

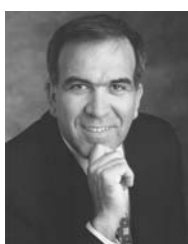


MONEYTREE™ Survey

For the first time since 2000, the software sector has regained the lead

Increase of 33% in capital raised as compared to the previous quarter - \$255 million raised in this quarter compared to \$192 million in the previous quarter

Q1
2004
results
israel
report



Mr. Joseph Fellus,
Partner & High-Tech
Practice Leader

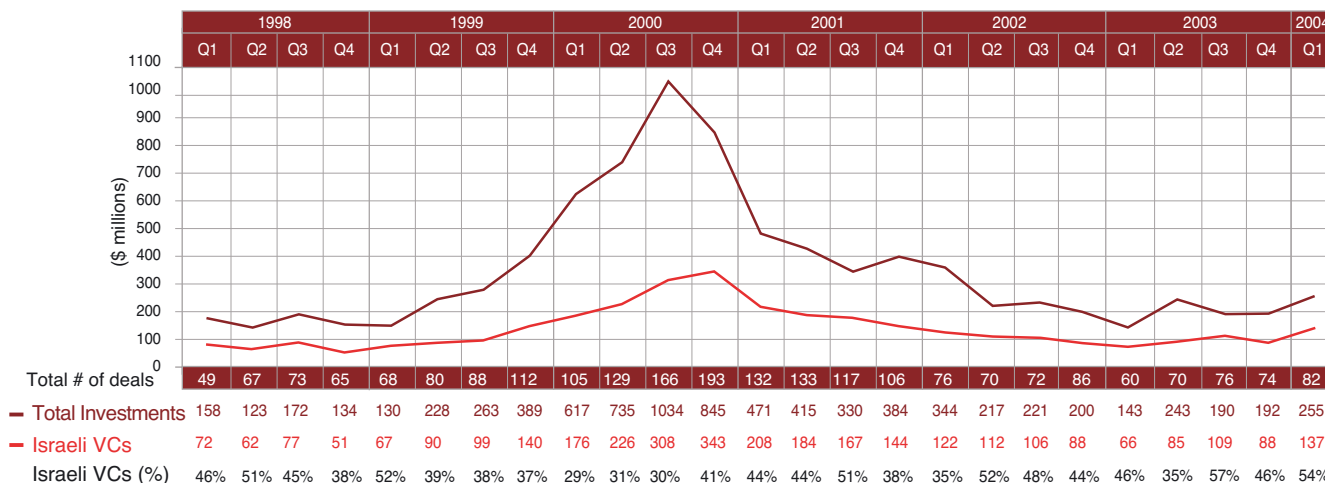
The Survey measures the level of investment in high-tech companies backed by venture capital funds in the first quarter of 2004, both in monetary terms and in the number of transactions. According to the Survey, during the quarter high-tech companies raised at least \$255 million, an increase of 33% as compared to the previous quarter (\$192 million) and 78% as compared to the corresponding quarter last year (\$143 million). In addition, there was an increase in the number of companies that raised capital during the quarter (82 companies as compared to 74 companies in the previous quarter and 60 companies in the corresponding quarter last year). The average investment in a company in the quarter was \$3.1 million, as compared to \$2.6 million in the previous quarter.

Joseph Fellus, Senior Partner & High Tech Practice Leader at the accounting and consulting firm Kesselman & Kesselman PricewaterhouseCoopers (PwC) notes that the findings of the Survey reflect the optimism that has come to characterize the venture capital community in recent months: a broader range of venture capital funds are taking an active part in the various investment rounds, the relative weight of funds out of the total investments has increased, significantly more companies managed to raise capital in this quarter, the ongoing trend of larger financing rounds, etc.

Fellus adds that, for the first time since 2000, the software sector has regained the lead in the Israeli high-tech investments chart. According to Fellus, the prominence of the software sector was also reflected in the U.S., as revealed in the findings of the MoneyTree™ Survey conducted by PwC/ Venture Economics/ National Venture Capital Money Tree Association on April 27, 2004. The U.S. MoneyTree™ Survey reports that after being pushed into second place by the biotechnology sector in the past two quarters, the software sector has regained the first place as the leading single industry category.

Analysis of the first quarter's investments show encouraging figures with regards to the level of participation of local venture capital funds in investments in high-tech companies, both in absolute terms and in terms of their relative weight. This quarter saw \$137 million invested by Israeli VCs (54% of the total investments), as compared to \$88 million (46%) in the previous quarter, and \$66 million (46%) in the corresponding quarter last year.

