

**The Kesselman & Kesselman PricewaterhouseCoopers
Money Tree™ Survey for the final quarter of 2004 reports:**

**Venture capital investments in Israel aggregate \$1.2 billion in 2004 -
an increase of 59% over 2003**

**In the final quarter of 2004, the Life Sciences Sector ascends to the first place in
the volume of investments - \$130 million representing 45% of total capital raised
in the quarter**

The Kesselman & Kesselman PricewaterhouseCoopers Money Tree™ Survey reports that 2004 showed the highest level of investments backed by venture capital funds (where at least one of the investors in the financing round is a venture capital fund) in three years, with a 59% increase over 2003 (\$1.2 billion as compared to \$0.77 billion, respectively). The average investment was \$4 million, as compared to \$2.7 million in 2003.

Analysis of the Survey findings for the final quarter of 2004 shows that 78 companies (that have operations in Israel) raised capital in the aggregate volume of at least \$292 million, as compared to \$347 million infused into 78 companies in the previous quarter. The average investment in a company also decreased, amounting to \$3.7 million (as compared to \$4.6 million in the pervious quarter).

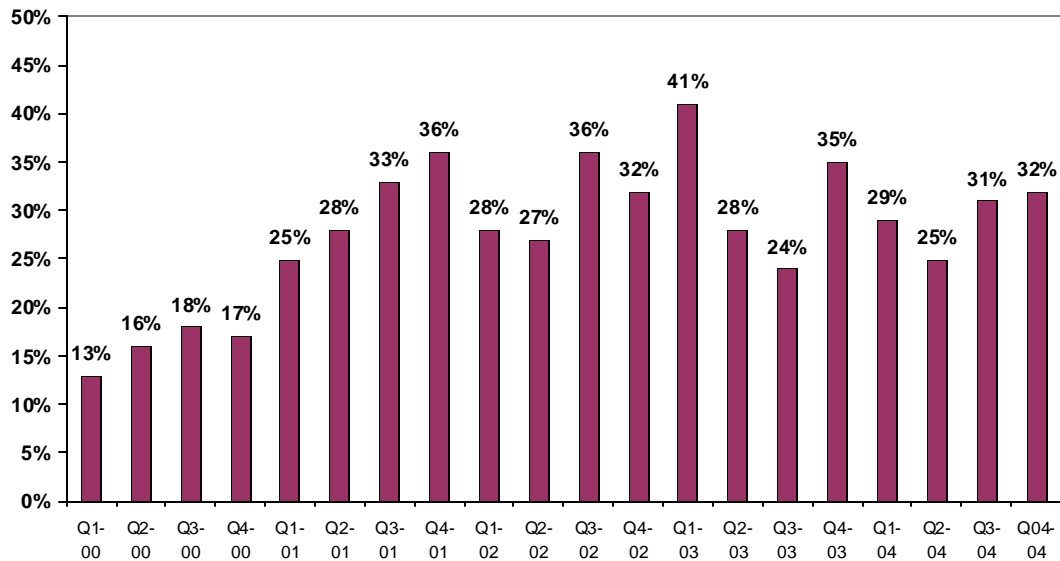
The fourth quarter of 2004 showed the highest level of investments in **Life Sciences** companies (Biotechnology and Medical Devices). According to the Survey, these companies raised approximately \$130 million, an increase of 106% over the preceding quarter and a whopping 225% over the same quarter last year (\$40 million).

Joseph Fellus, Senior Partner & High Tech Practice Leader at the accounting firm Kesselman & Kesselman PricewaterhouseCoopers notes that the findings of the Survey reveal the unprecedented strength of the venture capital sector in Israel, both in absolute terms and as compared to other countries.

The strength of the market is reflected in:

- The growing list of companies that undergo a sale in eight digit volumes.
- The prevailing trend among investors of “revitalizing” companies, whose activities have been suspended during the period of recession, that possess an advanced and viable technology.
- Closing of capital raising rounds in new funds that enable investments in companies in earlier stages of development.

