

-EARNINGS RELEASE-

ELRON ELECTRONIC INDUSTRIES ANNOUNCES NET INCOME OF \$5.5 MILLION AND \$9.2 MILLION IN THE SECOND QUARTER AND FIRST HALF OF 2004

Tel Aviv, Israel, August 11, 2004 - Elron Electronic Industries Ltd. (NASDAQ:ELRN) today reported a net income for the second quarter of 2004 of \$5.5 million, or \$0.19 income per share, compared to a net loss of \$4.1 million, or \$0.14 loss per share, in the second quarter of 2003. The net income in the first six months of 2004 amounted to \$9.2 million, or \$0.31 income per share, compared to a net loss of \$13.3 million, or \$0.45 loss per share, in the first six months of 2003.

The net income reported in the second quarter of 2004, as compared to the net loss in the second quarter of 2003, was primarily due to the following factors:

- (i) a gain, net of tax and minority interest, of approximately \$6.7 million resulting from Given Imaging's secondary public offering which included the sale of 300,000 shares of Given Imaging by Elron's 49.6% held subsidiary, RDC; and
- (ii) the decrease in losses Elron recorded with respect to its group companies in the amount of \$5.2 million, mainly due to the sale of businesses of Elron Software and MediaGate, the sale of Elron's holding in KIT, Elron's share in the net income reported for the first time by Given Imaging, the decrease in Galil Medical's losses following the formation of Oncura and the improvements in the results of some of its group companies such as NetVision, ChipX, Oren Semiconductor and AMT;

Other main second quarter and subsequent events:

- On June 30, 2004, AMT completed a \$6.0 million round of financing in which an international strategic partner invested \$3.0 million and Elron invested an additional \$3.0 million. Following the investment and conversion of existing loans, Elron's ownership interest in AMT rose to approximately 35% from 28% on a fully diluted basis.
- On July 28, 2004, Elron completed the sale of its holdings in Elbit Systems (Nasdaq: ESLT), constituting approximately 19.6% of the outstanding share capital of Elbit Systems, for approximately \$197 million to Federmann Enterprises Ltd. As a result of the transaction, Elron will record, in the third quarter of 2004, a gain, net of tax, of approximately \$80 million (of which approximately \$10 million will result from the increase in deferred tax assets with respect to Elron's losses incurred in prior periods).
- Subsequent to June 30, 2004 and through August 10, 2004, Elron purchased 550,000 shares of Given Imaging for an aggregate purchase consideration of approximately \$19.2 million. As a result, Elron's direct and indirect (through RDC) interest in Given Imaging increased from approximately 15% to approximately 16.9%.

- On August 10, 2004, Elron signed a definitive agreement to invest approximately \$6.7 million in consideration for 25% ownership interest, on a fully diluted basis, in Jordan Valley Applied Radiation Ltd. ("Jordan Valley"), an Israeli private company engaged in developing solutions for advanced in-line thin film metrology for the semi-conductor industry. Jordan Valley is a 57% held subsidiary of Clal Industries and Investments Ltd. The investment is subject to regulatory and other approvals including the approval of the shareholders of Elron and Clal.

Liquidity and Shareholders Equity

As of June 30, 2004, Elron's cash, debentures and deposits amounted to approximately \$69.5 million compared with \$106.6 million at December 31, 2003. The decrease was mainly as a result of approximately \$40.5 million repayment of loans of majority-owned subsidiaries in the first quarter of 2004. The remaining bank loans of majority owned subsidiaries amounted to approximately \$27.7 million (\$67.5 million at December 31, 2003), substantially all of which are guaranteed by Elron. Upon the closing of the sale of Elron's holdings in Elbit Systems, Elron received the proceeds from the sale of approximately \$197 million and its current cash, debentures and deposits amounts to approximately \$240 million.

During the first half of 2004, Elron invested approximately \$10.3 million in its group companies. Shareholders' equity at June 30, 2004, was approximately \$303.4 million, which represents 71% of Elron's total assets, compared with approximately \$296.1 million representing approximately 66% of total assets at December 31, 2003.

