million (including approximately $0.3 million related costs). After the transaction, Elron's direct and indirect share (through RDC) in Given Imaging increased to approximately 27.8% of Given Imaging's issued and outstanding shares. Discount Investment Corporation Ltd. ("DIC"), an approximately 48.7% shareholder of Elron holds 16.1% of Given Imaging. Therefore, we together with DIC and RDC hold approximately 48.5% of the issued and outstanding shares of Given Imaging.

The excess of the purchase price over the Company's share in the equity acquired amounted to approximately $18 million and was allocated, based on preliminary purchase price allocation analysis, as follows: approximately $12.6 million to intangible assets other than goodwill, such as customer relationships and technology, approximately $0.8 million to IPR&D and approximately $4.6 million to goodwill. The amounts allocated to intangible assets other than goodwill are amortized on a straight-line basis over their weighted average expected useful life of 13 years.
The amount allocated to IPR&D was charged immediately to the statements 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 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".

As of September 30, 2008, the market value of our investment in Given Imaging amounted to approximately $105.5 million and the book value amounted to approximately $111.0 million. Subsequent to September 30, 2008 Given Imaging's share price further decreased and as of November 11, 2008, the market value was $77.0 million. We intend to examine, in the coming reporting periods, whether this decline in value is other then temporary. If we conclude the decline is other then temporary, we may have to record impairment charges with respect to our investment in Given Imaging.

Atlantium Inc. ("Atlantium"). In April 2008, Atlantium completed a financing round from its existing shareholders of approximately $11 million (including approximately $6 million by conversion of convertible loans, previously granted to Atlantium). The investment was in two installments, the first in the amount of $9.0 million of which we invested $3.3 million (including $2.2 million by conversion of a convertible loan) and the second installment in the amount of $2.0 million (of which we invested $0.5 million) was granted during June 2008. Following the above investment, our share in the equity of Atlantium, on a fully diluted and on an as converted basis increased from 30% to approximately 33%. Atlantium, an Israeli-based water technology company, provides innovative water disinfection solutions employing its proprietary Hydro-Optic Disinfection (HOD) technology. In September 2008, an existing shareholder of Atlantium granted a convertible loan in the amount $3.0 million to Atlantium in three installments. The first installment in the amount of $1.0 million was granted immediately and the second and third installment will be granted until December 2008.
As a result of slower than expected market penetration and the need for additional financing, we recorded, in the third quarter of 2008, an impairment charge of $4.8 million in our investment in Atlantium.

Starling Advanced Communications Ltd. ("Starling"), a public company traded on Tel-Aviv Stock Exchange, held 68% by us and RDC (or 50% by Elron directly and indirectly), a developer and manufacturer of innovative airborne broadband antenna systems, announced on September 23, 2008 that an international communication service provider signed a detailed non-binding agreement with EMS, a satellite communications systems manufacturer, under which EMS is to supply the international communications service provider with two-way Ku band antenna systems for aircraft over a period of seven years. The antenna systems to be supplied to the international communication service provider will incorporate Starling's technology pursuant to the agreement signed between Starling and EMS on May 7, 2008. Starling estimates the value of its share, in terms of revenue, in the non-binding agreement, if fully executed, at approximately $60 million. The international communication service provider anticipates that the first binding order, in which Starling's share will be approximately $9 million, will take place by December 1, 2008. There can be no assurance that any purchase orders will be issued, including the anticipated first binding purchase order.
In light of the above, Starling announced (based in part on a legal opinion received from its outside legal counsel) that it has reached the milestone under which it may use the proceeds of the convertible interest-bearing debentures ("Convertible Debentures") sold as part of its initial public offering in June of 2007, which are currently being held in trust, in the amount of approximately 41.5 million NIS (approximately $12.1 million).
There is a dispute between Starling and some of the debenture holders relating to satisfaction of the milestone and therefore Starling's entitlement to the proceeds from the Debentures. On November 4, 2008, a meeting of the debenture holders was held and they resolved not to release the funds from the proceeds of the Debentures. It is Starling's position that the debenture holders have no standing in determining whether to release the proceeds under the Debentures once Starling disclosed that the milestone has been met. In addition, these debenture holders requested the immediate repayment of the Debentures. It is Starling's position that there is no basis for immediate repayment of the Debentures. This matter, among others, was brought before the District Court in Tel Aviv, Israel (the "Court"). On November 6, 2008, the Court determined that there is no basis for immediate repayment of the Debentures. On November 9, 2008, Starling submitted a request to the Court to instruct the trustee to release the proceeds under the Debentures.

On September 28, 2008 we announced a framework for the execution of several actions, the purpose of which is to strengthen the financial position of Starling. Under this framework, during October 2008, we purchased Starling series A Convertible Debentures at a price of NIS 0.90 (approximately $0.26) for each Convertible Debenture par value NIS 1.00 for a total amount of approximately NIS 16 million (approximately $4.4 million). Of this total amount an amount of NIS 6.9 million (approximately $2.0 million) was purchased in private transactions, and the remainder of NIS 9.1 million (approximately $2.4 million) was purchased in a tender offer that was completed in October 2008. Following such purchases, we hold Convertible Debentures representing approximately 62% of the Convertible Debentures' par value. It is our intention to release at least those funds from the Convertible Debentures which are held by us following the acquisition and to transfer such funds to Starling for its use in accordance with applicable law.
In addition, on October 24, 2008 in order to finance Starling's ongoing business operations, we and RDC extended a loan to Starling in the amount of up to $2 million (of which $1 million was granted and the balance is to be granted in November 2008) to be repaid once the proceeds of the Convertible Debentures will be released to be used by Starling.
Starling informed its shareholders that in order to further strengthen its financial base, Starling intends in the near future to issue a rights offering to its shareholders ("Rights Offering"). Elron, RDC and Elbit Systems Ltd. informed Starling of their consent, in principle, to participate in the Rights Offering. Such participation is contingent upon the terms to be offered by Starling.

Ellara Ltd. ("Ellara"). In September 2008, Ellara, a provider of energy efficient heating solutions based on amorphous metals technologies, was acquired by Domoteck Ltd. ("Domoteck"), in consideration for 33.33% of Domoteck's shares. Domoteck is an Israeli company engaged in the manufacture of climate control systems. Following the above transaction, Elron's share in the equity of Domoteck, on a fully diluted and on an as converted is approximately 19%. The transaction resulted in no material effect on the results of operations.

Galil Medical Ltd. ("Galil Medical"). on November 10, 2008, Galil Medical Ltd., a group company held by us and RDC, announced that it signed a definitive merger agreement with Endocare, Inc. (NASDAQ:ENDO). The transaction, which is expected to close in the first quarter of 2009, will combine the complementary clinical, technological and marketing strengths of the two companies, which both have expertise in cryoablation. The combination of Galil and Endocare will form a company whose pro forma combined revenues and gross profit in the twelve months ended September 30, 2008 were approximately $55.6 million and $39.1 million (70.3% of revenues), respectively.
Galil and Endocare announced that the terms of the definitive merger agreement call for a stock-for-stock merger transaction. The exchange ratio in the merger gives the current Endocare stockholders 52 percent of the post-merger stock and Galil stockholders 48 percent, prior to the financing transaction (see below) and upon the closing of the merger, if completed, we and RDC together will hold approximately 7.7% in the merged company. Endocare also

announced that upon the closing of the merger it will sell $16 million of newly issued shares of its common stock in a private placement to several current institutional investors of Endocare and Galil. The merger and related transactions are expected to create significant clinical and operational advantages for the combined company. The transaction is expected to close in the first quarter of 2009. There is no assurance that the merger will be completed.

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 2007 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 2007 20-F under "Critical Accounting Policies".

BASIS OF PRESENTATION

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

Nine months ended September 30,	
2008	2007
RDC	RDC
SELA	SELA
Medingo	Medingo
Starling	Starling
Sync-Rx[1]	
XSIGHTS [1]	
Wavion[2]	
Impliant[2]	
ActySafe[1]	

[1] Established by RDC during 2008.
[2] Consolidated under FIN46(R) from March 31, 2008

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

Nine months ended September 30,			
2008		2007	
Given Imaging	Ellara[4]	Given Imaging	Ellara
NetVision	Notal Vision	NetVision	Notal Vision
ChipX	Galil Medical	ChipX	CellAct[3]
Wavion[1]	3DV	Wavion	Galil Medical
AqWise	RADLIVE[2]	AqWise	3DV
Kyma[5]			RADLIVE[2]

[1] Through March 31, 2008
[2] Since May 2007
[3] Sold in February 2007
[4] Acquired by Domoteck in September 2008
[5] Since February 2008

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

Cost Method:

Nine months ended September 30					
2008			2007		
Jordan Valley	Safend	BPT	Jordan Valley	Safend	BPT
Impliant[4]	Neurosonix	MuseStorm	Impliant	Neurosonix	MuseStorm[2]
Teledata	Atlantium	PLYmedia[3]	Teledata	Atlantium	
BrainsGate	Enure	Domoteck[5]	BrainsGate	Enure	
NuLens	Pocared		NuLens	Pocared[1]	

[1] Purchased in June 2007
[2] Purchased in July 2007
[3] Purchased in February 2008
[4] Through March 31, 2008
[5] From September 2008 following the purchase of Ellara

Available-for-sale Securities - As of September 30, 2008 – Elbit Vision Systems and M-Wise.

