

**The Kesselman & Kesselman PricewaterhouseCoopers
MoneyTree™ Report:**

**In 2007, approximately \$1.2 billion invested in Israel in high-tech companies
backed by venture capital funds**

**Stability, both in the number of investments and in the level of investments, in
2007 as compared to 2006.**

**Decrease of 37% in total investment in fourth quarter of 2007 as compared to
previous quarter and of 33% as compared to corresponding quarter of 2006.**

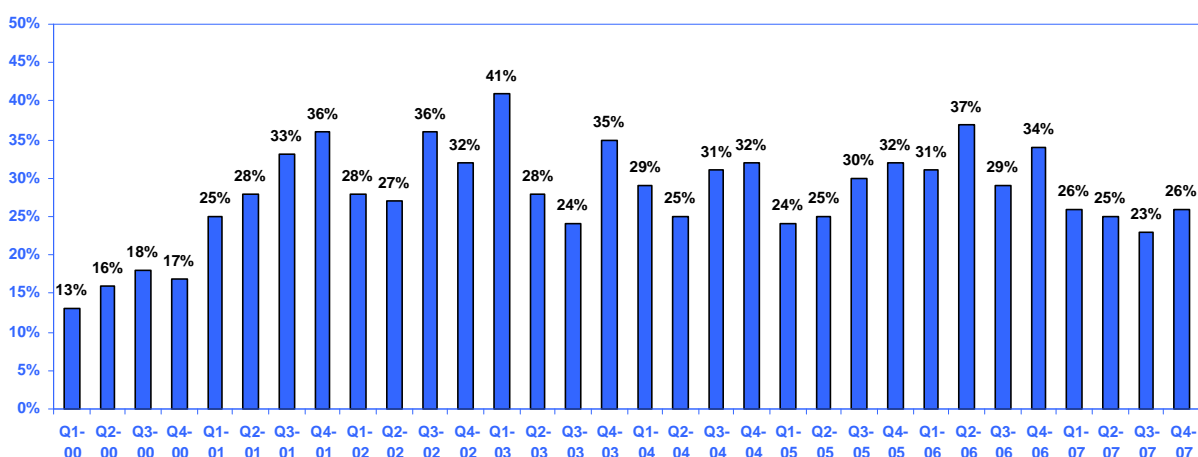
The latest Kesselman & Kesselman PricewaterhouseCoopers MoneyTree™ Report shows that, during the course of 2007, venture capital-backed high-tech companies raised approximately \$1.2 billion in Israel, an amount identical to that raised in 2006, and an increase of 8% in comparison with the \$1.1 billion raised in 2005. In 2007, the average investment per company was \$3.9 million, as compared to \$4.1 million in 2006 and \$3.4 million in 2005.

Data from the fourth quarter of 2007 reveal that 69 companies raised approximately \$221 million, the lowest amount raised in a quarter for two years. The amount raised in the quarter reflects a decrease of 37% in comparison with the previous quarter, in which 74 companies raised approximately \$350 million, and a decrease of 33% in comparison with the corresponding quarter last year, in which 80 companies raised approximately \$330 million. A decline was also registered in the average investment per company in the last quarter, \$3.2 million, as compared to the \$4.7 million in the previous quarter and the \$4.1 million in the corresponding quarter last year.

