

The launch of Doing Business in Israel has been produced by **Nishlis Legal Marketing**.

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Nishlis Legal Marketing is the premium legal marketing and business development one-stop-shop for leading Israeli law firms and foreign law firms venturing into Israel. The firm is best positioned to serve law firms in all stages of the marketing cycle, from marketing to business development through client retention. With expertise and knowledge, second to none in Israel, Nishlis Legal Marketing is committed to growing the bottom line and delivering real and measurable results to leading law firms.

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Overview

Israel is a small country with a small economy, surrounded by hostile neighbours and facing constant geopolitical uncertainties. On the face of it, investing in Israel seems to be an irrational business decision. Nevertheless, Israel is a prime destination for a wide range of investors. A strong combination of innovation and entrepreneurial drive continues to attract to Israel the world's leading technological companies, venture funds, private equity funds and, more recently "crowd funding" investors, all of whom are looking for the idea, the development, the product that is ahead of the field, either for strategic reasons of simply for a financial return.

Israel is a technological powerhouse. The Israeli business milieu is cosmopolitan, business professionals are highly qualified, the courts are well-regarded and impartial. The Israeli workforce is educated and skilled. So, despite the apparent disadvantages, Israel continues to attract substantial foreign investment.

Microsoft, Apple, Facebook and Google have all made recent acquisitions in Israel, highlighting Israel as a focal point of technological development for these global giants. A number of Israeli companies have completed high profile public listings. At the same time we are beginning to see more local technology companies making their own acquisitions within Israel. The fact that Israeli companies are looking to grow through local acquisitions is an indication that not all high-tech entrepreneurs are looking for an early "exit", and reflects a greater maturity in the Israeli high-tech sector. This trend is boosted in part by the growing ability of the more mature Israeli hi-tech companies to raise capital both privately and in public markets.

And it is not just in the technological sector. The Chinese State-owned Bright Food Group in 2015 acquired control of Tnuva, Israel's largest dairy concern, in a deal valuing Tnuva at approximately US\$2.5 billion. The seller was Apax Partners, one of the world's largest investment funds, which continues to look for investment opportunities in Israel. This deal and others are indicative of the growing wave of interest from China in the Israeli marketplace. Since the acquisition in 2011 by China National Chemical Corporation (ChemChina) of Makhteshim Agan Industries, the world's largest generic agrochemical producer (now rebranded as "Adama"), there has been a remarkable increase in Chinese investment in Israeli technology and Israeli know-how.



Some of the world's largest private equity funds are looking closely at Israel for opportunities. As a general rule, these funds are looking for more mature companies, with proven revenue history and especially with export sales. There are numerous such opportunities in Israel of companies still controlled by the founding shareholders or by the second generation, or owned by Kibbutzim.

A major "driver" for M&A activity in traditional areas of the economy is a recent law introduced in order to promote competition in the over-concentrated Israeli economy. At the end of an initial transition period, it will no longer be permitted for a single investment group to own both a substantial financial enterprise and a substantial non-financial enterprise. As a result, a number of major financial enterprises (banks and insurance companies) and industrial concerns will inevitably be sold off in the coming years. In addition, a number of major conglomerates in Israel have borrowed too heavily, and have been forced to sell off major assets in order to finance indebtedness.

Israel's new Finance Minister, Moshe Kahlon, faces three major economic challenges. The first of these is to introduce competition into Israel's banking sector. The banking sector is totally dominated by Israel's two largest banks, Bank Leumi and Bank Hapoalim. The new Minister has entered office vowing to open up Israel's highly concentrated credit market to competition. The first move appears to be a demand that Israel's major banks dispose of their credit card operations.

The second challenge is the ongoing saga of Israel's offshore gas monopoly. The two major offshore gas discoveries, the Tamar and Leviathan fields, are both owned by the same consortium (Noble Energy, the Delek Group and the Ratio Group). The lack of decisiveness in dealing with the resulting concentration of the gas market, which will be a vital economic asset for Israel in the coming decades both domestically and in terms of export, has been embarrassing for the Israeli regulators and the Government.

The third issue facing the Minister of Finance is to deal with the critical housing situation in Israel, especially for first-time buyers and lower income groups. Any solution to this problem will involve simplifying Israel's planning regulations, and the release by the Government of at least a portion of the large reserves of real estate held by the State.

Israel will continue to be a centre for technological innovation, and despite the geopolitical environment, Israel will continue to offer attractive investment opportunities. As soon as the uncertainties surrounding the commercial exploitation of the major offshore gas discoveries are resolved (issues including the right to export gas, the level royalties to be paid to the State, and the need for competition and competitive pricing in the natural gas sector), the result will be a dramatic boost for the Israeli economy. There are many reasons for optimism for doing business in Israel.



Herzog Fox & Neeman

Alan Sacks, Head of International Practice and Banking and Finance

Herzog Fox & Neeman is Israel's leading law firm and has earned the reputation of market leader with over 260 lawyers of whom more than 90 are partners. The firm has some of the brightest legal minds in the profession, possessing both intimate knowledge of local markets and a clear understanding of global business. HFN employs over 60 dual-qualified, foreign-born lawyers who have worked at leading firms in the U.S., the UK and Australia. In keeping with the firm's global perspective, the majority of HFN's business is conducted in English and lawyers work closely with leading firms in jurisdictions around the world.

As Israel's most innovative firm, HFN is called upon to lead prominent and influential transactions in every industry – resulting in unrivalled experience in cross-border and domestic transactions. HFN has over 30 departments and specialist sectors, more than any other law firm in Israel, which serve our clients' needs and deliver comprehensive results. HFN's clients are a diverse group operating across a broad spectrum of industries, ranging from small domestic businesses to multinational corporations with operations in Israel. A sampling of clients includes: private and publicly-traded industrial and commercial companies, venture capital and investment funds, financial institutions including local and foreign banks, Hi-Tech companies, government companies and entities, academic institutions and private individuals.

HFN's commitment to excellence is reflected in its prominent status in all major international and domestic publications. The firm has received top-tier rankings for consecutive years in almost all major practice areas in leading directories including: The European Legal 500, Chambers Global, IFLR 1000, BDI and Dun and Bradstreet. HFN is the mostly highly ranked amongst all Israeli law firms, and was selected as Israeli Law Firm of the Year by the Financial Times and Mergermarket, IFLR, Who's Who Legal and others.

Alan Sacks heads HFN's International Practice and Banking and Finance department. Alan arrived in Israel shortly after having qualified as a Solicitor in England, and since then has divided his practice between two main areas of corporate law and banking and finance.

In the area of M&A, Alan has been responsible for some of the largest transactions in Israel, including having advised on the acquisition or sale of Israel's major banks, industrial holding companies and cellular telephone operators. Most recently, Alan advised the sellers of the world's largest online poker site in an international transaction worth close to US\$5 billion.

In the Banking and Finance sector, Alan's cross-border expertise, as well as his familiarity with all aspects of banking regulation, have made him the leading practitioner in the international banking arena on all aspects of banking activity.

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Mergers and Acquisitions

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EBNECO Erdinast,
Ben Nathan & Co.
Advocates

Market Trends and Insight

2014 proved to be a remarkably prosperous year for investment activity into Israel and amongst Israeli players. A notable trend which surfaced in the last few years and which increased substantially in the past two years is the interest of Chinese and other Asian investors in Israel. Large transactions involving Asian investors which took place recently include the acquisition of controlling stakes in some of Israel's largest corporations, such as food conglomerate Tnuva by China's Bright Food Group and insurance provider Phoenix Holdings Ltd. by China's Fosun International Ltd. Other notable transactions are the acquisition of Viber (communication application) by Japan's Rakuten, of Tambour (paint company) by Singapore's Kusto group and of Lumenis Ltd. (minimally-invasive clinical solutions) by China's Xio Group. The current auction for insurance provider Clal Insurance has also attracted interest by various Chinese players.

In addition to the fast growing trend of Asian investments in Israel, there has been a continued influx of interest by foreign investors in Israeli technology companies.

This has been rapidly increasing in the past few years as Israel has become a leading force in the area of high-tech. Areas of high-tech which have soared to new heights in particular are the fields of cyber security, real-time computing, Internet of Things software, cloud services and big data-analytics. These fields have increased popularity globally as concerns of privacy, security and a gravitation to all things which make life easier and products more accessible, is exponentially growing. Digital marketing, cleantech and life sciences have also gained traction and lead to IPOs, for example, in the digital marketing area, Matomy Media's IPO on the London Stock Exchange. As these areas fall within Israel's top specialties, Israel has achieved a clear upper hand on a global scale as one of the key players in leading technologies. Foreign interest in Israeli companies is expected to grow in the coming years, with an increasing focus on the high-tech sector.

It is noteworthy that although technological advancements may be viewed as Israel's most attractive asset in the marketplace, it has not prevented sizable investments and acquisitions of 'old economy' companies that have gained attraction with overseas buyers (triggered in part by the enactment of the Law for the Promotion of Competition and Reduction of Concentration described below), illustrated, among other, by the recent transactions with Asian investors in the past few years.



Another striking characteristic of Israel's marketplace recently was the insurgency of IPOs, and moreover, IPOs which were conducted on foreign exchanges, primarily the NASDAQ and AIM. 2014 included 18 IPOs for a total value of \$9.8 billion. The past year demonstrated that many Israeli companies now have the capacity and sufficient investment attention to hold out and take the IPO route, seizing larger returns down the road, as opposed to the exit strategy that has been popular in the past. Mirroring this drive to persevere forward is a new culture of mature and supportive investors adapting to the IPO culture as well. The emerging IPO culture will increase the number of strong billion dollar Israeli companies (known as "unicorns"), thus ensuring greater growth and worldwide leadership.

A significant trend has been the growing presence of local and foreign private equity and growth oriented funds (e.g. FIMI, Fortissimo Tene, IGP, QUMRA and Apax) that have enabled Israeli companies to raise growth capital, providing an alternative to the acquisition route. In addition to the local players, there has been growing interest from top tier foreign funds (e.g. KKR, Carlyle, Permira, Fransisco Partners and CVC) that have increasingly been looking to allocate capital in Israeli companies with the aim of earning an above average return on investment. The longer investment horizon of private equity investors has enabled companies to continue growing and has given rise to a greater number of IPOs.

Lastly, a welcoming phenomenon is that of the world's leading technology corporations, such as Microsoft, Apple, Facebook and Amazon, finding Israel, known as a tech hub or 'silicon wadi', as an attractive place to set up development centers. The move by these tech conglomerates evidences Israel's strength and rapid growth. The common strategy for the establishment of these development centers has been through the acquisition of one or several local Israeli companies, which serve as the foundation for the Israeli operations. These development centers have had a positive impact on local employment, creating hundreds of job opportunities to Israeli cities. These development centers are also a great source for further training and exploiting the young talent in Israel which is eager to apply its knowledge on a grand scale. Moreover, these development centers have been the source of some of the leading edge technologies for their parent corporations. For example, Intel's main leading technological developments over the past decade have emerged from its Israeli developments centers. Consequently, Israel and its players have become an integral and important part of these multinational corporations, further strengthening ties between Israel and the global market.

In response to the abovementioned trends, and more specifically regarding the interest of Asian and other foreign investors, Israeli law firms will have to better adapt to the changing marketplace and have quickly caught on to respond to the needs of the changing Israeli market place. We have seen firsthand the penetration of Asian investors into the Israeli market through investments in several of our start-up clients, in the context of M&A, venture capital and joint ventures transactions we are involved in, and in the context of distributorship relations and other similar agreements that some of our big clients developed with large Chinese companies that seek to penetrate the Israeli market. These transactions require specific experience, expertise and cultural knowledge to efficiently manage negotiations, transactions and post-deal relations with clients and counterparties from the Asian market.

