

-EARNINGS RELEASE-

**ELRON ELECTRONIC INDUSTRIES ANNOUNCES NET INCOME OF \$3.4 MILLION IN
THE FIRST HALF OF 2007**

Tel Aviv, Israel, August 16, 2007 - Elron Electronic Industries Ltd. (NASDAQ:ELRN) today reported a net income for the second quarter and for the first half of 2007 of \$0.8 million, or \$0.03 per share, and \$3.4 million, or \$0.11 per share, respectively. In the second quarter and first half of 2006, Elron reported a net loss of \$6.4 million, or \$0.22 per share, and \$9.9 million, or \$0.34 per share, respectively.

The net income Elron reported in the three months ended June 30, 2007 resulted mainly from a gain, net of tax, of approximately \$4.1 million from the sale of real estate in Carmiel, Israel, by Elron's wholly owned subsidiary, Elbit Ltd., and from a tax benefit of approximately \$3.0 million. The net income Elron reported in the first half of 2007, also included 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.

The above gains were offset by losses, net, which Elron recorded with respect to its group companies in the amount of \$6.6 million and \$14.0 million in the three and six month periods ended June 30, 2007, respectively.

The net loss Elron reported in the three and six months ended June 30, 2006 resulted mainly from its share in the net loss of its group companies in the amount of \$7.0 million and \$12.0 million, respectively, and from the absence of gains from sales of Elron's share of group companies in both periods.

During the second quarter Elron's subsidiary, *Starling Advanced Communications Ltd.* ("Starling"), which is developing a revolutionary antenna that enables airborne broadband connectivity, completed its initial public offering ("IPO") on the Tel Aviv Stock Exchange, in Israel, of shares and convertible securities for aggregate gross proceeds of approximately NIS 57 million (approximately \$14 million), approximately half of which consisted of convertible debentures. Elron invested approximately \$4 million as part of the IPO. In addition, immediately prior to the IPO, existing shareholders of Starling, including Elron and its subsidiary, RDC – Rafael Development Corporation ("RDC"), converted shareholder loans in the amount of approximately \$6.5 million into equity and options on convertible debentures of Starling. As a result of the IPO, Elron's combined holding (together with RDC) in Starling decreased from 73% to approximately 68% (or 50% Elron's direct holding and its share in the holding of RDC). Since Starling is considered a development stage company the gain from the decrease in Elron's holding in Starling in the amount of \$2.5 million was recorded as capital reserve.

Liquidity and Shareholders' Equity

As of June 30, 2007, Elron's cash, debentures and deposits amounted to approximately \$83.5 million compared with \$123.5 million at December 31, 2006. During the first half of 2007, Elron invested approximately \$41.5 million, of which \$11.9 million was in six new companies and the balance in existing group companies, of which \$18.7 million was for the purchase of shares of Given Imaging.

New Investments in the first half of 2007 included:

- i. Two water technology companies, namely *AqWise – Wise Water Solutions Ltd. (34% holding)*, which provides advanced biological wastewater treatment technologies and *BPT (Bio-Pure Technology) Ltd. (19% holding)*, which provides advanced membrane-based separation solutions based on NF (Nano-Filtration) membranes.
- ii. *RADLIVE Ltd. (25% holding)* which is developing infrastructure and applications for High Definition Telephony.
- iii. *Pocared Diagnostics Ltd. (20% holding)*, which provides an innovative solution for real-time, reagentless In-Vitro Diagnostics (IVD).
- iv. Two companies in the Internet and cellular field, namely *Journeys Ltd.*, which is in the Massive Multiplayer On-line Gaming (MMOG) arena, developing a casual Internet multiplayer game appealing to a wide audience, and *MuseStorm Ltd. (23% holding)*, which is engaged in developing innovative technology for the distribution of a variety of content over the web.

Shareholders' equity at June 30, 2007, was approximately \$303.5 million, representing approximately 91% of the total assets compared with \$297.5 million representing approximately 91% of the total assets at December 31, 2006.

