

ISRAEL HIGH-TECH & INVESTMENT REPORT

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The Independent Central Bank

The relative strength of a nation's currency is a consideration which generally interests few people outside the business community. In Israel, however, almost everyone is affected by the exchange rate of the country's currency. Can you imagine an American preparing to buy a home in Arizona for which he has been asked to pay 5,000,000 Japanese yen? Or an Englishman preparing to buy his Rover for 45,000 German marks? The point is that while planning these purchases each national would not only have to allocate the correct sums in dollars or sterling, but would have to concern himself with the possibility of fluctuations in the rate of exchange of his currency relative to the Japanese yen or the German mark respectively. Yet this is exactly what Israelis have to consider before making major purchases such as homes, the prices of which are quoted in US dollars but paid in Israeli shekels.

To make the point clear, if a home is listed at \$50,000 (or NIS 150,000 at the current rate of exchange) and the shekel is devalued by, let us say, 10%, the buyer must pay an additional 15,000 shekels -- the equivalent of two to three months' salary. Yes, there are financial instruments which protect the Israeli consumer from devaluations. These include deposits, savings schemes and bonds, all in shekels but "linked" to the dollar. But life would be so much simpler if the Israeli consumer knew that three shekels equals one dollar today and, with some possible small adjustment, would still equal one dollar tomorrow.

Devaluations are economically weakening and tend to inflate prices internally, so it is important to have a stable currency.

The exchange rate policy of the country's Central Bank has done well in maintaining the stability of the nation's currency, which is either linked to a basket of currencies or to the US dollar. This stability is to be credited to the relentless insistence of the Central Bank on maintaining the relationship within a range of 6%. The Israeli shekel has thus kept its dollar

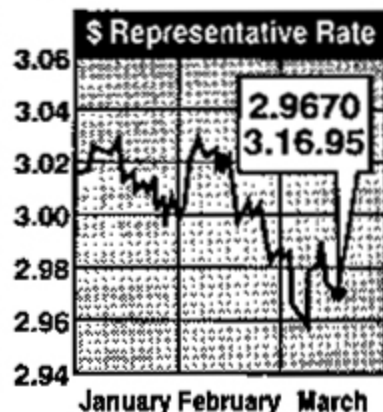
value for more than 14 months. It rose slightly as a result of the dollar's weakness in late February and early March but, in view of the recent international turmoil in the currency market, the shekel is a stable currency. One need only look at the Mexican peso or the Spanish peseta. Even the US-dollar-to-German-mark exchange rate has fluctuated by 15% since last April. In relation to the currencies basket, the shekel has lost only 7% in the same period.

International investors, including large corporations, prefer strong and high-interest-bearing currencies. They may be seeking a competitive financial return because of relatively attractive interest rates, or a speculative gain if there is an upward movement in the currency.

But the upward movement cannot always be checked or controlled.

The value of currencies, moreover, has an affect on international trade, with a weak currency favoring exporters while weakening importers and, conversely, a strong currency favoring importers and weakening exporters.

If the rate of exchange becomes distorted, goods become too expensive and buyers look to other markets or risk losing their profits. However, one can only watch with awe as the Japanese exporting companies remain profitable even at JY 90 to the dollar. It is not too long ago that the rate was JY 122. The increase of more than 25% could have crippled



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the Japanese exporting industries, but they continue to thrive. While some Israeli companies have been complaining about a loss of profitability because of the stable rate of exchange, major exporters continue to be profitable.

Elbit Computers is one such exporter, and has managed to maintain profits even with a relatively strong shekel. Its sales in 1994 in multimedia, defense and medical imaging increased by 26% to \$758 million, on which it earned \$30 million. Teva Pharmaceuticals earned more than \$70 million in 1994, in spite of the stable rate of the currency. We believe that Israeli industrialists need no longer depend on artificial adjustments in exchange rates to maintain profits. Therefore it is expected that despite pressure to the contrary, the Bank of Israel will maintain its policy of keeping the shekel stable. And there are advantages to a strong currency. Like the Japanese, Israeli industrialists import much of their capital goods and raw materials. If the New Israeli shekel is seen as expensive, it makes those purchases more cost effective.

