

**-EARNINGS RELEASE-**

**ELRON ANNOUNCES NET INCOME OF \$4.8 MILLION IN THE THIRD QUARTER OF 2005 AND \$46.8 MILLION IN THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2005**

Tel Aviv, Israel, November 8, 2005 - Elron Electronic Industries Ltd. (NASDAQ & TASE: ELRN) today reported net income in the third quarter of 2005 of \$4.8 million, or \$0.16 per share, and \$46.8 million, or \$1.59 per share, in the nine months ended September 30, 2005. Net income in the third quarter of 2004 and in the nine months ended September 30, 2004 was \$70.8 million, or \$2.42 per share, and \$80.0 million, or \$2.74 per share, respectively, which included a \$79.9 million gain, net of tax, resulting from the sale of Elron's holding in Elbit Systems in the third quarter of 2004.

The net income Elron reported in the nine months ended September 30, 2005 was mainly due to the following gains from exits and changes in holdings of group companies:

- i. a gain, net of tax, of approximately \$45.4 million resulting from the sale of shares of Partner Communications Company Ltd. (Nasdaq: PTNR) for \$94.0 million. This gain included approximately \$9.4 million, which was recorded in the third quarter of 2005, resulting from a decrease in Elron's previous valuation allowance in respect of losses incurred in prior periods which were realized as a result from this sale;
- ii. a gain, net of tax, of approximately \$17.2 million resulting from the sale of Elron's holding in Oren Semiconductor, Inc. to Zoran Corporation (NASDAQ:ZRAN) 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 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 \$6.0 million and \$18.2 million in the three and nine month periods ended September 30, 2005, respectively.

During the first nine month of 2005 Elron invested approximately \$32.3 million in new and existing group companies. Investments in new companies in the third quarter of 2005 included approximately \$6.9 million in BrainsGate Ltd., a medical device company that is developing minimally invasive technology which enables the opening of the blood brain barrier and enabling widening of brain blood vessels and nerve stimulation. The company solutions focus on post ischemic stroke treatment, brain cancers and through cooperation with pharmaceutical companies to deliver into the brain drugs composed of large molecules. Other new investments during the first nine months of 2005 included \$16 million in Teledata Networks Ltd., 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.

In October 2005, Elron invested \$4.0 million in Gaia Broadband Services Management Ltd., a software company engaged in developing unique solutions in the field of broadband services management and home networks.

## **Liquidity and Shareholders Equity**

As of September 30, 2005, Elron's cash, debentures and deposits amounted to approximately \$145.5 million compared with \$175.7 million at December 31, 2004. The decrease was mainly due to a dividend distribution in September 2005 of approximately \$85.0 million (an additional payment of \$3.5 million was made in October 2005) , \$32.3 million in investments in new and existing group companies and tax payments of \$26.7 million net of \$113.3 million proceeds received from exits completed during the first nine months of 2005.

Shareholders' equity at September 30, 2005, was approximately \$301.6 million, representing approximately 83% of the total assets compared with \$389.1 million representing approximately 78% of total assets at December 31, 2004.

"Elron's sound financial position enables us to actively continue to build and invest in new and existing companies. Since the beginning of the year, we invested \$32.3 million, of which \$25.2 million were in new companies which will establish the foundation for our future growth", said Doron Birger, Elron's President and CEO. "In addition, at the end of the third quarter of 2005, we distributed a \$3 per share cash dividend, sharing our profitable exits with our shareholders".

Further to Elron's announcement on October, 10, 2005 regarding the departure of Tal Raz, Elron's Vice President & Chief Financial Officer, Elron announced that Rinat Remler has been appointed as Elron's new Chief Financial Officer. Ms. Remler has been Elron's Director of Finance since 2000.

Commenting on the appointment, Doron Birger said "Rinat Remler has been deeply involved in all major financial and business affairs of Elron and our group companies and the Board of Directors and I have full confidence in her ability to successfully fulfill her new position".

Investors may access Elron's third 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, November 8, 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 Thursday, November 10, 2005.

To access the replay please dial: (US) 1 888 269 0005, (UK) 0 800 917 4256 or (International) +972 3 925 5942. 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>*

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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>September 30, 2005</b>	<b>December 31, 2004</b>
	<b><u>Unaudited</u></b>	
<b>ASSETS</b>		
Total current assets	\$ 166,047	\$ 198,662
<b>INVESTMENTS AND LONG-TERM RECEIVABLES</b>		
Investments in affiliated companies	108,638	117,124
Investments in other companies and long-term receivables	70,622	155,929
Deferred taxes	1,296	5,493
Severance pay deposits	2,466	2,637
Total long-term assets	183,022	281,183
<b>PROPERTY AND EQUIPMENT, NET</b>	7,833	8,064
<b>INTANGIBLE ASSETS</b>	7,963	13,247
Total assets	<u>\$ 364,865</u>	<u>\$ 501,156</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Total current liabilities	\$ 25,292	\$ 39,845
<b>LONG-TERM LIABILITIES</b>		
Long-term loans from banks and others	4,246	4,072
Accrued severance pay and retirement obligations	3,609	3,809
Deferred taxes	8,748	41,233
Other	-	22
Total long-term liabilities	16,603	49,136
<b>MINORITY INTEREST</b>	21,420	23,095
Total Shareholders' Equity	301,550	389,080
Total liabilities and shareholders' equity	<u>\$ 364,865</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

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December
	2005	2004	2005	2004	31,
	<u>Unaudited</u>				2004
<b>INCOME</b>					
Net revenues	\$ 12,409	\$ 11,546	\$ 3,891	\$ 4,545	\$ 16,330
Equity in losses of affiliated companies	(13,074)	(5,434)	(5,254)	(3,333)	(10,492)
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	23,513	132,386	1,124	104,485	132,396
Other income, net	58,039	4,813	1,491	626	4,784
	<u>80,887</u>	<u>143,311</u>	<u>1,252</u>	<u>106,323</u>	<u>143,018</u>
<b>COSTS AND EXPENSES</b>	<u>19,931</u>	<u>28,189</u>	<u>7,625</u>	<u>12,806</u>	<u>39,164</u>
Income (loss) before taxes on income	60,956	115,122	(6,373)	93,517	103,854
Tax benefit (taxes on income)	(16,211)	(30,924)	9,676	(22,770)	(15,132)
Income from continuing operations after taxes on income	44,745	84,198	3,303	70,747	88,722
Minority interest in losses (income) of subsidiaries	2,104	(3,725)	1,459	169	(4,135)
Income from continuing operations	46,849	80,473	4,762	70,916	84,587
Loss from discontinued operations	-	(450)	-	(94)	(454)
Net income	<u>\$ 46,849</u>	<u>\$ 80,023</u>	<u>\$ 4,762</u>	<u>\$ 70,822</u>	<u>\$ 84,133</u>
Basic Income per share	<u>\$ 1.59</u>	<u>\$ 2.74</u>	<u>\$ 0.16</u>	<u>\$ 2.42</u>	<u>\$ 2.87</u>
Diluted income per share	<u>\$ 1.59</u>	<u>\$ 2.73</u>	<u>\$ 0.16</u>	<u>\$ 2.41</u>	<u>\$ 2.86</u>
Weighted average number of ordinary shares used in computing basic net income per share (thousands)	<u>29,421</u>	<u>29,233</u>	<u>29,433</u>	<u>29,277</u>	<u>29,266</u>
Weighted average number of ordinary shares used in computing diluted net income per share (thousands)	<u>29,537</u>	<u>29,353</u>	<u>29,523</u>	<u>29,412</u>	<u>29,385</u>