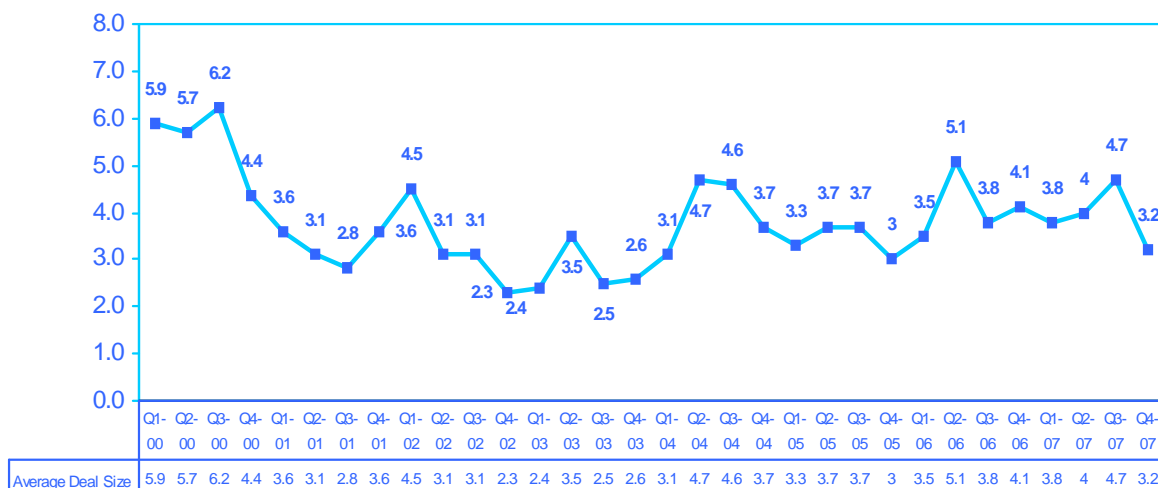
In spite of the decline recorded in the final quarter of 2007, both in the number of companies raising funds and in the amount of total investment, the situation in annualized terms remained stable. With respect to companies in the later stages of their development, 2007 also recorded a peak both in the number of investments made and in the level of the investment in those companies. An amount of \$180 million, 15% of total investment in 2007, was invested in 30 companies at this stage of their development, as compared to approximately \$158 million in 2006 (13% of total investment for that year) invested in 25 companies, and \$119 million in 2005 (11% of total investment for that year) invested in 19 companies.

Joseph Fellus, Partner, Advisory & High-Tech Practice Leader at Kesselman & Kesselman PricewaterhouseCoopers, says that, against the background of the relative scarcity in 2007 of initial public offerings by venture capital-backed companies, we may expect the place of the IPOs to be filled by investment rounds fueled, inter alia, by the venture capital funds. The fact that the report for the fourth quarter of 2007 reveals a decline both in the level of investment and in the number of investments in the later rounds may in part be attributed to the assessment that, amongst venture capital-backed Israeli high-tech companies, there are not a few companies that have no need for further funding, since these now enjoy positive cash flows that allow them to develop their businesses and defer further fundraising to a date convenient to themselves and to other companies which raise funds directly from foreign institutions - venture capital funds and strategic investors.

Percentage of Funds that made no Investment



Average Investment per Company (\$ million)



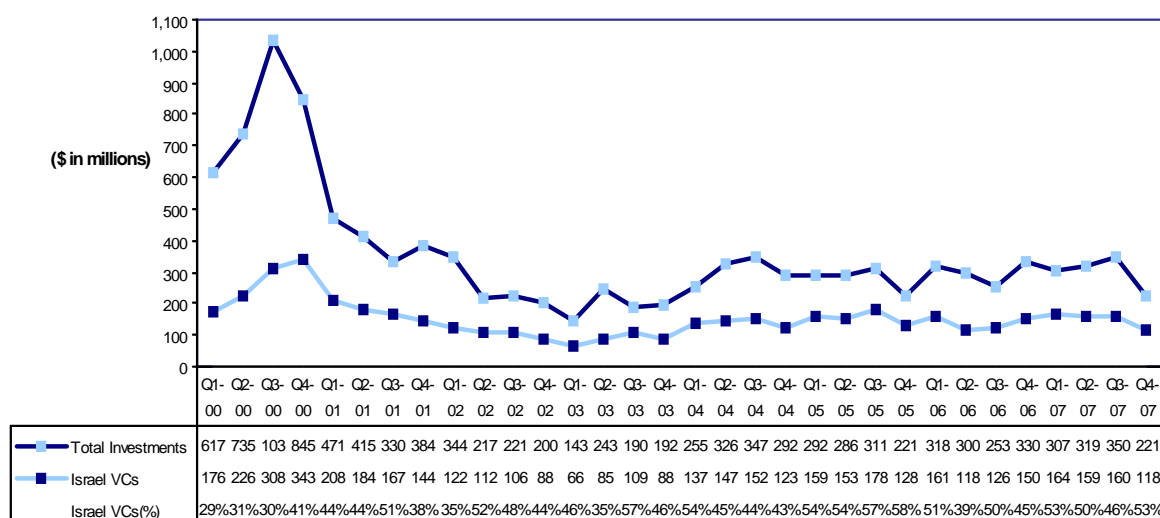
Average Deal Size	5.9	5.7	6.2	4.4	3.6	3.1	2.8	3.6	4.5	3.1	3.1	2.3	2.4	3.5	2.5	2.6	3.1	4.7	4.6	3.7	3.3	3.7	3.7	3	3.5	5.1	3.8	4.1	3.8	4	4.7	3.2
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The Israeli Venture Capital Funds' Slice of the High-Tech Cake