Israel and Singapore Sign Mutual Cooperation Pact

Bilateral trade between Israel and Singapore last year totaled \$261 million. Israel exported \$137 million, primarily equipment, chemicals and diamonds. Israeli industrialists met with their counterparts in Singapore to further trade and encourage technological cooperation.

Motorola Israel and Organics management headed the Israeli group. During the visit an agreement was signed by the Chief Scientist of the Ministry of Industry and Trade and the Head of Singapore's Institute for Technological development for Joint Cooperation.

Israel has signed similar programs with other countries.

Israel's Water Supply and the Peace Process

Professor Arnon Soffer of Haifa University is an expert on the subject of water in the Middle East. He has participated in the peace talks, and his ideas are sought on this subject, which has been described as nearly as important as security. The following extracts are from an interview which appeared in the Haifa University publication titled "Water - a thorny issue."

If Israel were to withdraw to the 1967 boundary, then Syria would control nearly all the sources of the Jordan River: the Yarmuk, the Banias in the Golan, the Dan flowing from Mt. Hermon and the Hatzbani (which actually begins in the Hermon, but is thought as a Syrian river). Israel is downstream and, he warns, Syria could control or pollute the whole area, including the Sea of Galilee, Israel's main source of sweet water.

Any treaty will therefore have to involve compromise on control over water.

Right now Israel has enough water to fulfill its needs. But domestic consumption has been growing, and in a decade, Soffer said, some of the sweet water now allocated to agriculture will have to go to domestic use, and agriculture will have to rely more heavily on recycled water.

But then he adds this comment: all this presumes that our current water supply is not touched. The problem is that Israel's mountain aquifers, which lie under the Judean and Samaritan mountains, are fed by rain falling on the West Bank. The establishment of the Palestinian Authority will make the aquifers international, which theoretically means they have to be shared. The Palestinians have been demanding it all, however, claiming that all three aquifers originating in Samaria and Judea -- which hold some 600 million cu.m. of water -- belong to them. Naturally it is a demand that Israel cannot accept. If Israel withdrew entirely to the so-called Green Line, then the Palestinians could have 200 million cu.m. of this water as a fair division, in Soffer's opinion. He sees no simple solution.

Israel has resolved water issues peacefully in two cases. One involved the coastal aquifer in Gaza. Since this is not an international aquifer, Soffer said, agreement was reached more easily.

The other case was the recently concluded Peace Treaty with Jordan, spelling out Israel's commitment -- which Soffer termed "generous" -- to supply the Jordanians with 70-80 million cu.m. of water from the Jordan and Yarmuk Rivers "at our expense."

Tadiran Wins \$52.5 mil. Contract

Tadiran's US subsidiary, Telcom, has received notice from the US Army that General Dynamics, of which Telcom is a subcontractor for military communications equipment, will receive a \$125 million contract for SINGARS military communication equipment. Telcom's share of the deal will be about 50% or \$52.4 million. According to Tadiran's CEO Israel Zamir, this is the third such contract for SINGARS equipment received by the General Dynamics/Telcom team.

Trade Delegations from 50 Countries

The Federation of Israel Chambers of Commerce has announced that delegations from over 50 countries were guests of the organization during 1994.

First-time official guests of the FICC included delegations from Jordan, Morocco, Oman, Qatar, Malaysia, Bangladesh and Cuba.

Chinese-Israel Joint Venture

The Chinese National Telecommunications Company has agreed to build a telephone network jointly with

Elbit Computers Ltd. of Haifa.

"The Chinese National Telecommunication Company, Tiensing Province will jointly invest in the project," explained Emanuel Gill of Elbit. Telephone cables will be run through existing networks.

\$7 billion Proposed for Financing

The European Union Commission has recommended to the European Investment Bank the allocation of \$7 billion in the next five years for the development of countries bordering the Mediterranean. The Commission has also suggested a program of aid similar to that for Eastern European countries. Since Israel is not classified as a "developing country" it is not eligible to receive any of the proposed aid. However, the European Union Commission representative in Tel Aviv has suggested that part of the funds from the EIB could be directed to regional rather than national projects, allowing Israel to participate.