Israeli VCs investment level



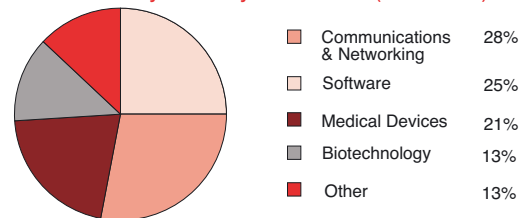
Analysis of the investment chart for the quarter shows an increase in the number of inactive funds: 71 venture capital funds participated in the Survey this quarter, 25 of which made no investments either in new companies or in their portfolio companies. A closer examination reveals that 5 funds had not made any investments in 2003 and 8 local funds had only made investments in one quarter of the year.

Local venture capital funds have also invested in companies abroad. Investments to overseas companies during the quarter made up approximately 19% percent of the total venture capital fund investments, accounting for \$26 million invested in 12 foreign companies with no activities in Israel. In the previous quarter \$25 million was invested in 15 companies.

Companies receiving grants from the Chief Scientist

The Survey reports that 52 out of the 82 companies (63%) that raised capital this quarter received grants from the Chief Scientist. This is the highest figure since the introduction of this item into the Survey. Analysis of the findings show that 33 of the companies that received grants from the Chief Scientist during the quarter are registered as Israeli companies with the rest being registered in the United States.

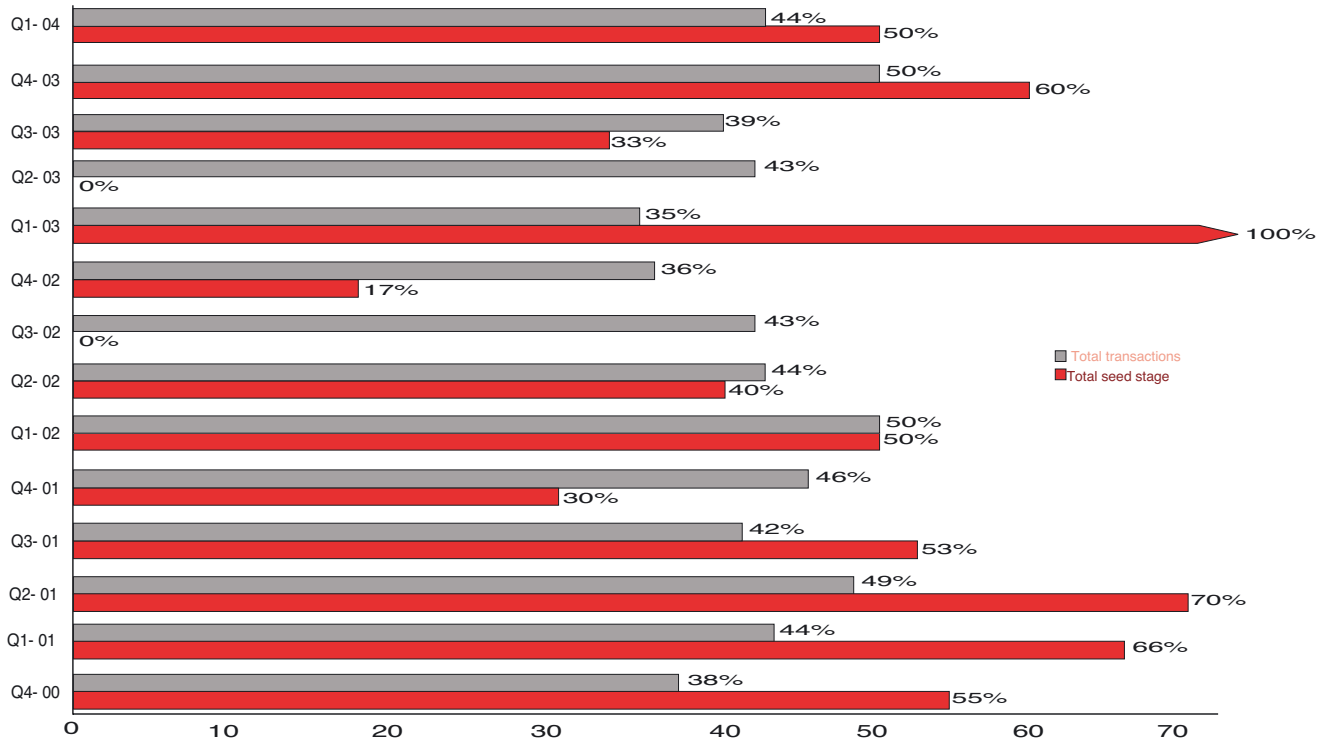
Companies receiving grants from the Chief Scientist by industry - Q1-2004 (% of total)



Analysis by place of registration

The Survey reveals that of the 82 companies that raised capital this quarter, 46 are registered in Israel (56%) and the rest are foreign (mainly registered in the United States). The average investment in the Israeli-registered companies was \$2.4 million, as compared to an average investment of \$4 million in the foreign companies. Analysis of seed stage investments shows that 3 of the 6 companies that closed seed financing arrangements are registered as Israeli companies.

