



FOR IMMEDIATE RELEASE

**ELBIT MEDICAL IMAGING LTD. ANNOUNCES
FIRST QUARTER 2005 RESULTS**

Tel Aviv, Israel - June 2, 2005- Elbit Medical Imaging Ltd. (NASDAQ: EMITF) ("EMI" or the "Company") today announced its consolidated results for the first quarter, which ended March 31, 2005.

First quarter Results:

Net loss for the first quarter of 2005 totaled NIS 11.0 million (US\$2.5 million), compared with a net income of NIS 30.3 million (US\$6.9 million) in the corresponding period of 2004.

Commentary on the First Quarter:

Mr. Shimon Yitzhaki, President of Elbit Medical Imaging commented: "The results of the first quarter of 2005 include irregular amounts of NIS 10 million (US\$2.3 million), resulting from initiation expenses regarding the tender offer for Channel 2 and expenses relating to employee stock benefits. In addition, these results do not reflect the substantial profit we are expecting from the transaction with Klepierre that was recently announced. We anticipate recording that profit during fiscal years 2005 and 2006.

Mr. Yitzhaki further commented: "The dividend distributed during the first quarter of 2005 in the amount of US\$ 37 million, demonstrates the Company's desire to share its success with its shareholders".

The breakdown of revenue by sector of activity is presented in the following table (in NIS thousands):

	For the 3-month period ended Mar 31				For the twelve-month period ended Dec 31			
	2005	%	2004	%	2004	%	2003	%
Operating commercial centers	51,837	44	95,646	61	311,893	53	347,056	64
Hotels operation and management	54,543	45	52,087	33	218,365	37	189,205	34
Leasing fees etc.	3,305	3	3,280	2	13,238	2	13,495	2
Medical systems	9,615	8	5,513	4	44,049	8	-	-
Total revenues	119,300	100	156,526	100	587,545	100	549,756	100

The breakdown of gross profit by sector of activity is presented in the following table (in NIS thousands):

	For the 3-month period ended Mar 31				For the twelve-month period ended Dec 31			
	2005	%	2004	%	2004	%	2003	%
Operating commercial centers	17,022	33	40,857	43	112,113	36	154,140	44
Hotels operation and management	3,528	6	3,868	7	17,271	8	11,515	6
Leasing fees etc.	2,546	77	2,423	74	10,063	76	9,985	74
Medical systems	7,454	78	4,440	81	34,215	78	-	-
Total Gross Profit	30,550	26	51,588	32	173,662	30	175,640	32

The percentages in the above table refer to gross margins (gross profit as a percentage of the revenue in each respective sector).

The decrease in revenues in the first quarter 2005 was due to the exclusion of the activities of 12 shopping centers in Hungary, which were sold to Klépierre Group at the beginning of the third quarter of 2004.

The consolidated net financial loss in the 3 month period ended March 31, 2005 was NIS 32.8 million (US\$7.5 million), compared with a net financial income of NIS 47.4 million (US\$10.9 million) in the first quarter of 2004. The substantial decrease results from a combination of the following factors:

1. Income from exchange rate differences of NIS 66.0 million (approximately US\$15.0 million) for the 3-month period ended March 31, 2004 was generated by the significant re-valuation (5%) of the Hungarian Forint, which until April 1, 2004 was the functional currency of the operations in that country. There was no income generated from exchange rate differences in Hungary in the first quarter of 2005 due to the fact that the currency used in financing these activities is now the Euro.
2. During the first quarter of 2004 the Company recorded an income of NIS 27.0 million (US\$6.2 million) from derivative financial instrument transactions. During the first quarter of 2005 no such transactions were carried out; thus, no income from such activities was recorded.
3. Finance expenses in the 3-month period ended March 31, 2005 resulted from interest on Plaza Center's bank loans totaling NIS 6.0 million (US\$1.4 million) compared to NIS 17.0 million (US\$3.9 million) during the corresponding period of 2004. This is the result of the reduction in the amount of outstanding loans due to the exclusion of the activities of 12 shopping centers in Hungary, which were sold to Klépierre Group at the beginning of the third quarter of 2004.

Other net income for the 3-month period ended March 31, 2005 was NIS 27.3 million (US\$6.3 million), which resulted mainly from an additional gain derived from the sale of the 12 shopping

centers in Hungary. During fiscal year 2004, the Company recorded a gain of NIS 132 million (US\$30 million) from this sale.

The basic net loss per share for the three-month period ending March 31, 2005, was NIS 0.5 per share (approximately US\$0.11 per share).

First Quarter Highlights:

On February 7, 2005 the Company's Board of Directors declared a dividend in the aggregate amount of US\$37 million (or US\$1.689 per Ordinary Share). The dividend was paid on March 17, 2005 to shareholders of record as of March 2, 2005.