Shamrock Buys 22.5% of Koor Industries

Hevrat Ovdim (the Histadrut holding company) and the American Shamrock company have signed a letter of intent whereby the American group will acquire 22.5% of Koor's equity capital for \$252 million. Shamrock's President Stanley Gold stated that, in order to acquire the shares, he has formed a consortium of which at least half are Americans. Shamrock is a major American corporation, controlled by Roy Disney. Besides its investment activities, it owns radio and television stations and produces records and compact disks. Gold has said that he will attempt to increase his firm's holdings to at least 25% by open-market purchases.

The transaction was conducted on the basis of an evaluation of \$1.13 billion for Koor Industries, which is Israel's largest and most profitable industrial company. In 1993 it earned \$124 million and in 1994 reported equally good results.

British Prime Minister Heads Business Delegation

John Major made a short but historic visit to Israel as part of his trip to the Middle East. Notable among his entourage was the large group of Britain's most prominent businessmen. Included were chairman Dick Giordano of British Gas; Reuters chairman Sir Christopher Hogg, supermarket magnate MP Sir Tim Sainsbury, United Biscuits chairman Sir Robert Clarke, Lord Young, former trade secretary and former chairman of Cable and Wireless, P&O chairman Lord Sterling and businessman Trevor Chin.

The group also included Michael Lester, vice-president of British General Electric, and Jerry Wooding, executive vice-president for defense

marketing at British Aerospace. Both companies have strong ties to the Arab world.

Sir Christopher Hogg stated that he foresees a bright future for Israel as a financial center for the Middle East. He predicted that Reuters will play an important role in this process, as part of its drive to participate in "growing" markets.

Special emphasis is being placed on growing markets during a period when there is a slowing of activity and income from European and American customers, he pointed out.

Proposal for natural gas

Dick Giordano of British Gas met with the director general of Israel's Ministry of Energy Amos Ron, and said his company is interested in supplying infrastructure for the transmission and storage of natural gas in Israel. He also proposed that British Gas supply power stations with natural gas from the company's wells in Egypt. This marks a welcome departure from the company's previous policy of not maintaining any commercial ties with Israel because of the Arab boycott.

British Gas thus joins a number of companies which have expressed interest in this project. The best known is Amoco, the American oil company which has also expressed interest in distributing natural gas, and has discussed the creation of a consortium with Israeli companies. Amoco, like British Gas, owns gas fields in Egypt and is interested in supplying gas from there. Amoco had previously expressed interest in building a pipeline and storage facilities in Israel. The Israeli reaction has been favorable. The Minister of Energy has stated that there would be no objection to terminals controlled by foreign owners and a local consortium, as long as the pipeline itself remains the responsibility of the State. Both British Gas and Amoco are prepared to help build power plants operating on natural gas. Amoco has proposed the erection of three such plants.

To help sweeten the pot, Israel Electric Corp. has agreed to purchase 10% of Israel's total electricity needs from private sources.

Clal Launches Venture Capital Fund

The Clal (Israel) Ltd. group has launched a venture capital fund to invest in science-based startups. The limited partnership began to operate with an initial capital of \$15 million, and has already invested in two projects. One of these is Combact Ltd., developers of testing systems for medical laboratories. The company (which originated at Tel Aviv University) is developing a prototype for automatic testing of urine which is intended to significantly shorten tests. Fifty-five people are employed, and in 1994 industrial development began, says manager Rafi Herzog. A prototype is

scheduled to be sent to the Mayo Clinic later in 1995 for testing. Besides Clal, other investors include Aegis Ltd., a local pharmaceutical company, U.S. investors and Primavera.

The other investment is in an early-stage, cancer-related R&D project at Beilinson Hospital, Petach Tikva. Clal has obtained exclusive rights to the project, which aims to develop a cure for certain types of cancers, said Mr. Hillel Milo. The fund is owned jointly by companies in the Clal Group, including Clal Industries, Clal Electronics and Clal Financing and Investments. Clal Venture Capital Management is the managing partner, and its chairman is Meir Laiser, head of Clal Industries. The fund is managed by Milo, who previously founded and managed the Walden Israel venture capital fund.

