

Optibase Annual Report 2000

M a i n t a i n i n g t h e M o m e n t u m



Ran Eisenberg
CEO and Chairman
of the Board

Dear Shareholders:

2000 was a pivotal year for our company and for our industry. Optibase fueled many of the great strides made in media streaming for next generation broadband networks, and we are laying a very strong foundation for the carrier-class rich streaming solutions the market will demand. We added new customers, and signed important marketing agreements with leading players in the industry, advancing our objective of becoming the "go-to" company for rich media streaming solutions in the broadband network infrastructure environment.

Despite the fact that we are addressing you, our shareholders, in the midst of an overall slowdown in our industry, we are encouraged by the exciting events that took place in 2000, and our ambitious plans for the future.

While our fourth quarter results were lower than anticipated, we see this as part of a global market trend, and remained well in line with revised forecasts made at year-end.

Despite this economic slowdown, our company is steadfastly committed to maintaining a position of market leadership—both in terms of technology and proactive, innovative product development.

Commitment to Development

We remain steadfastly committed to our aggressive research and development efforts. Based on our successful experience, we believe that our MediaGateway platforms are a key factor to future growth. In order to realize the full potential of this innovative family of products and our first-to-market advantage, significant investments in development are still required. We believe that our strategic decision to continue R&D efforts, and expand and drive forward the development of carrier-class MediaGateway solutions will reap significant advantages for our company over time. We feel confident that this move will strengthen our market position, and maximize the value of our company for the benefit of shareholders and employees.

Strategic Growth

2000 was highlighted by a secondary offering in March 2000, in which we raised \$65 million. This helped us grow our company's core businesses and to gain critical traction in the marketplace via two strategic acquisitions and increased R&D. These development efforts have already yielded significant results, as illustrated by the resounding success of the MGW 2000 launch in the fourth quarter, which exceeded expectations by some 100 percent.

In the fourth quarter of the year we acquired Viewgraphics Incorporated. With this acquisition, we have added DVB (Digital Video Broadcasting) transport technology to our competitive arsenal, enabling us to achieve important strides in bridging the worlds of broadcast and IP networks. The acquisition of Viewgraphics enhances our position in the broadcast market and complements our gateway solutions for IP broadband networks. We have successfully integrated Viewgraphics technologies for digital media transmission and conversion in our MediaGateway technology. MGW 3100 is a perfect example of this, as it utilizes core Viewgraphics hardware and software. These technologies will also be integrated to enhance both the MGW 4000 and 5100. Viewgraphics' extensive and high-level customer base has also greatly enhanced our company's presence in the United States, especially in Video-On-Demand and Interactive TV applications. And in addition to their valuable technology and customer base, we are also privileged to add Viewgraphics' Jack Krooss to our team as Chief Technology Officer. Jack's broad knowledge of the industry, and digital video manipulation and transport technologies, brings valuable strategic and business guidance to our professional team and Board.

Letter to the shareholders

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As part of our continuing development of base technologies for carrier-class MediaGateway solutions, like MPEG-4 and transcoding, we recognized the significant importance of developing systems platforms and related technologies intended for private and public network markets. To address this demand for carrier-class systems platforms, we acquired the HiTV Video Networking Unit from ECI Telecom. This acquisition is enabling us to accelerate development, and we anticipate achieving significantly faster time-to-market with a carrier-class platform that has NEBS compliancy, redundancy, a Network Management System and high-density of transcoding channels. This platform will be an important asset for carriers and operators expanding their offerings by utilizing DSL, LMDS, fixed wireless, cable modem and Fiber-To-The-Home (FTTH) networks. In addition, these platforms will enable provision of value added services that include Video over IP, personalized rich media services and interactive TV.

Intelligent Product Development for Increased Value

In the fourth quarter of 2000, we completed testing the MGW 2000, and the rollout exceeded our original expectations. This new line of streaming media gateway solutions for the enterprise and broadband markets represents a top-tier solution that addresses increasing demands for rich media applications in a broad range of markets. Our next generation of MediaGateway products, the MGW 4000, will adopt MPEG-4 streaming technologies and evaluation will begin in 2001. Development is continuing on schedule for the broadband service provider platform, the MGW 5100, our carrier-class, high-density model with MPEG-2 to WMT transcoding capabilities, multi-stream support and MPEG-2 over DVB (Digital Video Broadcasting) to IP conversion. The rollout of the Beta program for this pioneering effort is planned for the end of 2001.



Letter to the shareholders

Growing Customer Base for Increased Value

During the fourth quarter, we announced strategic relationships with two important customers. The MGW was chosen by Clearworks.net for distributing high quality video-and audio-based services to residential and business customers using DSL, FTTH and other broadband access technologies. In addition, we are providing ClearWorks.net with endpoint solutions, installed in set top boxes at end-user sites. ClearWorks.net is a leading provider of FTTH for neighborhoods and businesses utilizing the company's Bundled Digital Services (BDS).

On the other side of the Atlantic, MGW was selected for e.Biscom SpA's broadband video services project, deployed across Italy. e.Biscom SpA delivers broadband multimedia services to the home and selected the MediaGateway solution to enable on-demand entertainment, interactive TV, Internet browsing and other enhanced video services.

In the enterprise broadband market, the reseller agreement with Nortel Networks signed in April 2001 represents a significant step in our strategy to become the provider of media gateway solutions for these markets. Nortel Networks will purchase and resell Optibase's MediaGateway product line worldwide. We are encouraged by the confidence Nortel Networks has displayed in our technology by integrating it in their high-performance Internet solutions for enhanced video over IP in the enterprise and broadband markets.

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Letter to the shareholders

Our existing installed base of customers continue to report their satisfaction with our entire product line. Customers such as the German Ministry of Foreign Affairs use MPEG ComMotion Pro and MPEG MovieMaker for a native ATM Business TV solution. Others have deployed these products in corporate intranet applications, streaming applications and content creation for on-air segments at cable headends.

Streaming Onward

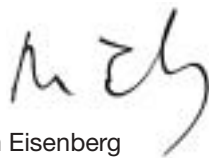
We are in the process of moving the Product Marketing department to our San Jose offices, in order to consolidate and strengthen our marketing infrastructure, and be closer to our customers. In addition, the Technical Support and Application Engineering Groups are being merged in order to streamline operations and improve market responsiveness.

Our investment in Mobixell Networks Inc., a developer of rich-media infrastructure platforms that enable cellular operators to offer enhanced services, is one that complements our activities. We are proud to see this new venture, headed by Amir Aharoni, former Optibase President and Chief Operating Officer and Yehuda Elmaliach, our former Chief Technology Officer, get off to a strong start.

There is no doubt that our company faces a more challenging business environment in 2001, as the Internet and broadband services markets regroup toward evolving business models in more conservative capital markets. Our rich product pipeline is focused on maintaining our technological edge and targeting new markets for carrier-class rich media streaming solutions for enterprise broadband networks.

With the continued support of our talented professionals, and the confidence of our investors, we believe that Optibase will emerge from this economic slowdown a stronger company, uniquely positioned as the world leader in our market.

I would like to take this opportunity to thank our dedicated employees, our customers and partners, and our shareholders for helping us achieve so much this year—and look forward to sharing exciting new achievements in the years to come.



Ran Eisenberg

Chief Executive Officer and
Chairman of the Board