

Elron

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12% off and a free gift!

- **We upgrade Elron to Strong Buy.** We believe that the recent drop in share price represents a substantial mispricing that offers an immediate 13% upside potential to US\$9.3 to close the gap with the value of its holding in only the listed companies in its portfolio.
- By valuing only Elron's public holdings at market value (adding net cash and extracting tax liabilities on sales) and valuing everything else at zero, we find that Elron trades at 12% discount to the value of its holdings in listed subsidiaries; which is at US\$9.3 a share.
- Buying Elron gives exposure to Elbit Systems (Buy, target \$23.5), Partner (Buy, target \$8) and Given Imaging (Buy, target \$15) at a 12% discount to market value, and a whole host of private companies for free; some of which we believe are valuable.
- Elron as a whole is very attractive because it now trades at a substantial 45% discount to our calculated NAV. This is now our highest recorded discount to NAV.
- In addition, we believe that there is short term potential for NAV expansion, by increasing valuations amongst the public companies within the portfolio: mainly Elbit Systems and Partner. Next year, we believe that privately held Chip Express and Galil Medical can provide NAV expansion as their performance should improve.
- With a burn rate (excluding investment activity) of around US\$1.5m per quarter and US\$40m in net cash and US\$273m in publicly traded assets, we believe that Elron is in a very strong position to weather the current tech recession.
- We have lowered our target price from US\$17.3 to US\$11.5 (40% above the current price) to reflect the decrease in valuation of some privately held tech companies. Our price target is based on a 20-25% discount to our calculated NAV or alternatively a reduction of the discount to publicly traded assets only to zero and some price appreciation of these assets towards their target prices.

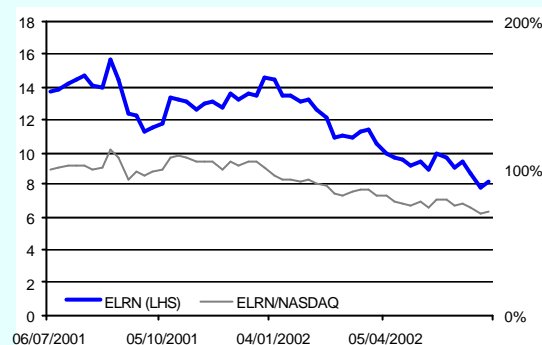
Investors should assume that CSFB is seeking or will seek investment banking or other services from the covered companies.

Research team

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Reported prices in this report are dated from market close, 02 July 2002

Recommendation	(formerly Buy) STRONG BUY
Price (02 Jul 02)	US\$ 8.2
Target price (12 months)	US\$ 11.5
Market cap. (US\$m)	237.1
Enterprise value (US\$m)	197.5
Region / Country	European / Israel
Sector	Holding Companies
Date	04 July 2002



The Elron share-price and relative chart measures performance against the NASDAQ index.

Performance over	1mth	3mths	12mths
Absolute (%)	-9.5	-22.4	-39.9
Relative to S&P comp.(%)	-4.6	-12.2	-29.1

Year	12/00A	12/01A	12/02E	12/03E
Revenues (US\$m)	39.2	32.9	25.0	32.0
Net income (US\$ m)	30.4	-48.4	-23.8	4.4
EPS (CSFB adj., US\$)	1.41	-2.28	-0.88	0.15
EPS (reported, US\$)	1.41	-2.28	-0.88	0.15
P/E (x)	5.8	-3.6	-9.3	54.3
ROE (%)	10.9%	-19.5%	-10.6%	1.9%

Dividend (2001, US\$/share)	0	Number of shares (02E, m)	29.09
Dividend yield (2001, %)	0%	Free float (%)	53.1
Net cash (Q202E, US\$ m)	38.3	NAV (US\$m)	428.9
Discount to NAV* (%)	44.7%	NAV per share (US\$)	14.7

Source: FTI, Company data, Datastream, CSFB (EUROPE) LTD. Estimates.

Company Update

Updated Net Asset Value

Our NAV model, which is summarised below, now fully consolidates Elbit and DEP. Other changes since last quarter have been made to reflect the continued tech-recession and stagnant IPO market. We have thus reduced the valuation on many of the private companies, whilst for the public companies we use the latest market prices.

