

-EARNINGS RELEASE-

**ELRON ELECTRONIC INDUSTRIES ANNOUNCES NET INCOME OF \$3.7 MILLION IN
THE FIRST QUARTER OF 2004**

Tel Aviv, Israel, May 12, 2004 - Elron Electronic Industries Ltd. (NASDAQ:ELRN) today reported a net income of \$3.7 million, or \$0.13 per share, for the first quarter of 2004 compared to a net loss of \$9.3 million, or \$0.32 per share, in the first quarter of 2003.

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

- (i) a gain of approximately \$5.3 million resulting from the sale of Elron's shares in KIT eLearning to a subsidiary of Sylvan Learning Systems, Inc. (Nasdaq: SLVN), a global leader in higher education, for an immediate cash payment of \$9.4 million (of which Elron received approximately \$5.7 million) and a future payment of up to an additional \$10.0 million based on future earnings of KIT in 2006 and 2007.
- (ii) a gain, net after tax, of approximately \$2.0 million resulting from the sale of 362,416 Zix Corporation (Nasdaq: ZIXI) shares, received in consideration for the assets and business of Elron SW ("ESW") (formerly, Elron Software) which was sold to Zix in September 2003.
- (iii) the decrease in losses recorded with respect to Elron's group companies in the amount of \$6.1 million, mainly due to the sale of businesses of ESW and MediaGate, the decrease in Galil Medical's losses following the formation of Oncura as a result of the merger of its and Amersham's urology units, and the improvements in the results of almost all of Elron's group companies, mainly Given Imaging and ChipX (formerly, Chip Express).

Other main first quarter events:

Investment in ChipX. In March 2004, ChipX, a manufacturer of late-stage programmable application-specific integrated circuits, or structured ASICs, raised \$12.0 million in a private placement from new and existing investors, of which Elron invested approximately \$2.6 million. Following the investment, Elron's holding in ChipX decreased from approximately 33% to approximately 27%.

NetVision. On March 30, 2004, NetVision, one of Israel's largest Internet Service Providers (ISP), in which Elron holds 46%, filed a request with the Israeli Securities Authority and the Tel Aviv Stock Exchange ("TASE") for a proposed initial public offering of its shares on the TASE. The request is a preliminary step in the proposed offering.

Liquidity and Shareholders Equity

As of March 31, 2004, Elron's cash, debentures and deposits (including short and long-term) amounted to approximately \$70.2 million compared with \$107.3 million at December 31, 2003. The decrease was mainly as a result of approximately \$40.5 million repayment of loans of majority-owned subsidiaries. The remaining bank loans of majority owned subsidiaries amounted to approximately \$27.3 million (\$67.5 million at December 31, 2003), substantially all of which are guaranteed by Elron.

During the first quarter of 2004, Elron invested approximately \$3.8 million in its group companies. Shareholders' equity at March 31, 2004, was approximately \$302.4 million, which represents 72% of Elron's total assets, compared with approximately \$296.1 million representing approximately 66% of total assets at December 31, 2003.

"The sustainable profitability over the last three quarters represents significant improvements in almost all of our group companies", said Doron Birger, Elron's President and CEO.

"The continuing growth of Given Imaging and the completion of a \$12 million private placement in ChipX, are important steps in building value. Our group of promising public and private companies, combined with our substantial resources, provide us with an optimistic outlook for 2004".

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:

Thursday, May 13, 2004 10:30a.m. (EST); 05:30 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, May 17, 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, advanced defense electronics, 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

	March 31, 2004	December 31, 2003
	<u>Unaudited</u>	<u>Audited</u>
ASSETS		
Total current assets	\$ 92,394	\$ 130,067
LONG-TERM ASSETS		
Investments in affiliated companies	159,839	156,819
Investments in other companies and long-term receivables	131,544	128,799
Debentures and bank deposits	709	700
Deferred taxes	-	1,871
Severance pay deposits	2,481	2,144
Total long-term assets	294,573	290,333
PROPERTY AND EQUIPMENT, NET	8,488	8,317
INTANGIBLE ASSETS	21,793	21,987
Total assets	<u>\$ 417,248</u>	<u>\$ 450,704</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total current liabilities	<u>\$ 39,553</u>	<u>\$ 73,035</u>
LONG-TERM LIABILITIES		
Long-term loans from banks and others	12,191	17,221
Accrued severance pay and retirement obligations	3,408	2,850
Deferred taxes	40,541	40,684
Other	237	103
Total long-term liabilities	56,377	60,858
MINORITY INTEREST	18,948	20,681
Total Shareholders' Equity	302,370	296,130
Total liabilities and shareholders' equity	<u>\$ 417,248</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

	Three months ended March 31,		Year ended December 31,
	2004	2003	2003
	Unaudited		Audited
INCOME			
Net revenues	\$ 3,425	\$ 3,787	\$ 16,547
Equity in losses of affiliated companies	(389)	(2,954)	(8,698)
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	6,080	371	25,754
Other income (expenses), net	2,437	(1,223)	14,665
	<u>11,553</u>	<u>(19)</u>	<u>48,268</u>
COSTS AND EXPENSES	<u>8,529</u>	<u>10,236</u>	<u>37,497</u>
Income (loss) before tax benefit (taxes on income)	3,024	(10,255)	10,771
Tax benefit (taxes on income)	(642)	367	(6,834)
Income (loss) from continuing operations after tax benefit (taxes on income)	2,382	(9,888)	3,937
Minority interest in losses (income) of subsidiaries	1,640	1,972	(10,907)
Income (loss) from continuing operations	4,022	(7,916)	(6,970)
Loss from discontinued operations	(300)	(1,354)	(235)
Net income (loss)	<u>\$ 3,722</u>	<u>\$ (9,270)</u>	<u>\$ (7,205)</u>
Basic income (loss) per share	<u>\$ 0.13</u>	<u>\$ (0.32)</u>	<u>\$ (0.25)</u>
Diluted income (loss) per share	<u>\$ 0.12</u>	<u>\$ (0.32)</u>	<u>\$ (0.25)</u>
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	<u>29,209</u>	<u>29,181</u>	<u>29,194</u>
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	<u>29,307</u>	<u>29,181</u>	<u>29,194</u>