Following the success of the past few years, and especially 2014, and seeing the high level of activity in the first half of the present year, we estimate that the rest of

2015 and possibly the coming years are likely to follow in 2014's lead. Israel's upper hand advantage as a leading force in the fields of cyber-security, Internet of Things and big-data analytics, should secure the interest of foreign investors worldwide.

Moreover, the movement surrounding the natural gas developments in Israel is likely to attract additional investment interest to Israel in the coming years.

The Israeli economy is a vibrant place for transactions. The local culture in Israel plays a significant part in the thriving marketplace and soaring number of record deals. Israeli entrepreneurs, developers and investors are of extreme ambition, without the fear of failing and willing to drive past any obstacles. These characteristics result in global leading inventions and technologies which are ahead of other much larger countries. The talent pool in Israel makes it a unique place to invest in. Israelis tend to be straight to the point, and determined. Transactions and interpersonal relations during the span of a transaction in Israel are less formal than in other parts of the world, providing ease to the deals. Nonetheless, carrying out deals in Israel resembles the basics of deals in the United States, whether it is in the style of drafting transactional documents, in the standard terms and conditions which are applied or the common way of doing business. The large number of American investors in Israel is a result (and possibly a part of the cause as well) of this similar approach to transacting. Above and foremost, Israelis can be known for their loyalty to the letter of contract, which they stand by throughout.

Regulation Updates

In December 2013 a new law entitled the Law for the Promotion of Competition and Reduction of Concentration, 5774-2013 (the "Law") was enacted. The purpose of the Law is to reduce the concentration in the marketplace and therefore encourage and support competition. The main aspects of the Law are with respect to limiting pyramid structures within corporations and preventing against the holding by one entity of both significant financial services businesses and industrial business.

Compliance with the Law must be completed by December 2019. This new Law will strengthen economic activity as it mostly affects larger corporations, creating a potential for many large deals in the coming years.

As buyers within Israel for deals of this magnitude are limited, important international investors, private equity funds and the like are expected contenders for the divestments that will occur as a result of the Law. However, already the effects of this Law have been felt. For example, Delek Group Ltd. was obliged to sell its controlling stake in Phoenix Holding Ltd. (to China's Fosun International Ltd.), in order to comply with the new Law's previously mentioned restrictions. This immediate reaction and activity is due to corporations hurrying to divest immediately at a reasonable value, as opposed to undergoing fire sales closer to the compliance date and losing significant value.



Erdinast Ben Nathan & Co.

Roy Caner, Head of M&A

A full-service law firm specializing in civil and commercial law, EBN contributes to the success of both its domestic and international clients through a depth of legal expertise, multi-jurisdictional experience and commercial and creative solutions. Our comprehensive legal expertise includes mergers and acquisitions, , corporate law, hi-tech, commercial litigation, media and communications, energy and infrastructure, securities and capital markets, antitrust, tax, tenders, real estate, and labor law.

Mergers & Acquisitions

EBN's M&A department has been at the heart of M&A activity in the competitive Israeli market since the department was founded 25 years ago. This respected track record combines with the extensive international experience, professionally and educationally, of EBN's partners and associates and ensures the Israeli and global clients receive a comprehensive and first rate service in their domestic and outbound activity.

These advantages ensure that EBN is instructed on the more complex M&A transactions in the Israeli market, especially in sectors where EBN has a stronghold, such as telecoms, hi-tech, cyber security and funds.

Roy specializes in mergers and acquisitions, hi-tech, commercial and corporate law, securities, and capital markets, with focus on cross border M&A and investment transactions.

Thanks to his dual membership in the Israel and NY Bar Associations, and diverse experience both locally and abroad, Roy's clients enjoy legal services tailor made to their every need. Moreover Roy provides clients with a 24/7 response that comes with a creative and business oriented approach to their legal challenges, using the benefit of EBN's various practice areas.

Notable transactions in which EBN M&A department was involved in recent years include:

- Representation of Tene Investment Fund and other sellers in the sale of their holdings in Netafim to Permira, a global private equity fund, at a company valuation of US\$830 million;
- Representation of NSO and its shareholders in a the sale of a controlling stake to a global US private equity fund for US\$115 million;
- Representation of Eden Springs (May Eden) in its acquisition by Rhone Capital;
- Representation of Diwip, and its shareholders in an auction for the sale of the company and in its acquisition by Imperus Technologies, a Canadian public company traded on the Toronto Stock Exchange. Total matter value was US\$100 million;
- Representation of Motorola in numerous M&A transactions, including the sale of its holdings in the cellular operator Mirs to Altice.

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YIGAL ARNON & Co.

LAW FIRM

Sophisticated System and Service

The Israeli legal market has undergone a robust expansion during the last 25 years, and litigation has been no exception. As an increasing number of multinational conglomerates have entered the Israeli market and established a business presence (nearly 300 multinational companies currently operate R&D activity in Israel), and while Israeli society and the economy have further matured, the practice of litigation in Israel has had to adapt in order to meet international standards as well as to service local demand and expectations. This change is particularly evident in terms of Israel's modern and sophisticated procedures as well as with respect to causes of action, international litigation and consumer rights.

The Israeli Basic Law

The Judiciary (which is part of Israel's informal "Constitution"), provides for important principles of civil procedure, such as the right to appeal as well as the public nature of a trial. Our court system is adversarial and not inquisitorial. The judge's role is to determine the facts and apply the relevant law, not to investigate. Juries are not used in the Israeli legal system. All questions of fact and law are determined by professional judges. The statute of limitation period for civil claims in Israel is longer than in many other jurisdictions and is generally seven years.

The adjudication process is governed by the principles of due process and guarantees the basic right of any individual to be heard in court. The Rules of Civil Procedure govern the conduct of litigation proceedings in the Israeli court system. There are no pre-filing requirements and in some cases, mandatory mediation is applicable after the filing of the action. A number of pre-trial discovery devices are provided for in order to enable disclosure of information among the adverse parties including interrogatories and disclosure and inspection of documents.

Unlike the U.S. system, however, there is no system for conducting pre-trial depositions. Israeli litigation procedure differs from US and English style of summary judgment so if a claim survives a motion to dismiss, it will proceed to trial (unless settled).

Most testimonies are filed in written form and the witnesses and experts of the parties are then subject to live cross-examination before the court at scheduled evidentiary hearings and in re-direct examination. The trial is usually not confined to one concentrated period of time or consecutive days and typically consists of a



series of sessions taking place over a period of several weeks or even months (the absence of a jury makes this possible). In general, Israeli courts do not award punitive, exemplary, or other non-compensatory damages (although some case law provides that they are authorized to do so in a certain limited capacity), and damages awarded are almost always calculated on a compensatory basis. Legal aid is available through several procedures and organizations, state-sponsored legal aid as well as through a pro bono program of the Israeli Bar Association.

Israeli law and procedure are well equipped to deal with a modern consumer society in general and with respect to product liability in particular. Under Israeli law product liability may arise under several areas of law, including tort, contractual liability, the Consumer Protection Law, 1981 and the Defective Products Liability Law, 1980.

The Defective Products Liability Law applies only to bodily injuries and does not extend to indirect, consequential, or pure economic damages. It provides a non-exclusive cause of action, and imposes strict liability on manufacturers to compensate consumers who suffered bodily injury as a result of using their defective products. The main purpose of this law is to protect consumers and facilitate their claims for bodily injury by exempting them from proving any fault or negligent act on the manufacturers' part while at the same time providing the manufacturer with limited defenses. Unlike in other jurisdictions, the remedies for breach of contract cover both direct and indirect damages as well as pure economic damages. Likewise, the Torts Ordinance provides compensation for both direct and indirect damages as well as pure economic damages.

The two most relevant torts for product liability cases are negligence and breach of statutory duty. The tort of negligence imposes liability on any person or entity that performed a negligent act or omission that caused damage to any person or entity towards which the former owes a duty of care. The tort of negligence is general in nature and it may be applied in various circumstances and relationships, and is thus shaped by the courts based on legal policy considerations, determining inter alia in which circumstances a duty of care between the opposing parties exist, and the acts or omissions which constitute negligence (namely, the acts or omissions which constitute breach of that duty).

The Consumer Protection Law imposes various obligations to consumers who purchase products or services for personal, family or domestic use. This raft of obligations include a prohibition on misrepresentation, duties of disclosure, duties concerning product labeling and other similar types of duties and prohibitions. It contains various post-sale duties, mainly with respect to warranty periods and terms; repair of defects; technical service and more.

The Class Actions Law 2006 allows for the filing of class actions under various circumstances, using an 'opt-out' mechanism, namely, any person or entity that falls under that definition becomes a member of the class, unless they provide a withdrawal notice (while the court is allowed, under special circumstances, to apply an 'opt-in' mechanism). The filing of a class action is subject to the court's approval and discretion, and is subject to meeting several conditions: (1) the action must raise material questions of fact or law that are shared by all members of the class; (2) there must be a reasonable possibility that the legal or factual questions will be decided in favor of the class; (3) a class action must be the efficient and fair way of resolving the dispute under the circumstances of the case; and (4) there must be a reasonable

basis to assume that the interest of all members of the class will be represented and managed properly and in good faith.

These requirements are examined by the court in the scope of a preliminary motion to approve the action as a class action (motion for class certification), in which the court examines whether the forgoing requirements are met. At such a preliminary stage, the court examines the alleged cause of action on its merits with respect to both the legal and factual aspects.

The enactment of the Class Actions Law has led to a substantial increase in the number of consumer rights and product liability cases as well as to the significant development of case law on consumer rights, duties of disclosure, duty to warn, product labeling, and other matters.

The Israeli legal market has evolved to respond to the needs of a modernized consumer society by, among other things, adapting and encouraging modern and sophisticated forms of class and group actions, similar to US-style class action lawsuits.

In one of the most interesting product liability cases in Israel to date, it was discovered in 1995 that an Israeli manufacturer of various food products added silicone (dimethylpolysiloxane) to its low-fat long-life milk product in order to prevent foaming. This was in violation of official standards and in contradiction to certain statements the company previously made. There was no question that the addition of this substance did not pose a real threat to the well-being of consumers. The manufacturer and some of its officers were convicted of violating an official standard and misrepresentation was filed, which was certified and approved by the Israeli Supreme Court in 2003, and called for compensation of the class members for injury to their 'autonomy of will'. This was a precedent-setting decision that ruled that this type of damage is covered by the definition of 'damage' in the Torts Ordinance, and is recoverable by way of a class action.

Cross-border litigation in Israel

In response to international cross-border litigation extending into Israel, Israeli litigation now features unique aspects of dispute resolution, both in substance and in procedure. These include the international jurisdiction of Israeli courts, conflict of law rules, enforcement of foreign judgments in Israel, international arbitrations and legal co-operation between states in civil and commercial matters, to name just a few. In cases where a multinational conglomerate is litigating in Israel, there is a level of expectation to receive the highest quality of legal service and attorney attention that matches other jurisdictions, particularly the US or EU. Both the Israeli legal market in general, and our firm in particular, has adapted to this high standard. While international law firms are currently legally permitted to operate in Israel, subject to certain restrictions, such international law firms do not currently litigate in Israel. It is largely left to domestic firms, such as ourselves, to handle the wide range of litigation in the Israeli market..



