

eurofund quarterly

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Companies Turning to the TASE for IPO's

Thirty-five Israeli companies made initial public offerings (IPOs) on the Tel Aviv Stock Exchange (TASE) during the first quarter of 2007. These figures compare positively with 37 IPOs during all of 2006 and 24 offerings in 2005.

The leading IPOs were British-Israel Investments LTD (TASE: BRTS) which raised NIS 300 million; Ashdar Building Co. Ltd. which raised NIS 180 million; and Clal Biotechnology Industries Ltd. (TASE: CBI) which raised NIS 200 million.

Israel Rises 3 Ranks to 21st Place in World Competitiveness

Israel's economy climbed to 21st place in the World Competitiveness Yearbook rankings published by the International Institute for Management Development (IMD) based in Lausanne, Switzerland. Fifty-five countries were evaluated in the survey, which is based on data collated from business entities worldwide. The survey assessed each country's performance based on over 300 economic criteria that measure economic efficiency, government efficiency, business efficiency, and infrastructure.

Israel is ranked in 20th place for economic strength, unchanged from last year and climbed 20 places from 45th to 25th in the ratings for international investment. The country dropped two places to 33rd in the economic efficiency rankings and rose to 16th from 24th place in the rankings for business efficiency. The US continues to top the tables, followed by Singapore and Hong Kong in second and third place.

Microsoft Israel to Increase its R&D Presence in Israel

Microsoft Corporation has been increasing its R&D efforts in Israel. The company plans to hire 150 people, most of them R&D specialists. Last year, the company doubled its manpower at R&D centers in Israel from 200 to 400 people. This growth was mostly the result of the acquisition of Whale Communications, Gteko, and Secure Dimensions. Microsoft's new R&D activity will focus on security and telecommunications products and support.

Continued Strong Economic Growth Spurs Companies' Long Term Investment

Since mid-2003, the end of the most recent Palestinian *intifada*, the Israeli economy has grown by 18.3%. This represents Israel's longest period of sustained growth since the country was established in 1948. Despite ever-present political and security concerns, there are indications that Israeli consumers and businesses alike have more confidence in the economy and are increasing their investment in long-term development. Businesses in Israel, which have at times been criticized for taking a short-term planning approach, seem to be investing for a rosy future.

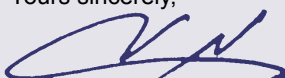
The "Globes" Israel Consumer Confidence Index increased five points in May of 2007 to reach 90, its highest level in six years. The index has risen twelve points since January, after falling during the second half of 2006. Such consumer confidence in the economic environment was last seen in November 2000, in the optimistic period following the signing of the Oslo Agreement. Unlike that period, when political and diplomatic developments spurred economic confidence, the current uptick in the index seems to be driven entirely by the strong economy.

During the first quarter of 2007 GDP grew at an annualized rate of 6.3%. Public consumption fell by 4%, driven primarily by a decrease in defense imports. Private consumption increased sharply due to the shekel's strength and resulting lower prices, with per capita consumption growing at an annualized rate of 10%. Imports of durable goods and cars increased and the number of vehicles purchased by businesses rose 158% (annualized).

In light of these positive trends, companies feel more secure and are planning for the future. Organizations are bolstering their fixed resources to be able to meet future increases in activity and demand. The construction industry, whose recovery started at the beginning of 2006 and is continuing, is one beneficiary of the increased spending on infrastructure. In addition, investments by businesses in equipment and machinery increased by annualized 11% in a clear indication of expectations of long-term expansion. Companies are hiring, as evidenced by the continuing slide in unemployment, which reached 7.7% during the first quarter of 2007, the lowest rate since the beginning of the decade.

We believe that this trend will continue and that Israeli companies will continue to plan for, invest in and achieve significant growth and success.

Yours sincerely,



Aharon Beth-Halachmi

israel investment news

Veolia to Invest \$1 Billion in Israel by 2013

Paris-based Veolia Environnement intends to invest \$1 billion in Israeli projects over the next five years. The company focuses on four main areas: water, environmental quality services, energy and public transport. Veolia plans to invest in the construction and running of natural gas-driven power stations, land decontamination and water purification facilities, light railways, privatized water and sewage systems, and other environmental projects. The company aims to increase its staff from 1,700 at present to 8,000 people by 2013.

Veolia Environment Israel is already a partner in the Ashkelon desalination facility and a light railway project. It recently signed an agreement to jointly bid with the Israel Electric Corporation (IEC) on the Israel Railways \$300 million electrification tender as well as build (and initially operate) a hot water supply system for the Ashdod desalination facility.

Intel Capital Investing \$4.5 Million in Ceedo Technologies

In a private investment round, Intel Capital invested in Ceedo Technologies, a consumer software company. Ceedo's virtualization technologies enable users to run Windows-based programs and

applications on external or network drives without installation on a host PC. This technology creates a personal work environment based on mobile data storage devices.