RESULTS OF OPERATIONS

Three and nine months period ended September 30, 2008 compared to the three and nine months period ended September 30, 2007.

The following table sets forth our results of operations in the reported periods:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(millions of $, except per share data)			
	Unaudited			
Net loss	23.5	20.0	51.6	16.7
Net loss per share	0.79	0.68	1.74	0.56

The net loss we reported in the three and nine months ended September 30, 2008 resulted mainly from our share in the net loss of our group companies in the amount of $23.5 million and $51.6 million, respectively, which included the following:

(i) losses in the amount of $9.2 million and $17.2 million, respectively, resulting from consolidated companies, mainly Medingo, Starling, Wavion and Impliant, in which we recorded 100% of their respective losses;

(ii) write offs of certain of our investments in the amount of $8.8 million and $11.5 million, respectively, as a result of an other than temporary decline in value, including mainly $4.8 million in Atlantium as a result of slower than expected market penetration and the need for additional financing, $2.2 million in MuseStorm, as MuseStorm is in the process of ceasing its operationsand and $2.6 million in Enure, as a result of a shift in Enure's marketing strategy which caused a delay in bringing Enure's product to the market and required additional financing.;

(iii) a $4.5 million write-off of IPR&D with respect to the initial consolidation of Impliant based on a fair value assessment in the first quarter of 2008, and

(iv) intangible asset amortization related to Elron's investment in Given Imaging in the amount of $1.5 million and $4.8 million, respectively (of which $0.8 million is write-off of IPR&D related to the acquisition of additional shares of Given Imaging in June 2008).

If the downturn of the economy and the increased volatility of stock prices in the securities markets will continue for an extended period of time, and if any of our group companies will have difficulties in raising additional financing required to operate and grow its business, we may have to record additional impairment charges in the upcoming reporting periods.

The net loss we reported in the three and nine month period ended September 30, 2007 resulted mainly from our share in the net loss of our group companies in the amount of $18.0 million and $31.9 million, respectively, which included our share in the net losses mainly of Starling, Medingo, ChipX, Wavion, Ellara, 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 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 in May 2007; and (ii) a $1.8 million gain, our portion in Notal Vision's net income in the second quarter of 2007 as a result of an approximately $10 million gain recorded by Notal Vision from the arbitration award in favor of Notal Vision in connection with its dispute with its former distributor.
In addition, an $8.3 million write off in Impliant Inc. was recorded in the third quarter of 2007 as a result of material adverse events in Impliant's clinical trials and the cessation of these trials (which were successfully renewed in the second quarter of 2008).

These losses were offset by the following gains in the nine months ended September 30, 2007:

(i) 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;
(ii) a gain, net of tax, of approximately $4.1 million resulting from the sale of Elbit's real estate in Carmiel, Israel; and
(iii) 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 following table summarizes our operating results:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(millions of $)			
	Unaudited			
Net revenues	1.3	1.0	3.5	3.2
Equity in losses of affiliated companies, net	(2.1)	(5.5)	(12.1)	(13.8)
Gains (losses) from disposal of business and affiliated companies and changes in holdings in affiliated companies	(0.2)	-	-	12.5
Other income (loss), net	(8.9)	(8.7)	(10.7)	(2.5)
Finance income, net	1.2	0.8	2.5	2.6
Total income (loss)	(8.6)	(12.4)	(16.8)	1.9
Cost of revenues	0.8	0.4	1.9	1.3
Operating expenses	14.7	8.1	41.4	20.8
Amortization of intangible assets and acquired in-process-research and development write-off	0.1		4.7	
Total costs and expenses	15.6	8.5	48.0	22.1
Loss from continuing operations before income taxes	(24.1)	(20.9)	(64.8)	(20.2)
Tax benefit (taxes on income)	(1.2)	0.1	(1.2)	(0.5)
Minority interest in losses of subsidiaries	1.8	0.8	14.5	4.0
Net income (loss)	(23.5)	(20.0)	(51.6)	(16.7)

Income

Net revenues. Net revenues, in the three and nine months ended September 30, 2008 consisted of sales of products and services by our subsidiaries SELA and Wavion (the latter of which was consolidated commencing March 31, 2008). Net revenues amounted to $1.3 million and $3.5 million, respectively, compared to $1.0 million and $3.2 million in the comparable periods in 2007. The following table sets forth these revenues:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(millions of $)			
	Unaudited			
SELA	0.9	1.0	2.9	3.2
Wavion [1]	0.4	-	0.7	-
	1.3	1.0	3.6	3.2

[1] Wavion was consolidated from March 31, 2008.

Share in net losses of affiliated companies. Our share in net losses of affiliated companies resulted from our holdings in certain investments that are accounted for under the equity method (see above under "Basis of Presentation").
Our share in net losses of affiliated companies amounted to $2.1 million and $12.1 million in the three- and nine-month periods ended September 30, 2008, compared to $5.5 million and $13.8 million in the comparable periods in 2007.

We expect that most of our group companies will continue to recognize losses in future periods, as they invest significant resources in research and development and sales and marketing activities and have not yet generated significant revenues. 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).

Highlights of the Results of Operations of Our Major Affiliates:

Given Imaging (Nasdaq: GIVN) (a 28% holding directly and indirectly through RDC). Given Imaging Ltd. ("Given Imaging"), a medical device company that develops, manufactures and markets innovative diagnostic systems for visualizing the gastrointestinal tract using disposable miniature swallowable video capsules, recorded revenues of $31.1 million and $91.3 million in the three and nine month periods ended September 30, 2008 compared to $27.7 million and $78.6 million in the same periods in 2007. Given Imaging's net income in the three and nine month periods ended Septmber 30, 2008 was $2.1 million and $6.1 million compared to $1.7 million and $2.3 million in the same periods in 2007.

On June 17, 2008 Given Imaging announced that it signed a final agreement with Olympus Corporation for the settlement of the patent litigation between the two companies in the United States. Given Imaging announced that the agreement includes certain worldwide royalty-free cross-licenses for their respective existing capsule endoscopy products and a release of all past causes of action and a payment of $2.33 million by Olympus to Given Imaging.

Galil Medical (a 20% 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 a revolutionary needle design to destroy malignant and benign tumors. Galil Medical's revenues in the three and nine month periods ended September 30, 2008 amounted to $6.2 million and $18.7 million, compared to $6.4 million and $19.3 million in the same periods in 2007. Galil Medical's operating loss in the three and nine month periods ended September 30, 2008 amounted to $3.4 million and $10.5 million compared to $1.7 million and $6.2 million in the same periods in 2007, resulting mainly from increased research and development expenses and general and administrative expenses. In november 10, 2008, Galil announced that it signed a definitive merger agreement with Endocare, Inc. (see "Major Transactions And Investments During The Nine Months Ended September 30, 2008 And Subsequently; Galil Medical Ltd.").

NetVision (a 16% holding) (TASE: NTSN). The following results of NetVision for the three and nine month periods ended September 30, 2008 and for the comparable periods in 2007 reflect the combined results of NetVision, Barak I.T.C (1998) International Telecommunications Services Corp Ltd. ("Barak") and GlobCall Communications Ltd. ("Globcall") (hereafter: the "NetVision Group") based on International Financial Reporting Standards (IFRS). Since the merger with Barak and GlobCall was completed at the end of January 2007, according to IFRS, the combined results of NetVision for the first quarter of 2007 do not include the results of Barak and GlobCall for January 2007 and other influences of the purchase as if the purchase had been completed in January 1, 2007 ("January results"). The proforma results for the nine month period ended September 30, 2007 include January results. The NetVison Group's revenues in the three and nine month periods ended September 30, 2008 amounted to $92.8 million and $268.0 million compared to $90.9 million and $246.0 million (or compared to $264.6 million proforma revenues in the nine month period ended September 30, 2007) in the same periods in 2007. The NetVision Group's operating income in the three and nine month periods ended September 30, 2008 amounted to $10.3 million and $26.1 million, compared to $1.0 million and $7.2 million (or compared to $6.3 million proforma operating income the nine month period ended September 30, 2007) in the same periods in 2007 and its net income amounted to $8.5 million and $22.4 million compared to $2.4 million and $12.9 million in the same periods in 2007. The NetVision Group's broadband customer base at September 30, 2008 reached approximately 556,000 compared to 533,000 at December 31, 2007. NetVision's operating currency is the New Israeli Shekel (NIS) and accordingly, all figures above are translations for convenience purposes of NetVision's NIS figures into US dollars at the representative rate of exchange prevailing at September 30, 2008 according to which $1.00 equaled NIS 3.421.