Percentage of companies registered as foreign (vast majority in the U.S.)



Analysis by geographical area

The Survey reveals that 59 companies from Tel-Aviv and the central area attracted \$187 million during the quarter. Companies from Haifa and the North raised approximately \$36 million. In the Jerusalem area, \$18 million was invested in 5 companies. In the South, \$15 million was invested in 2 companies.



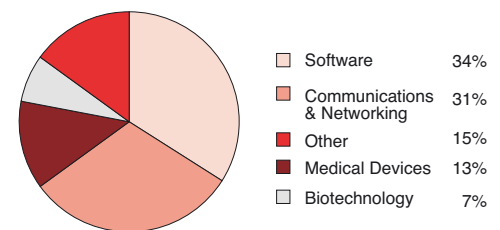
Venture capital investments by industry

The *Software* sector regained the lead after being pushed into second place by the communications sector in 2000. 22 software companies attracted \$87 million (constituting approximately half of the volume of investments in this sector in the year 2003), as compared to 14 companies that raised \$47 million in the previous quarter (an increase of 85% in monetary terms and 57% in the number of transactions). A possible explanation for the sharp increase in the volume of investments in monetary terms is the raising of \$27 million by two software companies (31% of total investments in this sector). The average investment in a software company stands at \$4 million.

The *Life Sciences* sector maintained its position in terms of its relative weight in monetary terms, alongside a slight increase in the number of transactions for the quarter: \$50 million was infused into 25 companies in this sector. In the field of medical devices, 15 companies attracted a total investment of \$33 million. The biotechnology field recorded an increase both in the volume of investments in monetary terms and in the number of transactions: 10 companies in this field raised a total of \$17 million (as compared to 5 companies and \$11 million).

The *Communications* sector attracted a total of \$79 million, which was infused into 18 companies in this sector. Since the previous quarter, there has been an increase in the volume of investments in monetary terms, which was accompanied by a decrease in the number of transactions - three companies accounted for \$48 million (61% of the total volume of investments in this sector). The average investment in a communications company was \$4.4 million, twice the amount recorded in the previous quarter. However, neutralizing the three large transactions reveals an average investment level that is similar to that of the previous quarter (approximately \$2 million).

VC Investments by Industry - Q1-2004 (% of Total)



Venture capital investments by round of financing

Seed round

In this quarter 6 companies attracted seed capital totaling approximately \$5 million, maintaining a similar level to that recorded in the previous quarter (5 transactions with a volume of \$4 million).

stage companies raised \$88 million, compared to 16 companies and \$71 million in the previous quarter. The average investment in this round was \$3.3 million, as compared to \$4.4 million in the previous quarter.

Later stages

Transactions carried out in later stage rounds (fourth to mezzanine) totaled \$55 million, which was invested in 11 companies this quarter. The previous quarter saw \$14 million raised by 9 companies.

Early stage rounds

The early stage (first and second stages together) continues to hold its relative share and attracted 35% of the volume of investments in monetary terms. At the same time there was a significant increase in the number of companies that raised financing in this round: 27 early

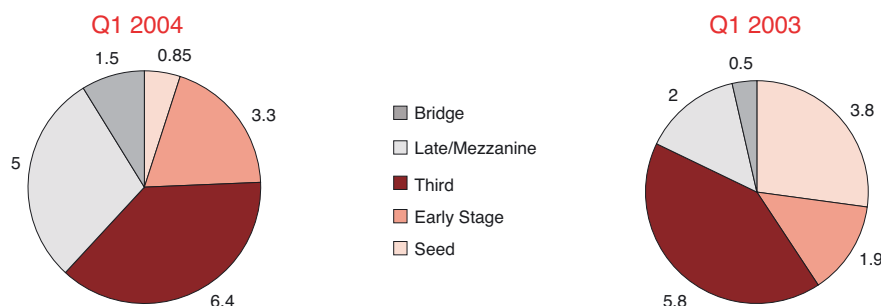
Third round

This round experienced a slight decrease in both the volume of investments and in the number of transactions. In the quarter 10 companies raised a total of \$64 million in third round financing, compared to \$72 million that was infused into 15 companies in the previous quarter.

