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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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ISRAEL'S ECONOMY TO RECOVER FROM GLOBAL TURMOIL BY 2010

The Bank of Israel lowered its economic forecast for 2009 as the worsening global economy has led to a higher-than-expected drop in exports, but said that in the long run the country's strong macro-economic fundamentals would continue to support its recovery from the effects of the global economic recession.

"In particular the current account surplus and the high level of personal savings, as well as the solid operation of Israel's banking system relative to other countries are expected to allow households to increase their ongoing rate of consumption, which is expected to partially offset the drop in demand in other sectors," the central bank said.

While the country's growth rate is seen dropping into negative territory in 2009, the central bank said it expected gross domestic product to recover to a rate of 2.7 percent in 2010, assuming improvement in global trade and a further decline in borrowing costs.

To help the economy deal with the effects of the global crisis in the interim, the Bank of Israel in late January lowered the key lending rate by three-quarters of a point to a new record-low of 1 percent. Since October, the central bank has slashed lending rates by a cumulative 3.25 percent in six consecutive rate reductions.

The rate cuts, meant to support the economy by lowering the cost of credit, contribute to financial stability and partially offset the downward pressure on prices, were also pursued in keeping with the rate reductions by other central banks. The U.S. Federal Reserve has chopped its key lending rate by a cumulative five percent to between zero and 0.25 percent since September 2007.

LEADING U.S. PRIVATE EQUITY FIRM BUYS ALADDIN FOR \$160 MLN

An investor group led by private equity firm Vector Capital is buying Israel-based software security company Aladdin Knowledge Systems Ltd for about \$160 million; the transaction is expected to close in the first quarter of 2009.

"Aladdin is an exceptional company, with significant potential and a strong commitment to its employees, partners and customers worldwide. We understand Aladdin's industry and business well, and look forward to working collaboratively to ensure a smooth and expeditious transition," David Fishman, partner at Vector Capital, said

Daniel Ives, an analyst with Friedman Billings Ramsey, noted that Vector's ability to combine Aladdin's products with SafeNet's,

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another subsidiary, would result in a more efficient combined entity with a major stronghold on Aladdin's digital rights management segment (DRM).

Aladdin's DRM technology allows software publishers to avoid software theft and piracy, while the enterprise security solutions enable organizations to secure their assets by managing authentication and content security. Aladdin has offices in 15 countries, a worldwide network of channel partners, and has won numerous awards for innovation.

Vector Capital is a leading private equity firm specializing in spinouts, buyouts and recapitalizations of established technology businesses investments in both the private and public markets.

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ISRAEL'S "WALTZ WITH BASHIR" WINS GOLDEN GLOBE FOR BEST FOREIGN FILM

The film also won a number of other prizes this year, including Academy Award Nomination for the best foreign film.

"Waltz with Bashir," a film which traces the memories of an Israeli soldier during the Lebanon war of 1982, won best foreign film at the 66th Golden Globes ceremony in Hollywood.

The film, which will represent Israel at the Academy Awards in February, uses a striking combination of frame-by-frame and computer generated animation to create a powerful and at times surreal portrayal of war and the way memory plays tricks on the mind.

Special legislation was recently passed in Israel which aims to promote Israel's film production industry as a cost-effective total package offering everything necessary to make a successful feature film, including highly professional crews, first rate production facilities, outstanding infrastructure and an extraordinarily diverse geography.

Under the new law, foreign producers are eligible to receive a cost reduction of up to 20 percent of film production costs in Israel through their local partner for a film averaging foreign expenses in Israel of at least 8 million shekels, and up to 15 percent cost reduction for a co-production film in which foreign investment is at least 6 million.

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2008 – A RECORD YEAR FOR TOURISM TO ISRAEL.

Despite global financial turmoil, a record-breaking number of tourists came to Israel in 2008, making it the best year ever for the tourism industry. Close to three million visitors entered the country, boosting tourism by 30% over 2007, and up 13% compared to 2000, the year the previous record was set.

Incoming tourism generated 15 billion shekels (\$3.8 billion) for the Israeli economy, while local tourism contributed an additional 10 billion shekels (\$2.5 billion).

Tourism is expected to pick up further in coming years as additional direct flights have been added to Israel's itinerary. South Korea's flag carrier, Korean Air, recommenced passenger service

between Seoul and Tel Aviv in September following a ten year break. The airline is to operate three weekly flights on the Seoul-Tel Aviv line. Israel's El Al Airlines will also begin operating a direct flight between Tel Aviv and Sao Paolo in the spring of 2009, for the first time in a decade. In 2008, Delta, which has a direct flight from Tel Aviv to Atlanta, also added a direct flight to New York, and USAIR announced it would add a direct flight to Philadelphia in July 2009, making it the fourth carrier to fly directly to the United States.