Yigal Arnon & Co.

Ruth Loven, Partner

Established almost sixty years ago, and currently numbering over 150 lawyers, of whom 52 are partners, Yigal Arnon & Co. is one of the most professional and dynamic law firms in Israel, with a proven track record of innovation and quality in meeting its clients' needs. With its focused practice groups, Yigal Arnon & Co. combines the expertise of a specialty boutique practice with the advantages of a well-resourced multidisciplinary law firm.

The firm has established a unique International Litigation and Class Actions practice, including cases that are the "Israeli front" of large and complex matters. The practice represents foreign entities in cross-border disputes and attracts clients who are the leading and major players in nearly all international markets: Banks; Telecommunications and Internet; Real Estate Companies; High Tech (Software, IT, Semi Conductors, Internet and E-commerce); Venture Capital Funds; Consumer products; Medical related (pharmaceuticals, bio tech, life sciences, medical devices); Media and more.

The practice has developed an expertise with regard to distinctive aspects of international litigation, both in substance and in procedure, such as international jurisdiction of Israeli courts, conflict of law rules, enforcement of foreign judgments in Israel, international arbitrations and legal cooperation between states in civil and commercial matters. The firm's experience and expertise in class actions is unparalleled. We have handled to date hundreds of class action defense cases, many of which involve foreign clients, in wide-ranging areas, including product liability, consumer fraud, false advertising, insurance, banking, securities and capital markets, communications, labor and employment, antitrust, privacy, mass torts, environmental matters, education laws, flight and transportation, agriculture and mroe.

The practice also has a special expertise in Intellectual Property Litigation, focusing on enforcing copyright and related proprietary rights as well as defending against claims in these areas.

Throughout our history, clients have turned to Yigal Arnon & Co. when seeking professionalism, service and integrity in helping them to resolve complex and challenging legal problems.

Ruth Loven is a partner in the litigation and class actions department, specialising in civil and commercial litigation and class action suits. Ruth also has expertise in international intellectual property disputes, product liability, mass torts and crisis management. Ruth gained vast experience in defending her clients in difficult and complex legal disputes. Ruth has represented large Israeli as well as international companies in high profile class action suits and mass torts, including defence in internet services, lawsuits against tobacco corporations, product liability cases, anti-trust cases, lawsuits dealing with cellular radiation and other environmental matters, and many other matters which have received significant attention within the public debate. Ruth is especially skilled in handling highly sensitive issues concerning public interest. Over the years, Ruth has become particularly acquainted with various foreign legal systems and IP regulations, enabling her to formulate comprehensive and well established defences for her clients. Ruth recently co-authored (with Yigal Arnon & Co,'s senior partner Barak Tal) The Israel Chapter for ICLG Class & Group Actions 2013; and The Israel Chapter for Getting the Deal Through - Product Liability 2014.

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Market Trends and Insights

As of the end of 2014, Israel boasts the highest country-wide number of hi-tech startups per capita in the world. However, since authors Dan Senor and Saul Singer called attention to "Startup Nation," an increasing number of analysts, investors, and entrepreneurs have been asking whether Israel can build not only a wealth of startups, but an industry that creates and sustains Israeli-based global corporations. Based upon recent findings, Israel has begun producing a considerable number of sizeable companies, a trend that will continue. According to current studies, Israel is the first ranked hub outside the United States based on performance, funding, talent, market reach, and startup experience – a mature ecosystem able to support this growth.

Since the market low in 2010, a steady rise in the number of exits of Israeli hi-tech companies has occurred. This trend, which has consistently applied to Israeli hi-tech companies on the selling side, has, in the last couple of years, also come to include Israeli companies large enough to be on the buying side.

The drastic growth in the number of IPOs of Israeli hi-tech companies has also contributed to the total increase in number of exits. Not a single Israeli hi-tech IPO was reported in 2012. In 2013, however, eight Israeli companies closed IPOs, while in 2014, 17 Israeli hi-tech companies went public. And based on published first-half numbers, the number of IPOs at the end of 2015 is expected to settle at points lower than 2014, but still higher than 2013. In no uncertain terms, Israeli hi-tech IPOs have returned.

This rise in exit numbers has not transpired because Israeli companies are carelessly opting to exit. Between 2004 and 2007, the average time-to-exit for Israeli hi-tech companies was between 5 and 10 years, while from the end of the financial crisis, between 2011 and 2014, the average time-to-exit was lengthened to between 10 and 15 years. This expansion is particularly noteworthy in light of the relatively stable global average time-to-exit for hi-tech companies (with a slight rise in the average time-to-IPO and a slight drop in the average time-to-M&A). It is striking, furthermore, that average Israeli hi-tech company proceeds from exit reached \$212 million in 2014 – more than 2.5 times average exit proceeds in 2011.

On the IPO side, returns of late have similarly swelled. Total proceeds from IPOs in 2013 amounted to \$361 million, and in 2014, IPOs raised more than \$2 billion, with 2015 expected to maintain this level. In addition, IPO proceeds represented only



16% of total exit proceeds in 2013, while in 2014, Israeli companies that opted for an IPO received 66% of total exit proceeds, showing that more and more companies are choosing the IPO path over the M&A path, resulting in a larger number of mature companies inhabiting the local ecosystem.

Other companies yet to move to exit that have also been valued at or above the \$1 billion mark include Taboola and ironSource. This phenomenon is sure to escalate as the number of experienced entrepreneurs founding more than one startup is also on the rise, having grown from 16% of all entrepreneurs to 25% in just five years.

Israeli companies and entrepreneurs have surely benefitted from these developments, while investors have also been rewarded for investing their money in Israel, as opposed to other markets. According to studies conducted jointly by our firm and Fenwick and West LLP, investors are consistently offered better preference rights in Israel, in contrast to Silicon Valley. Between 2011 and 2014, upwards of 70% of financing rounds (amounting to \$500,000 and more) included senior liquidation preferences for those choosing to finance the Israeli startup scene, as opposed to 40% for those choosing to invest in Silicon Valley. Furthermore, investors' potential to double dip in Israel is at an annual rate well above 50%, whereas in Silicon Valley, the annual rate has dropped below 25%.

The number of unicorns emerging from Israel also shows the accelerating strength of the Israeli hi-tech market. Since the beginning of 2013 alone, Waze was sold to Google for \$1.1 billion, Mobileye raised almost \$890 million at a market value of \$7.6 billion, 13 and Wix has been valued at over \$1 billion following its IPO.

Investment terms are better for those consummating transactions in Israel rather than Silicon Valley, and the price of the same equity stakes in comparable companies is cheaper in Israel as well. Since 2010, venture startups have been valued at an average of \$4.9 million in Silicon Valley, while in Israel, similar companies have been valued at an average of \$3.6 million. Those injecting funds into Israel have surely been satisfied, moreover, with the relative return on their capital: In 2014 the average successful US-based startup raised \$41 million and exited at slightly over \$243 million, at an average value creation of 5.9X. In contrast, since 2011, similar Israeli startups raised \$28 million (diluting the investors less along the way) and exited at roughly \$192 million, at an average value creation of 6.9X.

A wide variety of venture investors are increasingly taking note of the strengthened Israeli hi-tech industry. In 2014, for example, foreign investment, overall, amounted to \$1.9 billion, accounting for 56% of the funds raised by Israeli hi-tech companies. Particularly conspicuous in recent years among foreign investors has been the entry of Chinese investors into Israel. NineChinese-based investors invested in Israeli hi-tech in 2012. That number rose in 2013 and yet again in 2014, when a total of 22 Chinese-based financiers invested almost three times the amounts invested by Chinese investors in 2012. The Chinese appetite for Israeli hi-tech has not stopped at direct investment in startups, as investors from China account for approximately 30% of the capital raised by Israeli VC funds. Additionally, Russian venture capital investment firms have shown rapidly increased willingness to devote funding to Israeli hi-tech companies. Foreign corporate investors have been active in Israel too. For example, Intel Capital made six first investments in Israeli companies in 2014, Microsoft Ventures made six of its own, and Samsung Venture Investment Corporation added four more.

While the high local demand for funding has mostly been filled by foreign investors, Israeli VC funds have also lately gained growing contributions. In 2012, Israeli VC funds raised a total of \$885 million, in 2014 they far surpassed this number raising a total of almost \$1 billion, with a greater than 20 percent increase expected by the end of 2015.

The crowdfunding scene is likewise growing ever more vibrant, although legislation in Israel still grants only accredited investors the freedom to fund private companies.

In the wake of the enactment of the US JOBS Act in April 2012 and growing public interest, the Israeli Parliament received a bill proposal that included provisions similar to the JOBS Act. This development inspired robust public discussion among relevant interest groups, leading the Israel Securities Authority to propose regulations for crowdfunding based on an early 2014 report by the Committee for the Promotion of Investments in R&D Public Companies. This legislative process is expected to rapidly bear fruit, with crowdfunding thresholds being significantly reduced. Despite the regulatory lag, however, in 2014 four of the top five angel investor groups placing funds in Israeli hi-tech companies were Israeli crowdfunding platforms powered, under current limitations, by accredited investors only.

The entire Israeli hi-tech industry has prospered from this increased investor confidence – The size of the average hi-tech financing round in Q2/2015 was almost double the average registered in Q2/2013 – especially the information technology, enterprise software, and internet sectors, which have attracted relatively large amounts of capital of late. More particularly, the prominent Israeli cyber-security segment has recently shown marked growth, as over 100 cyber-security startups incorporated in 2014, while Israel continues to export more cyber-security products than every other country but the United States. Viewed in light of the rising number of cyber-attacks world-wide, the Israeli economy's response, with its roots deep in Israel's military and intelligence legacy, is not surprising.

Israel built its reputation for high-end hi-tech innovation in the 1980s and 1990s. This period sprouted large global companies such as Amdocs and Check Point Software Technologies, but for years, these and a handful of other companies were the exception and not the rule, as most Israeli hi-tech companies opted to cash in quickly. In recent years this pattern has begun to change. Investment amounts continue to grow, emanating from a higher variety of sources, with legislation expected to provide the freedom for this trend to continue. In turn, Israeli companies have allowed themselves to reach unprecedented levels, while providing returns that can compete with, if not surpass, returns anywhere.



Shibolet & Co.

Lior Aviram, Partner Vered Horesh, Partner

Shibolet, established in 1973, is one of Israel's largest, full-service multidisciplinary law firms with a strong emphasis on corporate transactional work and commercial litigation. Based in the heart of Tel Aviv, Israel's commercial and financial center, the firm offers its clients legal services in all fields of commercial/corporate law on a worldwide basis, combining high professional, personal service and a deep understanding of client affairs.

With the expertise of more than 130 professionals, the firm's areas of specialization are mergers & acquisitions, high-tech, life sciences, securities and capital markets, intellectual property, project finance, real estate and infrastructure, tax, employment, antitrust, banking and financial institutions, and media and entertainment. Shibolet's high-tech and venture capital practice is among the largest and most recognized in Israel, as more than half of the firm's entire practice is high-tech related. For over three decades, the firm has represented entrepreneurs, startups, mature technology companies, venture capital funds, multinationals, angel investors and corporate investors for all their M&A and other transactional and financing needs.