In the final quarter of 2007, local venture capital funds invested approximately \$118 million, representing 53% of total investment for the quarter. This compares with approximately \$160 million in the previous quarter, representing 46% of total investment for that quarter, and with \$150 million for the corresponding quarter last year, representing 45% of total investment for that quarter.

In addition to investment in high-tech companies with operations in Israel, local venture capital funds invested approximately \$15 million in 13 overseas high-tech companies that are not engaged in operations in Israel. This compares with approximately \$13 million invested in 13 non-Israeli companies in the previous quarter and with \$16 million invested in 12 non-Israeli companies in the corresponding quarter last year.

Israel VC's Investment Levels (\$ million)



Analysis by Geographic Location of Company Registration

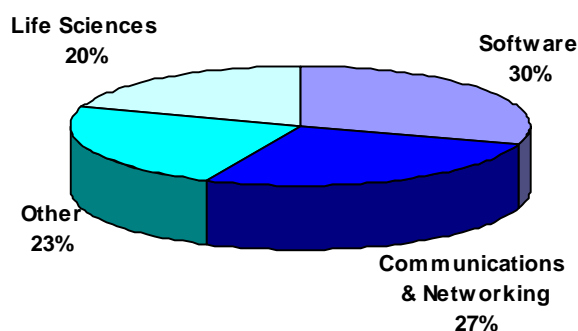
42 companies, representing 61% of the total number of companies raising capital in the final quarter of 2007, are registered in Israel. These companies raised approximately \$110 million, representing 50% of the total amount invested. The remaining companies are registered overseas, primarily in the United States.

Companies Receiving Grants from the Chief Scientist

30 companies, representing 43% of all companies raising capital in the final quarter of 2007, have received grants from the Israel Chief Scientist. Approximately \$96 million of total investment funds have flowed into these companies.

Data for 2007 reveal that 114 companies raising capital during the course of that year have received grants from the Israel Chief Scientist. Approximately \$480 million of total investment funds have flowed into these companies.

Number of Companies Receiving Grants from the Chief Scientist by Sector – Q4-07



Analysis by Leading Technological Sector

The **Communications and Networking** sector takes first place in the fourth quarter of 2007, with 14 companies raising approximately \$58 million, representing 27% of total investment for the quarter. This compares with 18 companies raising approximately \$63 million in the previous quarter, representing 18% of total investment for that quarter, and with 26 companies raising approximately \$133 million in the corresponding quarter last year, representing 40% of total investment for that quarter.

This sector achieved the best performance in 2007, with 84 companies raising approximately \$365 million, representing 31% of total investment for the year, as compared to 95 companies raising approximately \$360 million in 2006, representing 30% of total investment for that year. In 2007, the average annual investment in this sector was \$4.3 million, as compared to \$3.8 million in 2006.

The **Semiconductors** sector takes second place in the fourth quarter of 2007, with 5 companies raising approximately \$51 million, representing 23% of total investment for the quarter. This compares with 6 companies raising approximately \$53 million in the previous quarter, representing 15% of total investment for that quarter, and with 3 companies raising approximately \$19 million in the corresponding quarter last year, representing 6% of total investment for that quarter. The fourth quarter of 2007 saw three large transactions (investment in amounts exceeding \$10 million per company) in a total amount of approximately \$39 million, representing 76% of the total investment in this sector.