Figure 1 : Summary of our updated NAV

US\$ in millions, unless otherwise stated

Companies	% Held	CSFB / Market Value (US\$m)	Value to Elron (US\$m)	% of Total Value	Sensitivity to 25%
Elbit Systems (ESLT)	21.1%	\$611	\$128.79	32.7%	7.51%
Partner Communications (PTNR)	12.4%	\$691	\$85.65	21.7%	4.99%
Given Imaging (GIVN)*	20.1%	\$275	\$55.19	14.0%	3.22%
Other Public Companies	n.a.	n.a.	\$2.97	0.8%	0.17%
Value of Listed Companies			\$272.60	69.2%	
Elron Telesoft	98.9%	\$20	\$19.79	5.0%	1.15%
Elron Software	95.6%	\$25	\$23.90	6.1%	1.39%
Chip Express	33.5%	\$35	\$11.73	3.0%	0.68%
DEP (ex. GIVN & Galil Medical)	100.0%	\$8	\$8.20	2.1%	0.48%
Oren Semiconductor	17.4%	\$30	\$5.23	1.3%	0.30%
Netvision	45.9%	\$25	\$11.47	2.9%	0.67%
Galil Medical*	33.8%	\$30	\$10.14	2.6%	0.59%
Other Private Companies	n.a.	n.a.	\$30.84	7.8%	1.80%
Value of Private Companies			\$121.29	30.8%	
Total			\$393.89	100.0%	
Net cash			\$38.30		
Real estate			\$8.50		
Tax			-\$11.77		
NAV			\$428.92		
NAV per share			\$14.74		
Elron Market Value			\$237.11		
Elron Share price			\$8.15		
Discount to NAV			44.7%		

Source: Bloomberg, CSFB estimates.

*Given Imaging and Galil Medical are 7.3% and 3.3% directly held by Elron, respectively. The balance comes from holdings through RDC, 48% held by DEP.

In the above figure, even after marking down the values of many of the private companies, our calculated discount to NAV is at 45%, which we believe is way above the historic range. It is our view that a "fair discount" would be closer to the 20-25% level. Furthermore, even if we assume the private companies are worth zero, we calculate that Elron trades at 12% discount to the NAV of its publicly traded assets which stands at US\$9.3 per share.

Lowered target price

Due to reductions in the value of the assets, we are lowering our target price for Elron. We lower our original price target of US\$17.3 to US\$11.5. We reach this target price by evaluating at two scenarios;

1. We assume all the asset prices remain the same over the next year. However, the discount to NAV is reduced from 45% down to 25%, which we believe is a more realistic discount. Thus we derive a share price target of around US\$11.5
2. We conservatively assume that the market continues to value the private holdings at zero but over the next year the three major holdings: Elbit Systems, Partner & Given Imaging, reach prices approaching our CSFB target prices. We also assume that the discount which Elron trades to the NAV of its public holdings moves back to zero. This again leads us to a target price of US\$11.5.

This target price offers a substantial 40% premium potential to the currently traded price of Elron. Furthermore, we have been conservative and have excluded a number of scenarios which we believe will provide potential expansion of NAV.

The acquisition of DEP and Elbit

We believe that the full acquisition of DEP from Elron's parent DIC as well as Elbit, which was completed in the last quarter is a positive step, unravelling a complex tree structure. We expect this to bring cost savings and synergies between some of the held private companies. We believe a simpler and more transparent structure with fewer layers, and more efficient use of shared resources may provide for a catalyst for a re-rating in the stock.

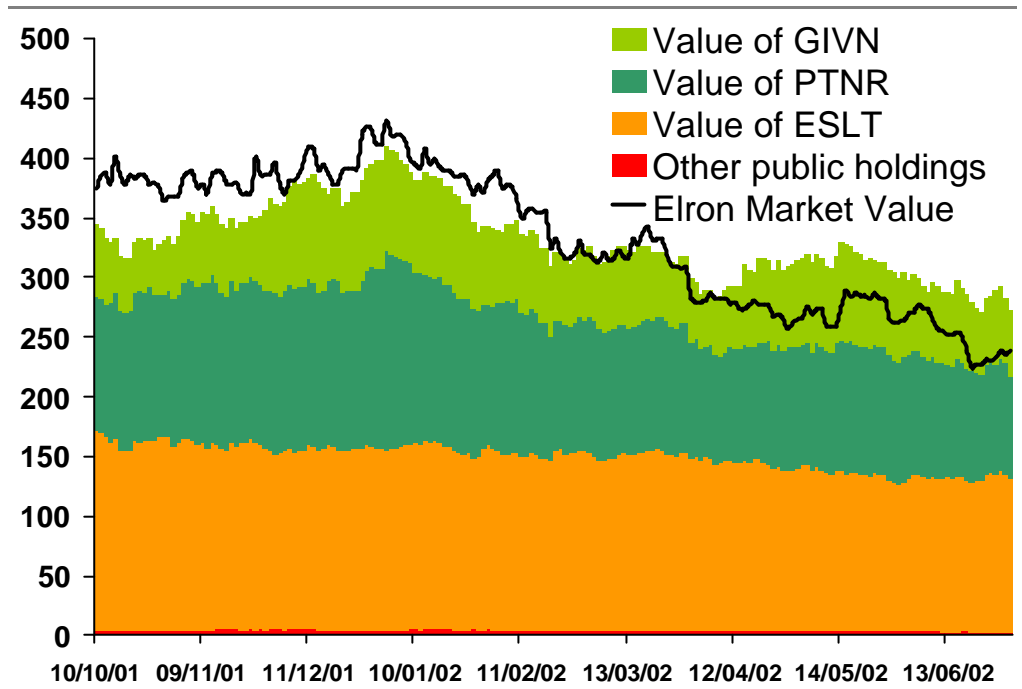
The restructuring process of Elron's parent, the IDB Group, has still a long way to go as the group has too many layers of holding companies, creating duplications and inefficiencies. We expect this process to receive renewed attention once a new controlling group takes over IDBH. We believe that the restructuring process in the whole group will provide for a long-term reduction in the NAV discount.