OpTier Receives \$15 Million in Third Round of Funding

OpTier raised \$15 million in funding from new investor Gemini Israel Funds and existing investors Pitango Venture Capital, Carmel Ventures, and Lightspeed Venture Partners. OpTier is a leader in Business Transaction Management with numerous deployments in Fortune 500 companies. Its products deliver end-to-end visibility and control of all business transactions. Its main product, CoreFirst discovers, tracks, monitors and profiles all transactions across tiers to map IT business service topology. The product assists collaboration among stakeholders by providing them with a common transactional context, reducing the time and resources needed to resolve application and platform performance issues.

ECI Telecom Unveils Secure Encryption Solution for High-Speed Ethernet Networks

Israel's ECI Telecom, which provides scalable broadband access, transport and data networking infrastructure that serves as the basis for next-

generation voice, IPTV, mobility and other business solutions, has introduced an advanced encryption solution.

The Aurora-G protects all types of data transmission over high-speed Ethernet networks. It integrates encryption functionality into the XDM and enables service providers to decrease network complexity, lower power and space requirements, and reduce operational expenditures through integrated management tools.

Kasamba, Inc. Acquired by LivePerson for Approximately \$40 Million

LivePerson, Inc. (NASDAQ:LPSN), a provider of online conversion solutions, will acquire Kasamba, Inc., a leader in live expert advice delivered online via real-time chat to consumers.

Kasamba offers a turnkey solution for thousands of experts in dozens of fields including personal counseling and coaching, computer services, education and tutoring, health, business and finance to sell their knowledge via real-time chat to more than one million monthly visitors to the company's site. Kasamba's commission-based business model generates revenue from each paid consumer-to-expert interaction.

Key Economic Indicators 2006 & Q1 2007

Annualized GDP Growth (Q1 2007)	6.3%
Interest Rate (June 2007)	3.5%
Last Twelve Months Inflation (May 2007)	-1.3%
YTD (end of Q2 2007) Returns of Tel Aviv-100 Index	+ 19.91%
Foreign Direct Investment (2006)	\$14.2 Billion
Total Foreign Investment (2006)	\$16.6 Billion

Source: Ministry of Finance, Israel; *The Marker*; Financial Websites.

portfolio company spotlight



Company name: CyOptics, Inc.

Brief description: Optical components for broadband solutions.

Established: 1999

Headquarters: Breinigsville, Pennsylvania

Additional offices: Matamoros, Mexico

Key executives: Ed Coringrato, CEO; Uzi Koren, CTO; Matt Riley, CFO

Website: www.cyoptics.com

CyOptics, which was founded in 1999 as a 40Gbps components company, designs, develops and markets a full line of optical components from 1Gbps to 40Gbps and beyond for integration into access, metro and long-haul optical communications systems. CyOptics also provides complete contract design, foundry and packaging services. The company serves a global set of customers in the telecommunications, data communications and defense/avionics markets.

CyOptics' core capabilities are in the design and manufacture of indium phosphide (InP) based laser and receiver chips. CyOptics offers turnkey solutions at the InP device level from epitaxial growth through wafer and chip fabrication. The company has leveraged its proprietary automated

"nano-tech" capable assembly and test processes, to become an industry leader in both hybrid integration using different elements in a single package and monolithic integration on a single chip.

Many members of the management team have rich industry experience, gained during their tenure at industry leaders including AT&T/Lucent and Bells Labs. Over the years, CyOptic's acquisitions have helped the company grow and achieve a market leadership position. The company's 2003 CENiX acquisition provided it with optical component packaging capabilities as well as component package design technology and automated manufacturing capabilities. The acquisition of TriQuint's opto-electronics operations in 2005 bolstered CyOptics' market share, product line and production capabilities. The company's most recent acquisition, earlier this year, of Apogee Photonics extended CyOptics' product portfolio in the 10Gbps and emerging 40Gbps markets.

CyOptics' customers are system integrators and optical module manufacturers. The company focuses on several high-growth market segments:

- 10Gbps. With the industry's broadest 10Gbps product offering, CyOptics is a leading supplier for 10Gbps TOSAs/ROSAs (transmit/receive optical subassemblies) targeted at the growing markets of 10G Ethernet, 10Gbps SONET, 8x fiber channel as well as 10Gbps DWDM (dense wavelength division multiplexing).
- Fiber-to-the-home (FTTH) market. CyOptics is the industry's leading supplier of InP laser and receiver chips, as well as TO-can based lasers into the GPON (Gigabit Passive

Optical Network) FTTH market. In 2006, CyOptics shipped over one million lasers and detectors into this rapidly growing market.

- Tunable lasers. To enable agile networks, CyOptics supplies gain chips for other tunable laser vendors and has signed a manufacturing and marketing agreement with Syntune to market Syntune's tunable laser.

