

-EARNINGS RELEASE-

**ELRON ELECTRONIC INDUSTRIES REPORTS FIRST QUARTER 2005
RESULTS**

Tel Aviv, Israel, May 17, 2005 - Elron Electronic Industries Ltd. (NASDAQ &TASE:ELRN) today reported a net loss of \$5.1 million, or \$(0.17) per share, for the first quarter of 2005, compared to a net income of \$3.7 million, or \$0.13 per share, in the first quarter of 2004.

Elron's net loss in the first quarter of 2005 is mainly due to the absence of gains from sales of shares of group companies which contributed, in the first quarter of 2004, \$7.3 million to Elron's net income (resulting from the sales of shares in KIT eLearning and Zix Corporation), and from Elron's share in the net loss of its group companies which increased to \$4.8 million, as compared to \$1.7 million in the first quarter of 2004. The increase in Elron's share in the net loss of its group companies was mainly due to the effect of the sale of Elron's holdings in Elbit Systems in the third quarter of 2004 which positively contributed \$2.5 million to Elron's share in the results of its group companies in the first quarter of 2004.

In the second quarter of 2005, Elron expects to record significant gains from the following events:

- The completion of the sale of 12,765,190 shares of Partner held by Elron, to Partner, for approximately \$94 million, resulting in a gain, net of tax, of approximately \$35 million.
- Upon the completion of the sale of Oren Semiconductor, Elron's 41% affiliate, to Zoran Corporation (NASDAQ:ZRAN), Elron will receive estimated proceeds of approximately \$19 million resulting in an estimated gain, net of taxes, of approximately \$16 million.
- Upon the completion of the underwritten proposed initial public offering of NetVision, Elron's 45.7% affiliate, on the Tel Aviv Stock Exchange, Elron's holding in NetVision will be decreased to approximately 39% resulting in an estimated gain for Elron of approximately \$3 million.

Other events subsequent to the first quarter of 2005:

Investment in Teledata. On May 8, 2005 Elron invested \$16 million in Teledata Networks Ltd. ("Teledata"), as part of an aggregate round of financing of \$19 million, for approximately 21% of Teledata's equity on a fully diluted basis. Teledata provides innovative access products and solutions for both traditional and next generation networks to telecom operators and service providers.

Investment in Nulens. On April 21, 2005, Elron invested approximately \$1.7 million in Nulens, out of its total investment commitment of \$2.9 million, subject to achievement of a certain milestone, in consideration for 25% of Nulens' equity on a fully diluted basis. Nulens is an Israeli medical devices company operating in the field of intra-ocular lenses mainly for cataract and

presbyopia procedures.

Liquidity and Shareholders Equity

As of March 31, 2005, Elron's cash, debentures and deposits amounted to approximately \$155.6 million compared with \$175.7 million at December 31, 2004. The decrease in Elron's cash and other liquid instruments in the first quarter of 2005 resulted primarily from approximately \$15 million of income tax payments and from \$3.3 million of investments in Elron's group companies. As of May 16, 2005, Elron's cash, debentures and deposits increased to approximately \$230 million, mainly as a result of the proceeds received from the sale of Partner shares.

Shareholders' equity at March 31, 2005, was approximately \$389.4 million, which represents 80% of Elron's total assets, compared with \$389.1 million, representing approximately 78% of total assets at December 31, 2004.

"The significant gains we will record in the second quarter of 2005 resulting from the sale of shares of Partner and the expected sale of Oren Semiconductor is a result of our continued efforts, mainly during the first quarter of 2005, to realize value from our group companies", said Doron Birger, Elron's President and CEO. "Our successful exits in April and May 2005, significantly strengthened our financial resources enabling us to continue to make new investments in early stage companies as well as in more mature companies, such as Teledata, all of which will set the foundation for value creation in the future."

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

Conference call details:

Wednesday, May 18, 2005 11:00 a.m. (EST); 06:00 p.m. Israel

Dial in numbers:

In the US: 1-866 860 9642

In the UK: 0 800 917 5108

In Israel: 03 918 0610

International Participants: +972 3 918 0610

For your convenience, a **replay of the call** will be available starting two hours after the call ends until Friday, May 20, 2005. 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 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 medical devices, telecom, 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

	March 31, 2005	December 31, 2004
	<u>Unaudited</u>	<u>Audited</u>
ASSETS		
Total current assets	\$ 179,292	\$ 198,662
INVESTMENTS AND LONG-TERM RECEIVABLES		
Investments in affiliated companies	114,110	117,124
Investments in other companies and long-term receivables	164,206	155,929
Deferred taxes	5,687	5,493
Severance pay deposits	2,644	2,637
Total long-term assets	286,647	281,183
PROPERTY AND EQUIPMENT, NET	8,058	8,064
INTANGIBLE ASSETS	13,234	13,247
Total assets	<u>\$ 487,231</u>	<u>\$ 501,156</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total current liabilities	\$ 23,016	\$ 39,845
LONG-TERM LIABILITIES		
Long-term loans from banks and others	4,145	4,072
Accrued severance pay and retirement obligations	3,853	3,809
Deferred taxes	43,891	41,233
Other	22	22
Total long-term liabilities	51,911	49,136
MINORITY INTEREST	22,865	23,095
Total Shareholders' Equity	389,439	389,080
Total liabilities and shareholders' equity	<u>\$ 487,231</u>	<u>\$ 501,156</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

	Three months ended March 31,		Year ended December 31,
	2005	2004	2004
	Unaudited		Audited
INCOME			
Net revenues	\$ 4,258	\$ 3,425	\$ 16,330
Equity in losses of affiliated companies	(3,588)	(389)	(10,492)
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	(10)	6,080	132,396
Other income, net	286	2,437	4,784
	<u>946</u>	<u>11,553</u>	<u>143,018</u>
COSTS AND EXPENSES	<u>6,408</u>	<u>8,529</u>	<u>39,164</u>
Income (loss) before taxes on income	(5,462)	3,024	103,854
Tax benefit (taxes on income)	155	(642)	(15,132)
Income (loss) after taxes on income	(5,307)	2,382	88,722
Minority interest in losses (income) of subsidiaries	194	1,640	(4,135)
Income (loss) from continuing operations	(5,113)	4,022	84,587
Loss from discontinued operations	-	(300)	(454)
Net income (loss)	<u>\$ (5,113)</u>	<u>\$ 3,722</u>	<u>\$ 84,133</u>
Basic income (loss) per share	<u>\$ (0.17)</u>	<u>\$ 0.13</u>	<u>\$ 2.87</u>
Diluted income (loss) per share	<u>\$ (0.18)</u>	<u>\$ 0.12</u>	<u>\$ 2.86</u>
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	<u>29,414</u>	<u>29,209</u>	<u>29,266</u>
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	<u>29,414</u>	<u>29,307</u>	<u>29,385</u>