Shibolet has established some of Israel's leading venture capital funds and represents them and other domestic and foreign funds through their due diligence processes and investments. The firm has special expertise in this practice from the early days of the Israeli venture capital industry and acts extensively on behalf of major Israeli, US and European venture capital funds with respect to their investments in portfolio companies. Shibolet has acted as legal adviser to the Technological Incubator Program of the Office of the Chief Scientist (OCS) since its inception, and has served for many years as special counsel to the OCS. The firm represents a number of privatized technological incubators.

Shibolet also boasts extensive expertise in structuring alliances, joint development and joint venture agreements among high-tech companies, and in the negotiation and drafting of complex technology and IP-related transactions, including licensing and OEM agreements. The firm has also special expertise in representing universities and academic research institutions in regard to technology transfer matters.

Shibolet's high-tech practice has dedicated expertise in most high-tech sectors in Israel including semiconductors, communications, enterprise software, mobile applications, gaming, internet & new media, cleantech, medical devices and the life sciences. Probably more than any other firm in Israel, Shibolet's high-tech partners have vast experience in cross-border transactional work, representing clients from the US, Europe, China, Japan, Korea, India and many other countries in Asia and Africa.

Amongst other areas, the firm has a particular focus on representing multinationals and their subsidiaries in Israel, and acting as legal counsel on intellectual property structure, R&D and governmental grants, regulatory approvals and tax issues.

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Tax

GORNITZKY & Co.

Pinhas Rubin, Daniel Paserman



Trends in Israeli Tax Law

Change of a Business Model - International Acquisitions of Israeli Hi-Tech Companies

International corporations are extremely interested in acquiring Israeli technology and start-up companies. Following such acquisitions, multinational corporations tend to restructure the business model of the acquired company by selling or licensing its intangible assets to a related party abroad, and following the transfer, the Israeli company may become a service provider of R&D services to the related company. Essentially, not only is the Israeli company acquired, but it also undergoes a change in its business model.

Over the past few years, the Israeli Tax Authority ("ITA") has started examining these business model changes more closely, particularly in cases of technology companies. The ITA examinations aim to ensure that intangible assets are not being transferred abroad at below market prices which inappropriately reduce the Israeli tax base. If a transaction is found to be made at below market value, the ITA may challenge the value of the intangible asset and attempt to adjust the transaction price to reflect the higher value. The adjustments in the transaction price subsequently impose additional tax liabilities on such transfers. The ITA may also require the reclassification of the licensing of an intangible asset as an asset sale. Additionally, after making an initial adjustment to a transaction, the ITA may attempt a secondary adjustment, which will impose an additional liability on the intercompany charge.

In recent years, the ITA has issued numerous tax assessments reclassifying business model changes which have resulted in increases of hundreds of millions of dollars in tax liabilities. Some of these assessments are still being negotiated with the ITA, while others are in the initial stages of being litigated in courts. Awareness of the current trends and developments in the area may allow the parties to plan their transactions ahead in a manner which will avoid such disputes with the ITA.

Tax Incentives for Foreign Residents in Israel

Israeli tax legislation is constantly being developed and modified to incentivize foreign residents to invest in Israeli companies. To that effect, several amendments adopted in recent years were legislated to alleviate the tax burden imposed upon foreign residents, and thereby, to make investments in Israel more attractive. One of the key examples of this trend is the exemption from capital gain tax.

According to current Israeli tax law, a foreign resident will be exempt from capital



gains tax over the sale of shares in Israeli companies, if the capital gains are not derived from the operation of its permanent establishment in Israel. It is important to note that those exemptions may not apply where the majority of the company's assets consist of real estate or natural resources. Additionally, at this time, Israel is a party to more than 50 bilateral treaties which provide various forms of tax relief to foreign residents.

The Law for Encouragement of Capital Investments

Israel supports capital investment initiatives by developing and granting a wide range of incentives and tax benefits. These tools are designed to boost productivity in certain industrial sectors, encourage exports, increase Israel's overall economic revenues and promote its overall growth. To attain these goals, Israel has passed a number of laws such as the Law for Encouragement of Capital Investments ("the Encouragement Law").

The Encouragement Law went through several changes in recent years in an effort to redesign its provisions so that it will attract investors on the one hand, and it will be simplified to contribute to achieving its various goals on the other. The amendment also contained a moderate increase to the tax rate to be imposed on benefited enterprises following the application of the Encouragement Law's benefits. Today, the law includes two corporate tax rates: 9% for investment in certain rural areas the government wants to prioritize and 16% for other geographic areas. In addition, the withholding tax rate for benefited individuals is 20%, instead of the withholding tax rate applicable otherwise (25-30%).

It should be noted that recently, a new inter-ministerial committee has reexamined the provisions of the Encouragement Law and its recommendations may trigger additional amendments.

The Expected Change to Digital Financial Activities

According to existing law, a foreign corporation's income is only taxable if it has been produced in Israel. If the foreign corporation is from a treaty country, the corporation must have a "permanent establishment" in Israel for its income to be taxable.

In light of the tremendous proliferation of financial activities via the internet and taking into account the OECD and G-20 efforts to address the international tax challenges of the digital economy, the ITA sought to redefine some of the key concepts of our tax regime, and published a draft of a "game changing" circular explaining its views regarding the taxation of income produced from services provided online. The draft expands the definition of a "permanent establishment" so that it might apply to a business if the core of its financial activity is via the internet, regardless of the physical location of its server. In determining whether such a corporation has a "permanent establishment", the ITA will consider indications such as the adequacy of the internet website to Israeli users (its language, style, currency, etc.); its use to connect Israeli consumers with Israeli suppliers; its popularity with Israeli consumers; whether the foreign corporation is exposed to business risks in Israel; and so forth.

Regarding VAT liability, a foreign corporation might be required to register as a licensed dealer and its transactions might be subject to VAT, if its internet activity has tight and direct ties to Israeli clients.

The draft, with its far-reaching applications, is now open for public comments, and may be amended adequately.

Tax Benefits to New Immigrants and Returning Residents

Israeli law defines an Israeli resident for tax purposes by using the "center of life" test which examines the individual's family, economic and social ties. The application of the test is assisted by two rebuttable presumptions regarding the number of days the individual has spent in Israel within a certain period of time. The law offers some benefits to new immigrants (who become Israeli tax residents for the first time) and veteran returning residents (who, in the past, were Israeli tax residents and became Israeli tax residents again, after being considered foreign tax residents for at least 10 consecutive years). For example, the benefiting individuals enjoy a 10 year tax and reporting exemption with respect to foreign source income and assets.

Taxation of Trusts

In 2006, Israel passed a comprehensive tax reform, which introduced an unprecedented tax on certain foreign trusts and foundations with Israeli settlors or beneficiaries. In 2014, the Israeli tax law was further redesigned in order to increase the scope of Israeli tax collection, in light of Israel's growing deficit. The government sought to increase tax collection from trusts and foundations, inter alia, by imposing tax liability on foreign trusts and foundations which were previously exempted.

According to the current law, a trust that has been settled by a foreign settlor, but has an Israeli beneficiary (except for Israeli charity institutions) are liable to Israeli taxation. Nevertheless, if all the trust's Israeli beneficiaries are "related by family" to the settlors, certain tax reliefs may apply. Tax reliefs are available to trusts and foundations where the settlors and beneficiaries are new immigrants or returning residents. Additionally, the 2014 reform imposed certain new reporting requirements. In general, the 2014 reform created a complex body of law, and, currently, there is a limited number of judicial rulings which serve to clarifying its provisions.

Voluntary Disclosure

On September 2014, the ITA launched a new voluntary disclosure program (the "New VDP"). The New VDP enables non-compliant taxpayers to come forward and arrange their reporting and tax obligations in exchange for the ITA's (in collaboration with the State Attorney) undertaking not to initiate any criminal proceedings against such taxpayers. The New VDP applies to any undisclosed passive or active income and assets, whether in Israel or abroad. However, the New VDP does not apply to income originating from illegal activities. The New VDP replaces previous programs and is in effect until the end of 2016.

The New VDP also includes two special application tracks which will be in effect until lune 2016:

- a) Anonymous applications the application is submitted on an anonymous basis and the identity of the taxpayer is disclosed only after a tax agreement has been reached with the civil officer.
- b) "Green Track" applications if the total capital included in the application does not exceed NIS 2 million and the aggregate taxable income does not exceed NIS 0.5 million, the taxpayer may apply for this route.

Real Estate Reform

House prices in Israel have soared dramatically in recent years. The government took several steps to cool the market and reduce the cost of residential apartments, including canceling previously existing exemptions from land betterment tax and raising purchase tax brackets regarding purchases of residential apartments (particularly for foreign buyers or acquisitions of luxury residential apartments).





Gornitzky & Co.

Pinhas Rubin, Chairman and Senior Partner Daniel Paserman, Head of tax and fund formation practices

Stellar Corporate & High Net Worth Client Base: Gornitzky is unarguably Israel's top tax law firm. Gornitzky is ranked by ALL legal guides worldwide as a Band One tax law firm, and its Partners are recognized leaders in this field. The team demonstrates its strength, working with a large number of the most high profile Israeli and overseas corporates entities with high end tax matters involving Israel. The firm represented over one third of Israel's largest and most influential business groups and 70 per cent of the top Israeli billionaires (according to Forbes). The legal team is particularly well known for its creative thinking and innovative domestic and international tax planning, including, in particular on multijurisdictional matters.

Gornitzky's Tax Practice: For more than 75 years, Gornitzky has been at the forefront of the Israeli tax practice and has been involved in many of the most complex tax cases in Israel. The firm provides all types of tax law advice, including domestic and global corporate tax, reorganizations and cross-border structuring, capital markets & financial products, taxation of high net worth individuals and trusts, transfer pricing, indirect tax, real estate tax and tax controversy and tax litigation, including white collar offenses. Gornitzky is one of a very short list of firms in Israel which practices in all of these sub-categories of tax. Gornitzky also has deep experience in leading negotiations with the Israel Tax Authority in all matters relating to tax issues. The lawyers represent clients before all judicial bodies, including the Supreme Court of Israel, and have won many breakthrough cases.

Pinhas Rubin: Chairman and Head of Gornitzky, who is considered by the Israeli financial press to be a "key position" holder and was listed therein as one of the people who will "open any door for you". The Marker Magazine has repeatedly identified him as one of the 100 most influential people in the Israeli economy, and leading international legal guides named him "a super lawyer" and "the best lawyer in Israel". Mr. Rubin is a reputable expert in numerous fields; particularly in tax, and trusts and estates. He has been regarded for many years now as Israel's top tax law expert.

Daniel Paserman: The head of Gornitzky's tax and fund formation practices. Mr. Paserman also serves as the secretary of STEP Israel (Society of Trust and Estate Practitioners). Mr. Paserman is involved in intricate corporate and individual tax planning - both domestic and cross-border. Mr. Paserman is active in a wide range of complex tax rulings, reorganizations and tax assessments. Mr. Paserman's broad experience also includes negotiations vis-à-vis the Israel Tax Authority and the litigation of tax disputes before various judicial bodies. In addition, Mr. Peserman specializes in taxation of trusts and estates and provides tax planning guidance for high net worth individuals.

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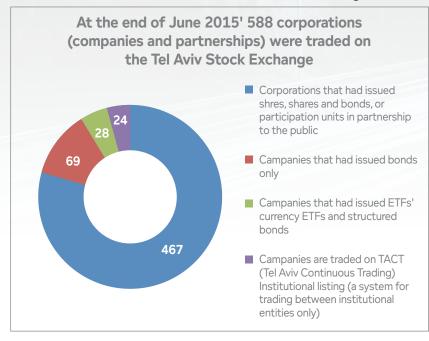
Shirel Guttman-Amira, Uri Rosenberg



אגמון ושות' רוזנברג הכהן ושות' Agmon & Co. Rosenberg Hacohen & Co.