Percentage of Funds that Made No Investments

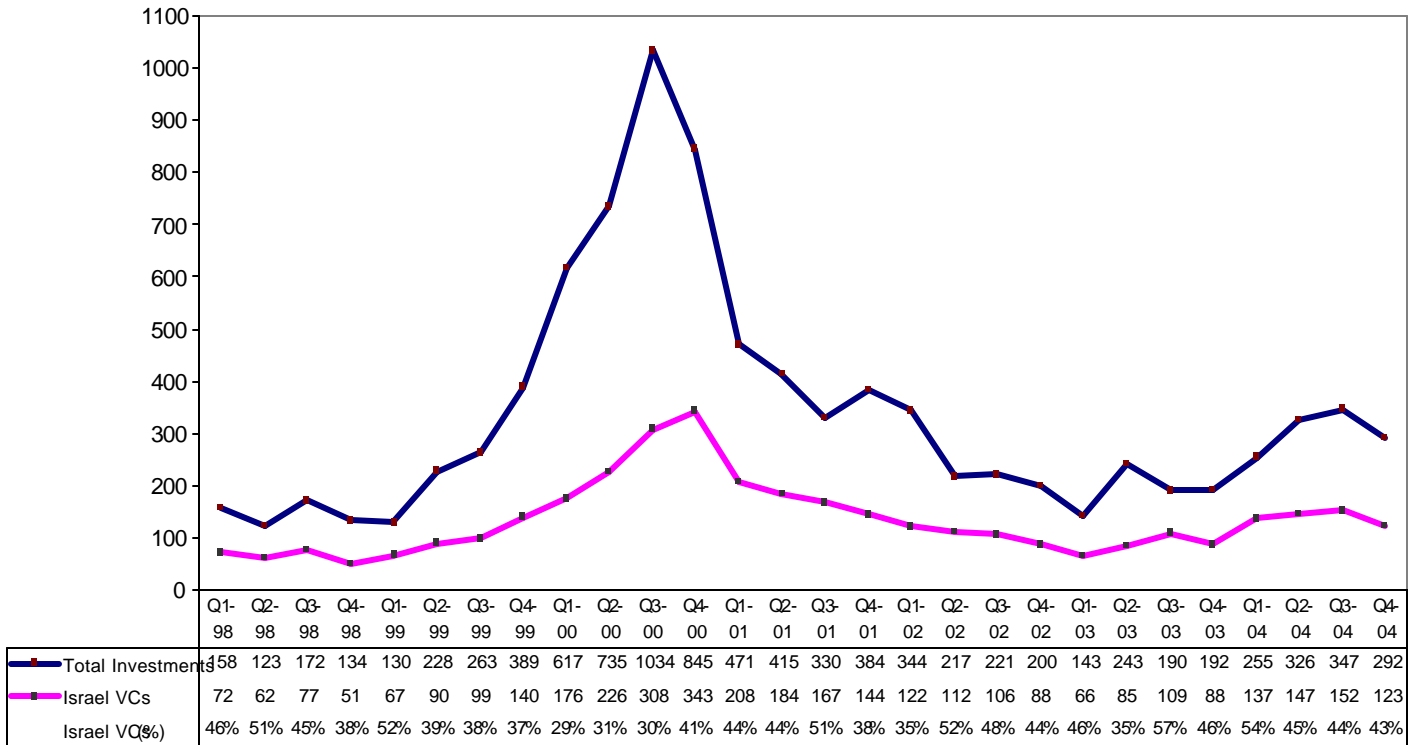


The Venture Capital Funds’ Slice of the High-Tech Cake

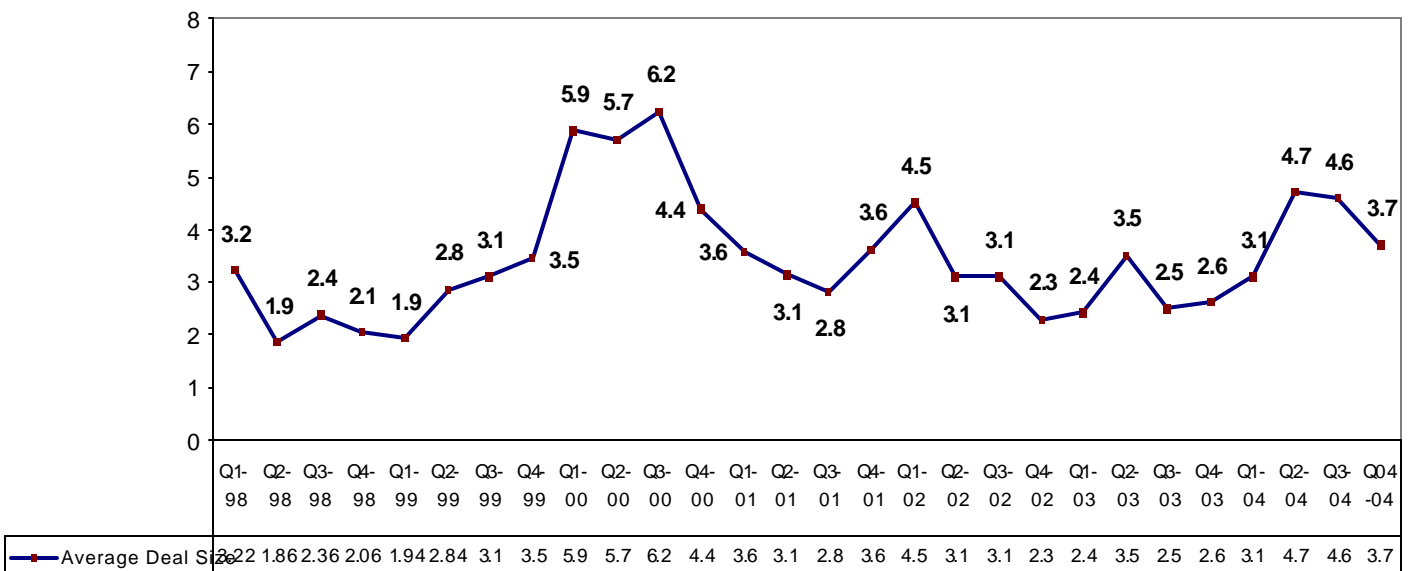
In the final quarter of 2004, the relative weight of the local venture capital funds remained unchanged, with \$123 million invested for a 42% share of the quarter’s total investments, in monetary terms. In the previous quarter, the local venture capital funds invested \$152 million, representing 44% of all the quarter’s investments. It should be noted that, since 2001, the share of local venture capital funds in total investments, in monetary terms, remained stable (43% -46%).

In addition to the investments in companies with Israeli operations, local venture capital funds invested in 13 companies that have no operations in Israel. This accounted for 17% of the total number of deals, as compared to 21% in the previous quarter. Despite the decrease in the number of companies that have no operations in Israel, the volume of investments in said companies, in monetary terms, increased to \$29 million, or 10% of total investments in monetary terms, as compared to \$19 million infused into foreign companies in the previous quarter. The Survey also shows a slight decrease of 4% in total investments (in monetary terms) made in 2004 in companies that have no operations in Israel as compared to the preceding year.

Israel VC's Investment Levels (\$ in millions)