On May 4, 2008, NetVision announced that it entered into an agreement with Bank Leumi Le'Israel (the "Bank") to acquire its shares in HOT Communications Systems Ltd. (TASE: HOT) ("HOT"), an Israeli telecommunications and cable television company. In October 2008, the Israel Antitrust Authority, under the Ministry of Finance, informed NetVision that it believes the transaction will restrict competition and as such deems it to be a restrictive arrangement subject to the Restrictive Trade Practices Law. On October 30, 2008, NetVision announced that it cancelled its agreement with the Bank to acquire its shares in HOT due to the fact that it had not received all approvals required by law by the agreed upon closing date for the transaction.

Gains (loss) from Disposal of Businesses and Affiliated Companies and Changes in Holdings in Affiliated Companies. Gains (loss) 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, 2008 amounted to $(0.2) and $0 million compared to $0 million and $12.5 million in the same periods in 2007. The loss in the three month period ended September 30, 2008 was mainly as a result of the acquisition of Ellara shares by Domoteck. The gain in the three and nine month periods ended September 30, 2007 was 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 in the first quarter of 2007.

Other income (loss), net. Other income (loss), net, amounted to a net loss of $8.9 million and $10.7 million, respectively, in the three and nine month periods ended September 30, 2008 compared to a net loss of $8.7 million and $2.5 million in the same periods in 2007. The loss in the three month period ended September 30, 2008 resulted mainly from the impairment charge in the amount of $4.8 million with respect to our investment in Atlantium, and $2.2 million with respect to our investment in MuseStorm. The loss in the nine month period ended September 30, 2008 resulted from the impairment charge in the amount of $2.6 million with respect to our investment in Enure and from the above-mentioned impairment charge in Atlantium and MuseStorm, and was offset by a $1.5 million gain resulting from a contingent payment received in connection with a previously held group company sold in 2004. The loss in the three-month period ended September 30, 2007 resulted mainly from the impairment charge in the amount of $8.3 million with respect to our investment in Impliant. The loss in the nine month period ended September 30, 2007 was offset by 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 part of our shareholding in M-Wise for $0.8 million.

Finance income, net. Finance income, net in the three and nine month periods ended September 30, 2008 amounted to $1.2 million and $2.5 million, respectively, compared to $0.8 million and $2.6 million in the same periods in 2007. The increase in income in the three months ended September 30, 2008 resulted mainly from the decrease in the market value of Starling's debentures. The increase in income in the nine months ended September 30, 2008 resulted mainly from the expiry of most of Starling's options to debentures in June 2008 and from the decrease in the market value of Starling's debentures.

Expenses

Cost of revenues. Cost of revenues consisted primarily of expenses related to salaries and materials associated with delivering products and services of our subsidiaries SELA and Wavion (the latter of which was consolidated commencing March 31, 2008). Cost of revenues in the three- and nine- month periods ended September 30, 2008 amounted to $0.8 million and $1.9 million, respectively, compared to $0.4 million and $1.3 million in the same periods in 2007.

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, Starling, Impliant and Wavion (the last two companies were consolidated from March 31, 2008). The following table sets forth the operating expenses:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
	(millions of $)			
	Unaudited			
Corporate	2.1	2.3	7.4	6.0
Medingo	4.6	2.4	12.4	5.6
SELA	1.0	0.8	2.8	2.1
Starling	1.9	2.1	6.0	5.2
Impliant	1.6	-	3.1	-
Wavion	1.6	-	3.9	-
Other[1]	1.8	0.5	5.6	1.9
	14.6	8.1	41.2	20.8

[1]RDC, Sync-Rx, XSIGHTS and ActySafe.

Corporate operating expenses in the three and nine month periods ended September 30, 2008 amounted to $2.1 million and $7.4 million, respectively, compared to $2.3 million and $6.0 million in the same periods in 2007. The increase in the nine month period ended September 30, 2008, resulted mainly from the increase in salaries and related expenses (resulting partly from the NIS increase in value against the dollar) and professional services.

Medingo's operating expenses and operating loss in the three- and nine-month periods ended September 30, 2008 increased to $4.6 million and $12.4 million, respectively, compared to $2.4 million and $5.6 million in the same periods in 2007, mainly as a result of the increase in research and development expenses incurred in the development of its miniature dispensing insulin patch for insulin-dependent diabetic patients and as a result of the increase in general and administrative and marketing expenses incurred as a result of the expansion of its operations.

SELA's operating expenses amounted to $1.0 million and $2.8 million in the three and nine month periods ended September 30, 2008, respectively, compared to $0.8 million and $2.1 million in the same periods in 2007, and its operating loss amounted in the three and nine month periods ended September 30, 2008 to $0.6 million and $1.3 million, respectively, compared to $0.3 million and $0.4 million in the three and nine month periods ended September 30, 2007. The increase in SELA's operating loss was mainly as a result of the increase in research and development expenses as well as sales and marketing expenses related to the development and marketing of SELA's new system.

Wavion's operating expenses amounted to $1.6 million and $5.8 million in the three and nine month periods ended September 30, 2008, respectively, compared to $1.5 million and $4.3 million in the same periods in 2007, and its operating loss amounted to $1.6 million and $5.8 million in the three and nine month periods ended September 30, 2008, respectively, compared to $1.5 million and $4.3 million in the same periods in 2007. The increase in Wavion's operating loss resulted mainly from the increase in research and development expenses as well as sales and marketing expenses related to the launch of its products in 2008.

Impliant's operating expenses and operating loss amounted to $1.6 million and $4.7 million in the three and nine month periods ended September 30, 2008, respectively, compared to $3.1 million and $8.4 million in the same periods in 2007. The decrease in Impliant's operating loss resulted mainly from the temporary cessation of the clinical trials which renewed at the end of the second quarter of 2008.

Starling's operating expenses and operating loss amounted to $1.9 million and $6.0 million in the three and nine month periods ended September 30, 2008, respectively, compared to $2.1 million and $5.2 million in the same periods in 2007. The increased operating loss in the nine-month period resulted mainly from the increase in research and development expenses relating to Starling's efforts to complete the development and license of its products.

Amortization of intangible assets. Amortization of intangible assets amounted to $4.7 million in the nine month period ended September 30, 2008 resulting mainly from the initial consolidation of Impliant at the end of the first quarter of 2008. Since Impliant was consolidated under the conditions of Interpretation No. 46(R), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46") (see note 2 c to our Annual Consolidated Financial Statements as of December 31, 2007), the consolidation was recorded based on fair value. Therefore, the excess of

Impliant's equity fair value over its reported equity and convertible loan amounts, amounted to approximately $4.5 million and was allocated to IPR&D and charged to our results of operations in the second quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash, debentures and deposits at September 30, 2008, were approximately $36.7 million (of which $12.1 million was restricted cash of Starling, denominated in NIS) compared with $74.4 million (of which $7.6 million was restricted cash of Starling, denominated in NIS) at December 31, 2007. At September 30, 2008, corporate cash, debentures and deposits were $9.3 million compared with $55.2 million at December 31, 2007.

The main uses of the corporate cash and other liquid instruments in the nine months ended September 30, 2008, were $70.6 million investments and loans to our group companies (of which $24.5 million was utilized for the purchase of 5% of Given Imaging's outstanding shares).
The investments and loans to our group companies during the nine month period ended September 30, 2008 are detailed in the following table:

Consolidated companies (**)	
($ in millons)	
RDC	4.0
Medingo	1.0
Impliant(*)	6.0
Wavion(*)	4.1
SELA	0.6
	15.7
Affiliated companies and other investments	
Given Imaging	24.5
Pocared	6.9
Brainsgate	6.0
Safend	2.7
BPT	1.6
Enure	1.4
Atlantium	2.6
Kyma	1.0
Ellara	1.6
PlyMedia	2.5
Aqwise	1.1
Other	3.0
	54.9
Total corporate investments	70.6

(*) Consolidated from March 31, 2008
(**) These investments do not affect the cash included in the consolidated financial statements.

Consolidated working capital at September 30, 2008 amounted to $19.8 million compared to $61.0 million at December 31, 2007. The decrease was mainly due to lower cash, debentures and deposits balance and the increase in short term loans, which resulted mainly from the initial consolidation of Wavion and Impliant.

Consolidated loans at September 30, 2008, were approximately $42.6 million, compared to $5.6 million at December 31, 2007. This increase resulted mainly from a $30 million loan utilized under the credit line described below and from a $4.1 million resulted from the initail consolidation of Impliant and Wavion in the first quarter of 2008.

On May 15, 2008, the Company signed an agreement (the "Agreement") with Israel Discount Bank Ltd., (the "Bank") to provide us with a $30 million credit line to be utilized within a period of 364 days from the date of the Agreement. During this period, we could draw down loans from the credit line for a three-year period bearing interest at a rate of three months LIBOR +1.3%. We agreed to pay the Bank during the term of the Agreement a fee equal to 0.24% per annum on all amounts not utilized under the credit line. Loans drawn down from the credit line may be repaid early without penalty on any interest payment date.