Recent Highlights:

- On May 22, 2005 the Elbit Medical Imaging ("EMI") Board of Directors approved the binding Heads of Terms signed on May 20, 2005 by EMI's wholly owned subsidiary company, Plaza Centers (Europe) BV ("*Plaza Centers*"), with the Klépierre Group of France for a portfolio that includes four (4) operational malls in Poland and an additional five (5) under development centers in Poland and the Czech Republic. The Heads of Terms is subject to approval by the respective Boards of EMI and Plaza Centers and the Supervisory Board of the Klépierre Group, and is subject to the fulfillment of certain conditions as specified below.

Klépierre SA ("*Klépierre*"), one of the leading owners and operators of shopping centers in Europe, will acquire the entire equity and voting rights (100%) of the companies owning four operational shopping centers in Poland in consideration for payment of a purchase price calculated on the basis of the gross rentals of these centers as of the Closing date, at agreed upon yields. An adjustment of the purchase price will be conducted on December 31, 2005 on the basis of the gross rentals as of the adjustment date, at the agreed yields.

As part of the transaction, Ségécé, a subsidiary of Klépierre ("*Ségécé*"), will acquire the entire outstanding share capital of Plaza Centers Management Poland Sp.z.o.o. ("*Management Company*"), the Polish subsidiary of Plaza Centers which managed the acquired operational malls.

In addition, Klépierre will sign future share purchase agreements for the acquisition of the entire equity and voting rights in the companies presently developing two (2) shopping centers in Poland, as well as a further two (2) companies developing shopping centers in the Czech Republic. Klépierre also has an option to acquire a third shopping center under development in Poland, subject to the attainment of certain conditions. Upon the completion and delivery of the shopping centers, Klépierre will pay the purchase price calculated on the basis of the gross rentals on the date of delivery, at upon agreed yields.

Klépierre will furnish Plaza Centers with an irrevocable bank guarantee in respect of the entire consideration based upon forecasted gross rentals. A final adjustment of the purchase price for each of these development centers will be conducted up to nine (9) months following delivery on the basis of actual gross rentals as of their adjustment dates, at the agreed upon yields.

Following Board Approvals, as noted above, the Heads of Terms constitute a binding agreement, subject to the obtaining of regulatory approvals, customary due diligence investigations, and the execution of definitive agreements in forms to be agreed. It is anticipated that the closing of the Transaction will occur by the end of July 2005.

Subject to verification, as previously mentioned, and assuming the exercise by Klépierre of the option referred to above, the assets sold under the transactions contemplated are valued in the aggregate amount of approximately €425 million, or approximately US\$540 million as of the date of this release.

Within the framework of the transaction, it has also been agreed that Ségécé will acquire the remaining 50% of the equity rights in the Hungarian management company retained by Plaza Centers. In addition, one year following the consummation of the transaction for the acquisition of the twelve Hungarian shopping centers acquired by Ségécé in July 2004, Klépierre has agreed to release a bank guarantee held as security for certain future incomes.

- On April 21, 2005, the Company's wholly owned subsidiary, Plaza Centers completed the transaction for the sale of four (4) shopping centers owned and operated by Plaza Centers in Hungary to a subsidiary of the Dawnay Day Group ("*Dawnay Day*"), a leading financial and property group in the United Kingdom. The aggregate net cash consideration paid to Plaza Centers and its subsidiaries totaled approximately €16.7 million, or approximately US\$21.7 million. Such consideration was determined according to the asset value of the Acquired Companies on the basis of audited financial statements as of the closing date, which was approximately €54.4 million, or approximately US\$70.7 million, less the deduction of financial liabilities (mainly, long term bank loans in the aggregate amount of approximately €40.1 million, or approximately US\$52 million).

EMI is a subsidiary of Europe Israel (M.M.S.) Ltd. EMI's activities are divided into three principal fields: (i) ownership, operation, management, acquisition, expansion and development of commercial and entertainment malls in Europe, primarily in Eastern and Central Europe; (ii) ownership, operation, leasing, management, acquisition, expansion and development of hotels in major European cities and ownership, operation and management of a commercial and entertainment mall in Israel through our subsidiary Elscint; and (iii) research and development in the image guided focused ultrasound activities through our subsidiary InSightec - Image Guided Treatment Ltd.

Any forward looking statements with respect to EMI's business, financial condition and results of operations included in this release are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements, including, but not limited to, product demand, pricing, market acceptance, changing economic conditions, risks in product and technology development and the effect of EMI's accounting policies, as well as certain other risk factors which are detailed from time to time in EMI's filings with the Securities and Exchange Commission.