In 2007, this sector raised approximately \$185 million, representing 15% of total investment for the year, as compared to approximately \$173 million in 2006, representing 14% of total investment for that year. In 2007, the average annual investment in this sector was \$9.7 million, as compared to \$10.2 million in 2006.

In the fourth quarter of 2007, 18 companies in the **Software** sector raised approximately \$47 million, representing 21% of total investment for the quarter, as compared with 20 companies raising approximately \$83 million in the previous quarter, representing 24% of total investment for that quarter, and with 20 companies raising approximately \$75 million in the corresponding quarter last year, representing 23% of total investment for that quarter.

Despite the weakening in the sector in the final quarter of the year, the results of the report for 2007 as a whole reveal that 77 companies belonging to this sector raised approximately \$242 million during the course of the year, representing 20% of total investment for the year, as compared with 72 companies raising approximately \$277 million in 2006, representing 23% of total investment for that year. In 2007, the average annual investment in the sector was \$3.1 million, as compared to \$3.8 million in 2006.

The **Life Sciences** sector, which includes the fields of Medical Devices and Biotechnology, weakened in the fourth quarter of 2007, insofar as just \$32 million, 14% of total investment for the quarter, was raised by 15 companies, as compared with approximately \$72 million being raised by 14 companies in the previous quarter, representing 21% of total investment for that quarter, and with \$46 million being raised by 15 companies in the corresponding quarter last year, representing 14% of total investment for that quarter. The weakness in the sector during the fourth quarter of 2007 may be attributed to the fact that investment in this sector was mainly implemented by means of bridge loans, an investment avenue marked by relatively low levels of investment – 9 investments totaling \$15 million, representing 47% of total investment in this sector for the quarter.

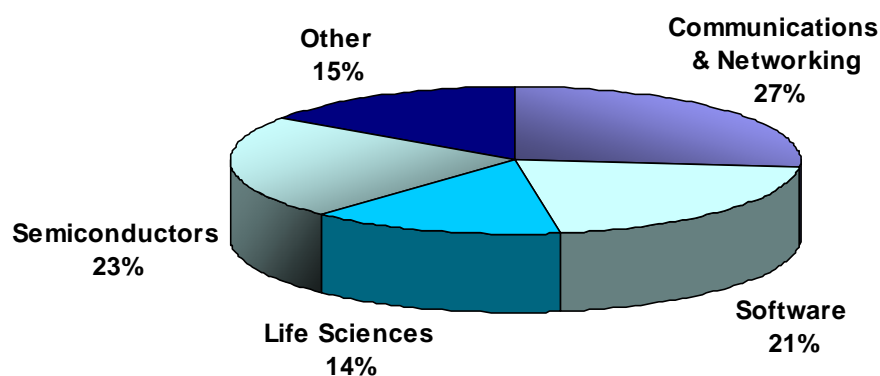
The results of the report for 2007 reveal that, despite the decline in performance in the fourth quarter of 2007, the sector has, in annualized terms, maintained its relative position. In 2007, approximately \$203

million, representing 17% of total investment for the year, was invested in this sector, as compared with approximately \$199 million invested in the sector in 2006, this also representing 17% of total investment for that year.

Amongst the companies operating in the **Other** sectors category are companies operating in the internet sector, the media sector and the clean tech sector. This category recorded a decline in total investment levels, with 17 companies raising approximately \$34 million during the fourth quarter of 2007, as compared with the \$79 million raised by 16 companies in the previous quarter and the \$58 million raised by 16 companies in the corresponding quarter last year.

In 2007, approximately \$203 million, representing 17% of total investment for the year, was invested in companies falling within this category, as compared with approximately \$191 million that was invested in companies falling within this category in 2006, representing 16% of total investment for that year.

