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NEWSLETTER

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This newsletter is brought to you by **Invest in Israel**, the investment promotion center of the Ministry of Industry, Trade and Labor.

Invest in Israel works closely with potential and current investors before, during and after investment, and serves as a resource for investment related information about Israel.

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ISRAELI PARLIAMENT APPROVES 2009 - 2010 BUDGET

The Knesset in July passed a first time ever two year (2009-2010) budget. The budget will total 316.5 billion shekels (\$82 billion) in 2009, with a budget deficit of 6% of the gross domestic product (GDP), and 321.5 billion shekels in 2010, with a deficit of 5.5% of GDP.

A mandated 1.7% increase in annual government spending was raised by an additional 1.35% in both 2009 and 2010. The increase will revert to 1.7% in 2011.

The two-year budget is expected to help bring the economy out of recession and at the same time, meet the country's social needs.

To meet those ends, the Israeli government has embarked on a seven-year plan to gradually reduce income and corporate tax so as to attract more businesses to the country.

Meanwhile industrial leaders throughout the world continue to frequent Israel's shores. In July, visitors to Israel included HP Chairman, CEO and President Mark Hurd, Dell Chairman and CEO Michael Dell, Oracle President and CFO Safra Catz, Microsoft Chief Software Architect Ray Ozzie, and AOL CEO Tim Armstrong.

ISRAEL CHIEF SCIENTIST'S OFFICE LAUNCHES BIOTECH FUND

Israel's Office of the Chief Scientist (OCS) at the Ministry of Industry, Trade and Labor announced its intention to establish a new Biotech Fund later this year to help boost growth in Israel's biotech sector. The fund aims to raise up to 1 billion shekels (\$250 million), of which 250 million shekels will be provided by the Israeli government.

According to the OCS the fund is greatly needed given the enormous undeveloped potential of Israel's biotech sector. Many creative ideas are never realized for lack of adequate financing. Israel is one of the countries with the most patents in bio-pharmaceuticals approved by the U.S. patent office, and Israeli universities are especially prominent as a source for patents approved in the U.S. About 8.5% of patents registered in Israel are in the field of biotechnology and a large percentage of PhD graduates work in fields relevant to the sector.

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DEUTSCHE BANK FORECASTS HIGHER GDP GROWTH FOR ISRAEL IN 2010

Analysts at Deutsche Bank revised their global economic growth

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forecast upward for the first time since the beginning of the global financial crisis, and predict that Israel's gross domestic product will grow 2% in 2010, after falling 1.1% in 2009. The Bank of Israel's 2010 forecast projects 1% economic growth

Deutsche Bank in the same report also said it expects Israel's inflation, as measured by the Consumer Price Index (CPI), to rise 2.1% in 2009, but at a slower rate of 1.9% in 2010.

Deutsche Bank analysts see global economic growth of 2.5% in 2010, compared with their previous estimate of 2% for that year. They noted that the higher global growth forecast is entirely based on stronger expected growth in industrial countries with two factors pushing in this direction - a better outlook for investment growth, and better export growth.

Israeli industrial exports, excluding diamonds, rose 23% in June from May, while high-tech exports rose 25%.

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JERUSALEM RATED TOP TOURIST ATTRACTION

According to the Travel + Leisure magazine Jerusalem is one of the world's most preferred destinations. In an annual poll of its online readers, the Israeli capital was ranked the 17th best tourist destination in the world, surpassing London, Paris, and Barcelona, three popular hubs which did not make it into the top 20.

Among cities in the Middle East and Africa, Jerusalem ranked third behind Cape Town, South Africa, and Fez, Morocco.

The Dead Sea, the lowest dry point on Earth at 420 meters below sea level, also gained special attention recently when it was chosen as one of 28 finalists in the natural world wonders contest; the original list included 261 sites.

The Internet-based competition, which expects more than a billion people to participate in the online voting for the seven natural wonders of the world, will announce the finalists in 2011.

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PHARMA GIANT ROCHE TO STRENGTHEN R&D PIPELINE IN ISRAEL THROUGH PONTIFAX DEAL

The collaboration will see both partners provide financial support and relevant expertise to young biotech and pharma companies in Israel.

Swiss pharmaceutical giant F. Hoffmann-La Roche signed a deal with Israeli venture capital firm Pontifax Management Company for its first significant undertaking in the country to build up its R&D pipeline by way of investment in the Israeli life science industry.