As part of the Agreement, we committed to certain covenants including:

(i) maintaining a ratio equal to the sum of (1) cash and cash equivalents, (2) the market value of holdings in public companies and (3) short term investments, to the finance debt, as defined in the Agreement, which shall be not less than three;

(ii) obligating to provide the Bank with any covenant, undertaking and/or lien of any kind, that may be provided to any other financial institution, all in equal parts, pari passu with such financial institution so that the Bank's rights will not harmed;

(iii) obligating not to make, or agree to make, loans available to the Company's shareholders and not to repay future loans to shareholders without the prior consent of the Bank, and moreover, any funds or loans granted or which may be granted to our shareholders shall be subordinated to any debt to or credit from the Bank; and

(iv) obligating not to issue dividends to the Company's shareholders without the prior written consent of the Bank.

As of September 30, 2008 all covenants mentioned above were met. However, due to the increased volatility of stock prices in the securities markets, there is a risk we may not meet the first covenant, described above.

On October 30, 2008 we entered into a loan agreement with DIC, pursuant to which DIC will provide us with a loan (the "Loan") in an amount equivalent to $6 million bearing interest at a rate of 5.95% per annum and linked to the Israel consumer price index. As part of the loan agreement we agreed to customary default provisions in loan agreements. The granting of the Loan is subject to receipt of all required corporate approvals. If one or more shareholders holding in the aggregate at least 1% of our issued share capital or voting rights notify us in writing, on or prior to the fourteenth day following the disclosure of the Loan made on October 30, 2008 about his/their objection to Loan, then the Loan will require the approval of the shareholders. The Loan is subordinate to the existing loan from the Bank and given for the same period through September 24, 2011. If the loan from the Bank is repaid earlier, then the DIC Loan will be repaid at that time; if the repayment of the loan from the Bank is extended, then the repayment of the DIC Loan will be extended for the same period. With the Bank's prior written consent, Elron may prepay the DIC Loan in whole or in part.

Convertible debentures at September 30, 2008 amounted to $7.0 million and represent the minority portion of the Convertible Debentures issued by Starling in May 2007 and from the exercise of a portion of Starling's options into debentures during May 2008. In October 2008 through private transactions and a tender offer to the public, we purchased Starling Convertible Debentures at a price of NIS 0.90 (approximately $0.26) for each Convertible Debenture par value NIS 1.00 for a total amount of approximately NIS 16 million (approximately $4.5 million) (see "Major Transactions And Investments During The Nine Months Ended September 30, 2008 And Subsequently; Starling Advanced Communications Ltd.").

Subsequent to September 30, 2008 and through November 11, 2008, we invested an additional aggregate amount of approximately $7.5 million in our group companies, mainly $4.5 million in the purchase of Starling Convertible Debentures described above.

We are currently seeking and evaluating alternatives to increase our capital resorces in order to support our investment plan in our group companies for at least the next twelve months. These alternatives include, but are not limited to, additional bank loans, additional loans from our principal shareholder, DIC, (see above regarding a $6 million loan provided to us by DIC), securities issuance and sale of holdings in group companies. We believe that we will be able to achieve one of the alternatives discussed above.

Shareholders' equity at September 30, 2008 was approximately $215.4 million, representing approximately 71.2% of the total assets compared with $265.8 million representing approximately 89% of total assets at December 31, 2007.

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ELRON ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2008
(Unaudited)

ELRON ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2008

UNAUDITED

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CONSOLIDATED BALANCE SHEETS

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

	September 30, 2008 Unaudited	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22,469	$ 20,090
Short-term investments	-	16,900
Restricted cash	12,133	7,642
Available for sale marketable securities	2,087	29,730
Trade receivables (net of allowance for doubtful accounts of $24 and $0 at September 30, 2008 and December 31, 2007, respectively)	925	1,043
Other receivables and prepaid expenses*	5,934	5,269
Inventories	2,576	1,732
Total current assets	46,124	82,406
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments in affiliated companies	155,159	131,351
Investments in other companies and long-term receivables	83,574	73,718
Deferred taxes	15	2,204
Severance pay deposits	3,854	1,808
Total investments and long-term receivables	242,602	209,081
PROPERTY AND EQUIPMENT, NET	4,347	1,936
INTANGIBLE ASSETS		
Goodwill	2,742	2,742
Other intangible assets	6,586	2,782
Total intangible assets	9,328	5,524
Total assets	$ 302,401	$ 298,947

* Includes short-term receivables from related parties in the aggregate amount of $18 and $169 as of September 30, 2008 and December 31, 2007, respectively.

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, 2008 Unaudited	December 31, 2007
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term loans from banks and others	$ 6,099	$ 850
Current maturities of long-term loans from banks and others	3,095	2,475
Trade payables	4,075	3,236
Convertible Debentures	-	5,549
Option to Convertible Debentures	-	830
Other payables and accrued expenses	13,018	8,508
Total current liabilities	26,287	21,448
LONG-TERM LIABILITIES		
Long-term loans from banks and others	33,389	2,244
Accrued severance pay and retirement obligations	4,904	2,451
Convertible Debentures	7,022	-
Deferred taxes	-	373
Total long-term liabilities	45,315	5,068
MINORITY INTEREST	15,444	6,614
SHAREHOLDERS' EQUITY:		
Ordinary shares of NIS 0.003 par value; Authorized - 35,000,000 shares as of September 30, 2008 and December 31, 2007; Issued and outstanding: 29,650,017 shares as of September 30, 2008 and December 31, 2007.	9,573	9,573
Additional paid-in capital	276,221	275,947
Accumulated other comprehensive income	4,548	3,689
Accumulated deficit	(74,987)	(23,392)
Total shareholders' equity	215,355	265,817
Total liabilities and shareholders' equity	$ 302,401	$ 298,947

November 12, 2008			
Date of approval of the financial statements	Arie Mientkavich Chairman of the Board of Directors	Doron Birger President & Chief Executive Officer	Rinat Remler Vice President & Chief Financial Officer

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, 2008	Nine months ended September 30, 2007	Three months ended September 30, 2008	Three months ended September 30, 2007	Year ended December 31, 2007
	Unaudited				
INCOME					
Net revenues	$ 3,539	$ 3,163	$ 1,266	$ 999	$ 4,371
Equity in losses of affiliated companies , net	(12,068)	(13,827)	(2,080)	(5,478)	(20,416)
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	(31)	12,515	(184)	(26)	14,854
Other income (expenses), net	(10,706)	(2,538)	(8,865)	(8,668)	(3,214)
Financial income (expenses), net	2,460	2,586	1,220	781	3,945
	(16,806)	1,899	(8,643)	(12,392)	(460)
COSTS AND EXPENSES					
Cost of revenues	1,941	1,297	827	403	2,233
Research and development costs, net	21,211	8,896	7,470	3,930	13,284
Marketing and selling expenses, net	5,408	1,839	2,367	766	2,802
General and administrative expenses	14,696	10,047	4,720	3,433	13,716
Amortization of intangible assets and acquired in process research and development write-off	4,695	14	113	5	2,306
	47,951	22,093	15,497	8,537	34,341
Income (loss) before taxes on income	(64,757)	(20,194)	(24,140)	(20,929)	(34,801)
Tax benefit (taxes on income)	(1,257)	(471)	(1,159)	97	(7,544)
Income (loss) after taxes on income	(66,014)	(20,665)	(25,299)	(20,832)	(42,345)
Minority interest in losses of subsidiaries	14,419	3,995	1,782	786	5,250
Net income (loss)	$ (51,595)	$ (16,670)	$ (23,517)	$ (20,046)	$ (37,095)
Income (loss) per share:					
Basic :					
Net income (loss)	$ (1.74)	$ (0.56)	$ (0.79)	$ (0.68)	$ (1.25)
Diluted:					
Net income (loss)	$ (1.74)	$ (0.57)	$ (0.79)	$ (0.69)	$ (1.27)
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	29,650	29,609	29,650	29,621	29,619
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	29,650	29,609	29,650	29,621	29,619

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)
Balance as of January 1, 2007	29,592,748	$ 9,573	$ 272,930	$ 1,298	$ 13,703	$ 297,504	
Exercise of options	57,269	-	230			230	
Stock - based compensation	-	-	304	-	-	304	
Increase in investment due to issuance of shares by a development stage subsidiary company	-	-	2,483	-	-	2,483	
Other comprehensive income (loss), net of tax:							
Unrealized gain on available for sale securities	-	-	-	1,658	-	1,658	$ 1,658
Reclassification adjustment for loss (gain) realized included in net income (loss)	-	-	-	(1,255)	-	(1,255)	(1,255)
Foreign currency translation adjustment included in net income (loss) due to decrease in holdings in affiliated company				(407)	-	(407)	(407)
Foreign currency translation adjustments	-	-	-	2,395		2,395	2,395
Net loss	-	-	-	-	(37,095)	(37,095)	(37,095)
Balance as of December 31, 2007	29,650,017	$ 9,573	$ 275,947	$ 3,689	$ (23,392)	$ 265,817	
Total comprehensive loss							$ (34,704)
Stock - based compensation	-	-	274		-	274	
Other comprehensive income (loss), net of tax:							
Unrealized loss on available for sale securities	-	-	-	(2,195)	-	(2,195)	$ (2,195)
Reclassification adjustment for loss (gain) realized and other than temporary impairment included in net loss	-	-	-	(177)	-	(177)	(177)
Foreign currency translation adjustments	-	-	-	3,231	-	3,231	3,231
Net loss	-	-	-	-	(51,595)	(51,595)	(51,595)
Balance as of September 30, 2008 (Unaudited)	29,650,017	$ 9,573	$ 276,221	$ 4,548	$ (74,987)	$ 215,355	
Total comprehensive loss							$ (50,736)
Balance as of January 1, 2007	29,592,748	$ 9,573	$ 272,930	$ 1,298	$ 13,703	$ 297,504	
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	-	-	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 loss							$ (15,447)