Japanese NIF Invests \$1.0 million

Nippon Investment and Finance Co. Ltd. has completed a \$1.0 million investment in Herzliya-based Optibase Ltd. (*IHTIR* 12/93) -- a leader in compression equipment for digital video and sound. Optibase has established a distribution network in Japan, and its customers include Toshiba, NEC, NHK, Fujitsu and Hitachi. Sales in Japan for the first part of 1995 are projected at \$1.0 million. Triangle Technologies Ltd. served as advisor in arranging the investment.

Defense Industries

The German government has agreed to finance one-half of the building costs for a third German 'Dolphin' class submarine for the Israel Navy. Germany had previously agreed to finance the building of two submarines, estimated to cost DM 880 million. The arrangement was agreed upon by the two governments in 1991. The German government has added DM 220 million to its budget for the Israel Defense Forces for 1996-1998.

Moshe Arens and Prof. G. Steinberg on Defense

Moshe Arens, defense minister in the recent Likud government, says that the government has no real multi-year plan for dealing with the problems of defense industries in a peaceful world. Speaking at a conference in the Begin-Sadat Research Center, Arens criticized the "sink-or-swim" attitude towards the military industries, and said a coherent plan is required which would include consolidation and privatization.

At the same conference, Prof. Gerald Steinberg of Bar Ilan University suggested that the defense industries need to be revitalized, and that wholesale changes must take place, but pointed out that this cannot be accomplished unless the scope of the problem is identified. He also called for the rapid

expansion of government R&D funding. He suggested that the investment will benefit technologically advanced civilian exporting industries as well.

Government to invest NIS 920.5 million in Industrial R&D
Industry and Trade Minister Micha Harish, during the Rothschild Prize ceremony to mark the development of export-based industries, said his ministry's 1995 budget for industrial R&D is NIS 920.5 million. (\$307 million). The budget will be allocated by the Office of the Chief Scientist. NIS 713.5 million will be used as grants for industrial research and development, NIS 200.4 million will go for other projects, NIS 94.5 million will be used for technological incubators, NIS 72.5 million will be used for the generic industrial R&D, and NIS 24.9 million for export-related projects that are moving from R&D to production.

Editorial Note: The 1995 budget equals the record set in 1994, which included a supplementary allocation in the course of the year. In 1989 the sum of grants awarded was under \$100 million. By 1992 it had reached \$150 million, and \$230 million in 1993. Programs approved by the Research Committee receive grants of up to 50% of R&D expenses. The grants are repayable in US dollars from royalties on sales. Enterprises receiving government grants account for 84% of the R&D expenditure, and their exports amount to 50% of all industrial exports (except diamonds). Undercapitalization is a major stumbling block for projects which have concluded their research and development but are not yet in production. The special budget of NIS 24.9 million comes in response to concern about projects failing just short of the marketplace.

Major Financial Conference

The Bank of Israel is hosting the 36th Annual Meeting of the Board of Governors of the Inter-American Development Bank. Issues to be discussed include poverty alleviation and support for the private sector in Latin America and the Caribbean. The Jerusalem meetings are generally attended by heads of state, finance ministers and leading international businessmen and financiers. The Inter-American Development Bank is the largest regional bank in the world, and its Board of Governors is its top policy making body. The IDB was formed in 1959 to accelerate the development of Latin America and the Caribbean. In 1994 the Bank approved \$4.5 billion in financing to support economic reforms and social development in the region. Israel has been a non-borrowing member since 1976,

Teva Pharmaceutical

The generic drug business continues to enjoy growth as the market for chemical equivalents is expanding. This is particularly true in the US, Teva's main foreign market. Generic drugs is Teva's core business, and management speaks of "massive" new investments in pharmaceutical and bulk chemical productive capacity. The company received only one new generic approval in 1994, yet sales advanced by 17% to \$588 million, compared with \$502 million in 1993. American sales were well ahead of 1993, as they advanced by 23% to \$234 million.