Market Trends and Insights

The Israeli capital market is a developed and supervised market, with one stock exchange – the Tel Aviv Stock Exchange.



Market Value (US\$ Billions)	July 2015
Shares and Convertible securities (not including TACT Institutional)	238
Bonds	216

Special Characteristics of Offerings in Israel

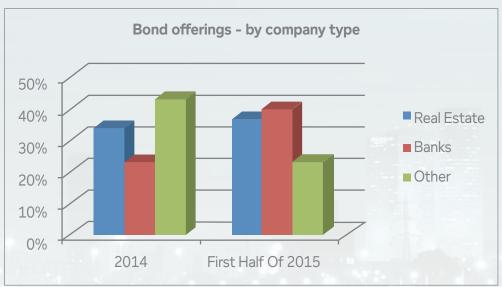
The main characteristics of offerings in Israel are bonds offerings, the ability to issue participation units in partnerships engaged in the oil, gas and film industries and the existence of a dual listing arrangement.

Bonds Offerings

In recent years, most of the securities offering in Israel have been bonds offerings. While in other countries, bonds are usually traded over-the-counter ("OTC"), in Israel they are traded on the stock exchange. The bond offerings were mainly made by real estate companies, with a secondary trend being the offering of bonds of American real estate companies; and by banks. By way of example, we represented Bank Leumi in the publication of a shelf prospectus and in a public offering of bonds in the total sum of US\$ 753 million in 2015.

Of all the bond offerings carried out in 2014, approximately US\$ 5.55 billion were listed for trading on TACT Institutional, of which approximately US\$ 3.44 billion were





(US\$ Billions)	2014	The First Half of 2015
Bonds offerings	15.25	8.67

raised from foreign institutional investors. Two of the largest offerings were the US\$ 1.82 billion raised to finance the development of the Tamar and Leviathan natural gas reservoirs (where we represented the issuer), and an US\$ 819 million raised by ICL (where we represented the underwriters).

Listing of Participation Units in Partnerships

In Israel, it is possible to list participation units in partnerships operating in the field of film production, as well as in the field of the exploration, development and production of oil and natural gas in Israel, for trading.

Investors in these participation units also enjoy certain tax benefits. Recently, the Regulator has been examining the possibility of expanding the permissible operations for partnerships to also allow oil and gas explorations outside of Israel, under certain restrictions.

Dual Listing of Securities

In Israel, there is an arrangement for the "dual listing" of securities whereby shares that are listed for trading on major stock exchanges in the U.S. and London can also, in parallel, be listed for trading on the Tel Aviv Stock Exchange. This listing uses disclosure documents prepared for the U.S. or U.K. stock exchanges, instead of the disclosure documents required under Israeli securities laws. A condition for the dual listing is having a minimum market value of US\$ 30 million, as well as at least one year's trading, or alternatively, a minimum market value of US\$ 150 million. Currently, 46 dual companies are being traded in Tel Aviv under the Dual Listing Law. Our firm is advising various dual listed companies, including, inter alia, Partner and Alon Blue Square Israel.

Regulation

The Israeli capital market has extensive regulation under the Companies Law, the Partnerships Ordinance and the Securities Law and strict supervision by the Israel Securities Authority (ISA), as well as other supervisors who oversee the banks and

insurance companies. This supervision is usually effected by the issue of instructions, the imposition of any financial sanctions, and administrative and criminal enforcement. In recent years, there has also been significant enforcement by the market itself, through class and derivative actions. This was also supported by the Economic Court, as well as by the public's increased involvement at general shareholders meetings.

The Companies Law

The Israeli Companies Law imposes significant corporate governance requirements, some of which also apply to companies incorporated abroad if these companies issue securities in Israel. Recently, certain corporate governance provisions were extended to also apply to listed partnerships. These requirements include, inter alia, a duty to appoint external directors, a right to submit class actions and derivative actions, and complex mechanisms for the approval of remuneration for officers and functionaries of the company and the performance of transactions involving controlling shareholders.

The Securities Law

The Israeli Securities Law imposes duties regarding annual, quarterly and immediate disclosure, on companies which have issued securities to the public. The scope of the disclosure required in Israel is rather significant and the requirements under such disclosure are routinely enforced by the ISA. Financial reports are required to be made in accordance with IFRS demands.

The Economic Court

Several years ago, an Economic Court was established in Israel to hear corporate and securities cases. The Court also adopts into Israeli case law many norms from the Court in Delaware, such as the Business Judgment Rule - the requirement to set-up independent committees of the board of directors to approve transactions involving controlling shareholders. We represented two independent committees, one set up by Discount Investments for the purpose of a merger transaction with its subsidiary and another set up by Nitsba Holdings for the purpose of the merger transaction with its parent company.

The Centralization Law

During 2013, the Government decided to enact new legislation (the Centralization Law) which requires groups holding controlling interests in major financial corporations (such as banks, investment companies and insurance companies) and in significant non-financial corporations (such as real estate, technology and communications companies) to sell one of these assets within six years of the date of publication of the Law (i.e. by the end of 2019). In the interim period until the sale, the financial companies may only grow organically, and not via mergers and acquisitions. In December 2014, a list of the significant financial and non-financial corporations was published.

The Centralization Law also deals with the breaking down of "pyramid structures" ("folding up of layers") and prohibits holding a chain of companies that has raised money from the public. Under the transitional provisions, existing pyramids must reduce their chains of holdings to only three layers by the end of 2017, and two layers by the end of 2019.

As a result of the need to fold up layers, and due to the increased regulation, there has been a trend of companies delisting from the stock exchange. Since the enactment of the Centralization Law, 37 companies have already delisted from trading.

In 24 other companies, the controlling shareholders are required to sell, merge or delist their securities from trading by 2019, including 20 share companies whose shares constitute around 5% of the total value of the stock market. This market condition presents a commercial opportunity for investment. In this context, we represented Delek Petroleum in an early redemption of its bonds in accordance with the provisions set out in the Centralization Law, as well as Nitsba Holdings and Discount Investments in merger transactions.

Deregulation

In light of the significant extent of the new regulation and the resulting criticism in recent years, the ISA has initiated new substantial plans for deregulation, most of which have not yet been enacted and it is not hard to foresee if and when they might come into force. One of these plans is to provide certain exemptions to companies that list for trading in Israel, during the first five years of their listing.

Other Trends in the Israeli Capital Market

Offerings on Foreign Stock Exchanges

Many Israeli companies choose to effect initial capital offerings on foreign stock exchanges, mainly in the U.S. In 2014, 14 Israeli companies made an initial capital offering to the public in the U.S., as opposed to only 6 companies on the TASE. Our firm represented underwriters Goldman-Sachs and Merrill Lynch in an initial public offering of Adama in the U.S., with respect to various aspects of Israeli law that applies to the company; we have also represented the Delek Group in an offering in London. Both of these offerings were frozen before completion.

Privatization of Government Companies

Recently, the Government of Israel approved a long-term plan for the privatization of government companies in 2015-2017. In some of these companies (such as Ashdod Port, Haifa Port and the Environmental Services Company), a full privatization is planned. In other government companies, mainly companies with strategic importance in the field of infrastructure such as Israel Electric Corporation, Mekorot, Israel Railways and Israel Natural Gas Lines, and security companies such as Israel Aerospace Industries and Refael, the Government of Israel wishes to retain possession of the controlling shares and to sell up to 49% of the shares by way of an offering to the public. Our firm is assisting Ashdod Port in the privatization process and is currently preparing a draft prospectus for the purpose of an offer for sale and/or an initial public offering (IPO) of shares of the Ashdod Port by the end of 2015.

Entry of Chinese Investors into Israel

In recent years, there has been a dramatic increase in investments by Chinese commercial entities in Israel. Since the acquisition of 60% of the shares of Adama in consideration for US\$ 1.44 billion in 2011, Chinese companies have been very involved in all areas of the Israeli economy - ranging from technology and medicine through industry and food to supervised and sensitive fields, such as finances and national infrastructure. 2014-2015 were peak years in terms of investments and acquisitions of Israeli companies by Chinese investors, including the acquisition of 56% of the shares of Tnuva by Chinese company Bright Food, and the acquisition of the Phoenix Insurance Company by the Chinese Fosun Capital. This trend is very much expected to continue in the coming years.





Agmon & Co. Rosenberg Hacohen & Co.

Shirel Guttman-Amira Uri Rosenberg

Ever since it was founded, our firm's top priority was providing the most professional and best quality service to its clients. Our firm's extraordinary successes show that there are no substitutes for professionalism, creativity, dedication and determination.

The firm consists of several departments having excellent reputation, practicing matters of corporations, capital markets and securities; civil litigation; energy issues; class actions; antitrust; planning and construction; banking and finance; administrative law; environmental protection and many more.

Our clients include leading corporations from Israel's business and economic elite in all sectors.

Agmon's Corporate and Capital Markets department provides its clients superior service in any aspect of securities law and corporate law, including, advising on all stages of public offerings on the Tel Aviv Stock Exchange ("TASE") (IPOs and secondary offerings), private offering, tender offers of all forms, mergers and acquisitions, corporate governance; Board and sub committees responsibilities; financing and liquidity and dual listings; acting for clients before the Israel Securities Authority ("ISA"), the TASE, The Banks supervisor and the Commissioner of the Capital Market, Insurance, and Savings.

Uri Rosenberg and Shirel Guttman-Amira, who are regarded among of the top lawyers in Israel in this field, co-head the firm's capital markets practice. Uri, who has been personally involved in over 100 public offerings in Israel and abroad, brings clients a wealth of experience in capital markets and securities issues, corporate finance and mergers and acquisitions in a career spanning more than 25 years. Uri is ranked as a leading lawyer and praised consistently by clients in the international legal directories Chambers Global and Legal 500 EMEA. Shirel joined our firm after serving as the Director of the Corporate Finance Department at ISA, overseeing traded companies' compliance with the Securities Law and regulations. Shirel took part in substantial legislative processes made to the Israeli Companies Law and the Israeli Securities Law, and dealt extensively with the interpretation of these laws, their application on companies traded in the TASE and formulating the ISA's stance for government bodies, public commissions and courts;

Top Matters

- Handling the raising of NIS 2.85 billion by Bank Leumi, one of the largest banks in Israel, in public offering of bonds.
- Advising the independent commission of Nitsba Holdings (1995) Ltd., regarding the negotiations that were held as part of a reverse triangular merger with Airport City (one of Israel's largest business & hi-tech parks).
- Acting as Israeli counsel for HSBC, Barclays and Citibank in a USD 800 million offering of notes by Israel Chemicals Ltd to institutional investors in the U.S., Europe & Israel.
- Acting as advisors for the Ashdod Port as part of a unique issuing matter that is in fact a privatization of the company.

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ABOUT US

UK Israel Business is the go-to bilateral business network, providing our members with valuable commercial connections and facilitating investment in both countries to drive economic growth.

As the Bilateral Chamber of Commerce, we represent the interests of our members to key policymakers and utilise our network of over 2,000 companies and 10,000 business people to provide them with the information and contacts to help their businesses thrive.