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)
Balance as of July 1, 2008 (Unaudited)	29,650,017	$ 9,573	$ 276,139	$ 6,148	$ (51,470)	$ 240,390	
Stock - based compensation	-	-	82		-	82	
Other comprehensive income (loss), net of tax:							
Unrealized loss on available for sale securities	-	-	-	(897)	-	(897)	$ (897)
Reclassification adjustment for loss (gain) realized and other than temporary impairment included in net loss	-	-	-	(88)	-	(88)	(88)
Foreign currency translation adjustments	-	-	-	(615)	-	(615)	(615)
Net loss	-	-	-	-	(23,517)	(23,517)	(23,517)
Balance as of September 30, 2008 (Unaudited)	29,650,017	$ 9,573	$ 276,221	$ 4,548	$ (74,987)	$ 215,355	
Total comprehensive loss							$ (25,117)
Balance as of July 1, 2007 (Unaudited)	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	-	-	-	-	-	-	
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)

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, 2008	Nine months ended September 30, 2007	Year ended December 31, 2007
	Unaudited	Unaudited	
Cash flows from operating activities			
Net income (loss)	$ (51,595)	$ (16,670)	$ (37,095)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Equity in losses of affiliated companies, net	12,068	13,827	20,416
Minority interest in losses of subsidiaries	(14,419)	(3,881)	(5,250)
Loss (gain) from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	31	(12,515)	(14,854)
Interest on loans from minority shareholders of a subsidiary	245	-	-
Loss (gain) from sale of investments in available - for - sale securities	(248)	(1,303)	(1,592)
Depreciation and amortization (including IPR&D)	5,414	608	751
Impairment of investments	11,474	8,340	9,205
Equity in losses (gains) of partnerships	819	801	826
Stock - based compensation and changes in liability in respect of call options	1,725	1,225	1,740
Increase in restricted cash	(1,307)	-	-
Deferred taxes, net	1,164	(2,022)	4,986
Convertible Debentures and option to convertible Debentures issuance costs recognized included in net income (loss)	-	976	976
Gain from sale of real estate	-	(5,460)	(5,460)
Gain from sale of property and equipment, net	(4)	-	-
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	126	(372)	(401)
Decrease (increase) in other receivables and prepaid expenses	1,685	3,722	4,477
Decrease in trading securities, net	-	-	1
Decrease (increase) in inventories and contracts-in-progress	(467)	(423)	(117)
Increase (decrease) in trade payables	263	(271)	133
Increase (decrease) in other payables and accrued expenses	1,976	(7,310)	(5,764)
Other	(1,448)	765	124
Net cash used in operating activities	(32,498)	(19,963)	(26,898)
Cash flows from investing activities			
Cash and cash equivalents resulting from newly consolidated subsidiaries (Schedule A)	(117)	-	-
Investment in affiliated companies	(30,428)	(34,054)	(34,422)
Proceeds from sale of affiliated companies shares	-	413	621
Investment in other companies	(24,893)	(9,172)	(14,793)
Proceeds from sale and maturity of available for sale securities	27,375	36,039	44,518
Investments in deposits	(228)	(31,203)	(31,203)
Investment in available for sale securities	-	(16,920)	(17,171)
Proceeds from deposits	17,040	25,206	34,720
Investment in restricted cash	(3,184)	(7,256)	(7,642)
Purchase of property and equipment	(1,166)	(759)	(1,189)
Proceeds from sale of real estate and property and equipment	47	7,656	7,656
Net cash used in investing activities	(15,554)	(30,050)	(18,905)
Cash flows from financing activities			
Proceeds from options exercised	-	140	230
Repayment of long-term loans	(12)	(5)	(6)
Receipt of long term bank loan	30,000	-	-
Increase (decrease) in short-term bank loan, net	5,059	(414)	(417)
Proceeds from issuance of shares to minority of subsidiary, net	10,200	3,814	7,619
Proceeds from issuance of Convertible Debentures, Option to Convertible Debentures and exercise of option to Convertible Debentures	3,184	5,188	5,188
Receipt of short-term loans, convertible loans and long-term loans from minority shareholders of a subsidiary	2,000	325	325
Net cash provided by financing activities	50,431	9,048	12,939
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,379	(40,965)	(32,864)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	20,090	52,954	52,954
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 22,469	$ 11,989	$ 20,090

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, 2008	Nine months ended September 30, 2007	Year ended December 31, 2007
	Unaudited	Unaudited	
Supplemental cash flow information:			
Cash paid for:			
Income taxes	$ 28	$ 9,909	$ 10,472
Interest	$ 1,297	$ 64	$ 119
Non cash transaction:			
Receivables in respect of issuance of shares by a subsidiary to the minority	$ -	$ -	$ 2,550
Proceeds from sale of an affiliate not yet received	$ 255	$ 413	$ 228
Modification of convertible debentures and loans	$ -	$ 98	$ -

SCHEDULE A:

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Year ended December 31, 2007
Change in cash and cash equivalents resulting from newly of consolidated subsidiaries			
Fair value of assets acquired and liabilities assumed at date of acquisition :			
Working capital, net (except cash and cash equivalents)	$ 4,381	$ -	$ -
Property and equipment	(2,182)	-	-
Minority interest	4,740	-	-
Accrued severance pay, net	231	-	-
Intangible assets	(2,049)	-	-
Purchase price allocated to IPR&D	(4,476)	-	-
Investment in affiliated companies	(762)	-	-
Net decrease in cash and cash equivalents	$ (117)	$ -	$ -

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, 2008, 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 7 for the reconciliation from U.S. GAAP to International Financial Reporting Standards ("IFRS").

These financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2007 ("the Company's annual financial statements") and accompanying notes.

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, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The global markets are currently experiencing a financial crisis and economic downturn which may adversely affect the Company and its group companies business. Events pertaining to the financial crisis affect the securities markets which are facing increased volatility, including in securities of companies in the high-technology field. As a result, high-technology companies, such as Elron group companies may experience difficulties in raising additional financing required to effectively operate and grow their businesses. It also may affect the Company's ability to raise additional capital, meet banks covanents, secure additional bank facilities and sell holdings of Elron group companies. This may also affect the Company's financial results, which are directly impacted by the Company's ability to conclude profitable "exit" transactions of companies in Elron group.

In addition, due to the depressed prices of stocks in the securities markets and the downturn of the economy which may affect the demand for Elron group companies products, the Company may have to record impairment charges if the fair value of certain investments decrease below their carrying amount in an other than temporary manner. For imapirment charges recorded during the nine monthes peroid ended Septeber 30, 2008 see note 3 i, k and l.

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 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. The adoption of SFAS 157 did not have material effect on the Company's financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In October, 2008, the FASB issued FSP No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP157-3 "). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate following the guidance in SFAS No. 154 "Accounting Changes and Error Corrections". The adoption of FSP 157-3 did not have a material impact on the Company’s financial position or results of operations.

d. 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 which will be determined according to SFAS 157 mentioned above. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have any effect on the Company's financial statements.

e. In December 2007, the SEC staff issued Staff Accounting Bulletin No. 110 ("SAB 110"), which is, effective January 1, 2008. SAB 110 amends and replaces Staff Accounting Bulletin No. 107 ("SAB 107"), "Share-Based Payment". SAB 110 expresses the views of the SEC staff regarding the use of a “simplified” method in developing an estimate of expected term of “plain vanilla” share options in accordance with FASB Statement No. 123(R), "Share-Based Payment". Under the “simplified” method, the expected term is calculated as the midpoint between the vesting date and the end of the contractual term of the option. The use of the “simplified” method, which was first described in SAB 107, was scheduled to expire on December 31, 2007.

SAB 110 extends the use of the “simplified” method for “plain vanilla” awards in certain situations. The SEC staff does not expect the "simplified” method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. The adoption of SAB 110 did not have any effect on the Company's financial statements.

f. In December 2007, the FASB issued SFAS 141(R), "Business Combinations" ("SFAS 141(R)"). This Statement replaces SFAS 141, "Business Combinations", and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141(R)). In addition, SFAS 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

SFAS 141(R) also amends SFAS No. 109, "Accounting for Income Taxes", to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also amends SFAS 142, "Goodwill and Other Intangible Assets", to, among other things; provide guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use.

SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. As such, the adoption of SFAS 141R is not expected to have any effect on accounting for current subsidiaries.

g. In December 2007, the FASB issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 amends ARB 51, "Consolidated Financial Statements", to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS 160 is not expected to have a material effect on accounting for current subsidiaries.

h. In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment to FASB Statement No. 133". SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Entities are required to provide enhanced disclosures about: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early adoption encouraged.

