

-EARNINGS RELEASE-

ELRON ANNOUNCES NET INCOME OF \$70.8 MILLION IN THE THIRD QUARTER OF 2004 AND \$80.0 MILLION IN THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2004

Tel Aviv, Israel, November 10, 2004 - Elron Electronic Industries Ltd. (NASDAQ: ELRN) today reported net income for the third quarter of 2004 of \$70.8 million, or \$2.42 per share, compared to \$3.0 million, or \$0.10 per share, in the third quarter of 2003. The net income in the nine month period ended September 30, 2004 amounted to \$80.0 million, or \$2.74 per share, compared to a net loss of \$10.3 million, or \$(0.35) per share, in the nine month period ended September 30, 2003.

The net income Elron reported in the third quarter of 2004 resulted mainly from the gain, net of tax, of approximately \$79.9 million from the sale of Elron's holdings in Elbit Systems (constituting approximately 19.6% of the outstanding share capital of Elbit Systems at the time of the sale) to the Federmann group for approximately \$196.6 million.

The gain was offset in part by Elron's share in the losses of its group companies in the third quarter of 2004 in the amount of \$10.2 million, which included impairment charges in the aggregate amount of \$4.9 million relating to Elron TeleSoft's operations.

Other Main Events in the Third Quarter and Subsequently:

- During the third quarter of 2004, Elron purchased 550,000 shares of Given Imaging (Nasdaq: GIVN), constituting approximately 2% of its outstanding share capital, for an aggregate purchase price of approximately \$19.2 million. Subsequent to September 30, 2004 and through November 9, 2004 Elron purchased an additional 823,513 shares of Given Imaging, constituting approximately 3% of its outstanding share capital, for an aggregate purchase price of approximately \$24.7 million. Following these purchases, Elron's direct and indirect (through RDC) interest in Given Imaging increased to approximately 20%.
- On October 21, 2004, Elron invested approximately \$6.7 million 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. Following the investment, Elron holds 25% of Jordan Valley on a fully diluted basis. Jordan Valley is also 40% indirectly owned (following the investment) by Clal Industries and Investments Ltd., an affiliate of Elron.
- On October 21, 2004 Elron completed an investment of \$3.0 million in Starling Advanced Communications Ltd. ("Starling") of which \$1.5 million was invested immediately and an additional \$1.5 million will be invested no later than April 21, 2005. Starling was formed in

November 2003 and prior to Elron's investment was equally held by Elbit Systems and RDC. Following the investment, Elron's direct and indirect interest (through RDC) in Starling is approximately 50%. Starling develops broadband access connectivity solutions for commercial aircrafts.

Liquidity and Shareholders Equity

As of September 30, 2004, Elron's cash, debentures and deposits amounted to approximately \$217.5 million compared with \$106.6 million at December 31, 2003. The increase resulted primarily from the sale of Elron's holding in Elbit Systems for approximately \$196.6 million. The increase was offset in part by an approximately \$67.8 million repayment of loans of majority-owned subsidiaries.

During the nine month period ended September 30, 2004, Elron invested approximately \$32.6 million in its group companies, including \$19.2 million in Given Imaging. Subsequent to September 30, 2004 and through November 9, 2004, Elron invested an additional aggregate amount of approximately \$34.8 million, which mainly includes \$24.7 million in Given Imaging, \$6.7 million in Jordan Valley and \$1.5 million in Starling.

Shareholders' equity at September 30, 2004, was approximately \$365.9 million, which represented approximately 77% of Elron's total assets, compared to approximately \$296.1 million representing approximately 66% of total assets at December 31, 2003.

"The sale of our holding in Elbit Systems resulted in a considerable gain to Elron and reflects the fruits of our strategy of building successful and lasting companies. Now, with cash resources in excess of \$180 million, Elron has strengthened its position as a major force in the Israeli high tech industry, investing in early and mid stage companies as well as mature companies, leading them to successes", said Doron Birger, Elron's President and CEO.