CEO of easyJet, Carolyn McCall OBE



OUR SERVICES

Our strength lies in our ability to build relationships and cultivate a cross-sector view of both the British and Israeli business communities, to help our members define their market position and find the right partners, suppliers or clients to grow their business. We do this in three main ways:

Networking: Our networking events provide a strong marketing platform for our sponsors and offer unique access to industry heavyweights, thought leaders and the chance to make high-level business connections.

Support: Working 1:1 with our members, our umbrella view of both the British and Israeli ecosystems enables us to help them understand their business proposition, offer in-depth market intelligence reports and gain access to the right contacts. We assist UK members planning marketing trips to Israel with introductions to relevant Israeli companies; help Israeli companies operating in the UK acclimatise to the British business community and facilitate strategic partnerships between our stakeholders.

Sector-specific activities: The tangible impact of our work can be seen through our sector-focussed summits, events and trade delegations, which provide investment professionals and large private companies with an in-depth overview of the business opportunities in both countries. Recent summits have looked at Private Equity, IPOs of Israeli companies listing on the London Stock Exchange and Impact Investment models.



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High-Tech and Venture Capital: The findings

IVC ISRAEL VENTURE CAPITAL RESEARCH CENTER

Kobi Simana



Israel High-Tech & Venture Capital Overview – 2014

The following articles contains excerpts from the full High-Tech and Venture Capital Research Overview for 2014, first published in the IVC High-Tech 2015 Yearbook published in April 2015. The full Research Overview is also available as a PDF report file or a brief presentation from IVC.

Israeli High-Tech Capital Raising

In 2014, Israeli high-tech capital raising set an all-time record as 688 companies attracted \$3.4 billion. The amount was up 46 percent from \$2.3 billion raised by 659 companies in 2013, and 88 percent above \$1.8 billion invested in 563 companies in 2012. The average company financing round in 2014 was \$5.0 million, compared to \$3.5 million in 2013 and \$3.2 million in 2012.

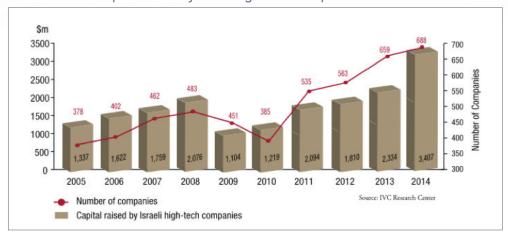


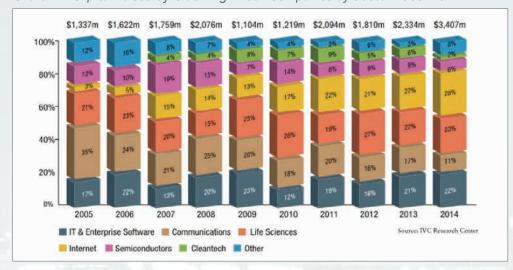
Chart 1.1: Total Capital Raised by Israeli High-Tech Companies 2005-2014

An analysis of high-tech capital raising by sector shows, 169 Internet companies raised \$941 million in 2014, the most of any sector and 28 percent of the total raised by all sectors. The amount was exceptionally high for the sector, even surpassing the \$927 million registered in 2000. It exceeded 2013's \$515 million raised by 184 companies by 83 percent, and was up almost 150 percent from \$382 million raised by 146 Internet companies in 2012. The average fnancing round was \$5.6 million.

The life sciences sector followed as a record high 167 firms attracted \$801 million, which accounted for 24 percent of the total raised. The amount – also a record – was 55 percent above the \$516 million (22 percent) raised by 142 life sciences companies in 2013, when the sector led all investments, and 64 percent higher than the \$489 million (27 percent) invested in 133 companies in 2012, when the sector was also the most popular among investors.



Chart 1.2: Capital Raised by Israeli High-Tech Companies by Sector 2005-2014



Israeli High-Tech Startups: Opened vs. Ceased

High-tech company formations increased 5 percent to 1,000 in 2014. The Internet sector saw heightened activity with 368 company formations that accounted for 37 percent of total openings. The rise in openings, particularly in the Internet and mobile application sectors, refects the fact that it is now faster and cheaper to establish new startups, which have short time-to-market.

After years of a stable ratio between new formations and closings, with two companies newly formed for every company closed, 2014 saw the ratio move to three companies established for every closing. This indicates that companies today, in sectors such as the Internet and mobile apps, have more robust business models and can be easily sustained while receiving less investment.

No. of Companies

1200
1000
800
600
200
1001
2011
2012
2013
2014
Source: IVC Research Center

*Data for 2014 are preliminary. Final data will be available mid-2015

Chart 2.1: Newly Established vs. Closed Israeli High-Tech Companies 2010-2014

Israeli High-Tech Exits

This section examines mergers and acquisitions (M&As) and initial public oferings (IPOs) of Israeli high-tech companies, based on the IVC-Meitar Exits Report.

In 2014, 42 VC-backed exits were valued at \$3.1 billion, accounting for 45 percent of the \$6.94 billion from 99 exit deals involving Israeli and Israel-related high-tech companies. The year 2014 was not as strong as 2013 for VC-backed exits despite more deals taking place, with proceeds 23 percent lower. Proceeds from 2014 exits were 31 percent higher, however, than the 10-year \$2.36 billion average.

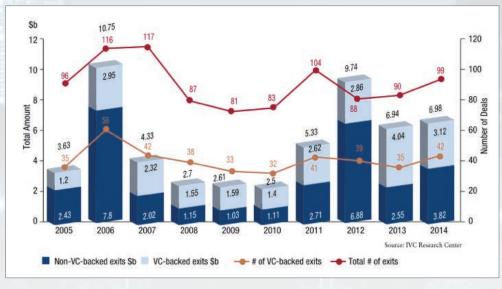


Chart 3.4.1: Total Exits vs VC-Backed Exits 2005-2014

Mergers & acquisitions

In 2014, M&A deals involving Israeli and Israel-related companies that were acquired or merged were valued at \$4.84 billion, a 22 percent decrease from \$6.23 billion in 2013. The average M&A deal in 2014 was \$59 million, compared to \$76 million in 2013. Four deals exceeded \$300 million, with 17 M&A deals worth \$100 million or more. Analysis of M&As by deal size reveals a 45 percent increase in the number of deals ranging from \$100 million to \$500 million in 2014. Sixteen such M&A deals accounted for \$2.91 billion, compared to 11 deals in 2013 worth \$2.57 billion. Five deals ranging between \$50 million and \$100 million were valued at \$425 million, a 73 percent increase from four deals in 2013 that totaled \$246 million. The number of M&As ranging from \$10 million to \$50 million also increased – approximately 13 percent from the previous year.

Changes in deal size appear to be responsible for two contrasting trends. On one hand, the average M&A deal in 2014 decreased to \$59 million from \$62 million in 2013 in deals below \$1 billion. On the other hand, in 2014 there was a notable jump in the M&A return on equity ratio, reaching an average of 6.22 from 4.29 in 2013. The calculation is made as a ratio between capital from M&A exits and the total capital raised by companies prior to their exit. The measure reflects the relative value received by company investors following a company's exit.

Nine of the 10 largest exit deals in 2014 were acquisitions, accounting for 43 percent of total proceeds in high-tech exits. The Viber and Check deals, acquired by Rakuten and Intuit, respectively, accounted for nearly 90 percent of communications exit proceeds. Te Kontera, Aorato, Cyvera and SuperDerivatives deals accounted for almost 50 percent of IT & enterprise software sector proceeds. In 2014, seven of the 10 largest acquisitions involved venture-backed frms.

Public Offerings

In terms of the number of public offerings, 2014 was the most active year for Israeli high-tech IPOs since 2007. A total of \$2.1 billion was raised by 17 Israeli companies on NASDAQ, the NYSE, AIM and the London Stock Exchange. MobilEye, the largest IPO of 2014, raised slightly over \$1 billion on the NYSE. Each of the remaining 16 IPOs raised less than \$150 million, including the second largest IPO in 2014 which was completed by SafeCharge on London's AIM. The year saw a particularly strong return of Israeli high-tech companies to NASDAQ with 11 IPOs completed.

Table 3.1: Top 10 Merger & Acquisition Deals Involving Israeli High-Tech Companies 2014

Rank	Acquired Israeli Company	Sector	Acquiring Company	HQ	Deal Amount (\$m)	Venture- Backed
1	Viber	Comm	Rakuten	Japan	900	No
2	Wilocity	Semi	Qualcomm	US	390	Yes
3	Check	Comm	Intuit	US	360	Yes
4	SuperDerivatives	SW	ICE	US	350	Yes
5	SCR	Cl	Allflex	New Zealand	250	No
6	Aorato	SW	Microsoft	US	200	Yes
7	Cyvera	SW	Palo Alto Networks	US	200	Yes
8	ColoRight	LS	L'Oreal	France	175	No
9	Kontera	SW	SingTel	Singapore	150	Yes
10	Simbionix	LS	3D Systems	US	120	Yes

Note: Cl = Cleantech, Comm = Communications, LS = Life Sciences, Semi = Semiconductors, SW = IT & Enterprise Software HQ = Headquarters

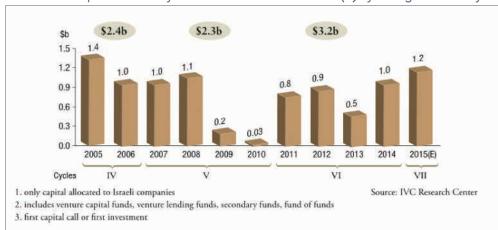
Israeli Venture Capital Fund Raising

The growth of Israel's venture capital industry is traced to six cycles of fund raising that peaked in 2000 with \$2.9 billion raised, and declined continually through 2003 when only \$64 million was raised. In 2014 the Sixth cycle ended on a high note with \$996 million capital raised. In the four cycles since 2000, Israeli venture capital funds attracted a total of \$13.3 billion.

The year 2014 was the most successful year since 2008 in terms of Israeli venture capital fund raising. Thirteen funds raised \$996 million, 45 percent above the \$544 million raised by 11 Israeli VC funds in 2013 and 20 percent more than the 10-year average of \$795 million. More medium sized funds and fewer micro VC funds were raised in 2014 than in the two prior years. The average fund size rose to \$77 million, just short of the \$78 million 10-year average.

Five funds raised more than \$100 million in 2014: Carmel Ventures' fourth fund attracted \$194 million. Magma raised \$150 million for its fourth fund, which was to start investing in 2015, less than two years after closing its previous \$110 million fund. Singulariteam, managed by Moshe Hogeg and Kenges Rakishev, raised \$102 million for its second fund. JVP made a first closing of \$160 million of a targeted \$180 million for its seventh fund with two components – JVP VII and JVP VII Cyber. In addition, Vintage's seventh fund, a fund of funds, attracted \$144 million, 50 percent of which is allocated to Israeli funds. The above five funds accounted for 68 percent of total capital raised for investments in Israeli companies in 2014. In 2013, Vintage and Aleph each raised over \$100 million and accounted for 57 percent of total capital raised.

Chart 2.1.2: Capital Raised¹ by Israeli VC Funds2 2005-2015(E) by Vintage Year3 & Cycle







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Amir Vang



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Market Trends and Insights

The primary act of competition legislation in Israel is the Restrictive Trade Practices Law, 5748-1988 ("RTP Law"). Based primarily on the European model and drawing inspiration from US antitrust laws, the RTP Law grants the Antitrust Authority ("Authority") the powers to monitor restrictive practices, mergers, monopolies, oligopolistic practices and more; it allows the Director General to impose administrative fines or prosecute violators in criminal cases; and it also allows for private enforcement through civil actions.