NOTE 3:- MAJOR TRANSACTIONS

a. Wavion

During March and June 2008, Elron together with another shareholder of Wavion, in accordance with the Series A Purchase Agreement signed in August 2007, invested the second and third installments, each in the amount of $3,200 of which Elron invested in each

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

a. Wavion (Cont.)

installment approximately $2,000. In addition, concurrently with the second installment, Elron together with such other shareholder purchased all the shares then held by a former stockholder in Wavion ("Purchased Shares"), of which Elron purchased 75% of the Purchased Shares.

Following the above transactions, Elron holds approximately 57% of the outstanding and as converted share capital of Wavion.

Wavion is considered to be a variable interest entity. The Company is the primary beneficiary of Wavion and accordingly has consolidated Wavion commencing the end of the first quarter of 2008.

The excess of the Wavion's equity fair value over its reported equity amount, amounted to approximately $5,200 and was allocated based on purchase price allocation analysis mainly to intangible asset such as technology. Furthermore, according to SFAS 141,"Business Combinations", the excess of Elron's portion in the fair value of Wavion's equity over its reported amount of previously held interest (including the $2,000 invested during March 2008, mentioned above) in the amount of approximately $3,400 was adjusted as a decrease of the amount originally allocated to technology. The net amount allocated to the above technology is amortized on a straight-line basis over the technology expected useful life of 5 years.

b. Impliant

In March, 2008, Elron granted a convertible loan in the amount $6,000 to Impliant Inc. ("Impliant") as part of an aggregate convertible loan of $10,000 in two installments. The first installment in the amount of $5,000 was granted immediately and the second was granted in June 2008 after Impliant's achievement of a certain milestone as stipulated in the loan agreement.

Impliant is considered to be a variable interest entity. The Company is the primary beneficiary of Impliant and accordingly has consolidated Impliant commencing the end of the first quarter of 2008.

The excess of the Impliant's equity fair value over its reported equity and convertible loan amounts amounted to approximately $3,300 and was allocated to in process research and development ("IPR&D"). Impliant's products which did not receive marketing clearance by the relevant regulatory authorities as of the acquisition date were considered to be incomplete and accordingly the amount allocated to such products is considered to be IPR&D. Furthermore, according to SFAS 141, the excess of Elron's reported amount of previously held interest (including the $3,000 granted as a loan during March 2008, mentioned above) over its portion in the fair value of Impliant's equity and convertible loans in the amount of approximately $1,200 was also allocated to IPR&D.

The total amount allocated to IPR&D was charged immediately to the Company’s results of operations and was included as part of "Amortization of intangible assets and acquired in-process-research and development write-off" in the statement of operations.

Upon conversion of part of the convertible loan, and in the event a recapitalization should occur, the Company will hold approximately 46% of the then outstanding shares.

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

c. Medingo

In November 2007, Medingo Ltd. ("Medingo"), then wholly owned by RDC, completed a financing round of approximately $29,000 in consideration of 74,966 series A Preferred shares pursuant to which Elron undertook to invest $22,200 and was granted an option to invest an additional $1,900 and a U.S. venture capital fund and others, undertook to invest $5,100. The investment was in two installments, the first installment, in the amount of $16,700, of which Elron invested $14,200 (including $4,200 conversion of convertible loans, previously granted to Medingo by Elron and $950 as a result of the exercise of the option granted to Elron) and the U.S. venture capital fund invested $2,500.

During February 2008, Elron, Rafael and RDC, executed an agreement according to which Rafael agreed to transfer $9,000 to RDC for the purpose of investing in Medingo, and Elron agreed to assign a portion of its investment in Medingo in the amount of $9,000 which it already invested as part of the first installment, described above, to RDC such that $18,000 of the total investment in Medingo will be considered an investment by RDC.

During February 2008, RDC, Elron, the U.S. venture capital fund and others invested the second installment in the amount of $9,000, $1,000 and $2,550, respectively.

As a result of the above agreement Elron's and RDC's holdings in Medingo are 7% and 70%, respectively, on a fully diluted basis and on an as converted basis and 9% and 84%, respectively, on an outstanding basis and on an as converted basis.

d. Pocared

In June 2007, Elron completed an investment of approximately $5,350 in Pocared Diagnostics Ltd. ("Pocared"), in consideration of 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 was invested in January 2008.

In March 2008, Elron granted a convertible loan to Pocared in the amount of approximately $5,000 out of an aggregate amount of $14,000. The balance of the loan was granted by existing shareholders and a new investor. The loan was advanced in two equal installments, the first installment was granted immediately and the second installment was granted during June 2008. The loan is convertible into Preferred stock of Pocared in accordance with the terms of the loan agreement.

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

e. Safend

In February 2008, Elron completed an investment of approximately $2,750 in Safend in consideration of 1,116,978 series C Preferred shares. The above-mentioned investment was part of an aggregate private placement from a new investor and current shareholders in which it issued 3,655,565 series C Preferred shares in consideration of approximately $9,000. As a result of the aggregate investment, Elron's holds approximately 22% of Safend on a fully diluted and on an as converted basis.

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

e. Safend (cont.)

Since the investment in Safend's Preferred B and C shares are not considered to be an investment that is in in-substance-common stock, the investment in Safend is accounted for under the cost method.

f. BrainsGate

In August 2008 BrainsGate completed a financing round of $27,500. The round was initially an internal financing round (which was signed in January 2008) of $12,500 of which the Company invested approximately $5,500 in consideration of 1,036,330 series C Preferred shares. The initial internal round was granted in two equal installments, the first installment was invested immediately and the second was invested in August 2008. The financing round was extended in August 2008 by an additional $15,000 of which $12,500 by new investors and the rest by existing shareholders. As part of the financing round, the Company invested an additional $1,000 in consideration of 186,680 Preferred C. The investment was granted in two equal installments: the first installment was granted immediately and the second investment is to be invested at the beginning of 2009. As a result of the aggregate investments, the Company will hold approximately 21% of BrainsGate on a fully diluted and on an as converted basis.

Since the investment in BrainsGate's Preferred C and B-1 shares are not considered to be an investment that is in in-substance-common stock, the investment in BrainsGate is accounted for under the cost method.

g. RDC

In December 2007, Elron, DEP, RDC and Rafael signed an agreement (the "Addendum") which came into effect on January 1, 2008, and subsequently approved by the court, amending the existing agreement between the parties pertaining to the rights granted to RDC to commercialize certain technologies of Rafael and settling the above-mentioned claim filed by Rafael against RDC and DEP in September 2006. Pursuant to the Addendum, RDC's rights to commercialize certain technologies of Rafael will continue without time restrictions. Elron has made a one time investment in RDC of $4,000 and has committed to make further investments of $750 in RDC for each company established by RDC based on Rafael's technologies. The Addendum settles all claims between Rafael and RDC and DEP as well as resolves many other issues which will facilitate cooperation between the parties. The excess of the $4,000 invested in RDC over the increase in Elron's portion of RDC's equity, in the amount of $1,900 was allocated to the agreement with Rafael as intangible asset with indefinite life which is not subject to amortization.
In 2008, RDC established two new companies, each of which is based on Rafael's technologies. Pursuant to the terms of the Addendum, the Company is to invest in the fourth quarter $750 in RDC for each of these companies, totaling to $1,500, of which $1,000 was already invested during October 2008.

h. Given Imaging

On June 20, 2008 Elron completed its tender offer to purchase 1,462,640 ordinary shares of Given Imaging, representing 5% of the issued and outstanding Given Imaging shares, for $16.54 per share, net to the seller in cash in an amount totaling approximately $24,500 (including approximately $300 tender offer costs). After the transaction, the Company's direct and indirect share in Given Imaging increased to approximately 27.8% of Given Imaging's issued and outstanding shares. Discount Investment Corporation Ltd. ("DIC"), a 49% shareholder of Elron holds 16.1% of Given Imaging. Therefore the Company together

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

h. Given Imaging (Cont.)

with DIC and RDC hold approximately 48.5% of the issued and outstanding shares of Given Imaging.

The excess of the purchase price over the Company's share in the equity acquired amounted to approximately $18,000, and was allocated as follows: approximately $12,600, to intangible assets other than goodwill, such as customer relationships and technology, approximately $800 to IPR&D and approximately $4,600, to goodwill. The amounts allocated to intangible assets other than goodwill are amortized on a straight-line basis over their weighted average expected useful life of 15 years.

The amount allocated to IPR&D was charged immediately to the statements 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 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".

i. Atlantium

In June 2008, Atlantium completed a financing round of $11,000 in consideration of 2,276,324 series C Preferred shares pursuant to which Elron invested approximately $3,600. The investment was in two installments. The first of which, in the amount of approximately $9,000 (including approximately $6,000 by conversion of convertible loans, previously granted to Atlantium by its existing shareholders including Elron) of which Elron invested approximately $3,100 (including $2,250 conversion of loan previously granted by Elron). The second installment in the amount of $2,000 of which Elron invested approximately $500 was granted during June 2008.