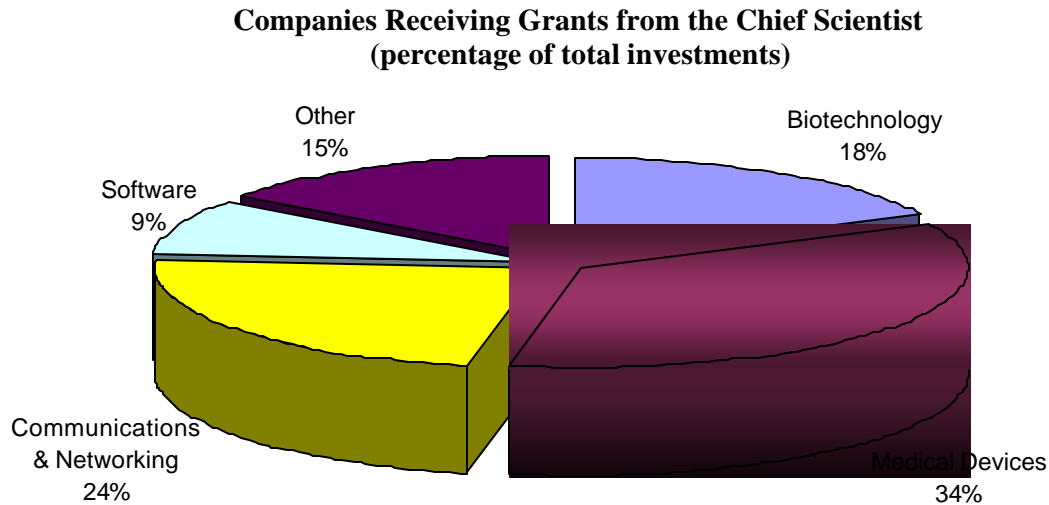


Average Investment in Monetary Terms (\$ in millions)



Companies Receiving Grants From The Chief Scientist

According to the Survey, 44% of all the companies that raised capital in the quarter have received grants from the Chief Scientist (34 companies), of which 23 are registered in Israel. The Survey further indicates that the Life Sciences sector prevailed, with 18 companies receiving grants from the Chief Scientist.



Analysis By Place of Registration

The findings of the Money Tree™ Survey show that of the 78 companies that raised capital this quarter, 42 are registered in Israel (54%), and the rest are registered as foreign companies (mostly in the US). In monetary terms, Israeli registered companies comprised approximately 53% of the quarter’s total investments. Analysis of seed stage investments shows that 3 out of the 6 companies that closed seed financing in the quarter are registered in the US.

Analysis By Leading Technological Sectors

The **Life Sciences** sector ascended to first place with \$130 million, constituting 45% of the quarter’s total monetary investments, as compared to \$63 million attracted by this sector in the previous quarter and \$40 million in the fourth quarter of 2003. 10 **Biotechnology** companies attracted \$41 million, constituting 14% of the total volume of investments. The **Medical Devices** field registered a record amount of \$89 million (31%) raised by 17 companies. It should be noted that 2 companies in this sector raised over \$20 million each. The average investment per company in this sector was \$4.8 million, as compared to \$2.8 million in the preceding quarter. In 2004, the Life Sciences sector attracted investments of \$286 million, double the amount recorded in 2003.

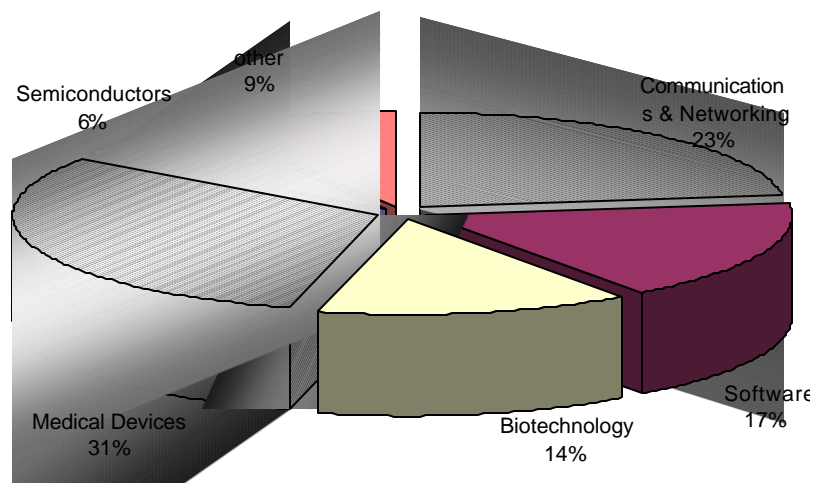
According to **Joseph Fellus**, the successful IPO's of companies in the Life Sciences sector encouraged the funds to invest in Life Sciences companies in advanced stages of development. In addition, the volume of investments and the large number of companies participating in these rounds places this sector at the center of attention, paving the way for continuing high levels of activity.