"The purchase of additional shares of Given Imaging reflects our confidence in the potential of Given Imaging to become a world leader in its field of operations," concluded Mr. Birger.

Investors may access Elron's third quarter financial report and a detailed management report on the company's web site: www.elron.com

Conference call details

Thursday, November 11, 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, November 15, 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

	September 30, 2004	December 31, 2003
	Unaudited	Audited
ASSETS		
Total current assets	\$ 239,458	\$ 130,067
LONG-TERM ASSETS		
Investments in affiliated companies	95,900	156,819
Investments in other companies and long-term receivables	114,088	128,799
Debentures	-	700
Deferred taxes	-	1,871
Severance pay deposits	2,597	2,144
Total long-term assets	212,585	290,333
PROPERTY AND EQUIPMENT, NET	8,184	8,317
INTANGIBLE ASSETS	17,452	21,987
Total assets	<u>\$ 477,679</u>	<u>\$ 450,704</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Total current liabilities	\$ 47,239	\$ 73,035
LONG-TERM LIABILITIES		
Long-term loans from banks and others	4,057	17,221
Accrued severance pay and retirement obligations	3,710	2,850
Deferred taxes	34,431	40,684
Other	22	103
Total long-term liabilities	42,220	60,858
MINORITY INTEREST	22,287	20,681
Total Shareholders' Equity	365,933	296,130
Total liabilities and shareholders' equity	<u>\$ 477,679</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

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December 31,
	2004	2003	2004	2003	2003
	Unaudited				Audited
INCOME					
Net revenues	\$ 11,546	\$ 12,555	\$ 4,545	\$ 4,724	\$ 16,547
Equity in losses of affiliated companies	(5,434)	(8,051)	(3,333)	(1,178)	(8,698)
Gain from disposal of businesses and affiliated companies and changes in holdings in affiliated companies, net	132,386	25,645	104,485	24,386	25,754
Other income, net	4,813	9,713	626	3,653	14,665
	<u>143,311</u>	<u>39,862</u>	<u>106,323</u>	<u>31,585</u>	<u>48,268</u>
COSTS AND EXPENSES					
	<u>28,189</u>	<u>29,849</u>	<u>12,806</u>	<u>9,418</u>	<u>37,497</u>
Income before taxes on income	115,122	10,013	93,517	22,167	10,771
Taxes on income	(30,924)	(5,735)	(22,770)	(3,897)	(6,834)
Income from continuing operations after taxes on income	84,198	4,278	70,747	18,270	3,937
Minority interest in losses (income) of subsidiaries	(3,725)	(11,915)	169	(15,569)	(10,907)
Income (loss) from continuing operations	80,473	(7,637)	70,916	2,701	(6,970)
Income (loss) from discontinued operations	(450)	(2,682)	(94)	319	(235)
Net income (loss)	<u>\$ 80,023</u>	<u>\$ (10,319)</u>	<u>\$ 70,822</u>	<u>\$ 3,020</u>	<u>\$ (7,025)</u>
Basic Income (loss) per share	<u>\$ 2.74</u>	<u>\$ (0.35)</u>	<u>\$ 2.42</u>	<u>\$ 0.10</u>	<u>\$ (0.25)</u>
Diluted income (loss) per share	<u>\$ 2.73</u>	<u>\$ (0.35)</u>	<u>\$ 2.41</u>	<u>\$ 0.10</u>	<u>\$ (0.25)</u>
Weighted average number of ordinary shares used in computing basic net income (loss) per share (thousands)	<u>29,233</u>	<u>29,190</u>	<u>29,277</u>	<u>29,203</u>	<u>29,194</u>
Weighted average number of ordinary shares used in computing diluted net income (loss) per share (thousands)	<u>29,353</u>	<u>29,190</u>	<u>29,412</u>	<u>29,203</u>	<u>29,194</u>