

**-EARNINGS RELEASE-**

**ELRON ELECTRONIC INDUSTRIES REPORTS FIRST QUARTER 2006 RESULTS**

**Tel Aviv, Israel, May 16, 2006 - Elron Electronic Industries Ltd. (NASDAQ &TASE: ELRN)** today reported a net loss of \$3.5 million, or \$0.12 per share, for the first quarter of 2006, compared to a net loss of \$5.1 million, or \$0.17 per share, in the first quarter of 2005.

Elron's net loss in the first quarter of each of 2006 and 2005 resulted from Elron's share in the net losses of its group companies, amounting to \$5.0 million and to \$4.8 million, respectively, and from the absence of gains from sales of shares of group companies in both periods.

**NEW INVESTMENTS DURING THE FIRST QUARTER OF 2006**

On January 2, 2006, Elron completed an investment of approximately \$3.7 million, as part of an aggregate investment of approximately \$7.4 million in **Safend Ltd.**, an Israeli company which develops comprehensive desktop and laptop endpoint security solutions, in consideration for approximately 22% of Safend's equity on a fully diluted basis.

On March 9, 2006, Elron made an additional investment of approximately \$2.6 million in **NuLens Ltd.**, an Israeli medical device company operating in the field of intra-ocular lenses, mainly for cataract and presbyopia procedures, of which \$1.5 million was part of an aggregate new investment of approximately \$6.0 million, led by Warburg Pincus, a leading global private equity fund. The balance of \$1.1 million was the second installment of Elron's initial investment in NuLens in April 2005. Following the above investment, Elron holds 25% of NuLens' equity, on a fully diluted and on an as converted basis.

**EVENTS SUBSEQUENT TO THE FIRST QUARTER OF 2006:**

On May 1, 2006, **NetVision**, Elron's 39% held affiliate, announced that it will be entering into merger discussions with Barak I.T.C. (1995) International Telecommunications Services Corp. Ltd ("Barak"). NetVision is a provider of Internet services and solutions in Israel and commencing the fourth quarter of 2004 international telecommunication services. Barak engages mainly in the provision of international telecommunication services. The transaction, if it takes place, will be subject to the signing of a definitive agreement as well as corporate and regulatory approvals. There is no assurance that the transaction will take place.

## Liquidity and Shareholders Equity

As of March 31, 2006, Elron's cash, debentures and deposits amounted to approximately \$121.3 million compared with \$133.8 million at December 31, 2005. During the first quarter of 2006, Elron invested approximately \$12.0 million in new and existing group companies (including \$5.3 million in Partner Communications Company Ltd.).

Shareholders' equity at March 31, 2006, was approximately \$297.6 million, representing approximately 86% of Elron's total assets, compared with \$302.1 million representing approximately 85% of total assets at December 31, 2005.

"In the first quarter of 2006, we continued investing in new companies as well as building our group companies to create value in the future", said Doron Birger, Elron's President and CEO.

Investors may access Elron's first quarter financial report and a detailed management report on the company's web site: [www.elron.com](http://www.elron.com)

### Conference call details:

**Tuesday, May 16, 2006 09:30 a.m. (EST); 16:30 p.m. Israel**

Dial in numbers:

**In the US: 1-866 229 7198**

**In the UK: 0 800 917 5108**

**In Israel: 03 918 0610**

**International Participants: +972 3 918 2700**

For your convenience, a **replay of the call** will be available starting two hours after the call ends until Thursday, May 18, 2006. To access the replay please dial **1-866-276-1002 (US), 972-3-925-5942 (Israel) and 0-800-917-4256 (UK)**.

*Elron Electronic Industries Ltd. is a high technology holding company based in Israel. Through affiliates, Elron is engaged with a group of high technology operating companies in the fields of medical devices, information and communications technology, semiconductors and advanced materials. 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

# ELRON ELECTRONIC INDUSTRIES LTD. AND ITS SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands of U.S. Dollars

	<b>March 31, 2006</b>	<b>December 31, 2005</b>
	<b><u>Unaudited</u></b>	
<b>ASSETS</b>		
Total current assets	\$ 139,647	\$ 155,201
<b>INVESTMENTS AND LONG-TERM RECEIVABLES</b>		
Investments in affiliated companies	99,432	102,780
Investments in other companies and long-term receivables	83,703	73,931
Deferred taxes	6,007	6,521
Severance pay deposits	2,008	1,971
Total long-term assets	191,150	185,203
<b>PROPERTY AND EQUIPMENT, NET</b>	7,972	7,809
<b>INTANGIBLE ASSETS</b>	5,555	5,560
Total assets	<u>\$ 344,324</u>	<u>\$ 353,773</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Total current liabilities	\$ 16,424	\$ 19,044
<b>LONG-TERM LIABILITIES</b>		
Long-term loans from banks and others	1,485	1,477
Accrued severance pay and retirement obligations	2,823	2,635
Deferred taxes	8,467	9,494
Total long-term liabilities	12,775	13,606
<b>MINORITY INTEREST</b>	17,499	19,007
Total Shareholders' Equity	297,626	302,116
Total liabilities and shareholders' equity	<u>\$ 344,324</u>	<u>\$ 353,773</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

	<b>Three months ended March 31,</b>		<b>Year ended December 31,</b>
	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>Unaudited</b>		
<b>INCOME</b>			
Net revenues	\$ 3,322	\$ 2,985	\$ 12,646
Equity in losses of affiliated companies	(3,495)	(3,588)	(17,522)
Gain (loss) from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	16	(10)	23,328
Other income, net	2,629	278	58,648
Financial income, net	1,084	901	5,483
	<u>3,556</u>	<u>566</u>	<u>82,583</u>
<b>COSTS AND EXPENSES</b>			
Cost of revenues	1,845	1,873	7,907
Research and development costs, net	2,908	1,234	6,163
Marketing and selling expenses, net	875	470	2,386
General and administrative expenses	2,881	1,952	9,249
Amortization of intangible assets	5	35	392
	<u>8,514</u>	<u>5,564</u>	<u>26,097</u>
Income (loss) before taxes on income	(4,958)	(4,998)	56,486
Tax benefit (taxes on income)	(282)	167	(10,461)
Income (loss) after taxes on income	(5,240)	(4,831)	46,025
Minority interest in losses of subsidiaries	1,727	194	5,160
Income (loss) from continuing operations	(3,513)	(4,637)	51,185
Loss from discontinued operations	-	(476)	(3,850)
Net income (loss)	<u>\$ (3,513)</u>	<u>\$ (5,113)</u>	<u>\$ 47,335</u>
Income (loss) per share:			
Basic:			
Income (loss) from continuing operations	\$ (0.12)	\$ (0.16)	\$ 1.74
Loss from discontinued operations	-	(0.01)	(0.13)
Net income (loss)	<u>\$ (0.12)</u>	<u>\$ (0.17)</u>	<u>\$ 1.61</u>
Diluted:			
Income (loss) from continuing operations	\$ (0.12)	\$ (0.17)	\$ 1.74
Loss from discontinued operations	-	(0.01)	(0.13)
Net income (loss)	<u>\$ (0.12)</u>	<u>\$ (0.18)</u>	<u>\$ 1.60</u>
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	<u>29,514</u>	<u>29,414</u>	<u>29,437</u>
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	<u>29,514</u>	<u>29,414</u>	<u>29,550</u>