Here's a discount and have the rest for free

If we take into account Elron's public holdings, which are mainly Elbit Systems, Partner and Given Imaging (with a holding in Cisco and Elbit Vision Systems, collectively worth US\$3m), and value all the private holdings at zero, we calculate the NAV at US\$9.3 per share. At the current share price of US\$8.2, Elron is trading at 12% below the NAV of its publicly tradable assets.

We believe that this represents a mispricing by the market. We believe the current share price offers an immediate upside potential to US\$9.3 per share or 13% upside potential with very little risk.

Figure 2: Value of the public holdings compared with market value of Elron
In US\$ millions



Source: Datastream, CSFB estimates.

In figure 2 above, we plot the value to Elron of the public holdings (based on their market values) since the date of the IPO of Given Imaging, against the market value of Elron. To calculate the NAV, we also need to include Elron's net cash less the tax liability generated on a sale of the public holdings. We have not graphed this value above, since the net cash position and expected tax liability on a sale of the public holdings since October 2001 are almost equal, thus their combined value fluctuates around the zero level.

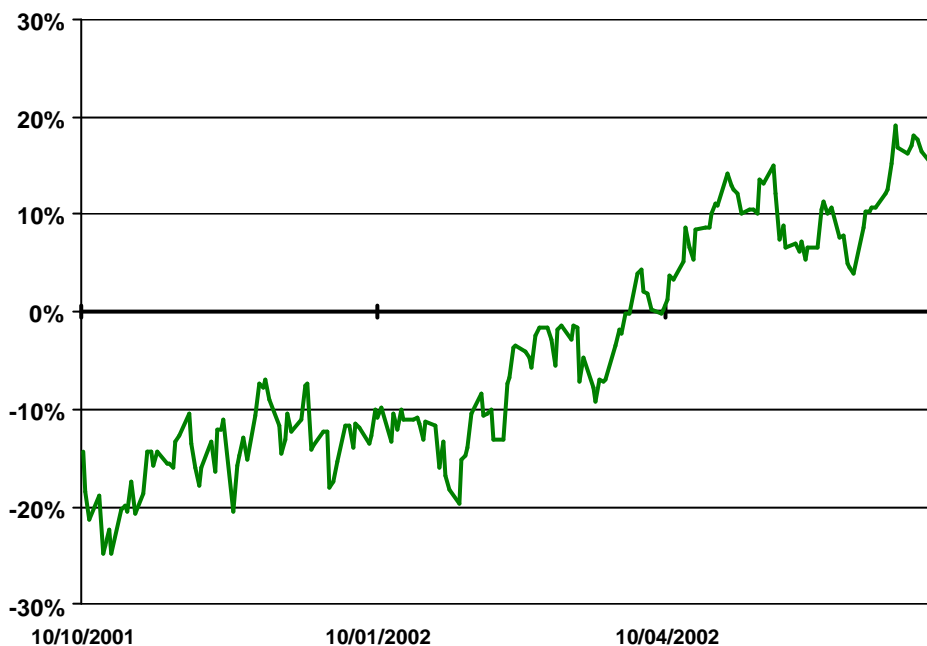
From around mid-March 2002, the NAV of the public holdings exceeded the market value of Elron. As figure 3 below shows, the discount to NAV of just the major public companies has steadily grown from a premium of 14% in October 2001, to a discount of 12% now. We believe that the discount is coming down from its high of 19% last week.

One way of looking at this is that the market prescribes no value whatsoever to any of Elron's private holdings, and values Elron at a discount to its public holdings.

We believe that Elron does have a number of potentially valuable private companies in its portfolio, which we will review in a later section. However, we also accept that it will take time before any value can be realised by any of these holdings through an IPO or other sale.

Figure 3: Elron's discount to NAV of the publicly traded companies

In %



Source: Datastream, CSFB research.

For investors that purchase Elron stock;

- 1) They are buying 3 CSFB Buy rated companies. The companies are Partner (Buy, target \$8), Elbit Systems (Buy, target \$23.5) and Given Imaging (Buy, target \$17).
- 2) These companies have consistently met our expectations, even in these tough times. As our target prices for each suggest, we believe that each company has potential upside, which we expect will feed through into Elron's share price over the next year.
- 3) Further, these companies come at 12% discount to market value.
- 4) Finally, a whole sleuth of private companies get thrown in for good measure, absolutely for free. These include two companies in particular which we believe maybe future possible IPO candidates.