"The sustainable profitability resulting from the continued improvements in the financial results of our group companies as well as gains Elron recorded from the realization of holdings, represents our continued effort and success in building value for our shareholders", said Doron Birger, Elron's President and CEO.

"During the past 12 months, most of our group companies raised additional substantial resources from new strategic investors as well as existing investors which will enable them to further develop and build their businesses. In addition, the proceeds received from the sale of our holdings in Elbit Systems will enable us to focus on new investments in Israeli-related technology in our main areas of operation" concluded Doron Birger.

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 12, 2004 10:00a.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 Monday, August 16, 10:30am ET. 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, communication, software, information 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

	June 30, 2004	December 31, 2003
	<u>Unaudited</u>	<u>Audited</u>
ASSETS		
Total current assets	\$ 94,213	\$ 130,067
LONG-TERM ASSETS		
Investments in affiliated companies	168,883	156,819
Investments in other companies and long-term receivables	129,084	128,799
Debentures and bank deposits	-	700
Deferred taxes	-	1,871
Severance pay deposits	2,591	2,144
Total long-term assets	300,558	290,333
PROPERTY AND EQUIPMENT, NET	8,561	8,317
INTANGIBLE ASSETS	22,415	21,987
Total assets	<u>\$ 425,747</u>	<u>\$ 450,704</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total current liabilities	\$ 52,178	\$ 73,035
LONG-TERM LIABILITIES		
Long-term loans from banks and others	4,044	17,221
Accrued severance pay and retirement obligations	3,668	2,850
Deferred taxes	39,979	40,684
Other	22	103
Total long-term liabilities	47,713	60,858
MINORITY INTEREST	22,501	20,681
Total Shareholders' Equity	303,355	296,130
Total liabilities and shareholders' equity	<u>\$ 425,747</u>	<u>\$ 450,704</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,
	2004	2003	2004	2003	2003
	Unaudited				Audited
INCOME					
Net revenues	\$ 7,001	\$ 7,831	\$ 3,576	\$ 4,044	\$ 16,547
Equity in losses of affiliated companies	(2,098)	(6,873)	(1,709)	(3,919)	(8,698)
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	27,901	1,259	21,821	888	25,754
Other income, net	4,187	6,060	1,750	7,283	14,665
	<u>36,991</u>	<u>8,277</u>	<u>25,438</u>	<u>8,296</u>	<u>48,268</u>
COSTS AND EXPENSES	<u>15,385</u>	<u>20,430</u>	<u>6,856</u>	<u>10,194</u>	<u>37,497</u>
Income (loss) before income taxes	21,606	(12,153)	18,582	(1,898)	10,771
Income taxes	(8,154)	(1,838)	(7,512)	(2,204)	(6,834)
Income (loss) from continuing operations after income taxes	13,452	(13,991)	11,070	(4,102)	3,937
Minority interest in losses (income) of subsidiaries	(3,895)	3,653	(5,535)	1,681	(10,907)
Income (loss) from continuing operations	9,557	(10,338)	5,535	(2,421)	(6,970)
Loss from discontinued operations	(356)	(3,001)	(56)	(1,648)	(235)
Net income (loss)	<u>\$ 9,201</u>	<u>\$ (13,339)</u>	<u>\$ 5,479</u>	<u>\$ (4,069)</u>	<u>\$ (7,205)</u>
Basic Income (loss) per share	<u>\$ 0.32</u>	<u>\$ (0.45)</u>	<u>\$ 0.19</u>	<u>\$ (0.14)</u>	<u>\$ (0.25)</u>
Diluted income (loss) per share	<u>\$ 0.31</u>	<u>\$ (0.45)</u>	<u>\$ 0.19</u>	<u>\$ (0.14)</u>	<u>\$ (0.25)</u>
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	<u>29,211</u>	<u>29,183</u>	<u>29,212</u>	<u>29,185</u>	<u>29,194</u>
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	<u>29,323</u>	<u>29,183</u>	<u>29,340</u>	<u>29,185</u>	<u>29,194</u>