In September 2008, other existing shareholders of Atlantium granted a convertible loan in the amount $3,000 to Atlantium in three installments. The first installment in the amount of $1,000 was granted immediately and the second and third installment will be granted until December 2008. As a result of slower than expected market penetration and the need for additional financing, the Company recorded an impairment charge of $4,800 of its investment in Atlantium.

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, 2008, 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 approximately $8,800.

Since the investment in Preferred B shares and in Preferred C shares are not considered to be an investment that is in-substance-common stock, the investment in Atlantium is accounted for under the cost method.

j. Plymedia

In August 2008, Plymedia Inc. completed an investment of approximately $5,000 in consideration of 14,757,369 series A Preferred shares of which Elron invested approximately $2,500 (including approximately $1,500 by conversion of convertible loan previously granted by Elron) in consideration of 8,118,956 series A Preferred shares, and of which $1,000 to be invested by other investors within 6 months of the initial closing date. As a result of the investment, Elron holds approximately 28% of Plymedia on an as converted basis and 23% on a fully diluted basis.

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

j. Plymedia (Cont.)

Plymedia Inc. develops and deploys an interactive video platform, offering web video sites and broadcasters a wide range of layered applications to enhance, personalize and monetize their video assets.

Plymedia is considered to be a variable interest entity, however, the Company is not the primary beneficiary of Plymedia, and accordingly has not consolidated Plymedia. As of September 30, 2008, the Company's maximum exposure to loss as a result of its investment in Plymedia does not exceed the carrying value of its investment in Plymedia in the amount of approximately $2,600.

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

k. Enure

During the second quarter of 2008, Elron recorded an approximately $2,600 impairment relating to its investment in Enure, as aresult of a shift in Enure's marketing strategy which could cause a delay in bringing Enure's product to the market and will require additional financing. As of September 30, 2008, the remaining balance of the investment in Enure amounted to approximatly $2,500.

l. MuseStorm

During the third quarter of 2008, Elron recorded an approximately $2,200 impairment relating to its total investment in Muestorm, since MuseStorm is in the process of ceasing its operations. The investment balance was fully impaired.

m. Starling

In September 2008, Starling announced (based in part on a legal opinion received from its outside legal counsel) that it has reached the milestone under which it may use the proceeds of the convertible interest-bearing debentures (“Debentures”) sold as part of its initial public offering in June of 2007, which are currently being held in trust, in the amount of approximately 41,500 NIS (approximately $12,100). There is a dispute between Starling and some of the debenture holders relating to satisfaction of the milestone and therefore Starling’s entitlement to the proceeds from the Debentures. On November 3, 2008, a meeting of the debenture holders was held and they resolved not to release the funds from the proceeds of the Debentures. It is Starlings position that the debenture holders have no standing in determining whether to release the proceeds under the Debentures once Starling disclosed that the milestone has been met. In addition, these debenture holders requested the immediate repayment of the Debentures. It is Starling’s position that there is no basis for immediate repayment of the Debentures. This matter, among others, was brought before the District Court in Tel Aviv, Israel (the "Court"). On November 6, 2008, the Court determined that there is no basis for immediate repayment of the Debentures. On November 9, 2008 Starling submitted a request to the Court to instruct the trustee to release the proceeds under the Debentures.

The minority portion of the Debentures was classified in the consolidated balance sheet under long term liabilities.

NOTE 3:- MAJOR TRANSACTIONS (Cont.)

m. Starling (Cont.)

Subsequent to the balance sheet date, on October 2, 2008, Elron purchased 7,638,323 of Starling's Debentures in private transactions at a price of NIS 0.90 (approximately $0.26) for each Debenture par value NIS 1.00 for a total amount of approximately NIS 6,900 (approximately $2,000). Thereafter, on October 27, 2008 Elron completed its tender offer to purchase 10,139,455 Debentures for NIS 0.90 (approximately $0.25) per Debenture, net to the seller in cash, for a total amount of NIS approximately 9,100 (approximately $2,500). Following such transactions, Elron beneficially owns 26,453,578 Starling Debentures out of a total of 42,364,000 outstanding Starling Debentures (approximately 62% out of the outstanding Debentures).

In addition, in October, 2008, the Company and RDC extended a loan to Starling in the amount of up to $2,000 (of which $1,000 were granted and the balance to be granted in November 2008) to be repaid once the proceeds of the Debentures will be released to be used by Starling.

In addition, Starling informed its shareholders that it intends, in the near future, to issue a rights offering to its shareholders ("Rights Offering"). The Company, RDC and Elbit Systems Ltd. (a shareholder of Starling) informed Starling of their consent, in principle, to participate in the Rights Offering. Such participation is contingent upon the terms to be offered by Starling.

n. Galil Medical

On November 10, 2008, subsequent to the balance sheet dated, Galil Medical announced that it signed a definitive merger agreement with Endocare Inc. The transaction is expected to close in the first quarter of 2009.
Galil and Endocare announced that the terms of the definitive merger agreement call for a stock-for-stock merger transaction. The exchange ratio in the merger gives the current Endocare stockholders 52 percent of the post-merger stock and Galil stockholders 48 percent, prior to the financing transaction, upon the closing of the merger, if completed, the Company and RDC together will hold approximately 7.7% in the merged company.
Endocare also announced that upon the closing of the merger it will sell $16 million of newly issued shares of its common stock in a private placement. The transaction is expected to close in the first quarter of 2009. There is no assurance that the merger will be completed.

NOTE 4:- FAIR VALUE MEASUREMENTS

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157.

The following fair value hierarchy tables present information about the Company's assets and liabilities measured at fair value on recurring basis as of September 30, 2008.

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

NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)

Assets and Liabilities measured at fair value on a recurring basis as of September 30, 2008

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2008
	Unaudited			
Assets				
Available for sale marketable securities	$ 2,087	$ -	$ -	$ 2,087
Investments in other companies and long-term receivables	$ 1,105	$ -	$ -	$ 1,105
Liabilities				
Convertible Debentures	$ 7,022	$ -	$ -	$ 7,022

NOTE 5 :- LONG-TERM LOAN FROM BANK AND OTHERS

a. On May 15, 2008, the Company signed an agreement with a bank in Israel to provide the Company with a $30,000 credit line to be utilized within a period of 364 days from the date of the agreement. Amounts utilized will be for a term of three years bearing interest at a rate of three months LIBOR +1.3%. As part of the agreement, the Company is committed to certain covanents. As of September 30, 2008 the Company utilized all of the $30,000 credit line, which is presented as a long- term loan from Bank.

b. Subsequent to the balance sheet date, On October 30, 2008 the Company entered into a loan agreement with DIC, pursuant to which, DIC will provide the Company with a loan in an amount equivalent to $6 million bearing interest at a rate of 5.95% per annum and linked to the Israel consumer price index. As part of the loan agreement the Company agreed to customary default provisions in loan agreements. The granting of the Loan is subject to receipt of all required corporate approvals. If one or more shareholders holding in the aggregate at least 1% of the Company issued share capital or voting rights notify the Company in writing, on or prior to the fourteenth day following the disclosure of the Loan made on October 30, 2008 about his/their objection to Loan, then the Loan will require the approval of the shareholders. The loan is subordinate to the existing loan from the bank mentioned above and given for the same period through September 24, 2011. If the loan from the bank is repaid earlier, then the DIC loan will be repaid at that time; if the repayment of the loan from the bank is extended, then the repayment of the DIC loan will be extended for the same period. With the bank's prior written consent, Elron may prepay the DIC Loan in whole or in part.

NOTE 6:- 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 for the year ended December 31, 2007, 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, filed in the Tel Aviv-Jaffa Distric

NOTE 6:- CONTINGENT LIABILITIES (Cont.)

Court. The allegation raised by the plaintiff 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 the appeal with respect to the purported class action described in paragraph 2 below. The arrangement provides that if the appeal as described in paragraph 2 below is accepted, then the proceedings to approve the lawsuit as a class action will proceed. Otherwise, the application to approve 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. A hearing which was set for July 2008 was cancelled by the court which requested that the plaintiff state his position as to why he is the proper plaintiff in this matter. The plaintiff has not yet submitted his response to the court's request. Further, in October 2008 the defendants submitted updates to their motion to dismiss. Hearings have been set for April and May 2009.

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 against the Company and certain of its officers including former officers, filed in the Haifa District Court. The allegations raised in the claim relate, among others, 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 plaintiffs sought a court order pursuant to which EMI would be compelled to execute an alleged buy-out of Elscint's share at $14 per share or other remedies. In August, 2000, the Haifa District Court decided to strike out the application for approval of the claim as a class action. Following an appeal filed by the plaintiffs with the Israel Supreme Court, the Supreme Court, in December 2006, reversed that decision and referred the matter back to the district court to determine whether the claim should be approved as a class action. In June 2007, the plaintiffs submitted an updated statement of claim and application to approve the claim as a class action pursuant to which the plaintiffs are no longer seeking an order compelling EMI to the alleged buy-out of Elscint's 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. In October 2007, the defendants responded to the revised application and filed statements of defense to the updated statement of claim. The hearings regarding the application to recognize the claim as a class action have been completed and the parties are awaiting the decision of the court. In addition, in February 2001, the plaintiffs 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 approve the claims as class actions. The Court has determined that the defendants do not yet have to file statements of defense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6:- CONTINGENT LIABILITIES (Cont.)