Particularly prevalent this quarter was the continued diminishing of the **Communications & Networking** sector. For the third consecutive quarter, the volume of investments registered a substantial decrease. Only 19 companies in this sector raised capital, amounting to \$67 million, or 23% of the total investments, as compared to 43% in the preceding quarter. The average investment per company in this sector was \$3.5 million, as compared to \$5.6 million in the preceding quarter.

The **Software** sector held its position, with 14 companies that raised \$51 million during the quarter, as compared to 11 companies and \$55 million in the previous quarter (16%). The average investment per company was \$3.6 million, as compared to \$5.2 in the previous quarter.

The **Semiconductors** sector returned to its average level, with \$18 million raised by 6 companies, comprising 6% of total investments in monetary terms. The quarter's average investment in a semiconductor company was \$2.9 million, as compared to \$7.7 million last quarter (2 companies in this sector together attracted approximately \$40 million in the preceding quarter).

Venture Capital Investments by Industry (in monetary terms)



Analysis By Investment Round

Seed round

In the quarter, 6 companies attracted seed capital totaling \$18 million. The average investment in the quarter for seed round was \$3 million

Early stage rounds

The early stage (the first and second stage s together) attracted 37% of the volume of investments in monetary terms. 31 companies raised \$108 million in the quarter, as compared to 24 companies and \$118 million in the previous quarter. The average investment in this round in the fourth quarter was \$3.5 million, as compared to \$4.9 million in the previous quarter and \$4.4 million in the corresponding quarter last year.

Third round

Following the dramatic increase in the volume of investments in monetary terms in this round in the third quarter of the year (\$99 million), the investments in this round returned to their original levels, with \$77 million infused into 14 companies. The average investment in this round was \$5.5 million. However, the neutralization of two investments in the aggregate amount of \$43 million reduces the average investment to \$2.8 million.