Scenarios for NAV and Discount to NAV

Figure 4 : Scenario summary

US\$ in millions, unless otherwise stated

Scenario Summary	No Change	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
	Assets at current prices	GIVN at its CSFB \$15 target price	ESLT at its CSFB \$23.5 target price	PTNR at its CSFB \$8.5 target price	Companies at conservative price targets	All public companies at CSFB targets
Scenario						
Given Imaging	\$11.0	\$15.0	\$11.0	\$11.0	\$12.0	\$15.0
Elbit Systems	\$15.7	\$15.7	\$23.5	\$15.7	\$19.0	\$23.5
Partner	\$3.9	\$3.9	\$3.9	\$8.0	\$5.5	\$8.0
Result						
NAV (excluding private companies)	\$270.6	\$291.0	\$334.3	\$334.3	\$339.1	\$446.6
Total NAV	\$428.9	\$449.3	\$492.7	\$520.8	\$497.5	\$604.9
Total NAV / Share	\$14.7	\$15.4	\$16.9	\$17.9	\$17.1	\$20.8
Discount to NAV	44.7%	47.2%	51.9%	54.5%	52.3%	60.8%
US\$ target price scenarios						
Based on 0-10% disc. to public NAV	8.4 -- 9.3	9.0 -- 10.0	10.3 -- 11.5	10.3 -- 11.5	10.5 -- 11.7	13.8 -- 15.3
Based on 20-25% disc. to total NAV	11.1 -- 11.8	11.6 -- 12.4	12.7 -- 13.5	13.4 -- 14.3	12.8 -- 13.7	15.6 -- 16.6

Source: Bloomberg, CSFB estimates.

We highlight the scenarios we have used to extract a target price for the company

In the above table, we present a number of scenarios which we believe are most likely for changes in NAV on a 12-month horizon. We believe that expansion in NAV is most likely to come from the larger public holdings, most significantly from Elbit Systems and Partner. We have removed all private companies (particularly Elron Software and Elron Telesoft) from our scenario summary table.

We believe that only later in 2003 investors could expect to see value creation of some of Elron's younger companies such as Galil Medical, Oren Semiconductor, Chip Express and NetVision. However, a quicker turnaround in the market and the opening of the IPO market could bring some of this potential upside earlier.

Our scenario for NAV expansion

In this scenario we take a conservative stance that the main three public holdings will not reach our CSFB target prices, but only prices *approaching* our assigned target prices in the next year, and the market will continue to discount Elron's private holdings to zero.

Our conservative price targets are as follows:

1. Partner (Buy, current price US\$3.9, CSFB target price US\$8); we expect to reach US\$5.5 at the minimum in the next year.
2. Elbit Systems (Buy, current price US\$15.7, CSFB target price US\$23.5); we expect to reach at least US\$19 over the year.
3. Given Imaging (Buy, current price US\$11.0, CSFB target price US\$15); we expect to reach at least US\$12 over the next year.

We would argue that Elron should not trade at any discount to NAV on its publicly traded assets. In this case, Elron's NAV based on its public companies would reach US\$11.7 per share, or 44% upside potential to the currently traded Elron price.

However, we note that should Partner, Elbit Systems and Given Imaging reach our CSFB target prices, as we expect them to, then we would expect Elron's share price to reach US\$15.3, a share price upside potential of 88% from current levels.

Base scenario assuming no NAV expansion

In this scenario, we assume that there will be no NAV expansion in the next year, and Elbit Systems, Partner and Given Imaging will continue to trade at current levels. However, in this scenario we value the company according to the value of both its private and public assets.

Given a total NAV of US\$14.9 per share, if we assume the market discounts this at between 20-25%, we derive a share price between US\$11.1 and US\$11.8. This still represents a 36%-45% upside potential at current prices.

For free: promising private companies

Netvision (46% held directly by Elron)

Netvision is one of Israel's largest Internet service suppliers and provides other Internet solutions. We believe that there are currently over 330,000 subscribers with a strong presence amongst residential customers and particularly businesses.

Netvision is profitable, recording Q102 revenues of US\$16m and a net income of US\$1.6m with a positive cash flow. FY2001 revenues were in the region of US\$60m. We expect to see sequential growth in revenues over the course of this year.

The publicly traded comparison to Netvision almost always used is Internet Gold (IGLD.O, current price US\$1.1, N/R). This company has around the same number of subscribers. However, the company is smaller with US\$50m of sales in 2001 and US\$9.3m in Q102. The company has seen a sequential revenue declines since Q101. The company is less profitable than Netvision with a net income of US\$ 1.1m in Q102. The current market cap of Internet Gold is just below US\$20m.

We believe that Netvision deserves a small premium rating to Internet Gold, due to the fact that it is slightly more profitable but significantly has been able to grow revenues, whilst Internet Gold's top-line has declined over the last year. Based on the market cap of Internet Gold, we have valued the company at US\$25m in Elron's NAV.

