

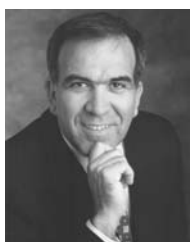


MONEYTREE™ Survey

50% growth in the volume of total investments in monetary terms in the first half of 2004 as compared to the first half of 2003

52% growth in the average investment in a high-tech company as compared to last quarter

Q2
2004
results
Israeli
report



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

The results show that high-tech companies backed by venture capital funds (where one of the investors in the financing round is a venture capital fund) raised at least \$326 million in the second quarter of 2004, a 28% increase over the previous quarter (\$255 million), and a 34% increase as compared to the corresponding quarter in 2003 (\$243 million). In juxtaposition, this quarter showed a 15% decrease in the number of companies that raised capital, 70 companies in the second quarter as compared to 82 companies in the previous quarter. The average investment in a company during the quarter was \$4.7 million, a 52% increase as compared to the previous quarter (\$3.1 million).

Joseph Fellus, Senior Partner & High Tech Practice Leader at the accounting and consulting firm Kesselman & Kesselman PricewaterhouseCoopers (PwC) noted that there is a dramatic increase in the average price overall, and particularly in the advanced investment rounds (reflecting the revived and fiercing competition between the VC's in their search for attractive investments). Fellus added that there is no perception of there being a lack of available investment funding - at least with regards to quality investments.

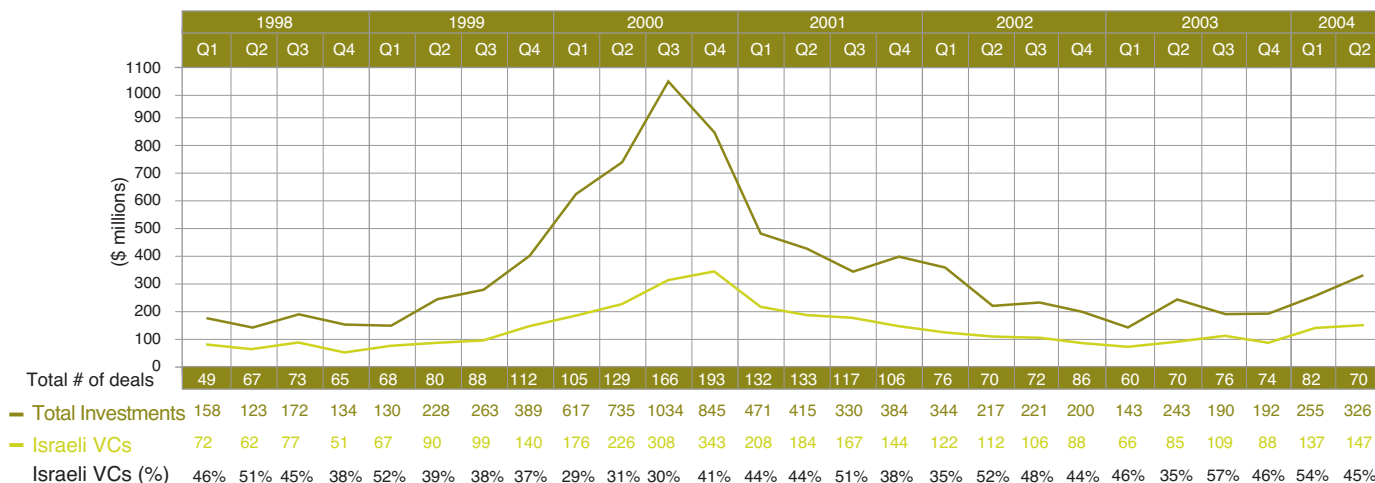


Ms. Sarit Gayle Fried,
Senior Associate
Israeli MoneyTree

The findings of the Survey show an increase in the monetary volume of investments by local venture capital funds, but at the same time a decrease in the venture capital funds' share of the total investments as compared to the previous quarter. This quarter saw a 7% increase in the value of the investments to \$147 million, representing 45% of all of the quarter's investments, in absolute terms. In contrast last quarter's \$137 million invested by local venture capital funds, represented 53% of the total investments.