Total Investment by Sector – Q4-07



Analysis by Investment Round

Early Round

In the present quarter, 24 companies raised approximately \$99 million in the **Early round** (the first and the second rounds combined), this representing 44% of total investment for the quarter. This compares with 33 companies that raised approximately \$164 million in this round in the previous quarter, representing 47% of total investment for that quarter, and with 38 companies that raised approximately \$156 million in the corresponding quarter last year, representing 47% of total investment for that quarter. The average investment per company in this round for the present quarter was \$4.1 million, as compared with \$5 million in the previous quarter and with \$4.1 million in the corresponding quarter last year.

In 2007, 115 companies raised approximately \$536 million in this round, this representing 45% of total investment for the year, as compared with 117 companies that raised approximately \$529 million in 2006, this representing 44% of total investment for that year.

Third Round

In the present quarter, 10 companies raised approximately \$48 million in the **Third round**, as compared with 7 companies that raised approximately \$66 million in this round in the previous quarter and with 9 companies that raised approximately \$77 million in this round in the corresponding quarter last year. Despite the decline in total third round investment, the relative weighting of third round investment has been maintained, this being 22% of total investment in the present quarter. The average investment per company in this round was \$4.8 million in the present quarter, as compared with \$9.4 million in the previous quarter and \$8.5 million in the corresponding quarter last year.

In 2007, 31 companies raised approximately \$183 million in this round, representing 15% of total investment for the year, as compared with 27 companies that raised approximately \$191 million in 2006, representing 16% of total investment for that year.

Later Round

In the present quarter, transactions executed in **Later rounds** (fourth round to mezzanine) represented approximately 11% of total investment for the quarter, insofar as just 8 companies raised approximately \$24 million, the smallest amount raised in this round in a quarter for three years. This compares with 19 companies that raised approximately \$103 million in the previous quarter, representing 30% of total investment for that quarter, and with 11 companies that raised approximately \$65 million in the corresponding quarter last year, representing 20% of total investment for that quarter. In the present

quarter, the average later round investment per company was \$3 million, as compared with \$5.4 million in the previous quarter and \$5.9 million in the corresponding quarter last year.

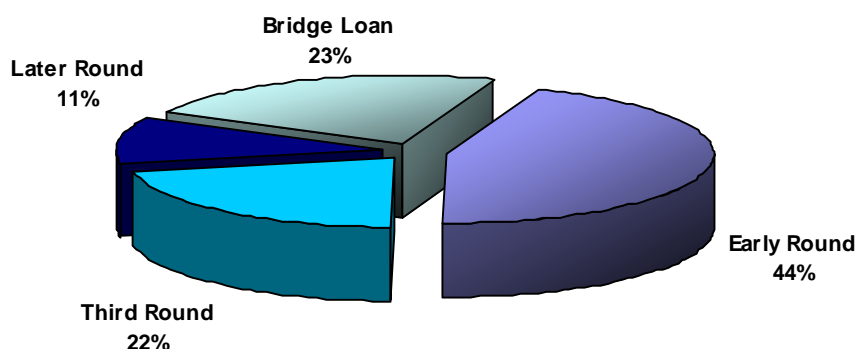
Despite the decline in total later rounds investment in the fourth quarter of 2007, such investment, in annualized terms, has maintained its relative weighting. In these rounds, 59 companies raised approximately \$340 million, representing 28% of total investment for 2007, as compared with 58 companies that raised approximately \$347 million in 2006, representing 29% of total investment for that year.

Bridge Loans

In the present quarter, 27 companies raised approximately \$50 million through **Bridge Loans**, the highest amount raised in this manner in a quarter for six-and-a-half years. This compares with 15 companies that raised approximately \$16 million in this manner in the previous quarter and with 22 companies that raised approximately \$32 million in this manner in the corresponding quarter last year. The average bridge loan per company was approximately \$1.9 million in the present quarter, as compared to \$1.1 million in the previous quarter and \$1.5 million in the corresponding quarter last year.