We believe that Elron will eventually look to merge Netvision into a future combined cable company in Israel which is unlikely to happen until after the cable industry in Israel has been restructured.

Galil Medical (33.8% held directly and indirectly by Elron)

We believe Galil Medical is one of Elron's most promising companies. The company has developed a non-intrusive technique known as Cryotherapy for the treatment of cancer and other ailments. They currently focus on prostate cancer which affects around 180,000 males in the US per year. This treatment has received FDA approval and is available for reimbursement on the Medicare program.

The technique is based on a platform, which is fully transferable to treating other ailments and the company has applied for FDA approval for using the similar technique in other areas. The company also has FDA approval for treating kidney and liver cancers in the same way.

Their technique involves inserting very fine needles into the cancerous region, through which a super-cooled gas is discharged. This freezes the site of the tumour killing the cancerous cells. This technique is highly non-intrusive compared to the other techniques available on the market. As a new technique in 2000, only 1% of prostate cancers were treated in this way. This figure was 4% in 2001 and is expected to continue to grow.

The company has its systems installed in 110 hospitals around the world, 60 of which are currently active sites. Its main competitor is a company called Endocare (ENDO.O, current price US\$12.34, N/R) which has a market cap of over US\$250m, and has installations in over 150 hospitals.

We believe the company will make around US\$8m of revenues this year, which could grow to between US\$15-20m revenues in 2003. We expect the company to make a loss in excess of US\$10m this year, but should become profitable by the early 2004.

We believe that Galil Medical is a good company, with a strong technology and appears to be well run. We believe that the business plan is good and that the company's product has an advantage over other similar treatments.

In our NAV model, we have valued Galil Medical at a valuation of US\$30m.

Chip Express (33.5% held directly by Elron)

Chip Express, we believe, is another of Elron's promising companies. The company is in a niche area of chip manufacture which we expect to be a significant future growth area.

The two ways to manufacture a chip are either to use FPGA (field programmable gate arrays) or a full fabrication process. The advantage of FPGA's are that there is no upfront design costs. However, each chip is relatively expensive and they are relatively slow compared to fully fabricated chips with similar functionality. The problem with fabricating a chip is that large volumes of chips are required to make the process economically feasible. In addition, as chips are fabricated to smaller and smaller sizes, fabrication costs balloon.

Chip Express uses a technology which tries to gain the advantages of both production techniques with few of the disadvantages. The typical microchip has around 30 layers of metal which need to be fabricated. However, Chip Express has patented a design whereby the bottom 28 layers are standardised across all chips and only the top 2 layers need to be designed and fabricated. The advantages are that the costs to a typical chip manufacturer is significantly reduced by around a factor of 10 times. In addition, wafer processing time is reduced by 70%, yet the chip design is still highly flexible and FPGA logic is not required as the important part of the chip design is still directly fabricated.

As chips move to smaller and smaller sizes (the current minimum is 0.13 microns), fabrication costs of each layer increase exponentially. Hence, we expect Chip Express' market to grow as a function of increasingly attractive economics.

The company recently announced that it had raised US\$16m. Elron had invested US\$5m bringing its holding in the company to 33.5%. The round included a number of venture capital funds. In total Chip Express has raised around US\$44m to date. Most of the proceeds from this round are intended to be used in R&D, to enable the company's technology to be moved to smaller process geometries (0.17 and 0.13 microns). In addition, some proceeds will be used to expand sales and marketing, particularly in Asia.

Chip Express has had a tough time with the rest of chip market. In 2000, the company made revenues of US\$40m, this dropping to US\$30m in 2001. We expect the company will make revenues of around US\$20m this year. The company has been controlling its costs but is heavily investing in R&D. We expect the company will break -even at the end of 2003. We have valued the company at US\$35m in Elron's NAV model.

Financials and detailed NAV breakdown

Figure 5: Detailed NAV breakdown of Elron

In US\$ millions, unless otherwise stated

Public Companies	% Holding	BV (US\$m)	MV (US\$m)	Shares Out. (m)	Share Price 02/07/2002	Value to Elron (US\$m)	% of Total Value	Sensitivity 25%
Elbit Systems (ESLT)	21.1%	\$79.3	\$610.66	38.8	\$15.72	\$128.8	32.7%	7.51%
Partner Communications (PTNR)	12.4%	n.a.	\$690.7	178.9	\$3.86	\$85.6	21.7%	4.99%
Given Imaging (GIVN)	20.1%	\$81.6	\$274.9	25.1	\$10.95	\$55.2	14.0%	3.22%
Cisco (CSCO)	0.0%	n.a.	\$91,896.2	7,316.6	\$12.56	\$2.3	0.6%	0.13%
Elbit Vision Systems (EVSN)	26.0%	n.a.	\$2.6	10.2	\$0.26	\$0.7	0.2%	0.04%
Total public companies		\$160.9				\$272.6	69.2%	
Net cash less tax on public companies						-\$2.0		
NAV of public companies						\$270.6		
NAV of public companies per share						\$9.30		
Trading premium on listed holdings						-12.4%		