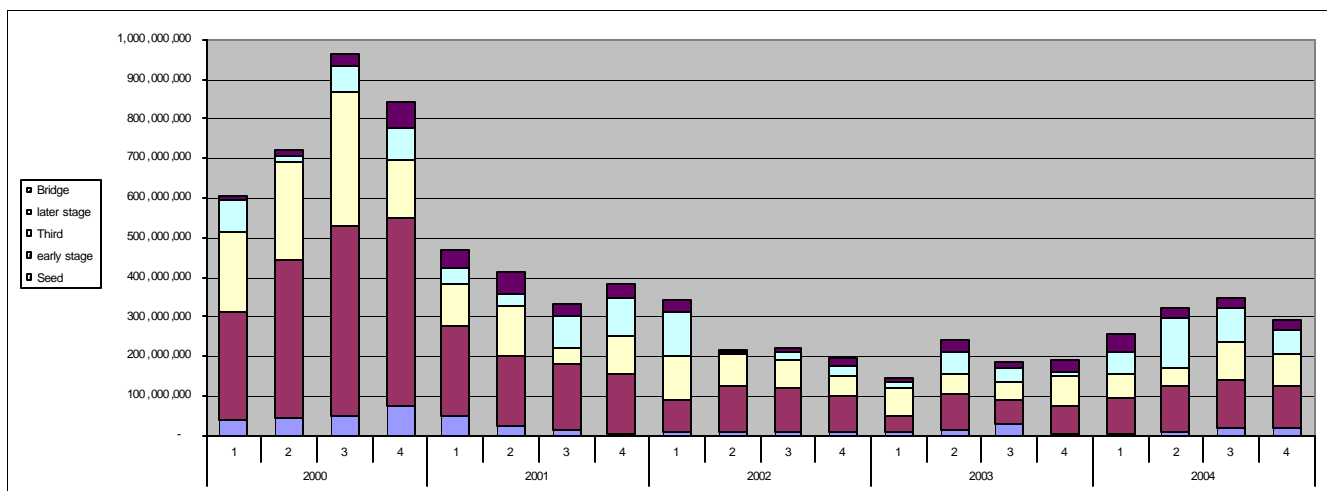
Later round

Transactions carried out in later stage rounds (fourth to mezzanine) increased significantly in 2004, amounting to \$330 million, as compared to \$123 million in 2003. In the fourth quarter, these rounds accounted for 22% of the volume of investments in monetary terms, with 10 companies raising an aggregate of \$63 million. The average investment remained unchanged from the last quarter, amounting to \$6.3 million.

Bridge loans

26% of the quarter's investments were raised by way of bridge loans. 20 companies raised \$24 million by way of bridge loans, as compared to 24 companies that raised \$24 million in the preceding quarter.

Distribution of the Volume of Investments Made By Venture Capital Funds By Investment Round



Stages of development

Seed/start-up stage

In the final quarter of the year, 18 companies in the initial stage of development (seed/start-up) raised \$48 million, the highest volume of investments recorded for this stage since 2001. The average investment in the quarter amounted to \$2.7 million. In 2004, 54 investments were made in 40 start-up companies (a 30% increase as compared to 2003), aggregating \$121 million.

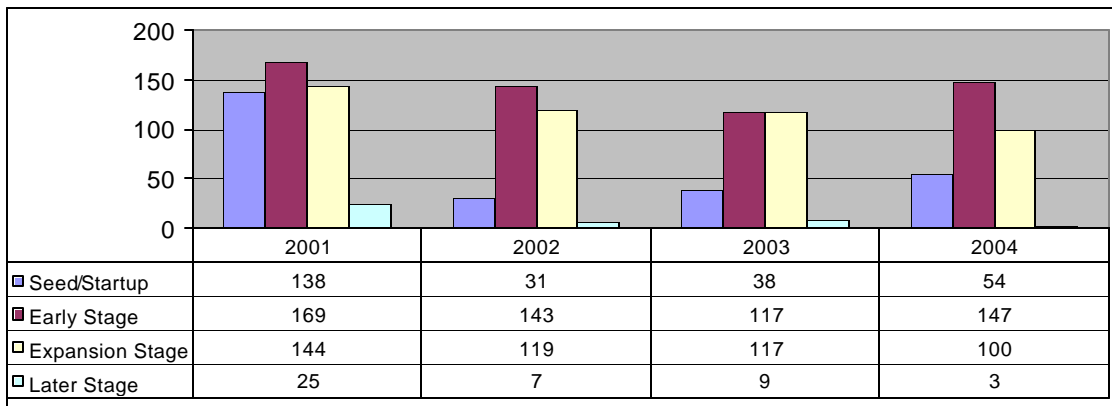
Intermediary stage (early/expansion stage)

59 companies in this stage raised \$236 million, with an average investment of \$4 million. On an annual basis, this stage maintained a level of 87% of total investments in monetary terms, as the early stage registered an increase of 88% with \$527 million raised.

Advanced stage (later stages)

No investments were made in this stage during the quarter. The three investments made in this stage in 2004 amounted to \$30 million.

Distribution of the Number of Investments Made By Venture Capital Funds By Development Round



The MoneyTree™ Survey has been carried out quarterly by Kesselman & Kesselman in Israel for the past eight years, in conjunction with the surveys carried out in the United States and Europe by the largest accounting and consulting firm in the world - PricewaterhouseCoopers (PwC). In this quarter, 70 venture capital firms participated in the Survey. The results of the Survey are used widely every quarter by Israeli and foreign venture capital funds, commercial banks, investment banks and other financial institutions in Israel and worldwide, high-tech companies, government ministries, the Office of the Chief Scientist and others.