

**-FOR IMMEDIATE RELEASE-**

**ELRON ELECTRONIC INDUSTRIES SECOND QUARTER RESULTS**

**Tel Aviv, Israel, August 7, 2002 - Elron Electronic Industries Ltd. (NASDAQ:ELRN)** today reported a net loss of \$15.2 million, or \$0.59 per share, for the second quarter of 2002 compared to a net loss of \$11.1 million, or \$0.52 per share, in the second quarter of 2001. The net loss in the first six months of 2002 amounted to \$23.4 million, or \$1.0 per share compared to a loss of \$21 million or \$0.99 per share in the first six months of 2001.

During the second quarter of 2002, Elron completed the merger with Elbit and the share purchase of DEP. As a result, Elron's consolidated financial statements for the second quarter include six additional consolidated companies and eight additional companies accounted for under the equity method of accounting. These transactions resulted in a significant increase in Elron's shareholders equity. In addition, Elron recorded a one time write down of certain holdings and restructuring costs.

**Factors contributing to Elron's results in the second quarter of 2002 and operational highlights:**

Elron's second quarter results were affected by the general market conditions which limited Elron's ability to complete successful exits and as a result, in the second quarter and the first six months of 2002, Elron had no meaningful gains from exits. In addition, Elron's second quarter results were affected by the completion of the merger with Elbit and the share purchase of DEP:

- The increase in Elron's share in the net losses of Elron's affiliated companies resulted mainly from the increase in Elron's indirect share in the losses of Elbit's and DEP's group companies as a result of the merger with Elbit and the share purchase of DEP as most of their group companies are early stage companies. Elbit's and DEP's affiliated companies negatively affected Elron's second quarter results by an additional amount of approximately \$3 million net loss (over and above Elron's share in Elbit and DEP's net losses prior to the merger and the share purchase).
- During the second quarter of 2002, Elbit and DEP wrote down the value of certain holdings, which negatively affected Elron's second quarter results by approximately \$ 2.5 million.
- Restructuring costs in the second quarter of 2002 amounted to \$ 2 million of which approximately \$0.5 million related to the merger with Elbit.
- The completion of the merger and the share purchase will enable Elron to achieve

significant cost savings by combining Elron's and Elbit's headquarters, which Elron believes will result in annual savings of approximately \$4 million.

- Following the merger with Elbit, Elron holds indirectly approximately 12.4% of Partner (Nasdaq: PTNR), Israel's second largest cellular operator. The market value of Elron's holding in Partner on June 30, 2002 amounted to \$93 million. Partner reported improved second quarter results with revenues of \$208 million and net income of \$5.3 million.

Most of Elron's affiliated companies showed improvement in their operational results in the second quarter of 2002:

- Elron Software's revenues in the second quarter amounted to \$ 2.4 million, 26% higher than its revenues in the first quarter. Operating losses in the second quarter of 2002 (excluding the effect of amortization of intangible assets, deferred compensation and restructuring charges) were reduced to \$ 1.4 million from \$ 2.2 million in the first quarter of 2002 and from \$1.7 million in the second quarter of 2001.
- Elron Telesoft reported its second consecutive quarter of operating breakeven and positive EBITDA (excluding the effect of amortization of intangible assets and restructuring charges) as compared to an operating loss of \$1.6 million in the second quarter of 2001.
- NetVision continued to improve its performance, reporting, in the second quarter of 2002, net income of \$1.4 million as compared to a net loss of \$ 2.7 million in the second quarter of 2001.
- Mediagate's net losses were reduced in the second quarter of 2002 to \$0.8 million from \$2.2 million in the second quarter of 2001 and a loss of \$1.4 million in the first quarter of 2002. In August 2002, Elron increased its holding in Mediagate to 68%.
- Given Imaging (Nasdaq: GIVN) recorded revenues of \$7.2 million in the second quarter of 2002 - its third full quarter of sales. Following the share purchase of DEP, Elron holds directly and indirectly 19.7% in Given Imaging.

## **Liquidity and Shareholders Equity**

As of June 30, 2002, Elron had cash and other liquid instruments of approximately \$114 million. Bank loans to wholly owned subsidiaries amounted to \$67.4 million. Elron's financial position enabled Elron to continue Elron's investment activity and, in the second quarter of 2002, \$11.1 million was invested by Elron in Elron's group companies to secure their cash needs for future growth.

Following the merger with Elbit and the share purchase of DEP, Elron's shareholders equity increased by \$100.6 million. Shareholders' equity at June 30, 2002, was \$292.1 million representing 66.2% of Elron's total assets.