Private Companies	% Holding	BV (US\$m)	Valuation at Last Round	CSFB MV (US\$m)	Value to Elron (US\$m)	% of Total Value	Sensitivity 25%
Elron Telesoft	98.9%	\$2.12	50.0	\$20.0	\$19.8	5.0%	1.15%
Elron Software	95.6%	\$4.15	205.0	\$25.0	\$23.9	6.1%	1.39%
Cellenium	50.0%	\$5.22	42.0	\$20.0	\$10.0	2.5%	0.58%
Chip Express	33.5%	\$3.03	n.a.	\$35.0	\$11.7	3.0%	0.68%
Mediagate	28.7%	\$2.40	55.0	\$10.0	\$2.9	0.7%	0.17%
DEP	100.0%	\$4.70		\$8.2	\$8.2	2.1%	0.48%
Oren Semiconductor	17.4%	\$5.12	43.0	\$30.0	\$5.2	1.3%	0.30%
Netvision	45.9%	\$1.29	70.0	\$25.0	\$11.5	2.9%	0.67%
Wavion	44.8%	\$0.85	15.0	\$5.0	\$2.2	0.6%	0.13%
Witcom	7.5%	\$2.28	64.0	\$15.0	\$1.1	0.3%	0.07%
Kit	28.6%	\$2.33	16.0	\$10.0	\$2.9	0.7%	0.17%
Galil Medical	33.8%	\$1.40	30.0	\$30.0	\$10.1	2.6%	0.59%
Others	n.a.	\$3.32	n.a.	\$11.7	\$11.7	3.0%	0.68%
Total private companies		\$38.22			\$121.3	30.8%	
Total		\$199.07			\$393.9	100.0%	

Cash		\$105.1					
Real estate		\$8.5					
Debt		-\$66.8					
Tax Liability		-\$11.8				Shares Out.	29,093,108
NAV of Elron		\$428.9				MV Elron	\$237.11
NAV per share		\$14.7				Share Price	\$8.2
Discount to NAV							44.7%

Source: Company data, CSFB estimates.

Figure 6 : Detailed breakdown of other Elron holdings*In US\$ millions, unless otherwise stated*

Other Elron Holdings	% Holding	BV (US\$m)	Valuation at Last Round	CSFB MV (US\$m)	Value to Elron (US\$m)	% of Total Value	Sensitivity 25%
Pulsicom	17.1%	\$0.73	11.3	\$4.3	\$0.7	0.2%	0.04%
Art Advanced	1.6%	\$0.27	80.0	\$5.0	\$0.1	0.0%	0.00%
Gemini Fund	5.3%	\$0.32	19.0	\$6.0	\$0.3	0.1%	0.02%
OLB.com	6.3%	n.a.	n.a.	\$2.0	\$0.1	0.0%	0.01%
V-Flash	100.0%	-\$2.22	10.0	\$5.0	\$5.0	1.3%	0.29%
ICC	51.1%	\$1.19	4.4	\$4.0	\$2.0	0.5%	0.12%
Cell Act	45.0%	\$1.21	4.4	\$2.0	\$0.9	0.2%	0.05%
Textology	63.8%	\$1.82	4.7	\$4.0	\$2.6	0.6%	0.15%
		\$3.32			\$11.75	3.0%	

DEP Holdings	% Holding	BV (US\$m)	Valuation at Last Round	CSFB MV (US\$m)	Value to DEP (US\$m)	Value to Elron (US\$m)	% of Total Value	Sensitivity 25%
RDC	48.0%	n.a.	n.a.	\$12.2	\$5.87	\$5.9	1.5%	0.34%
White Cell	12.6%	\$0.50	42	\$2.0	\$0.25	\$0.3	0.1%	0.01%
Innomed	14.3%	\$2.10	n.a.	\$10.0	\$1.43	\$1.4	0.4%	0.08%
Intent	10.0%	n.a.	n.a.	\$5.0	\$0.50	\$0.5	0.1%	0.03%
mWise	15.0%	\$0.50	13.5	\$1.0	\$0.15	\$0.1	0.0%	0.01%
					\$8.20	\$8.20	2.1%	

RDC Holdings (excluding GIVN & Galil Med.)	% Holding	Valuation at Last Round	CSFB MV (US\$m)	Value to RDC (US\$m)	Value to Elron (US\$m)	% of Total Value	Sensitivity 25.00%	
3DV Systems	45.9%	n.a.	54.2	\$10.0	\$4.59	\$2.2	0.6%	0.13%
WitCom	25.4%	\$0.19	64.0	\$15.0	\$3.81	\$1.8	0.5%	0.11%
Intent	26.8%	n.a.	9.0	\$5.0	\$1.34	\$0.6	0.2%	0.04%
SELA	49.5%	\$0.07	25.0	\$5.0	\$2.47	\$1.2	0.3%	0.07%
					\$12.21	\$5.87	1.5%	

Source: Company data, CSFB estimates.

