

-FOR IMMEDIATE RELEASE-

**ELRON ELECTRONIC INDUSTRIES ANNOUNCES SIGNIFICANT
DECREASE IN NET LOSS IN THE SECOND QUARTER AND FIRST HALF OF
2003**

Tel Aviv, Israel, August 13, 2003 - Elron Electronic Industries Ltd. (Nasdaq:ELRN) today reported a net loss of \$3.4 million, or \$0.12 per share, for the second quarter of 2003 compared to a net loss of \$15.2 million, or \$0.59 per share, in the second quarter of 2002. The net loss in the first six months of 2003 amounted to \$12.0 million, or \$0.41 per share, compared to a net loss of \$23.4 million or \$1.00 per share in the first six months of 2002.

The results of the second quarter and the first half of 2003 give effect to the merger with Elbit Ltd., the share purchase of DEP and the purchase of a controlling interest in each of Galil Medical and Mediagate, all of which occurred during or after the end of the second quarter of 2002. The pro forma net loss for the second quarter and the first half of 2002 which gives effect to these transactions as if they had been in effect at January 1, 2002 amounted to \$18.7 million, or \$0.64 per share, and \$36.5 million, or \$1.25 per share, respectively.

Factors contributing to Elron's results in the second quarter of 2003 and operational highlights:

Elron's net loss for the three and six month periods ended June 30, 2003 decreased significantly as compared to the net loss in the same periods of 2002 mainly as a result of the following factors:

- (i) a gain, after tax, of approximately \$3.2 million, resulting from the sale of 3,500,000 shares of Partner Communications Company Ltd. (Nasdaq: PTNR) during the second quarter of 2003;
- (ii) as part of the reorganization of Elron, Elbit, and DEP following the completion of the merger with Elbit and the DEP share purchase, certain Elbit and DEP group companies which contributed \$6.1 million and \$8.4 million to the loss in the three and six month periods ended June 30, 2002, respectively, were sold or discontinued their operations; and
- (iii) a decrease of approximately \$3.1 million and \$4.1 million in the three and six month periods ended June 30, 2003, respectively, as compared to the same periods of 2002, in losses recorded with respect to certain group companies, mainly Elron Software and Elron TeleSoft, as a result of restructuring and cost reduction programs undertaken by them during 2002 and the first half of 2003 which enabled these companies to reduce their losses despite the adverse economic and market conditions.

The following are the main second quarter events:

- On June 1, 2003, Wavion, in which Elron previously held approximately 45%, completed a financing round led by Sequoia Seed Capital, raising \$6 million out of which Elron invested \$2 million. Following the financing round and the conversion of loans previously granted to Wavion by Elron, Elron holds approximately 52% of Wavion. Wavion, founded in 2000 by entrepreneurs together with Elron, specializes in the development of "smart antenna" technology to enhance the performance of wireless systems.
- On July 1, 2003, Galil Medical, in which Elron directly and indirectly holds approximately 33%, announced the completion of the merger of its urology business with the brachytherapy business of Amersham plc (LSE, NYSE, OSE: AHM) – originally announced on April 22, 2003 - into a newly incorporated U.S. private company, named ONCURA. These businesses had combined sales which reached approximately \$90 million in 2002. Oncura will provide minimally invasive treatment options for prostate cancer using Amersham's brachytherapy technology and Galil Medical's cryotherapy technology. Oncura is expected to have a global presence in the treatment of prostate cancer.
- On July 31, 2003, Oren Semiconductor, Inc. ("Oren"), in which Elron previously held 17%, completed an \$8.0 million financing round. Zoran Corporation (Nasdaq:ZLAN) and Oren's existing shareholders, including Elron, participated in the new round of financing. Oren is a developer of chips for the worldwide digital television market. Following the transaction, Elron holds approximately 41% of Oren. Zoran and Oren have agreed to cooperate to sell Oren's front-end solution with Zoran's back-end chips to major players in the digital television market.

Liquidity and Shareholders Equity

As of June 30, 2003, Elron and Elbit had cash, debentures, deposits and marketable securities (including short and long-term) of approximately \$96.8 million. Bank loans of wholly owned subsidiaries amounted to \$71.9 million, substantially all of which are guaranteed by Elron. During the first half of 2003, Elron invested approximately \$18.2 million mainly in its group companies. Shareholders' equity at June 30, 2003, was \$271.4 million, which represents 66% of Elron's total assets.

"Completing the merger of Amersham Health's brachytherapy business with Galil Medical's urology business to create Oncura, Wavion's financing round led by Sequoia Seed Capital, and Oren's private placement, including an investment by Zoran, as a strategic investor, are significant steps in building the value of these companies. Elron's significant holding in each of these promising

companies will contribute to building value for Elron's shareholders in the future," said Doron Birger, Elron's President and CEO.

"The significant reduction in our losses in the second quarter and in the first half of 2003, is an outcome of steps taken by us following the merger with Elbit and the acquisition of full control of DEP. Looking forward, I believe we will continue to report improvement in our financial results and harvest the fruits of our mature holdings." Mr. Birger concluded.