" Second quarter results were affected by the completion of the merger with Elbit and the share purchase of DEP" said Doron Birger, President and CEO of Elron "The significant cost savings which we believe will be achieved by combining Elron's and Elbit's headquarters and the continued improvement in the operating results of many of our group companies will result in lower losses in the next quarters. However, our ability to show gains depends on completing successful exits which is also related to the general conditions in the high-tech environment. Following the merger with Elbit and the share purchase of DEP, our financial position strengthened and we intend to use our considerable cash resources to continue to build and support our group companies. "

Investors can access Elron's second quarter financial report and Management Report on the company's web site: [www.elron.com](http://www.elron.com)

[Conference call details:](#)

**Thursday, August 8, 2002 11:00a.m. (EST); 06:00 p.m. Israel**

To take part in the conference call, please dial: **In the US: (800) 289-0437**

Other **Israel & International Participants: (913) 981-5508**      **Confirmation #486365**

Replay: a digital recording will be available at 02:00 p.m (EST) (the same day) until 08:00 p.m (EST) on Monday, August 12<sup>th</sup>. To access please dial:

In the US: (888) 203-1112      Israel & International: (719) 457-0820      Confirmation:#486365

***Elron Electronic Industries Ltd. is a multinational high technology holding company based in Israel. Through affiliates, Elron is engaged with a group of high technology operating companies in the fields of advanced defense electronics, communication, software, information technology, Medical devices and semiconductors. For further information, visit <http://www.elron.com>***

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

Tables to follow

## CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. Dollars)

	<b>June 30,</b> <b><u>2002</u></b>	<b>December 31,</b> <b><u>2001</u></b>
<b>ASSETS</b>		
<b>Current Assets:</b>	131,343	121,799
<b>Long-term assets:</b>		
Investments in affiliated companies	142,099	162,260 (*)
Other investments	107,068	7,504 (*)
Long-term debentures and loans	5,526	6,689
Deferred taxes	-	973 (*)
Severance pay fund	1,791	2,313
Total long - term investments	256,484	179,739
<b>Property and equipment, net</b>	12,292	4,971
<b>Other assets, net</b>	40,921	19,801
<b>Total assets</b>	441,040	326,310
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>	93,433	30,452
<b>Long-term liabilities</b>	52,744	56,105
<b>Minority interest</b>	2,774	1,040
<b>Shareholders' equity</b>		
Ordinary shares	9,572	9,567
Capital surplus	267,295	165,680 (*)
Accumulated other comprehensive income	17,403	42,231 (*)
Retained earnings (accumulated deficit)	(2,181)	21,235 (*)
Total shareholders' equity	292,089	238,713
<b>Total liabilities and shareholders' equity</b>	441,040	326,310

(\*) Restated

## CONSOLIDATED STATEMENTS OF OPERATIONS

(US Dollars in thousands except share and per share data)

	For the six months ended June 30		For the three months ended June 30		For the year ended December 31
	2002 (Unaudited)	2001 (Unaudited)	2002 (Unaudited)	2001 (Unaudited)	2001 (Audited)
<b>Income</b>					
<b>Revenues</b>	11,762	19,852	5,856	10,249	32,859
Net loss from equity investments	(15,273)	(8,163) <sup>(*)</sup>	(9,593)	(5,351) <sup>(*)</sup>	(27,242) <sup>(*)</sup>
Gain (loss) from disposal and changes in holdings in related companies, net	2,032	(171)	1,892	(27)	3,179
Other income (expenses), net	284	(2,725)	(204)	485	(4,885) <sup>(*)</sup>
Finance income	1,524	2,720	617	926	5,215
	<u>329</u>	<u>11,513</u>	<u>(1,432)</u>	<u>6,282</u>	<u>9,126</u>
<b>Costs and Expenses</b>					
Cost of revenues	5,829	13,783	2,809	6,949	22,048
Research and development expenses	4,182	4,799	2,259	2,454	8,979
Marketing and selling expenses	5,244	5,616	2,806	2,435	10,587
General and administrative expenses	5,150	5,826	2,789	2,661	11,810
Amortization of other assets	895	1,962	460	979	3,734
Finance expenses	1,782	2,289	1,107	1,053	3,964
Restructuring charges, net	2,061	926	2,039	926	2,203
	<u>25,143</u>	<u>35,201</u>	<u>14,269</u>	<u>17,457</u>	<u>63,325</u>
Loss before tax benefit	(24,814)	(23,688)	(15,701)	(11,175)	(54,199)
Tax benefit	1,164	2,447	431	27	2,947
Loss after tax benefit	(23,650)	(21,241)	(15,270)	(11,148)	(51,252)
Minority interest	234	210	115	92	438
<b>Net loss</b>	<u>(23,416)</u>	<u>(21,031)<sup>(*)</sup></u>	<u>(15,155)</u>	<u>(11,056)<sup>(*)</sup></u>	<u>(50,814)<sup>(*)</sup></u>
Net loss per share:					
<b>Basic per share data -</b>					
Basic net loss per share	(1.00)	(0.99) <sup>(*)</sup>	(0.59)	(0.52) <sup>(*)</sup>	(2.40) <sup>(*)</sup>
Weighted average number of shares used in computing per share amounts (thousands)	<u>23,382</u>	<u>21,189</u>	<u>25,552</u>	<u>21,189</u>	<u>21,191</u>

(\*) Restated