Looking to the future, CyOptics is uniquely positioned to combine its broad InP device and highly automated packaging capabilities to offer next generation Photonic Integrated Circuits (PICs). This semiconductor chip integration technology (called monolithic integration) enables production of several devices such as lasers, modulators and connecting optical waveguides on the same semiconductor chip. The technology holds promise as a disruptive cost structure for next generation optical interfaces in telecom and datacom networks. CyOptics is already playing a key role in the commercialization of this technology and has been involved in several early technology demonstrations of its PIC capabilities, including a TOSA/ROSA development in partnership with Cray, Inc. (Nasdaq: CRAY) and the U.S. government's High Productivity Computing Systems (HPCS) program.

According to CEO Ed Coringrato, "CyOptics' experience and expertise make it a market leader in InP device technology. We offer one of the industry's most capable manufacturing infrastructures and broadest product offering. CyOptics is well-placed within the industry as a pure-play InP components company and continues to focus on maintaining its technology leadership position."

portfolio news

• **BeInSync.** BeInSync was named as a finalist in the prestigious “Webware 100” Awards by CNET Webware editors and the Web 2.0 user community in the Data category (search, storage, backup, sharing, and sync). These awards recognize the best Web 2.0 sites, services and applications that are leading the next wave of innovation.

www.beinsync.com

• **MobileAccess.** MobileAccess has deployed its system across the University of Pennsylvania Health System’s three hospitals. The MobileAccess state-of-the-art, in-building wireless solution assists mobile caregivers in providing the information necessary for performing their responsibilities. It enhances the patient experience by providing pervasive coverage for a broad range of wireless services throughout the 24 buildings that comprise the Hospital of the University of Pennsylvania, Penn Presbyterian Medical Center and Pennsylvania Hospital Campuses.

www.mobileaccess.com

• **Radwin.** Radwin has recently acquired several exciting new clients. In Canada, Radwin’s wireless systems were deployed in a large-scale traffic surveillance & emergency response project. The company’s point-to-point systems transmit high quality video from cameras installed along highways to monitoring centers. This enables the client to monitor highway traffic conditions and provide quick response in emergency situations 24 hours a day, 7 days a week.

Kenya’s government ministry selected Radwin products to connect several government offices throughout the city of Nairobi from one central location. Mr. Mutua, the Ministry of Nairobi’s IT Manager, said: “Radwin has surpassed our expectations on the implementation of this network and this deployment has since become a showcase for other ministry projects.”

Radwin solutions were recently chosen by two major cellular carriers in Latin America, with the total value of Radwin revenue from both contracts expected to reach more than \$1 million dollars in 2007.

www.radwin.com

• **Schema.** Schema, the leading global provider of end-to-end network optimization and performance software solutions and LATTIS, the leading tariff pricing database that is viewed worldwide as the industry standard for pricing private line telecommunications circuits, announced that they will partner to offer a complete solution for leased line optimization.

The companies are currently developing a fully integrated solution which will leverage the LATTIS tariff pricing database and enable operators to enjoy the benefits provided by both companies at minimal cost. This will facilitate an effective and productive deployment process that saves operational expenses by rerouting traffic to significantly minimize leased line costs. Robert Krulcik, Vice President, Sales for Schema said, “This direct integration of our products with LATTIS allows our tools to efficiently provide our customers with a complete analysis

and consideration of all possible leased line solutions to insure that the best optimization plan is provided.”

www.schema.com

• **Tevet Process Control Technologies.** Following the successful establishment of its Trajectory T3 product line on the market, Tevet has made some changes in its upper management to best position the company for growth. Tevet promoted company founder Ofer Du-Nour to CEO and Peter Gillespie to President. Industry veteran Shlomo Caine was appointed to Tevet’s Board of Directors. Mr. Caine most recently worked for Intel Capital and previously ran Intel’s Fab 14 in Ireland. He brings to Tevet over 25 years of experience in running semiconductor fabs and identifying high growth early stage companies and guiding them to becoming successful enterprises.

“We’ve made greater than 2-fold year-on-year business gains since the introduction of our award winning Trajectory T3 product line. Trajectory T3 is now integrated with the leading semiconductor equipment suppliers in the business,” said Ofer Du-Nour, Tevet’s CEO. “As the industry moves to higher throughputs, Tevet’s integrated metrology will become an increasingly important enabling technology. Now Tevet can more aggressively move forward to take advantage of the changing marketplace as our customers move to deposition equipment with throughputs above 150 wafers per hour, a barrier to every wafer measurement in competitive metrology systems.”

www.tevet-pct.com

About Eurofund Eurofund is an early-stage venture capital firm focused on investments in Israeli and Israeli-related high growth companies operating in the fields of telecommunications, information technology, the internet and semiconductors. Eurofund focuses on working with portfolio companies to ensure long-term value creation through innovation and disciplined execution.