Teva's profits were slightly above local analysts' expectations. It earned \$71.6 million, a gain of 24.5% over the \$58 million earned in 1993.

Copaxone, for treatment of multiple sclerosis, is a major new product which will be filed for approval in mid-year, and confirmation could come by mid-1996. There are plans for building a \$30 million plant in the southern part of the country, but pilot-plant quantities of the drug will be supplied meanwhile from Plantex, an existing factory north of Tel Aviv.

Marion Merrell Dow (NYSE:MKC) will collaborate in marketing Copaxone in North America. An agreement to that effect was announced in March, and Teva reportedly received \$25 million on signing.

So what can one expect from Teva? Increased sales and profits from its generic business in the United States. So far in 1995, five approvals for new drugs have been received. According to Teva's CFO, Dan Suesskind, there are 18 generics in the "pipeline" and 50 others being considered for development. Drug shipments generally begin within three months of approval.

Teva's generics are also being registered throughout Europe.

What are the company's goals? A 15%-20% growth in annual sales and an even higher increase in profits. Based on these targets, Teva's sales in 1995 could surpass \$700 million. Profits have doubled in the past five years. At this rate they could reach \$100 million.

with many Israeli companies involved in major capital projects in Latin America.

Drug against Lung Cancer being Tried Clinically

A thousand new cases of lung cancer are reported in Israel each year. While anti-smoking campaigns are perhaps the best way to reduce this figure over the long run, scientists are meanwhile still seeking a cure.

Clinical trials are in progress in Europe and Israel to determine the efficacy of a relatively new drug for the treatment of such cancer in women. Taxol, made by Bristol Myers from the bark of the YEW tree, was developed by the US National Institute of Cancer for use against breast and uterine cancer. So far, 100 women have been successfully treated at the Hadassah Medical Center in Jerusalem. Researchers feel the drug may also be useful in treating other parts of the body. Treatment is available to individuals who wish to participate in these clinical trials.

"Youth" Hormone may Serve as Flu Vaccine

As the human body ages, its immune system begins to break down. This leads to a higher incidence of infectious diseases such as influenza, but at the same time makes vaccinations less effective. A group of researchers at the Geriatrics Department at the Hadassah Hebrew University Medical Center, Ein Kerem, have concluded that the addition of a hormone called D.H.A.E. increases the

effectiveness of the influenza vaccine.

D.H.A.E., though known for many years, recently received publicity when it was hailed as the "elixir of youth" by a French researcher. It is secreted in substantial quantities by young people, but in the elderly the level falls by 90%. Researchers Prof. Gideon Friedman, Dr. Aryeh Ben-Yehuda and Dr. Haim Danenberg tested the effectiveness of the hormone on the human immune system. They reasoned that including D.H.A.E. with a vaccine might increase its effectiveness.

The group tested the hormone on mice for one year, to determine whether its introduction in old mice increased their resistance to infection. The results were surprising, in that the immune systems of the elderly rodents were greatly improved -- in fact becoming "young" again -- without side effects. Having obtained the permission of the Helsinki Committee to try it out on human beings, the researchers intend to include D.H.A.E. when inoculating elderly individuals with influenza vaccine. Dr. Danenberg expects that in the future it will be possible to study the reaction of the treated immune systems, not only to influenza but to other infectious diseases.

Gilat Technologies Reports Progress

At a recent lecture at Tel Aviv University, Gilat Technologies was mentioned as an example of a highly advanced telecommunications company. Gilat, a small but rapidly growing public company

(NASDAQ:GILTF) specializes in satellite data communications, and produces VSATs (very small aperture terminals). In 1994 its sales totaled \$27 million, compared to \$17 million in 1993, and it earned \$6.1 million, up from \$4.1 million. The company reported that in 1994 it had renewed its marketing agreement with GTECH, a leading manufacturer of directed antennas. The company also entered a joint marketing venture in China, and initial orders will be shipped this year.

