

**-EARNINGS RELEASE-**

**ELRON ELECTRONIC INDUSTRIES ANNOUNCES NET INCOME OF \$47.2 MILLION IN  
THE SECOND QUARTER OF 2005**

Tel Aviv, Israel, August 10, 2005 - Elron Electronic Industries Ltd. (NASDAQ:ELRN) today reported net income for the second quarter of 2005 of \$47.2 million, or \$1.60 per share, compared to \$5.5 million, or \$0.19 per share, in the second quarter of 2004. The net income in the first six months of 2005 amounted to \$42.1 million, or \$1.43 per share, compared to \$9.2 million, or \$0.32 per share, in the first six months of 2004.

The net income Elron reported in the second quarter of 2005 was mainly due to gains resulting from the following events completed in the second quarter of 2005:

- (i) a gain, net of tax, of approximately \$36.0 million resulting from the sale of shares of Partner Communications Company Ltd. (Nasdaq: PTNR) for \$94.0 million;
- (ii) a gain, net of tax, of approximately \$17.2 million resulting from the sale of Elron's holding in Oren Semiconductor for \$20.3 million in cash and Zoran shares; and
- (iii) a gain of approximately \$3.0 million from the decrease in Elron's interest in NetVision following its initial public offering ("IPO") on the Tel-Aviv Stock Exchange.

The above gains were offset mainly by losses, net, which Elron recorded with respect to its group companies in the amount of \$7.4 million and \$12.2 million in the three and six month periods ended June 30, 2005, respectively.

During the first half of 2005 Elron invested approximately \$23 million in new and existing group companies. Investment in new companies in the second quarter of 2005 included \$16.0 million in Teledata, a provider of innovative access products and solutions for both traditional and next generation networks to telecom operators and service providers, and \$1.7 million in NuLens (as part of Elron's total investment of \$2.9 million), a developer of intra-ocular lenses, mainly for cataract and presbyopia procedures.

**Liquidity and Shareholders Equity**

As of June 30, 2005, Elron's cash, debentures and deposits amounted to approximately \$242.4 million compared with \$175.7 million at December 31, 2004. The increase is mainly due to proceeds received from the sale of Partner shares in the second quarter of 2005 of approximately \$94.0 million.

Shareholders' equity at June 30, 2005, was approximately \$381.6 million, representing approximately 81% of the total assets compared with \$389.1 million representing approximately 78% of total assets at December 31, 2004.

"In the second quarter we completed major exits and an IPO of one of our affiliates which resulted in significant gains to Elron and we completed two new investments in Teledata and NuLens", said Doron Birger, Elron's President and CEO. "Our sound financial position enables us to continue investing in new opportunities, which will establish the foundation for our future growth".

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

**Conference call details:**

**Wednesday, August 10, 2005 10:00 a.m. (EST); 05:00 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, August 12, 2005. To access the replay please dial **1-866-276-1002 (US), 972-3-925-5942 (Israel) and 0-800-917-4256 (UK)**.

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

*Elron Electronic Industries Ltd. is 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>*

**Contact:**

**Tal Raz**

**Elron Electronic Industries Ltd.**

**Tel. 972-3-6075555**

**[raz@elron.net](mailto:raz@elron.net)**

*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>June 30, 2005</b>	<b>December 31, 2004</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
Total current assets	\$ 273,399	\$ 198,662
<b>INVESTMENTS AND LONG-TERM RECEIVABLES</b>		
Investments in affiliated companies	112,541	117,124
Investments in other companies and long-term receivables	58,327	155,929
Deferred taxes	3,957	5,493
Severance pay deposits	2,401	2,637
Total long-term assets	177,226	281,183
<b>PROPERTY AND EQUIPMENT, NET</b>	7,925	8,064
<b>INTANGIBLE ASSETS</b>	11,892	13,247
Total assets	<u>\$ 470,442</u>	<u>\$ 501,156</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Total current liabilities	\$ 50,688	\$ 39,845
<b>LONG-TERM LIABILITIES</b>		
Long-term loans from banks and others	,4200	4,072
Accrued severance pay and retirement obligations	,3567	3,809
Deferred taxes	7,585	41,233
Other	-	22
Total long-term liabilities	15,352	49,136
<b>MINORITY INTEREST</b>	22,833	23,095
Total Shareholders' Equity	381,569	389,080
Total liabilities and shareholders' equity	<u>\$ 470,442</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

	Six months ended		Three months ended		Year ended
	June 30,		June 30,		December 31,
	2005	2004	2005	2004	2004
	Unaudited				Audited
<b>INCOME</b>					
Net revenues	\$ 8,518	\$ 7,001	\$ 4,260	\$ 3,576	\$ 16,330
Equity in losses of affiliated companies	(7,827)	(2,098)	(4,244)	(1,709)	(10,492)
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	22,389	27,901	22,399	21,821	132,396
Other income, net	56,548	4,187	56,262	1,750	4,784
	<u>79,628</u>	<u>36,991</u>	<u>78,677</u>	<u>25,438</u>	<u>143,018</u>
<b>COSTS AND EXPENSES</b>	<u>12,299</u>	<u>15,385</u>	<u>5,886</u>	<u>6,856</u>	<u>39,164</u>
Income before taxes on income	67,329	21,606	72,791	18,582	103,854
Taxes on income	(25,887)	(8,154)	(26,042)	(7,512)	(15,132)
Income from continuing operations after taxes on income	41,442	13,452	46,749	11,070	88,722
Minority interest in losses (income) of subsidiaries	645	(3,895)	451	(5,535)	(4,135)
Income from continuing operations	42,087	9,557	47,200	5,535	84,587
Loss from discontinued operations	-	(356)	-	(56)	(454)
Net income	<u>\$ 42,087</u>	<u>\$ 9,201</u>	<u>\$ 47,200</u>	<u>\$ 5,479</u>	<u>\$ 84,133</u>
Basic Income per share	<u>\$ 1.43</u>	<u>\$ 0.32</u>	<u>\$ 1.60</u>	<u>\$ 0.19</u>	<u>\$ 2.87</u>
Diluted income per share	<u>\$ 1.42</u>	<u>\$ 0.31</u>	<u>\$ 1.60</u>	<u>\$ 0.19</u>	<u>\$ 2.86</u>
Weighted average number of ordinary shares used in computing basic net income per share (thousands)	<u>29,415</u>	<u>29,211</u>	<u>29,416</u>	<u>29,212</u>	<u>29,266</u>
Weighted average number of ordinary shares used in computing diluted net income per share (thousands)	<u>29,543</u>	<u>29,323</u>	<u>29,538</u>	<u>29,340</u>	<u>29,385</u>