Despite the increase in the total investment through the medium of bridge loans in the fourth quarter of 2007, this investment avenue has maintained its relative weighting in annualized terms. In 2007, 99 companies raised approximately \$138 million through the medium of bridge loans, representing 12% of total investment for the year, as compared with 93 companies raising approximately \$134 million in this manner in 2006, representing 11% of total investment for that year.

Total Investment by Investment Round – Q4-07



Analysis by Company Development Stage

Seed/Start-up Stage

In the present quarter, 10 companies at the **Seed/Start-up stage** raised approximately \$20 million, representing 9% of total investment for the quarter, as compared with 13 such companies that raised approximately \$36 million in the previous quarter, representing 10% of total investment for that quarter, and with 18 companies that raised approximately \$40 million in the corresponding quarter last year, representing 12% of total investment for that quarter.

In the present quarter, the average investment per company at this stage was \$2 million, as compared with \$2.8 million in the previous quarter and \$2.2 million in the corresponding quarter last year.

Data for the whole of 2007 reveal a decline of 12% in total investment in start-up companies as compared to the level of investment in 2006. In 2007, approximately \$170 million, representing 14% of total investment for the year, was invested in 58 start-up companies. This compares with approximately \$194 million invested in 63 start-up companies in 2006, the total of that investment representing 16% of total investment for that year.

Intermediate Stage (Early/Expansion Stage)

In the present quarter, 49 companies at the **Intermediate stage** raised approximately \$170 million, representing 77% of total investment for the quarter. This compares with 54 companies that raised approximately \$255 million in the previous quarter, representing 73% of total investment for that quarter, and with 57 companies that raised approximately \$254 million in the corresponding quarter last year, representing 77% of total investment for that quarter. The average investment per company in this quarter was \$3.5 million, as compared with \$4.7 million in the previous quarter and \$4.4 million in the corresponding quarter last year. The present quarter witnessed four large transactions (investment in amounts exceeding \$10 million per company) in relation to intermediate stage companies and totaling approximately \$55 million.

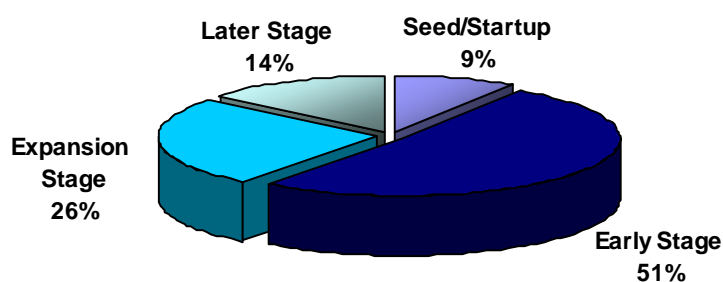
An internal analysis of the intermediate stage reveals that, in the present quarter, the Early stage has been the leading stage, with 34 companies raising approximately \$113 million, this representing 66% of total intermediate stage investment.

In 2007, approximately \$847 million was invested in intermediate stage companies, as compared with approximately \$848 million invested in such companies in 2006, these amounts representing approximately 71% of total investment in each of the two years.

Later Stage

In the present quarter, 10 companies at the **Later stage** of development raised approximately \$30 million, representing 14% of total investment for the quarter. This compares with 7 such companies that raised \$59 million in the previous quarter, representing 17% of total investment for that quarter, and with 5 companies that raised approximately \$36 million in the corresponding quarter last year. The average investment per later stage company in this quarter was \$3 million, as compared with \$8.5 million in the previous quarter and with \$7.3 million in the corresponding quarter last year.

Total Investment by Company Development Stage – Q4-07



The MoneyTree™ Report is issued quarterly by Kesselman & Kesselman, Israel in conjunction with the reports issued in the United States and Europe by the world’s largest accounting and consulting firm, PricewaterhouseCoopers (PricewaterhouseCoopers). This quarter, 53 venture capital firms participated in the Report. The findings of the Report are widely used each quarter by Israeli and foreign venture capital funds, commercial banks, investment banks and other financial institutions both in Israel and abroad, high-tech companies, government departments, the Office of the Chief Scientist and others.

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