Figure 7 : Income statement

US\$ in millions, unless otherwise stated

Income Statement (US\$m)	1999A	2000A	2001A	2002F	2003F
Revenues					
Revenues from Elron Software	12.1	12.1	9.1	10.0	13.0
Revenues from Elron Telesoft	27.8	27.1	23.8	15.0	19.0
Revenues	39.9	39.2	32.9	25.0	32.0
<i>YoY Growth</i>	148.7%	-1.8%	-16.2%	-23.9%	28.0%
Net Earnings (losses) from equity investments, net	2.7	-7.2	-24.6	-18.0	-5.0
Gain from changes in holdings in related companies, net	32.5	26.4	3.2	2.0	20.0
Other income, net	28.2	43.5	-5.1	2.0	5.0
Financial income	7.8	7.0	5.2	4.0	4.0
	111.2	108.8	11.6	15.0	56.0
Costs and Expenses					
Cost of Revenues	19.6	26.5	22.0	15.0	16.0
<i>As % of Revenues</i>	49.0%	67.7%	67.1%	60.0%	50.0%
R&D Expenses	3.8	7.8	9.0	6.3	8.0
<i>As % of Revenue</i>	10%	20%	27%	25%	25%
Selling & Marketing Expenses	10.0	14.7	10.6	7.5	9.0
<i>As % of Revenue</i>	25%	38%	32%	30%	28%
G&A Expenses	10.4	13.7	11.8	7.5	9.0
<i>As % of Revenue</i>	26%	35%	36%	30%	28%
Depreciation and Amortization of other assets	3.1	3.2	3.7	3.9	4.1
Financial Expenses	3.7	4.6	4.0	3.0	6.0
Restructuring charge	0.0	0.0	2.2	0.0	0.0
Retirement Compensation	5.0	0.0	0.0	0.0	0.0
	55.6	70.5	63.3	43.2	52.0
Income (loss) before taxes	55.6	38.3	-51.7	-28.2	4.0
Current Taxes	12.4	5.9	-2.9	-4.0	0.0
Deferred Taxes	-0.2	2.2	0.0	0.0	0.0
Income after Taxes	43.4	30.2	-48.8	-24.2	4.0
Minority Interest	0.0	0.2	0.4	0.4	0.4
Net Income	43.4	30.4	-48.4	-23.8	4.4
Basic Per Share Data					
Basic Net Income Per Share	2.05	1.43	-2.28	-1.12	0.15
Number of Shares (m)	21.1	21.2	21.2	21.2	29.1
Diluted Per Share Data					
Diluted Net Income Per Share	2.03	1.41	-2.28	-0.88	0.15
Number of Shares (m)	21.2	21.4	21.2	27.1	29.1

Source: Company data, CSFB estimates.

Figure 8 : Balance sheet*US\$ in millions, unless otherwise stated*

Balance Sheet (US\$m)	1999	2000	2001	2002F	2003F
Current assets					
Cash and cash equivalents	57.4	60.6	90.4	79.7	86.5
Debentures and deposits	75.0	31.6	15.5	12.4	11.1
Marketable securities and put options	11.9	26.1	0.2	0.2	0.2
Trade receivables, net	10.9	12.0	9.6	10.6	11.6
Other accounts receivable and prepaid expenses	1.7	2.5	4.4	4.4	4.8
Inventories and work in progress	0.3	0.4	1.7	1.8	1.8
Total current Assets	157.3	133.1	121.8	109.1	116.1
Long-term investments					
Investment in affiliated companies	259.8	175.4	156.0	159.1	167.0
Other investments	63.5	16.2	27.5	28.9	30.3
Long-term deposits and debentures	12.8	8.3	6.7	7.0	7.4
Deferred taxes	-	0.9	0.0	0.0	0.0
Severance pay fund	2.6	2.7	2.3	2.5	2.8
Total Investments	338.6	203.5	192.5	197.5	207.5
Property and equipment, net	5.1	7.5	5.0	5.2	5.5
Other assets, net of accumulated amortization	29.4	26.2	19.8	20.8	21.8
Total assets	530.4	370.3	339.0	332.6	350.9
Current Liabilities					
Short-term loans	5.3	16.5	16.6	18.3	18.3
Trade payable	1.9	3.1	4.5	5.4	6.5
Other accounts payable and accrued expenses	11.1	21.9	9.3	8.4	7.6
Total current liabilities	18.3	41.5	30.5	32.1	32.3
Long-term Liabilities					
Deferred taxes	12.1	0.0	3.3	3.6	4.3
Long-term loans from banks	42.6	42.8	51.8	46.6	42.0
Retirement obligations	4.2	4.6	3.9	3.9	3.9
Other	0.0	0.0	0.4	21.0	40.3
Total long-term liabilities	58.8	47.4	59.4	75.1	90.4
Minority interest	0.0	1.5	1.0	1.0	1.6
Total shareholders' equity	453.3	280.0	248.2	224.4	226.6
Total liabilities and shareholders' equity	530.4	370.3	339.0	332.6	350.9

Source: Company data, CSFB estimates.