In addition to the investments in companies with Israeli operations, the local venture capital funds have also invested in 21 companies with no Israeli operations, 23% of the total number of deals, as compared to 13% in the previous quarter. \$31 million was invested in overseas companies, representing 9% of the total venture capital invested, a 19% increase over the previous quarter (\$26 million).

Israeli VCs investment level





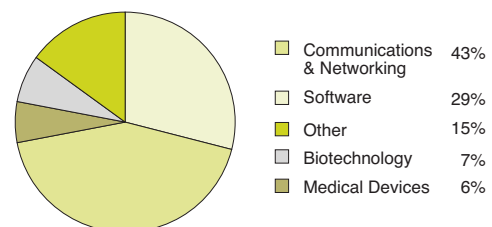
Venture capital investments by industry

In the second quarter of 2004 the *Communications & Networking* sector returned to the forefront with \$140 million infused into 24 companies, as compared to \$80 million in 18 companies in the previous quarter. This quarter presents a 75% increase in the amount invested over the corresponding quarter in 2003. 5 companies attracted over \$10 million each, for an aggregate of \$105 million.

The *Software* sector was again pushed back into second place; however, it did experience an increase in terms of the volume of investments in monetary terms and a growth in the average investment in a software company. This quarter saw 18 software firms raise \$94 million, as compared to last quarter's 22 firms raising \$87 million. The average investment in a software company was \$5.2 million in the second quarter. 5 software companies attracted over \$10 million each, for a total of approximately \$60 million.

The *Life Sciences* sector experienced a decrease in both monetary terms and in the number of deals this quarter: 13 companies raised \$44 million, as compared to 25 companies raising \$50 million in the previous quarter. For the first time since the third quarter of 2001, the *Biotechnology* field dominated the life sciences sector, in monetary terms, with \$24 million infused into 5 companies. The *Medical Devices* field registered a decrease in both the amount invested and in the number of transactions with \$20 million in 8 companies, as compared to the previous quarter's 15 companies raising \$33 million.

VC Investments by Industry - Q2-2004 (% of Total)



Venture capital investments by round of financing

Seed round

In the quarter, 4 companies attracted seed capital totaling \$8 million. The average investment in the quarter for seed round was \$1.9 million versus \$0.85 million in the previous quarter.

Early stage rounds

The early stage (the first and second stages together) continues to hold its relative share and attracted 36% of the volume of investments in monetary terms. 17 companies raised \$118 million, as compared to the previous quarter's \$88 million infused into 27 companies. The average investment in an early stage round was \$7 million; however, negating the 5 largest investments (totaling \$65 million), the average investment in an early stage company is \$4.4 million.

Third round

For the second quarter in a row, the third round experienced a decrease in the monetary terms in the volume of investments. During the quarter, 14 companies attracted over \$46 million in third round financing, as compared to 10 companies raising \$64 million in the first quarter. The average investment for a third round deal fell nearly 50% to \$3.3 million, from \$6.4 million in the previous quarter.

Later stages

Transactions carried out in later stage rounds (fourth to mezzanine) accounted for 40% of the volume of investments in monetary terms, yet only 14% of the total number of deals. In this quarter 10 companies raised \$127 million, 131% more money with one company less than in the previous quarter (\$55 million in 11 companies). Negating the four largest investments, (totaling \$94 million), the average later stage investment totaled \$5.5 million, similar to the first quarter's average later stage investment (\$5 million).

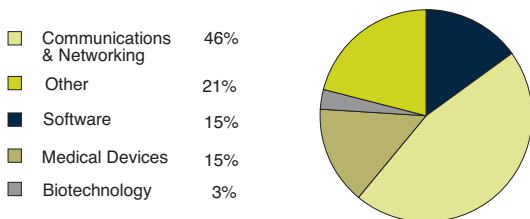
Bridge loans

In the second quarter of 2004, 24 companies raised \$24 million by way of bridge loans, as compared to 28 companies that raised \$42 million in the preceding quarter.