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 14, 2003 10:00a.m. (EST); 05:00 p.m. Israel

Dial in numbers:

In the US: (888) 269-0005 or (866)-500-4953

In the UK: 0(800)-169-8104

Other Israel & International Participants: 972-3-9255910

For your convenience, a **replay of the call** will be available starting one hour after the call ends until Monday, August 18, 10:00 am ET. To access the replay please dial **(866) 500-4964(US)**, **(972-3) 925-5948 (Israel)** and **0-800-169-8104 (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 advanced defense electronics, communication, software, information technology, medical devices, semiconductors and amorphous metals. 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

CONSOLIDATED BALANCE SHEETS

In thousands of U.S. Dollars

| | June 30, 2003 (Unaudited) | December 31, 2002 (Audited) |
|--|--|--|
| ASSETS | | |
| Total current assets | \$ 89,624 | \$ 87,044 |
| Long-term assets: | | |
| Investments in affiliated companies | 128,542 | 131,256 |
| Investments in other companies and long-term receivables | 107,742 | 97,158 |
| Long-term debentures and deposits | 31,428 | 28,928 |
| Deferred taxes | 3,985 | 2,990 |
| Severance pay deposits | 2,768 | 2,262 |
| Total long-term assets | <u>274,465</u> | <u>262,594</u> |
| Property and equipment, net | <u>11,187</u> | <u>11,576</u> |
| Intangible assets | <u>38,341</u> | <u>40,115</u> |
| Total assets | <u>\$ 413,617</u> | <u>\$ 401,329</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Total current liabilities | <u>\$ 49,364</u> | <u>\$ 55,253</u> |
| Long-term liabilities: | | |
| Long-term loans from banks and others | 47,746 | 49,389 |
| Accrued severance pay and retirement obligations | 3,437 | 2,921 |
| Deferred taxes | 33,499 | 23,650 |
| Other | 396 | 414 |
| Total long-term liabilities | <u>85,078</u> | <u>76,374</u> |
| Minority interest | <u>7,821</u> | <u>3,185</u> |
| Total shareholders' equity | <u>271,354</u> | <u>266,517</u> |
| Total liabilities and shareholders' equity | <u>\$ 413,617</u> | <u>\$ 401,329</u> |

ELRON ELECTRONIC INDUSTRIES LTD.
AND ITS SUBSIDIARIES

| | For the six months ended June 30 | | For the three months ended June 30 | | For the year ended December 31 |
|--|--|--------------------|--|--------------------|--------------------------------------|
| | 2003 | 2002 | 2003 | 2002 | 2002 |
| | (Unaudited) | | (Unaudited) | | (Audited) |
| Income | | | | | |
| Net revenues | \$ 11,596 | \$ 11,649 | \$ 6,005 | \$ 5,743 | \$ 23,468 |
| Equity in losses of affiliated companies | (5,544) | (15,273) | (3,249) | (9,593) | (21,911) |
| Gain from disposal and changes in holdings in subsidiaries and affiliated companies, net | 1,259 | 2,032 | 888 | 1,892 | 6,888 |
| Other income (expenses), net | 6,060 | 284 | 7,283 | (204) | (743) |
| | <u>13,371</u> | <u>(1,308)</u> | <u>10,927</u> | <u>(2,162)</u> | <u>7,702</u> |
| Costs and Expenses | | | | | |
| Cost of revenues | 4,658 | 5,537 | 2,178 | 2,517 | 11,557 |
| Research and development expenses, net | 4,088 | 3,606 | 1,999 | 1,683 | 7,818 |
| Marketing and selling expenses, net | 9,828 | 4,778 | 4,694 | 2,340 | 14,428 |
| General and administrative expenses | 6,763 | 4,703 | 3,491 | 2,342 | 11,272 |
| Restructuring costs | - | 1,405 | - | 1,383 | 2,318 |
| Amortization of intangible assets | 1,095 | 895 | 546 | 460 | 2,058 |
| Financial expenses | 1,212 | 214 | 893 | 446 | 474 |
| | <u>27,644</u> | <u>21,138</u> | <u>13,801</u> | <u>11,171</u> | <u>49,925</u> |
| Loss before tax benefit (taxes on income) | (14,273) | (22,446) | (2,874) | (13,333) | (42,223) |
| Tax benefit (taxes on income) | (1,843) | 1,164 | (2,206) | 431 | 2,855 |
| Loss from continuing operations after tax benefit (taxes on income) | (16,116) | (21,282) | (5,080) | (12,902) | (39,368) |
| Minority interest in losses of subsidiaries | 3,653 | 234 | 1,681 | 115 | 2,823 |
| Loss from continuing operation | (12,463) | (21,048) | (3,399) | (12,787) | (36,545) |
| Gain (loss) from discontinued operations | 453 | (2,368) | - | (2,368) | (2,756) |
| Net loss | <u>\$ (12,010)</u> | <u>\$ (23,416)</u> | <u>\$ (3,399)</u> | <u>\$ (15,155)</u> | <u>\$ (39,301)</u> |
| Basic and diluted loss per share - | | | | | |
| Loss from continuing operations | \$ (0.43) | \$ (0.90) | \$ (0.12) | \$ (0.50) | \$ (1.39) |
| Gain (loss) from discontinued operations | 0.02 | (0.10) | - | (0.09) | (0.11) |
| Net loss | <u>\$ (0.41)</u> | <u>\$ (1.00)</u> | <u>\$ (0.12)</u> | <u>\$ (0.59)</u> | <u>\$ (1.50)</u> |
| Weighted average number of shares used in computing per share amounts (thousands) | | | | | |
| | <u>29,183</u> | <u>23,382</u> | <u>29,185</u> | <u>25,552</u> | <u>26,272</u> |