The Company denies all the allegations against it 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 against the Company.

NOTE 7:- RECONCILIATION TO IFRS

The consolidated financial statements of the Company have been prepared in accordance with U.S. GAAP. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" ("the 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, are required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. Had the consolidated financial statements been prepared in accordance IFRS, the effects on the financial statements would have been as follows:

a. Effect on the statement of operations:

	Nine months ended September 30, 2008		
	As reported	Adjustments	As per IFRS
		Unaudited	
Net loss	$ (51,595)	$ 3,744	$ (47,851) *
Basic net loss per share	(1.74)	0.13	(1.61)
Diluted net loss per share	(1.74)	0.11	(1.63)

	Nine months ended September 30, 2007		
	As reported	Adjustments	As per IFRS
		Unaudited	
Net income	$ (16,670)	$ 7,567	$ (9,103) *
Basic net income per share	(0.56)	0.26	(0.30)
Diluted net income per share	(0.57)	0.26	(0.31)

	Year ended December 31, 2007		
	As reported	Adjustments	As per IFRS
Net loss	$ (37,095)	$ 1,628	$ (35,467) *
Basic net loss per share	(1.25)	0.05	(1.20)
Diluted net income loss per share	(1.27)	0.07	(1.20)

***** Represents net income attributed to parent owner interest (excluding net income attributed to minority interest)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7:- RECONCILIATION TO IFRS (Cont.)

a. Effect on the statement of operations: (Cont.)

	Three months ended September 30, 2008		
	As reported	Adjustments	As per IFRS
		Unaudited	
Net loss	$ (23,517)	$ 8,830	$ (14,687) *
Basic net loss per share	(0.79)	0.30	(0.49)
Diluted net income loss per share	(0.79)	0.29	(0.50)

	Three months ended September 30, 2007		
	As reported	Adjustments	As per IFRS
		Unaudited	
Net income (loss)	$ (20,046)	$ (1,505)	$ (21,551) *
Basic net loss per share	(0.68)	(0.05)	(0.73)
Diluted net income loss per share	(0.69)	(0.05)	(0.74)

***** Represents net income attributed to parent owner interest (excluding net income attributed to minority interest)

b. Effect on the balance sheet:

	September 30, 2008		
	As reported	Adjustments	As per IFRS
		Unaudited	
Total assets	$ 302,401	$ (47,111)	$ 255,290
Total liabilities including minority interest (under U.S GAAP only)	87,046	(8,080)	78,966
Total equity	215,355	(39,031)	176,324**

**Under IFRS including minority interest in the amount of $5,995

	December 31, 2007		
	As reported	Adjustments	As per IFRS
Total assets	$ 298,947	$ (54,945)	$ 244,002
Total liabilities including minority interest (under U.S GAAP only)	33,130	(1,784)	31,346
Total equity	265,817	(53,161)	212,656**

**Under IFRS including minority interest in the amount of $3,043.

NOTE 7:- RECONCILIATION TO IFRS (Cont.)

c. Material adjustments:

1. Under U.S. GAAP the equity method of accounting does not apply in investments that are not common stock or in-substance common stock, regardless of the Company's ability to significantly influence the investee's operational and financial policies. Under IFRS, if the investor is able to exercise significant influence over the investee's operational and financial policies, the equity method of accounting is applied.

2. Under US GAAP, in consolidated subsidiaries, when a complex ownership structure exists, such as that the minority investment is in the form of a preferred security or other senior security which entitles the holders to a preference in liquidation and dividends, losses cannot be allocated that would reduce the carrying amount of the minority investment to the lower of the amount invested or liquidation value. Under IFRS, losses can be allocated to the minority up to the carrying amount of the minority investment.

   Furthermore, while under US GAAP the minority interest is presented as a liability, under IFRS, the minority interest in a subsidiary is considered as an ownership interest in the consolidated entity which is reported as equity in the consolidated financial statements.

3. According to IFRS 1, "First-Time Adoption of International Financial Reporting Standards" the Company elected not to apply IFRS 3 "Business Combinations", retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRS- January 1, 2007). As a result, material differences between U.S. GAAP and Israeli GAAP detailed in Note 26 to the Company’s annual financial statements for 2007 (excluding C. 9) generated from past business combinations can be also addressed as differences between U.S. GAAP and IFRS.

4. Under IFRS, provisions are recognized when the Company has a present obligation as a result of a past event, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expenses relating to any provision is presented in the income statement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risk specific in the liability. Under U.S. GAAP, provisions are recognized only when a resources embodying economic benefits occurred. As a result of the different treatment for liabilities, as described above, several of the group companies recorded under IFRS an adjustment with respect to its contingent royalty obligation to the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Libor.

5. As described in Note 3a, under U.S. GAAP, Wavion was consolidated according to the conditions of FIN46R and FAS 141. As a result, the excess of Elron's portion in the fair value of Wavion's equity over its reported amount of previously held interest in the amount of approximately $3,400 was adjusted to reduce the amount allocated to technology. Under IFRS, the above-mentioned difference was recorded to shareholders' equity as a capital surplus in the amount of approximately

NOTE 7:- RECONCILIATION TO IFRS (Cont.)

c. Material adjustments: (Cont.)

$3,000 and will be amortized over a period of 5 years against retained earnings. The difference between the amounts mentioned above resulted from the difference in the reported amount of previously held interest in Wavion under U.S. GAAP and IFRS prior to the initial consolidation.

6. As described in Note 3b, under U.S. GAAP, Impliant was consolidated according to the conditions of FIN46(R) and FAS 141. As a result, the excess of Elron's reported amount of previously held interest over its portion in the fair value of Implaint's equity and convertible loans) in the amount of approximately $1,200 was allocated to IPR&D and as a result, was charged immediately to the Company's results of operations. Under IFRS, the excess of Elron's portion in the fair value of Impliant's equity and convertible loans over its reported amount of previously held interest in the amount of approximately $2,300 was recorded to shareholders' equity as a capital surplus. The difference between the amounts in which the investment in Impliant was presented prior to consolidation generated since it was accounted at cost under U.S. GAAP, while, accounted according to the equity method under IFRS.

   Furthermore, under IFRS, the additional IPR&D in the amount of $3,300 as described in Note 3b was not charged to the Company's results of operations.

7. Under US GAAP an impairment in the amount of approximately $11,500 was charged during the nine months ended September 2008 with respect to the Company's investment in Enure, MuseStorm, Atlantium and other companies. Under US GAAP these investments are accounted under the cost method. Since under IFRS, the above mentioned investments are accounted under the equity method, which resulted in a lower carrying amount for IFRS reporting, the above mentioned impairment was not required.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

Details relating to major investments as of September 30, 2008:

	% of ownership interest [(1)]	Carrying value of the investment as of September 30, 2008 [(2)]	Market value of the publicly traded investments as of September 30, 2008	November 11, 2008
Consolidated Companies:				
Starling Advanced Communication Ltd. (TASE:STLG) [(3) (4)]	50%	(1,651)	6,336	4,965
SELA Ltd. [(3)]	46%	586		
Medingo Ltd. [(3)]	50%	841		
Sync RX [(3)]	39%	561		
Xsights (formerly: Paper lynx) [(3)]	50%	(45)		
ActySafe Ltd. [(3)]	50%	(86)		
Wavion, Inc.	66%	(1,523)		
Impliant Inc.	46%	(563)		
Affiliated Companies (equity):				
Given Imaging Ltd. (Nasdaq: GIVN) [(3)]	28%	105,095	90,721	66,475
NetVision Ltd. (TASE: NTSN)	16%	35,800	44,042	35,279
ChipX, Inc.	28%	349		
Galil Medical Ltd. [(3)]	21%	485		
3DV Systems Ltd. [(3)]	36%	(38)		
Notal Vision, Inc.	22%	679		
Aqwise Ltd.	34%	4,335		
Radlive Ltd.	29%	2,081		
Kyma Ltd. [(5)]	-	499		
Affiliated for sale:				
EVS (Nasdaq: EVSNF.OB)	10%	1,037	1,037	1,431
MWise Inc. (Nasdaq: MWIS.OB)	2%	68	68	71
Partnership:				
Gemini Israel Fund L.P.	5%	16		
InnoMed Ventures L.P.	14%	1,668		
Cost:				
Jordan Valley Ltd.	20%	6,633		
Teledata Ltd.	21%	16,876		
NuLens Ltd.	34%	8,546		
BrainsGate Ltd.	25%	13,087		
Enure Networks Ltd.	39%	2,469		
Safend Ltd.	27%	6,450		
Neurosonix Ltd.	16%	1,605		
Atlantium Inc.	33%	8,843		
BPT Ltd.	30%	2,725		
Pocared Ltd.	23%	10,335		
Plymedia Inc.	28%	2,559		
Domoteck Ltd.	19%	425		

(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.
(5) Investment by convertible loans

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