Figure 9 : Cash flow statement*US\$ in millions, unless otherwise stated*

Cash Flow Statement (US\$m)	1999	2000	2001	2002F	2003F
Cash flows from operating activities					
Net income	43.4	30.4	(48.4)	(23.8)	4.4
Adjustments to reconcile net income to net cash from operating activities					
Net (earnings) losses from equity investments	(2.7)	7.2	24.6	18.0	5.0
Dividend from affiliated companies	20.2	13.2	13.8	9.7	15.5
Minority interest	0.0	(0.2)	(0.4)	(0.4)	(0.4)
Gain from changes in holdings in related companies	(32.5)	(26.4)	(3.2)	(2.0)	(20.0)
Gain from sale and increase in market value of shares	(30.2)	(26.7)	0.5	1.6	0.0
Depreciation and Amortization	4.6	6.9	6.4	7.0	7.7
Other items	0.4	2.1	(2.2)	0.0	0.0
Change in working capital	(3.2)	4.6	10.1	(1.1)	(1.3)
Net cash provided by (used in) operating activities	(0.1)	11.1	1.1	9.1	10.8
Cash flows from investing activities					
Cash used in purchase of net assets by a subsidiary	0.0	0.0	0.0	0.0	0.0
Investment in affiliated companies	(3.8)	(26.5)	(16.5)	(10.0)	(20.0)
Other investments	(4.9)	(5.3)	(3.3)	(3.1)	(3.5)
Proceeds from sale of shares or other investments	166.1	22.4	9.1	7.3	14.6
Proceeds from deposits and investments in marketable securities	(84.4)	44.9	27.1	(10.0)	10.0
PPE	(3.2)	(4.5)	(0.8)	0.2	0.3
Proceeds from sale of activities	0.0	0.0	3.4	0.0	0.0
Net cash provided by (used in) investment activities	69.9	31.1	19.0	(15.6)	1.4
Cash flows from financing activities					
Proceeds from options exercised	0.8	0.7	0.4	0.0	2.0
Long-term loans from banks	3.9	10.6	9.5	(5.2)	(4.7)
Repayment of long-term loans	(0.2)	(10.4)	(0.6)	(0.6)	(0.6)
Increase in short-term bank credit, net	2.6	11.1	0.4	1.7	0.0
Proceeds from issuance of shares to the minority interest in a subsidiary	0.0	4.6	0.0	0.0	0.0
Cash dividend	(30.9)	(55.5)	0.0	0.0	(2.2)
Net cash provided by (used in) financing activities	(23.7)	(38.9)	9.7	(4.1)	(5.5)
Increase (decrease) in cash and cash equivalents	46.0	3.4	29.9	(10.7)	6.7
Cash and cash equivalents at the beginning of the year	11.3	57.4	60.8	90.6	80.0
Cash and cash equivalents at the end of the year	57.4	60.8	90.6	80.0	86.7

Source: Company data, CSFB estimates.

AMSTERDAM	31 20 5754 890	KUALA LUMPUR.....	603 2143 0366	SAN FRANCISCO.....	1 415 836 7600
ATLANTA	1 404 656 9500	LONDON.....	44 20 7888 8888	SÃO PAULO.....	55 11 3841 6000
AUCKLAND	64 9 302 5500	MADRID.....	34 91 423 16 00	SEOUL.....	82 2 3707 3700
BALTIMORE	1 410 223 3000	MELBOURNE.....	61 3 9280 1888	SHANGHAI	86 21 6881 8418
BANGKOK	62 614 6000	MEXICO CITY.....	52 5 283 89 00	SINGAPORE	65 212 2000
BEIJING.....	86 10 6410 6611	MILAN.....	39 02 7702 1	SYDNEY	61 2 8205 4433
BOSTON	1 617 556 5500	MOSCOW.....	7 501 967 8200	TAIPEI.....	886 2 2715 6388
BUDAPEST.....	36 1 202 2188	MUMBAI	91 22 230 6333	TOKYO	81 3 5404 9000
BUENOS AIRES	54 11 4394 3100	NEW YORK	1 212 325 2000	TORONTO.....	1 416 352 4500
CHICAGO	1 312 750 3000	PALO ALTO	1 650 614 5000	WARSAW	48 22 695 0050
FRANKFURT	49 69 75 38 0	PARIS.....	33 1 53 75 85 00	WASHINGTON	1 202 354 2600
HOUSTON	1 713 220 6700	PASADENA	1 626 395 5100	WELLINGTON	64 4 474 4400
HONG KONG.....	852 2101 6000	PHILADELPHIA.....	1 215 851 1000	ZURICH.....	41 1 333 55 55
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