Recently, the RTP Law, as well as further competition legislation in Israel, has undergone significant changes aiming to grant the Antitrust Authority and the Director General unprecedented tools to confront the competitive challenges arising in the Israeli economy.

Monopolies

According to the RTP Law, a monopolist is anyone holding more than half of the total supply or acquisition of assets or services. The RTP Law imposes stringent norms of behavior on the monopolist, which include:

- (1) A monopolist shall not unreasonably refuse to supply or purchase the asset or service over which the monopoly exists;
- (2) A monopolist shall not abuse his position in the market in a manner that could reduce competition among businesses or harm the public. A monopolist is deemed to have abused his market position if he:
- (a) Sets unfair prices for the asset or service over which the monopoly exists;
- (b) Reduces or increases the quantity of the assets or the scope of the services offered by the monopolist, not within the context of fair competitive activity;
- (c) Establishes different contractual conditions for similar transactions in a manner which may grant customers or suppliers an unfair advantage vis-à-vis their competitors;
- (d) Includes unrelated conditions in a contract regarding the asset or service over which the monopoly exists.

Where there is potential harm to competition or the public, the Director General may instruct a monopolist to take certain measures to prevent such harm. He may also ask the Antitrust Tribunal ("Tribunal") to order the monopolist to sell an asset owned by it.



The Tribunal may also call for the breakup of a monopoly into two or more distinct business corporations, if the Director General has found that as a result of its existence the public is significantly harmed and that such harm cannot efficiently be prevented through regulating its activity.

The Director General recently proposed to amend the definition of 'monopolist' to encompass any entity which holds market power.

Mergers

The legislative definition of company mergers includes, but is not limited to, the following:

- (1) Acquisition of the main share of the assets of a company by another company;
- (2) Acquisition of shares in a company by another company that would give the acquirer more than a quarter of the nominal value of the issued share capital or of the voting power, or the power to appoint more than a quarter of the directors or participate in more than a quarter of the profits.

The merging parties are obliged to make a pre-merger notification of the transaction and await the Director General's consent, where one of the following criteria is met:

- (1) The merger creates a monopoly market share for the parties to the merger in any stage of the production chain of the product;
- (2) One of the merging parties is (already) a monopoly;
- (3) The combined sales turnover of the parties to the merger, in the financial year preceding the merger, exceeds 150 million NIS, and the sales turnover of at least two parties to the merger is 10 million NIS each.

Although the RTP Law sets a review period of 30 days, a longer examination period is sometimes required before the merger is blocked, approved or conditionally approved. Breaching the reporting duty or the waiting period by the merging parties could lead to criminal and civil proceedings.

The Director General recently proposed a reform in the supervision of mergers, where a general prohibition would apply to mergers where there is reasonable concern of significant harm to competition. The merging parties would be redirected to a self-assessment route and if the parties determine there is no risk of harm to competition, they can execute the merger without applying to the Director General for approval.

Restrictive Arrangements

A restrictive arrangement is a trade arrangement entered into by legal entities conducting business, under which at least one of them restricts itself in a manner liable to eliminate or reduce the business competition between it and the other parties, or any of them, or between it and an entity not party to the arrangement.

An arrangement is deemed to be restrictive if it involves one of the following matters:

- (1) The price to be demanded, offered or paid;
- (2) The profit to be obtained;
- (3) The division of the market, according to the location of the business or according to the persons with whom business is to be conducted;
- (4) The quantity, quality or type of assets or services in the business.

The Law prohibits a legal entity from being a party to a restrictive arrangement unless one of the following conditions prevails:

- (1) The arrangement has received consent of the Tribunal;
- (2) The parties to the arrangement have received the Director General's exemption from the requirement to receive the consent of the tribunal;
- (3) All the restraints in the arrangement shelter under one of the block exemptions issued by the Director General, such as exclusive distribution, sole acquisition, franchise agreements and more.

The RTP Law also specifies a list of arrangements that are not considered restrictive. For example, an arrangement in which all restraints relate to the rights of use of a patent, design, trademark, copyright, performers' rights or developers' rights, provided that two conditions are met: (a) The arrangement is entered into by the proprietor of the asset and the party receiving the right to use it; (b) If the asset is subject to registration by law – it is so registered.

In general, the RTP Law is applied to arrangements that significantly affect the market in Israel. It should be noted that its provisions also apply to arrangements made between two foreign entities, where such an arrangement may have a significant effect on the market in Israel.

Concentration Groups

An amendment to the RTP Law in 2011 provided the Director General with unprecedented power to meet the challenges of oligopolistic markets.

The amendment allows the Director General to determine that a limited group of entities conducting business and owning more than half of the total supply of an asset or provision of a service constitutes a "Concentration Group", where the following two conditions are met:

- (1) Among the members of the group or in the sector in which they operate there is limited competition, or there exist conditions for limited competition;
- (2) Taking certain measures may prevent harm or a risk of significant harm to the public or to business competition, or could significantly increase the competition or create conditions for significant increase in competition.

Having determined that a concentration group exists, the Director General is empowered to remove entry barriers within the sector or switch barriers; to terminate a particular activity of a group member if it facilitates coordination between group members; and many other steps.

The Director General is also authorized to apply to the Tribunal to instruct a member of a Concentration Group to sell its holdings in other parties in the group. A recent amendment also allows the Director General to apply to the Tribunal to instruct a member of a Concentration Group to sell an asset, if such sale may prevent damage, or eliminate a risk of significant damage, to the public or to competition, or may significantly increase competition in the sector.

First use of these powers was made in 2013, when the Director General determined that two Sea Port companies in Israel constitute a concentration group. The Director General instructed both companies, inter alia, not to expand their operations to additional port platforms in Israel.

Competition-related Laws

Israel's system of competition law also includes certain sector-specific laws aimed at reducing economy-wide concentration and promoting competition in specific sectors, such as:

- (1) The Law for the Promotion of Competition and Reduction in Concentration (5774-2013) requires government ministries to consider "concentration levels" and to consult the Concentration Committee when they allocate public assets or grant rights (e.g., licenses, contracts and more) to "concentrating entities".
- (2) The Law for the Promotion of Competition in the Food Sector (5775-2014) was enacted with the intention of increasing competition in food and consumer goods and reducing consumer prices. The law regulates commercial conduct between suppliers of food and consumer goods and retailers (e.g. shelf allocation).

Market Research - The Authority also functions as an adviser to government ministries on competition matters. A recent amendment allows the Director General to carry out market research of the competition level in diverse sectors in the economy and provide his conclusions and recommendations to the Minister responsible for the relevant sector.



Ron Gazit, Rotenberg & Co. Law Offices

Amir Vang, Head of the Antitrust Practice

Ron Gazit, Rotenberg & Co. Law Offices ("RGR") is a mid-sized commercial law firm, composed of 24 lawyers who have unparalleled experience and provide a full scope of legal services in various legal fields, such as corporate law, antitrust law, intellectual property, employment law, privacy law, commercial litigation, environmental law, IT and E-Commerce, real estate and more.

RGR's antitrust practice (recommended by Legal 500 EMEA 2011-2015; Israeli Dun's 100, 2013-2015; BDIcode 2014-2015 and more) is involved in the highest-profile matters in antitrust law in Israel, such as the proceedings involving the copyright collection societies for authors and record companies, credit-card arrangements, telecommunications termination charges, oligopolistic and monopolistic practices, concertation groups and supply and retail practices in the food retail sector.

The practice handled numerous class actions related to such matters as abuse of dominance in various industries and regularly appears before the Israel Antitrust Authority, the Antitrust Tribunal and the Supreme Court on these and other competition law issues. Additionally, the practice has handled inquiries into abusive or other anti-competitive conduct and cartel and other concerted practices; assisted its clients in handling on-site document inspections and defended firms and individuals in competition investigations initiated by the Israel Antitrust Authority.

Also, the Practice has experience in private enforcement – both in complaining to the Israel Antitrust Authority and in initiating proceedings against anti-competitive behavior; In preparing and implementing compliance programs; In setting up and representing trade associations on a range of issues, such as preparation of by-laws, obtaining clearances from the Antitrust Authority and more.

Amir's practice concentrates on antitrust, IT, telecom, media, and regulation. Amir assists local and international clients on antitrust compliance, merger proceedings and more. He has led the legal team in many high-profile cases before the Israeli Courts and in hearings and proceedings before the Antitrust Authority, the Knesset, the Bank of Israel and various government ministers.

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Venture Capital and Private Equity Funds

AMIT, POLLAK, MATALON & Co.

Yonatan Altman Maya Issacharov Amy Sapan



Market trends and insight

Over the past few years, there has been accelerated activity in the Israeli investment funds arena. A mix of low interest rates, a bigger pool of institutional funds ready to be deployed, and a surge in Israeli entrepreneurship and creativity, have combined to produce such a vibrant market.

While the evolution of the Israeli investment funds sector has been challenging after a few difficult years for fundraising, we are now witnessing far-reaching changes in the funds' management teams, investment strategies and structures.

Having learned tough lessons from previous decisions, investors have come back to the negotiation table with renewed vigor and a more discerning eye, more selective about management teams and investment opportunities and more demanding with respect to governance and transparency issues. Against this backdrop of heightened investor standards, fund management teams have aimed higher by building stronger and more diverse teams that seek innovative ways to add value to their portfolio companies, drawing on the sophistication and operational experience of their counterparts. Well-assembled teams that demonstrate a real prospect to create value, manage to gain the trust of private, institutional, and also non-Israeli investors. Indeed, over the past two years there has been a marked increase in the number of Israeli first time funds as well as funds that are "over-subscribed".

The impact of low interest rates and current market conditions also drives fund managers to formulate innovative investment scopes and strategies in various sectors, both inside and outside Israel. Institutional investors, traditionally more conservative, are eager to explore these opportunities, in their search for excess returns. This produces a dramatic growth in innovative investment strategies and structures and in increasingly various jurisdictions (such as US, Europe and Asia). Indeed, as Israeli fund managers begin to move beyond their own borders and to pursue market opportunities abroad, Israel is expanding beyond its position as a world-class hotbed of technological entrepreneurship and innovation.

Increased investments in venture capital funds

Israel has also seen other major effects and trends including increased investments in venture capital ("VC") funds. Israeli VC funds collectively raised almost \$1 billion in 2014 – more than had been raised in any year since the 2008 economic downturn, and approximately 1.5 times more than the amount raised in 2013. More than \$600 million has already been raised in the first half of 2015.



In addition to the increase in the aggregate amounts invested into VC funds, there has also been an increase in the number of funds raised, a drop in the number of "micro funds" in favour of slightly larger funds, an increase in the average fund size, and a fair presence of first time funds and teams. These metrics strongly point to a recent strengthening of the Israeli venture capital industry, as compared with previous years.

Increased Israeli institutional investor involvement in VC funds

After years of minimal or no investment in VC funds, we have witnessed rising interest and involvement by Israeli institutional investors in these types of investments over the past two years. This includes investments by smaller institutional players that were not previously active in the field, as well as more investments by Israeli institutional investors in first time funds, to such an extent that there are first time funds in which Israeli institutional investors contribute the majority of the capital. On top of this, the actual size of individual investments has grown dramatically.