Companies receiving grants from the Chief Scientist

The Survey reports that 34 out of the 70 companies that raised capital this quarter received grants from the Chief Scientist. Analysis of the findings show that 24 of the companies that received grants from the Chief Scientist are registered as Israeli companies with the rest being registered in the United States.

Companies receiving grants from the Chief Scientist by industry - Q2-2004 (% of total)



Analysis by geographical area

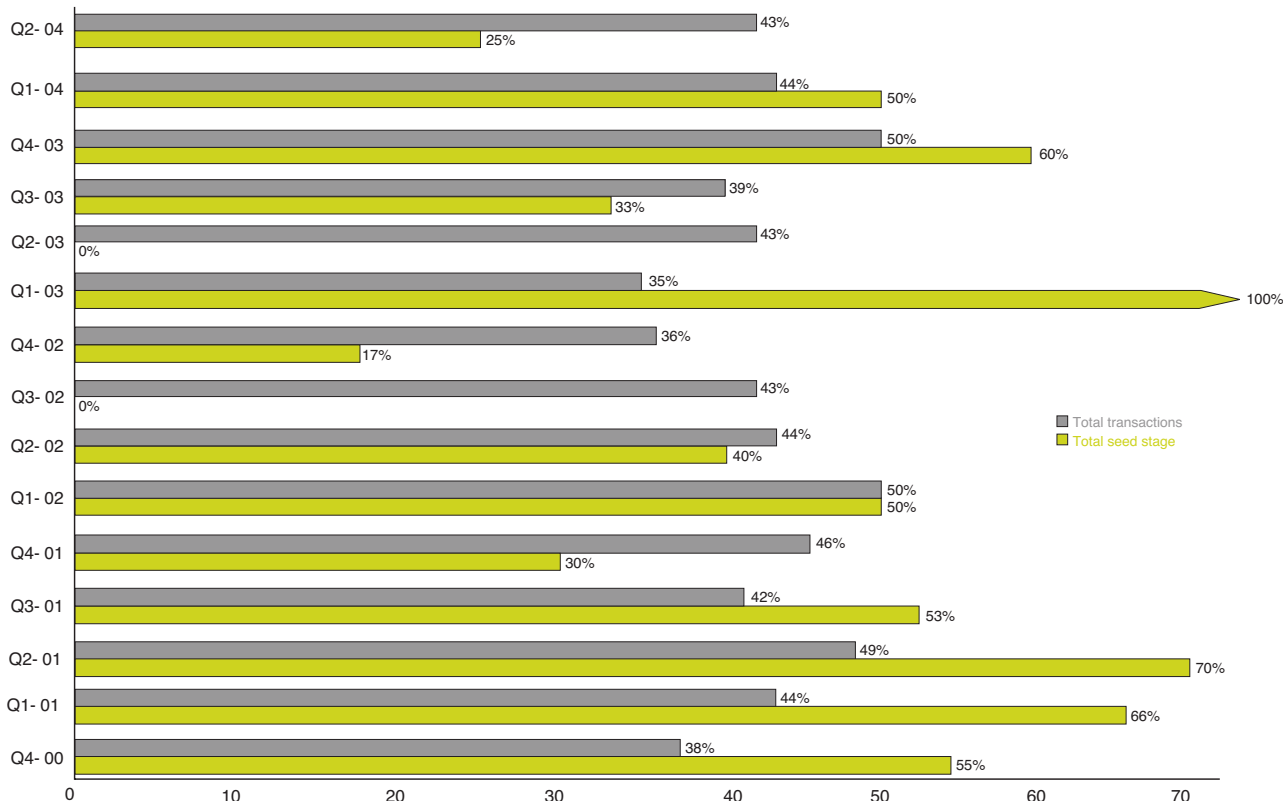
In the second quarter \$279 million was invested in 55 companies based in Tel Aviv and the central area. 10 companies in the north (including Haifa) raised \$15 million. The number of investments in Jerusalem based companies remained stable at 5 investments in the past 2 quarters. In this quarter, Jerusalem based companies attracted \$32 million as compared to \$18 million in the previous quarter. There were no investments in the south during the quarter.