Smith Barney, American investment bankers, is very optimistic about the firm's future prospects, and points out that the market in which Gilat operates is growing at 25% per year, and that Gilat is out-growing the market by an almost 2:1 margin. Smith Barney's research department points out that Gilat shares are still below their issue price of nearly two years ago, while sales have grown by 360% and earnings soared from \$0.05 per share in 1992 to the current \$0.73. The broker believes that earnings per share will grow by 30% over the next two years. It is forecasting a possible price of \$21-\$23 per share in the next 12 months, from its present level of \$15.

LanOptics Continues to Expand

LanOptics is a small, smart company which supplies local area network solutions integrated with fiber-optic technology. It is a public company (NASDAQ:LNOPF), the shares of which have traded in a volatile manner. In August 1994 they were priced at \$9. After touching a low of \$5.50 last December, they have now returned to the \$9 level. In 1994, sales for the first time exceeded \$20 million, compared to \$14.7 million in 1993. However, earnings were \$3 million, compared with \$4.2 million the year before.

Scitex annual Sales Rise but Profits Drop

Scitex Corp. Ltd (NASDAQ:SCIXF) reported a net profit for 1994 of \$63.8 million, or \$1.49 per share, compared with \$94.3 million or \$2.21 per share the previous year. The company also announced a net profit of \$20.1 million or \$0.47 per share in the fourth quarter of 1994, compared with \$19.1 million or \$0.45 per share a year earlier. Revenues for the quarter reached \$104 million, the highest in the company's history, and a 13% increase over last year.

The research department of Oppenheimer & Co. Inc., investment bankers, classifies Scitex shares as being for value investors only. "While Scitex's current financial results provide no incentive for technology-oriented investors to consider the stock, it remains attractive for long-term value investors," stated Oppenheimer. The brokerage house sees better prospects for Scitex shares, and points out that the current valuation of \$17 ignores the company's

strengths: a large installed base of products; know-how that can be leveraged into rapidly growing markets; and an attractive cash position. Three other factors could also favor Scitex. These include new products, new acquisitions and improved results in the second half of 1995. Other prospects may include changes in corporate management and steps to increase shareholder value. Oppenheimer estimates that 1995 earnings will rise to \$1.65 per share, compared with \$1.49 in 1994.

Elsint Reports

Elsint Ltd (NYSE: ELT) has announced that consolidated revenues for 1994 totaled \$234.9 million, compared with last year's \$237.8 million. In 1994 the net income was \$10.2 million or \$0.13 per share, compared with \$26.4 million or \$0.33 per share the previous year.

Last year, operating profit margin was 3.3%, compared with 9.7% in 1993. Revenues for the fourth quarter totaled \$67.0 million, compared with \$60.1 million in the fourth quarter of 1993. Net income for the fourth quarter was \$1.2 million or \$0.015 per share, compared with \$3.9 million or \$0.05 per share in the corresponding quarter of 1993.

Jonathan Adereth, the new President & CEO, comments: "Although net income for the fourth quarter of 1994 was lower than the comparable 1993 quarter, resulting mainly from increased R&D and SG&A expenditures, we are encouraged by record revenues in the fourth quarter of 1994, and enter 1995 with a strong balance sheet."

Geotek Industries sells Subsidiaries for \$10 million

Geotek Industries, an American public company active in telecommunication and wireless communication, has signed a letter of intent to sell its holdings in Speech Design and Bogen Corporation to Gateway Acquisition European. Geotek will receive \$10 million in the transaction, as well as 55% of the share capital of EGAQ. Yoram Eitan, Geotek's President, says the deal will allow Geotek to concentrate on its main field of activity, namely wireless communication.

Geotek's systems are based on technology developed in Israel.

Solomon Brothers recommends Taro

The firm of Solomon Bros., investment bankers, in its analysis of Taro Pharmaceutical Industries, estimates that the Israeli pharmaceutical company's growth in 1995 will maintain the trend of 1994 -- profits at \$0.54 per share, compared with \$0.34 last year.

Taro reported a 124% rise in net profit in the last quarter of 1994 (at \$1.1 million) and a growth of

57% in sales, to \$13.1 million. In 1994 Taro earned \$3.4 million, compared with \$178,000 in 1993, and sales grew by 48% to \$42 million.