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**ELBIT MEDICAL IMAGING LTD.
CONSOLIDATED BALANCE SHEETS**

	<u>March 31</u>		<u>Dec 31</u>	<u>March 31</u>
	<u>2005</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>
	<u>NIS in thousands</u>			<u>Convenience translation US\$'000</u>
Current Assets				
Cash and cash equivalents	172,943	151,936	345,745	39,657
Short-term deposits and investments	271,570	309,228	278,021	62,272
Trade accounts receivable	32,818	47,780	39,102	7,525
Receivables and other debit balances	84,992	81,239	66,140	19,489
Inventories	10,353	4,828	7,331	2,374
	<u>572,676</u>	<u>595,011</u>	<u>736,339</u>	<u>131,318</u>
Long-Term Investments and Receivables				
Long-term deposits, debentures, loans and receivables	111,532	105,008	113,785	25,575
Investments in investees and other companies	70,824	131,554	71,608	16,240
	<u>182,356</u>	<u>236,562</u>	<u>185,393</u>	<u>41,815</u>
Fixed Assets	<u>3,559,082</u>	<u>4,813,018</u>	<u>3,527,988</u>	<u>816,116</u>
Other Assets and Deferred Expenses	<u>57,025</u>	<u>84,056</u>	<u>55,859</u>	<u>13,076</u>
Assets Related to Discontinuing Operations	<u>13,940</u>	<u>15,979</u>	<u>14,700</u>	<u>3,197</u>
	<u>4,385,079</u>	<u>5,744,626</u>	<u>4,520,279</u>	<u>1,005,521</u>
Current Liabilities				
Short-term credits	586,364	956,983	536,937	134,456
Suppliers and service providers	71,201	80,023	74,358	16,327
Payables and other credit balances	158,791	160,728	183,446	36,412
	<u>816,356</u>	<u>1,197,734</u>	<u>794,741</u>	<u>187,195</u>
Long-Term Liabilities	<u>2,447,071</u>	<u>2,953,549</u>	<u>2,418,897</u>	<u>561,126</u>
Liabilities Related to Discontinuing Operations	<u>71,237</u>	<u>83,987</u>	<u>71,986</u>	<u>16,335</u>
Minority Interest	<u>414,674</u>	<u>469,096</u>	<u>430,687</u>	<u>95,087</u>
Shareholders' Equity	<u>635,741</u>	<u>1,040,260</u>	<u>803,968</u>	<u>145,779</u>
	<u>4,385,079</u>	<u>5,744,626</u>	<u>4,520,279</u>	<u>1,005,521</u>

ELBIT MEDICAL IMAGING LTD.
CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended March 31		Year ended Dec 31	Three months ended March 31
	2005	2004	2004	2005
	NIS in thousands			Convenience translation US\$'000
Revenues				
Commercial center operations	51,837	95,646	311,893	11,886
Hotels operations and management	54,543	52,087	218,365	12,507
Sale of medical systems	9,615	5,513	44,049	2,205
Lease of assets	3,305	3,280	13,238	758
	<u>119,300</u>	<u>156,526</u>	<u>587,545</u>	<u>27,356</u>
Costs of revenues				
Commercial center operations	34,815	54,789	199,780	7,983
Hotels operations and management	51,015	48,219	201,094	11,698
Sale of medical systems	2,161	1,073	9,834	496
Lease of assets	759	857	3,175	174
	<u>88,750</u>	<u>104,938</u>	<u>413,883</u>	<u>20,351</u>
Gross profit	30,550	51,588	173,662	7,005
Project initiation expenses	5,629	177	2,371	1,291
Research and development expenses, net	11,559	11,987	38,158	2,651
Marketing and selling expenses	5,963	10,321	43,075	1,367
General and administrative expenses	25,968	19,609	92,536	5,955
	<u>49,119</u>	<u>42,094</u>	<u>176,140</u>	<u>11,263</u>
Operating profit (loss) before financial income (expenses), net	(18,569)	9,494	(2,478)	(4,258)
Financial Income (expenses), net	(32,772)	47,391	(53,569)	(7,515)
Operating profit (loss) after financial income (expenses), net	(51,341)	56,885	(56,047)	(11,773)
Other income (expenses), net	27,335	(15,114)	96,908	6,268
Profit (loss) before income taxes	(24,006)	41,771	40,861	(5,505)
Income taxes	793	15,275	15,804	182
Profit (loss) after income taxes	(24,799)	26,496	25,057	(5,687)
Share in results of associated companies, net	(2,145)	(3,346)	(15,968)	(492)
Minority interest in results of subsidiaries, net	17,121	7,867	27,448	3,926
Profit (loss) from continuing operation	(9,823)	31,017	36,537	(2,252)
Profit (loss) from discontinuing operation, net	(543)	(732)	6,810	(125)
cumulative effect of accounting change at the beginning of the year	(605)	-	-	(139)
Net income (loss)	<u>(10,971)</u>	<u>30,285</u>	<u>43,347</u>	<u>(2,516)</u>
Earnings (loss) per share - (in NIS)				
Basic earnings (loss) per share:				
From continuing operation	(0.45)	1.39	1.59	(0.10)
From discontinuing operation	(0.02)	(0.03)	0.30	(0.00)
cumulative effect of accounting change at the beginning of the year	(0.03)	-	-	(0.01)
Basic earnings (loss) per share	<u>(0.50)</u>	<u>1.36</u>	<u>1.89</u>	<u>(0.11)</u>
Diluted earnings (loss) per share	<u>(0.50)</u>	<u>1.31</u>	<u>1.84</u>	<u>(0.11)</u>