Analysis by place of registration

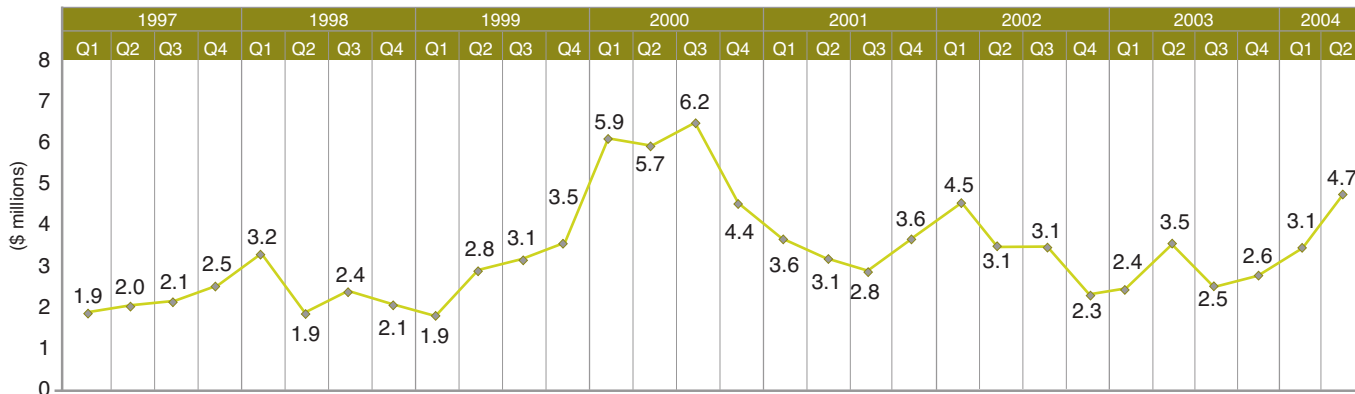
According to the Survey results, of the 70 companies that raised capital in this quarter, 40 are registered in Israel (57%), with the remainder foreign registered (mainly in the United States). The average investment in an Israeli-registered company is nearly \$2.6 million, while the average investment in a foreign registered company came in at a whopping \$7.4 million.

Analysis of seed stage investments shows that 3 out of the 4 companies that closed seed financing in the quarter are registered in Israel.

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



Average deal size



Participating Israeli Venture Capitalists in the MoneyTree Survey Q2-2004 (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
- Bio-Medical Investments
- BRM Capital Management Inc.
- Carmel Ventures
- Catalyst Fund L.P
- Cedar (Israel) Financial Advisors
- Clal Biotechnology Industries Ltd.
- Columbine Ventures
- Concord Venture Fund
- Corex Industries Management Ltd.
- D.Z. Israel Associates Ltd.
- Delta Ventures Ltd.
- Denali Ventures LLC
- Edmond De Rothshchild 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.
- Gilbridge
- Giza Venture Capital
- Israel Healthcare Ventures Ltd.
- Israel Infinity Venture Capital Management Ltd.
- Jerusalem Global Ventures
- Jerusalem Venture Partners
- Kaptech Holdings Ltd.
- Magnum Communications fund
- Marathon Venture Capital Fund Ltd.
- Medica Venture Partners
- Millenium Materials Fund Management
- Mofet Venture Capital Fund Management (1992) Ltd.
- Montefyori Partner
- Ofer Technologies Ltd.
- Pamot Asset Management Add-on Ltd.
- Pitango Venture Capital (previously Polaris)
- Platinum Venture Capital
- Poalim Capital Markets
- Portview Communications Partners
- Seed Management Associates, Ltd.
- Sequoia Capital Seed Fund
- Shrem, Fudim, Kelner & Co. Ltd.
- StageOne Ventures
- STI Ventures
- SVM Star Ventures Capital Management Ltd.
- Tamar Technology Ventures
- Tamir Fishman Ventures(ii)
- Technoplus Ventures
- Teuza - A Fairchild Technology Venture Ltd.
- The Challenge Fund - Etgar L.P.
- 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 Visit our web site: <http://www.pwcmoneytree.com>

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