Solomon's estimates are based on expectations of further growth in sales as a result of approvals of nine new generics drugs by the FDA. Solomon believes additional generic drug sales will come from Taro's Canadian subsidiary, as well as from its newly built plant in Haifa.

ECI Telecom awarded Orders for \$8 million

Bezek, Israel's public telecommunications company, and the Deutsche Bundespost Telekom have placed additional orders with ECI for \$8 million worth of its digital "pair gain" systems, which allow conventional copper loops to carry two calls simultaneously.

Top holdings are Teva, Clal Industries and Koor

A poll taken by Meytav, one of Israel's mutual fund managers, has determined the most popular holdings for 1994. The questionnaire was circulated to the nine largest mutual fund management groups, which account for 92 % of the total funds under management -- with a value of NIS 18.3 billion (\$6.1 billion).

The most widely held security was Teva Pharmaceuticals, whose share appeared among the top 10 held by seven of the nine funds. Comparing the Bank Leumi managed funds (Leumi Pia) with those managed by Bank Hapoalim (P.K.N.), several companies were among the top choices of both managers. Clal Industries was Leumi's top choice, while Koor Industries was first at P.K.N., with Clal Industries its second choice.

Other most-popular shares included Bezek Israel Telecommunications, Israel Chemicals, Africa-Israel and Bank Hapoalim.

Fallen angels who were in the top group in 1993 but not in 1994 included Elbit Computers and Clal Electronics. They were replaced by Bank Leumi and Bank Hapoalim.

P.K.N. dropped Teva, Clal Electronics and Africa-Israel, replacing them with Supersol and Makteshim.

As to the relative weighting of the percentage of shares held by the mutual fund portfolios, Psagot held the highest number -- 51% -- and Amban the lowest at 19%.

Indigo's fourth quarter Greatly Improved

Indigo's main product -- the E-Print 1000 -- we described (*IHTIR 7/93*) as a marriage between offset printing and fast digital imaging: the answer to short-run color printing.

Indigo's results improved considerably in the fourth quarter of 1994, for which it reported a loss of

\$333,000 compared to a loss of \$11.6 million in the same quarter in 1993. Net sales increased by 65% to \$37.3 million compared to \$22.5 million in the last quarter of 1993. The company shipped 80 of its E-Print short-run color offset systems. For all of 1994 it shipped 167 units, and only 20 in 1993. Revenues for all of 1994 rose to \$80.7 million from \$30.7 million in 1993. The loss for all of 1994 totaled \$20.9 million, compared with \$19.2 million for 1993.

One of the milestones in 1994 was Indigo's initial public offering, which raised \$100 million on the American market. Other developments included an expansion of R&D facilities, new offices and a sharp increase in personnel. The staff more than doubled to 936 from the number employed at the outset of 94. There will be additional features available in 1995 products. These include six-color printing, high-definition imaging and real-time personalization.

Bank of Israel cuts Interest Rate by 0.7% and 1.5%

Bank of Israel Governor Jacob Frenkel announced on February 21 that the bank would be reducing the interest it charges the country's banks to 16.3%, a decrease of 0.7%. Frenkel said the central bank took this step because it was beginning to see a slowing of inflation due to its earlier monetary policies. Frenkel stressed that though the treasury's newest goal of 11% inflation is still in sight, it will only be reached if the government slashes the budget by NIS 2 billion. On March 19, shortly after the government approved NIS 1.2 billion in cuts, Frenkel announced a 1.5% interest rate cut. Clearly, Frenkel is not totally satisfied that inflation is in check. (see separate item)

NIS 1.2 billion in Budget Cuts approved

In an unexpected move, the Treasury announced on March 19 that it plans to trim NIS 1.2 billion off the government's budget and reduce taxes by an equivalent amount. The announcement was greeted by a sharp 6% surge on the Tel Aviv Stock Exchange.

The budget for manpower and subsidized bodies in the ministries will be cut by 2%. Government mortgage programs will be cut by NIS 250 million. The treasury budget will remain unchanged because it ended 1994 with a surplus. Government support for kibbutzim and the military industries will be cut by NIS 250 million. The education budget will be cut by NIS 70 million or 0.5%. The development budget for all ministries will be cut by NIS 80 million.