"During the second quarter, we continued to invest in and build our group companies. In addition, many of our group companies have seen good progress in developing their products and growing revenues." said Doron Birger, Elron's President and CEO.

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

Conference call details:

Thursday, August 16, 2007 10:00 a.m. (EDT); 5:00 p.m. Israel

Dial in numbers:

In the US: 1 888 668 9141

In the UK: 0 800 051 8913

In Israel: 03 918 0691

International Participants: +972 3 918 0691

For your convenience, a **replay of the call** will be available starting two hours after the call ends until Wednesday, August 22, 2007. To access the replay please dial **1-888-782-4291 (US)**, **972-3-925-5927 (Israel)** and **0-800-028-6837 (UK)**.

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

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

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

Tables to follow

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands of U.S. Dollars

	June 30, 2007	December 31, 2006
	<u>Unaudited</u>	
ASSETS		
Total current assets	\$ 107,279	\$ 134,033
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments in affiliated companies	134,090	100,392
Investments in other companies and long-term receivables	73,845	68,215
Deferred taxes	10,010	9,182
Severance pay deposits	1,798	1,662
Total Investments and long-term receivables	219,743	179,451
PROPERTY AND EQUIPMENT, NET	1,434	7,223
INTANGIBLE ASSETS	5,533	5,542
Total assets	<u>\$ 333,989</u>	<u>\$ 326,249</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total current liabilities	\$ 17,647	\$ 20,535
LONG-TERM LIABILITIES		
Long-term loans from banks and others	2,180	2,113
Convertible debentures	5,207	-
Option on convertible debentures	1,002	-
Accrued severance pay and retirement obligations	2,481	2,209
Deferred taxes	214	1,408
Total long-term liabilities	11,084	5,730
MINORITY INTEREST	1,786	2,480
Total shareholders' equity	303,472	297,504
Total liabilities and shareholders' equity	<u>\$ 333,989</u>	<u>\$ 326,249</u>

ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December
	2007	2006	2007	2006	31,
	Unaudited				2006
INCOME					
Net revenues	\$ 2,164	\$ 7,138	\$ 1,183	\$ 3,816	\$ 12,863
Equity in losses of affiliated companies	(8,347)	(11,866)	(3,039)	(8,371)	(17,740)
Gain (loss) from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	12,541	(7)	824	(23)	2,547
Other income, net	6,130	3,367	5,657	738	29,310
Financial income, net	1,805	2,280	408	1,196	4,051
	<u>14,293</u>	<u>912</u>	<u>5,033</u>	<u>(2,644)</u>	<u>31,031</u>
COSTS AND EXPENSES					
	<u>13,558</u>	<u>17,788</u>	<u>6,753</u>	<u>9,274</u>	<u>36,113</u>
Income (loss) before taxes on income	735	(16,876)	(1,720)	(11,918)	5,082
Tax benefit (Taxes on income)	(568)	(99)	954	183	(1,110)
Income from continuing operations after taxes on income	167	(16,975)	(766)	(11,735)	6,192
Minority interest in losses of subsidiaries	3,209	7,037	1,574	5,310	9,224
Net income (loss)	<u>3,376</u>	<u>(9,938)</u>	<u>808</u>	<u>(6,425)</u>	<u>3,032</u>
Income (loss) per share:					
Basic:					
Net income (loss)	<u>0.11</u>	<u>(0.34)</u>	<u>0.03</u>	<u>(0.22)</u>	<u>0.10</u>
Diluted:					
Net income (loss)	<u>0.11</u>	<u>(0.35)</u>	<u>0.02</u>	<u>(0.22)</u>	<u>0.07</u>
Weighted average number of ordinary shares used in computing basic net income per share (thousands)					
	<u>29,603</u>	<u>29,523</u>	<u>29,605</u>	<u>29,532</u>	<u>29,532</u>
Weighted average number of ordinary shares used in computing diluted net income per share (thousands)					
	<u>29,704</u>	<u>29,523</u>	<u>29,713</u>	<u>29,532</u>	<u>29,624</u>