Pontifax will help Roche, one of the world's leading healthcare companies, identify and invest in Israeli biotech companies, with an initial focus on seed-stage and later-stage biotech firms in areas such as drug development, clinical trials, manufacturing, and marketing. Selected start-ups will be admitted to an incubator affiliated with Pontifax. The joint investment will complement funding through the incubator program of the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor.

In 2007, a delegation of Hoffman-La Roche executives visited 40 Israeli biotech companies and examined 47 academic research projects.

Roche, which was established in 1896, covers every stage of the healthcare process, from identifying disease susceptibilities and testing for disease in at-risk populations to prevention, diagnosis, therapy and treatment monitoring.

Herzliya-based Pontifax specializes in investments in seed, early and mid stage companies, including startups.

Despite the pressures of the global financial crisis, Roche joins several other international companies that have chosen to invest in the Israeli life science industry.

In February, Medtronic Inc, the world's largest stand-alone maker of medical devices, agreed to buy the Netanya-based Israeli start-up Ventr Technologies, for \$325 million in cash. Prior to that, Johnson & Johnson bought Omrix for \$438 million and St. Jude acquired Haifa's Mediguide for \$300 million.

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MORGAN STANLEY CAPITAL INTERNATIONAL UPGRADES ISRAEL TO DEVELOPED MARKET STATUS

Index compiler Morgan Stanley Capital International (MSCI) has reclassified Israel as a "developed market" from its current "emerging market" status.

Israel's upgrade will take effect in May, 2010, when the MSCI Israel Index will be included in two of the most widely-tracked global equity benchmark indices, the MSCI World Index and the MSCI EAFE (Europe, Australasia, and Far East) Index, which only include developed markets.

The reclassification of Israel, which had been anticipated by analysts, is expected to draw more investors into the country's equity markets, as many investors are only allowed to invest in developed markets.

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MICROSOFT RELEASES NEW ANTI-VIRUS PROGRAM MADE IN ISRAEL

Software giant Microsoft in late June released the beta version of its free Security Essentials anti-virus program, which was designed completely by its Israeli R&D Group. The program is meant to gradually replace Microsoft's current anti-virus offering, Windows Live OneCare.

The new product will protect against viruses, spy ware, root kits and Trojans. Other software companies such as AVG and Avira also offer free anti-virus programs.

Also in June, Microsoft bought Israel's 3DV Systems, a maker of three-dimensional video imaging, for \$34 million. 3DV, which was partly owned by Elron Electronic Industries, develops virtual reality imaging technology for digital cameras that it sells, called ZCams. Its main target is the gaming market. Microsoft plans to use 3DV Systems' technology in its own gaming technology, such as in the

Xbox 360.

Microsoft's Israel R&D center, which grew from 130 to 600 employees since its establishment 3 years ago and which Microsoft calls its third strategic development center in the world, outside of the US, plans to keep its Israeli worker complement at the present level, in spite of the financial downturn, said Microsoft Corporate Vice President and head of Israel R&D Moshe Lichtman.

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IDF-MADE ROBOT SNAKE GATHERS INFORMATION IN ROUGH TERRAIN

The Israeli Defense Forces, which is the source of much local innovation, together with experts from the Technion-Israel Institute of Technology have created a robot snake that is capable of recording video and sound in the field.

The tactical reconnaissance robot is two meters long and mimics the movements and appearance of real snakes, slithering around through caves, tunnels, cracks and buildings, while at the same time sending images and sound back wirelessly to a laptop computer, through which it is controlled.

As it is able to bend its joints sufficiently to squeeze through very tight spaces, the new device could be especially useful in finding people buried under collapsed buildings.

Though serpent-like robots have been under development since the 1970s, the robot snake created by the IDF is one of the most advanced of its kind and is the first one likely to be used in field applications.

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TEL AVIV STOCK EXCHANGE CONTINUES TO RISE IN 2009

Shares on the Tel Aviv Stock Exchange (TASE) were boosted, as a rally fueled by strong corporate earnings world-wide in late July drove leading indices back to levels last seen before the collapse of Lehman Brothers in September, 2008.

In the course of the July rally, the Tel Aviv-traded blue chips rose 3.3% and the Tel Aviv 100 Index rose 3.2%. The blue-chip Tel Aviv 25 Index has so far risen 44% since January and is only 23% below its October 2007 all time high, while the TA-100, which is up 56% since January, remains 26% below its October 2007 high-water mark.

Though the real estate index has fallen 31% in the last 12 months, it has so far increased 109% in 2009. Bank shares are down 14% from last year, but have climbed 57% in 2009 and the TelTech-15 is only off 5% over the past 12 months, while having gained 64% by late July.

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