Editor's note: The budget cuts, accompanied by the reduction in taxes, were accepted with satisfaction. However, the taxpayer essentially was

not better off than on the last day of the year. At the outset of 1995 the government levied a 4.8% tax to pay for the health program.

National Options Plan to Boost Privatization

Israel's Ministry of Finance is planning to give the public options to buy shares in government-owned companies, which will be named at a future date. The options will be distributed to all citizens over 18 who are registered voters. The Finance Ministry Commission dealing with the issue projects \$2 billion in revenues from this type of privatization.

The Plan

The options will be distributed free of charge. Each is to be valued at 20 - 30% of the initial issue share price, thus allowing individuals to buy the share at 70 - 80% of its offered value. The individual also has the right to sell his option without buying the share. This plan is expected to begin in a few months and to last about three years.

Government-owned companies which already have a prospectus will be among the first to be privatized by this method. Other methods of privatization will continue to be used, such as selling a managing or controlling share to investors. The government also plans to sell shares on the international markets and the Tel Aviv Stock Exchange.

Editor's note: The Options Plan comes at a time when the stock market is either stable or trending upwards. If implemented during this period it could achieve its goal of creating "people's capitalism" similar to the English model during the Margaret Thatcher era.

Housing & Construction Ltd. sold for NIS 850 million

All of the government's largest arm in the residential and commercial construction sector, Housing & Construction, was sold to a private consortium in February for NIS 850 million (\$284 million). The consortium includes Azorim (a Clal Israel company) with 50.1%, the Israel Corporation (controlled by Shoul Eisenberg) with 25.1%, and the Renaissance Fund (associated with Claridge Israel) with 24.8% of Housing & Construction's equity.

El-Al being readied for Privatization

The government will establish the value of El-Al Israel Air Lines prior to the first step of its privatization, which is scheduled for June 1995. Initially there will be a public share offering on the Tel Aviv Stock Exchange, during which 17%-25% of the national air carrier's capital will be sold. Local underwriters bidding for the issue have reportedly set the value of the company at \$150 million. However, estimates obtained by the government varied considerably. The international auditing firm of Ernst & Young evaluated El-Al at \$400 million, while the

Mercer Company put it at \$200 million.

After the offering in Tel Aviv, the next step is scheduled for early 1996, when the government will lower its holdings to 49%. An international financing issue will be part of the sale, and the government is also planning the further sale of a part of the holding to a strategic investor who will assume control of the company.

Trade Deficit grows

From November 1994 to February 1995 there was considerable growth in Israel's trade deficit, according to the spokesman of Israel's Central Bureau of Statistics. The deficit averaged \$830 million each month during this period. This compared with an average of \$550 million in the preceding four months. The February figure of \$970 million was the highest of any of the four months, and was influenced by a drop in exports. The figures were also influenced by a rise in imports. However, most of the rise was accounted for by an increase in raw materials and capital goods, which is a positive trend.

Gambit supplies German Railway Project

Gambit Computer Communications Ltd., Yokneam (IHTIR 2/95) has completed a tough \$750,000 project for Germany's railways, through its international distributor Memorex Telex. Memorex Telex, as part of the project, installed PCs in 153 railway stations throughout Germany. It then connected these local networks to district networks, and finally connected them to the central computer located in Frankfurt. The project was based on Gambit's concentrators. The concentrator is the size of a microwave oven, and handles single or multiple Local Area Network applications connecting up to 156 workstations.

The railway project was originally an in-house program which began in 1994. When it looked as if it would not be completed on time, the railway's management turned to Memorex Telex, which completed it successfully and had it operating at the beginning of 1995.

The company's manager recalls that it was an unusually complicated project because each railway station functions independently and required a specific configuration. Individual configurations also needed to be installed in each of the 100 servers in the network, since they employed individual standards and software. The location of the power sources also presented a technical challenge. Reuben Gamliel, Gambit's president, expressed satisfaction with the timely, on-budget execution of the project. "Other parts of this project may open the road for the supply of hardware valued at millions of dollars," he said.