The Ministry of Tourism said, despite the effects of the global credit crunch, it expected a similar number of tourists for 2009 and a steady rise thereafter, with the number expected to reach 5 million by 2015.

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MOODY'S: CREDIT CRISIS AND GAZA OPERATION DO NOT PRESENTLY THREATEN ISRAEL'S CREDIT RATING

Current political events and global financial shocks do not pose an immediate threat to Israel's risk profile, including its A1 rating and stable outlook, said Moody's Investors Service in a special report on the country.

Joan Feldbaum-Vidra, Moody's analyst for Israel noted that Israel's continued rating stability is driven by the expectation that the fiscal impact of these shocks will be relatively short in duration, paid for by savings in other areas, and, most importantly, that liquidity will remain fully available. The government's plentiful access to credit is a crucial supporting factor for the country's high ratings given its exposure to shocks.

"To the extent that the interruption in the favorable debt trends caused by the near-term slowdown in growth, higher defense costs, and the price tag for capital market interventions will be short-lived and not exaggerated in size, the rating can maintain its stable outlook," said the analyst.

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TEVA AND LONZA JOIN FORCES TO TAP "BIOSIMILAR" DRUGS MARKET

"The strategic partnership will deliver new opportunities for both companies", says Stefan Borgas, chief executive of Lonza.

Israel's Teva Pharmaceuticals, the world's largest generic drug producer, formed a strategic partnership with Swiss-based Lonza to exploit the market for generic versions of biotechnology drugs, also known as biosimilar, that are in high demand.

"We are excited to enter into this joint venture. With Teva we have found the right strategic partner to develop this new activity, which will deliver new opportunities for both companies", said Stefan Borgas, chief executive of Lonza, one of the world's leading suppliers to the pharmaceutical, healthcare and life science industries.

Lonza's large manufacturing base and Teva's drug development capability give the joint venture a complete platform for the production of biosimilar drugs, which are a major growth driver for Teva. Biosimilars are viewed as a promising new market, given the pent-up demand for cheaper versions of expensive biotech drugs and are already being sold in Europe.

The joint venture, which aims to develop, manufacture and market a portfolio of drugs, will commence activities in the first quarter of 2009.

Lonza is the global leader in the production and support of active chemical and biotechnological pharmaceutical ingredients. Biopharmaceuticals are one of the key growth drivers of the pharmaceutical and biotechnology industries.

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IBM ISRAEL CONTRIBUTED 88 PATENTS TO MOTHER COMPANY IN 2008

IBM also plans increase in production in Israel

International Business Machines Corp (IBM) far surpassed competitors in 2008 earning a record 4,186 U.S. patents in 2008, and Israel was the sixth largest contributor to its success with 88 patents, ahead of France, India, Italy and China.

According to the report by research firm IFI Patent Intelligence the most patents in order of quantity came from the United States, Japan, Canada, the United Kingdom, Switzerland and Israel.

IBM has a number of R&D labs in Israel, including a research lab in Haifa, program development labs in Jerusalem, Rehovot and Herzliya, and systems development labs in Tel Aviv and Haifa.

In a separate statement IBM said a surge in sales by Israeli subsidiary XIV in the fourth quarter of 2008 to \$50 million would lead to an increase in production in Israel. "Our production facilities in Israel will be expanded, together with the growth of XIV systems," said Robert Cancilla, vice president of IBM.

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ISRAEL AND JAPAN TO PURSUE JOINT LIFE SCIENCES RESEARCH

Israel and Japan have agreed to collaborate in life science research to be funded through a combined \$1 million contribution by both governments over the course of three years. Nine research projects, three annually, will be selected and funded by the initiative.

Israel joins eight other countries that have research projects with Japan namely China, India, Korea, the United States, Great Britain, France, Germany, and Sweden.

Israel's thriving life sciences industry is world renowned for its groundbreaking innovations, ingenuity and creativity and is supported by a strong foundation of academic excellence and cutting-edge medical centers. Israeli life sciences companies are the source of numerous blockbuster drugs such as Copaxone and Rebif, generating over \$5B in annual sales. Israel is also 1st in the world for medical device patents per capita and 4th in Bio-Pharma (USPTO).

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