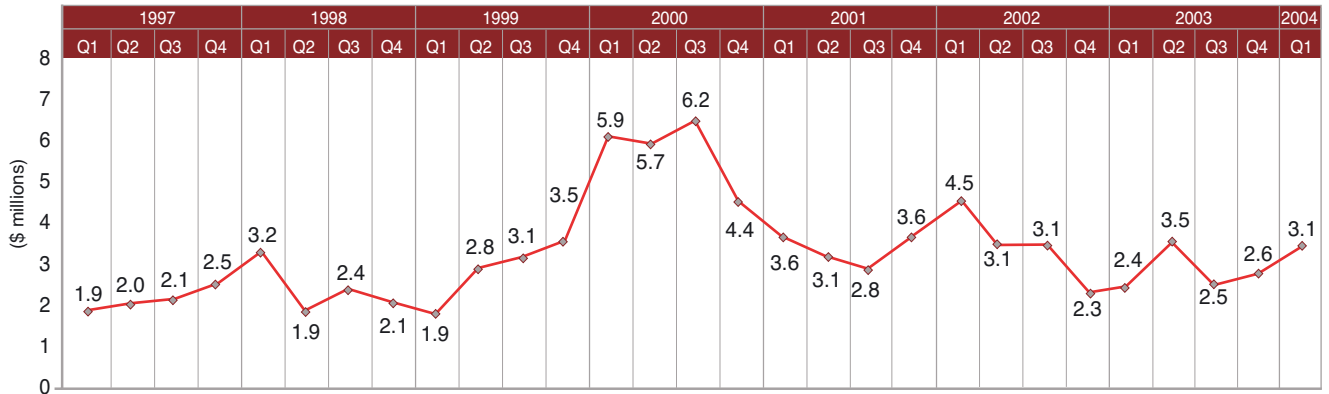
Bridge loans

In this quarter 28 companies raised \$42 million by way of bridge loans, as compared to 29 companies that raised \$30 million in the preceding quarter.

Average investments by round (Millions \$)



Average deal size



Participating Israeli Venture Capitalists in the MoneyTree Survey Q4-2003
(listed alphabetically)

Ag-Tech Fund
Aig Orion Fund LP
Alon Technology Ventures Ltd.
Apax Partners Ventures (Israel) Ltd.
Argoquest, Inc
Ascend Technology Ventures
Astra Technological Investments Ltd.
Atara Technologies Ventures Ltd
Benchmark Israel
BRM Capital Management Inc.
Carmel Ventures
Catalyst Fund L.P
Cedar (Israel) Financial Advisors
Columbine Ventures
Concord Venture Fund
Corex Industries Management Ltd.
Denali Ventures LLC
Edmond De Rothschild Venture Capital Management
Eucalyptus Ventures
Eurofund L.P.
Evergreen Partners
First IsraTech Fund L.P.
Formula Ventures Ltd
Gemini Israel Venture Funds Ltd
Genesis Partners L.P.
Genius Technologies
Gilbridge
Giza Venture Capital

Inventech Investments Company Ltd.
Israel Healthcare Ventures Ltd.
Israel Infinity Venture Capital Management Ltd.
Jerusalem Global Ventures
Jerusalem Venture Partners
Kaptech Holdings Ltd.
Koor Corporate VC
Magnum Communications fund
Marathon Venture Capital Fund Ltd.
Medica Venture Partners
Millenium Materials Fund Management
Mofet Venture Capital Fund Management (1992) Ltd.
Neurone Venture Capital Fund
Ofer Technologies Ltd.
Orbotech
Pamot Asset Management Add-on Ltd.
Pitango Venture Capital (previously Polaris)
Platinum Venture Capital
Poalim Capital Markets
Portview Communications Partners
Proseed Venture Capital Fund
Seed Management Associates, Ltd.
Sequoia Capital Seed Fund
Shalom Equity Fund
Shrem, Fudim, Kelner & Co. Ltd.
Steps - Ventures
STI Ventures

SVM Star Ventures Capital Management Ltd.
Tamar Technology Ventures
Tamir Fishman Ventures(ii)
Technoplus Ventures
Technorov Holding (1993) Ltd.
Teuza - A Fairchild Technology Venture Ltd.
The Challenge Fund - Etgar L.P.
Vectory Investment Company Ltd.
Veritas Venture Partners
Vertex Management (III) Ltd.
Vitalife Life Science Ventures
Walden Israel Ltd.
Yozma Management & Investments Ltd.

About the Israeli MONEYTREE™

Kesselman & Kesselman PricewaterhouseCoopers conducts the Israeli MONEYTREE™ Survey quarterly to promote investments in Israeli start-up ventures. We appreciate the support of the Venture Capital industry in this endeavor. The Israeli survey, initiated in 1997, has become the definitive source for Israeli venture investment data.

For more information on PricewaterhouseCoopers' MONEYTREE™ Survey, please call Adi Bengal, Israeli MONEYTREE™ Project Manager, at 972-3-7954619, e-mail: adi.bengal@il.pwc.com or Sarit Gayle Fried, at 972-3-7954764, e-mail: sarit.fried@il.pwc.com
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