A significant increase in the presence of Chinese investors

After years in which US investors dominated the Israeli VC investment fund landscape, recently Chinese investors have also demonstrated enormous interest in Israel, and have invested considerable sums in Israeli funds and also directly in Israeli companies. Such investments serve a critical strategic role for Chinese investors keen on gaining a competitive advantage through technological innovation, and function as a gateway and important avenue for potential commercial cooperation, R&D and acquisitions. In a number of recently formed VC funds, interests held by Chinese investors have reached as high as 30 or even 40 percent.

Greater funding for, and more types of, private equity funds

For years, Israeli VC funds typically raised more capital, and were able to stir more interest among foreign investors than Israeli private equity ("PE") funds. With time, as successful management teams have emerged, the average size of Israeli PE funds has increased, more management teams have been established, and investment scopes have multiplied. Today, there are Israeli buyout funds, infrastructure funds, secondary funds, funds of funds, various types of debt, real estate and agricultural funds across the globe, as well as other types of funds that defy easy categorization. In 2014, Israeli PE funds raised a total of \$1.7 billion, which represents a 2.5-fold increase from the amount raised only a year before, and in the first half of 2015 alone, \$1.3 billion has already been raised. With many PE funds planning to raise money in the near future, we expect significant funds to flow into the industry.

Increased private debt fund activity

A severe shortage of available credit has cast these types of investment opportunities in the spotlight. The State of Israel recently issued a bid to encourage the establishment of private debt funds focused on small and medium-sized businesses. As part of the incentive program, the State will invest in the fund and also mitigate some of the risk of certain other investors. This program is the latest in a line of incentive programs for funds, the first and best known of which was the Yozma (initiative) program of the 1990s, which is considered to be the wellspring of the Israeli venture capital industry. To the best of our knowledge, today there are more than ten groups participating in the bidding process, and more than five groups that are raising money for private debt funds outside the scope of the tender. This is by all accounts the hottest field of the year in terms of PE fundraising.

More investor-friendly terms

In recent years, there has been stronger insistence, especially from Israeli institutional

investors, on more investor-friendly terms and conditions. This has resulted in lower management fees and carried interest, increased transparency and reporting, and other arrangements designed to address conflicts of interest and better align the interests of General Partners and investors.

Evolution in tax treatment

Generally, Israeli PE and VC funds may obtain a tax ruling from the Israeli Tax Authority of the Israeli Ministry of Finance. Such a tax ruling would typically provide either a tax reduction or a full exemption from tax on gains derived by non-Israeli investors from the funds' investments in Israeli and Israeli-related companies. In order to qualify for the benefits of such a ruling, a fund would be required to meet certain requirements, relating generally to the composition of its investors, the manner in which it invests and the types of investments it makes. Those conditions are generally consistent with the manner in which "standard" Israeli funds investing in Israel typically operate. Such tax rulings typically also address the taxation of carried interest by the general partner, and a separate value added tax ruling may provide that VAT at a rate of zero would apply to management fees and possibly also carried interest, with respect to the proportional share attributable to non-Israeli investors. The terms of the tax and VAT rulings continuously evolve throughout the years, but a more detailed discussion of the trends is beyond the scope of this article.

Shifting regulatory environment

The European Alternative Investment Fund Managers Directive (AIFMD) regulations and the regulations promulgated under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, that preceded it, marked a trend of strengthening regulatory oversight over private fund managers.

These regulations impose various registration requirements and stipulations on funds interested in soliciting European or American investors, and on the use of finders who are not registered broker dealers by funds soliciting American investors (and by American funds soliciting investors anywhere in the world). These regulations not only serve as a challenge for Israeli fund managers keen on soliciting European and American investors with ease, but also serve as a contrast to the relatively simple Israeli regulatory environment. The Israeli Securities Law, 1968 which regulates the offer of securities to the public in Israel, and the Law of Investment Advice, Investment Marketing and Investment Portfolio Management, 1995, which regulates the provision of investment counseling, marketing and portfolio management services in Israel, generally provide that no additional registration of the offering, or registration of the fund manager as an investment advisor is required, if the fund meets the relevant limitations with respect to conducting a private offering and, where needed, only offers interests to "qualified clients".

The speed at which significant changes in the global marketplace are currently taking place is unprecedented, and perhaps the most pronounced trend of all – its impact manifesting itself in the shifting dynamic between management teams and investors, the evolution of investment terms and strategies, and in the tax and regulatory arena. In this ever-changing environment, a dynamic and comprehensive perspective is key to navigating these challenges.



APM & Co.

Yonatan Altman, Chairman and Head of the Hi-Tech and Venture Capital Department Maya Issacharov, Partner, Fund Formation

APM & Co. is a renowned Israeli law firm with a robust legal practice. Established in 1956, the firm draws on six decades of excellence to offer an up-to-date and innovative approach to the practice of law. The firm provides a comprehensive range of legal services to an Israeli and International client base that spans across all business sectors.

APM & Co.'s main areas of expertise are corporate law, mergers and acquisitions, capital markets and securities, high-tech, fund formation, intellectual property, international and local taxation, finance, anti-trust, bankruptcy, liquidation and reorganization, real estate, labor law, projects and energy, regulatory and compliance, environmental law and litigation.

APM & Co. is consistently ranked by leading international and local directories of the legal profession, such as Chambers & Partners, Legal500 EMEA, Dun's 100 and BdiCode.

APM & Co. represents entrepreneurs, startups, technology companies, angel investors, accelerators, institutional investors, technological incubators and private equity and venture capital funds, both domestic and foreign. The firm has extensive experience in all types of high-tech and venture capital transactions including, investments (all stages), securities offerings, mergers and acquisitions, joint ventures, IP licensing transactions and multilateral international agreements. APM & Co. offers particular value to entrepreneurs and startups seeking counsel on formation, founders' agreements, fundraising and structuring of business models. Time and again, APM & Co. has supported ongoing client activities, investment rounds and business expansion up through multi-million dollar exit transactions.

APM & Co. is considered as a market leader in the fund formation practice and has formed many of the leading venture capital and private equity funds operating in Israel today, such as Vintage, Fortissimo and Genesis Partners. APM & Co.'s in-depth knowledge of the market enables the firm to be instrumental in representing newly established funds and fund managers, in ever changing fundraising environments.

Drawing on the vast experience accumulated through its longstanding presence in the high-tech ecosystem, APM & Co. couples legal services of the highest standard with sound business judgment to offer first-rate representation that makes a difference.



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PwC Israel High Tech

PwC Israel is a leading professional services firm for the Israel i hi-tech industry. The vast experience we have accumulated and our leading position in this industry give us deep understanding of the unique business needs of hi-tech companies and allow us to offer superior innovative solutions.

PwC Israel is a one-stop-shop for a wide spectrum of services for companies in all development stages, from startups to large multi-nationals. We help our clients as they grow from initial incorporation, through IPOs and/or M&As and beyond, using our extensive network of ties and our long-standing experience.

Our thought leadership for the industry includes publishing the Annual Exit Report, which reviews exits by Israeli tech companies during the previous year. We also publish our local edition of the quarterly MoneyTree $^{\text{TM}}$, which complements the reports in the US and Europe published by the PwC global network. The report gives a reading on venture capital investments in Israeli hi-tech.



Our Startup Program

We, at PwC Israel, believe that the future of Israeli hi-tech mostly depends on the collective spirit and innovation that comes from thousands of entrepreneurs. We know how difficult and complicated it is for entrepreneurs when taking their first steps, and that they can use all the help they can get to allow them to focus on the one most important thing – building a successful company.

PwC Israel's Startup Program enables entrepreneurs to do just that.

Our hi-tech teams are dedicated and trained to support founders and their startups in taking those crucial first steps by providing a whole suite of services, including assistance in raising initial capital and other critical support to make their lives simpler.

Our experience with giving personal attention to hundreds of local startups allow the entrepreneur get highly focused, clear and personalized advice on business, accounting, tax and other issues that are customized for startups. compliance needs while adding value throughout the cycle.

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Corporate Taxation

Taxes on corporate income

Israel-incorporated companies and foreign companies that have a branch presence in Israel are both subject to Israeli corporate tax. An Israeli-resident entity is subject to Israeli corporate tax on worldwide income while a non-resident entity is subject to Israeli corporate tax only on income accrued or derived in Israel. Income sourcing rules determine when income is to be considered from an Israeli source.

The corporate tax rate is 26.5%. A legislation process is in place which, if approved, will reduce the tax rate to 25% beginning on January 1, 2016.

A branch is liable for tax at the standard corporate rate on Israel-source income. No tax is withheld on transfers of profits to the foreign head office unless the branch is taxed under a reduced tax regime.

Entities that are entitled to incentives under the Law for Encouragement of Capital Investments ("the Encouragement Law") are subject to reduced rates of tax depending upon the level of foreign ownership and location.

Tax Administration

Taxable period

The tax year is generally the calendar year ended December 31. Certain entities may apply to have their tax year-end on different dates, specifically, mutual funds, government companies, quoted companies, and subsidiaries of foreign publicly listed companies with a different year end.

Tax returns

The Israeli system is based on a combined form of assessment and self-assessment. The statutory filing date is five months following the end of the tax year, which for a calendar year taxpayer would be 31 May. It is possible, however, to secure extensions of the filing date.

Every company regardless of its size must file an annual tax return. The tax return must be audited by an audit firm and accompanied by an audit opinion and audited statutory financial statements.

Payment of tax

Generally, 12 monthly advance payments are levied at a fixed ratio of the company's



turnover. Alternatively, a company may be required to make ten monthly payments beginning in the second month of its tax year, each payment being a fixed percentage of the previous year's tax assessment.

Penalties are imposed on overdue advance payments and on delays in the submission of tax returns. The balance of any taxes due is payable from the beginning of the following tax year and is linked to the CPI; it bears interest of 4% until paid.

Tax audit process

A tax return, once filed, constitutes a self-assessment that remains open to review by the ITA for three years from the end of the tax year in which the tax return is filed (within four years after the end of the said tax year with the Commissioner's approval). If no return is filed and a tax officer believes a taxpayer owes tax, the tax officer may issue a 'best judgement' assessment without time limit.

Statute of limitations

The statute of limitation period for corporate tax is three years from the end of the tax year in which the relevant tax return is filed. The Commissioner of the ITA has the authority to extend this period to four years.

Topics of focus for tax authorities

Some key tax issues that the ITA has focused on recently include:

- · Transfer pricing.
- · Treaty shopping to reduce WHT and capital gains tax.
- WHT on payments to overseas service providers and for payments in regard to software.

Corporate residence

The following are considered to be resident in Israel:

- · A company incorporated in Israel.
- A company whose business is managed and controlled from Israel.

In the absence of a definition of the term 'management and control' either in Israeli legislation or a direct discussion of this term by the Israeli courts, it may be difficult to determine whether a company that is incorporated outside of Israel shall be viewed as managed and controlled from Israel. This is a complex subject that needs to be addressed on a case-by-case basis. When an entity is both an Israeli tax resident and a resident of a foreign jurisdiction that is party to an income tax treaty with Israel, most treaties provide a tiebreaker test in the determination of an entity's tax residency.

Permanent establishment (PE)

Foreign resident entities might be exempt from corporate tax to the extent that its activities do not constitute a PE under the tax treaty applicable between Israel and the foreign resident's country of residency.

Whether a non-resident has a taxable presence under Israeli domestic tax law is far less clear than the definition of PE under a relevant tax treaty. There is no detailed legislation or Israeli court decisions that directly address this issue. In general, where there is no tax treaty protection, a non-resident is subject to tax on income accrued or derived in Israel, which is a taxation threshold lower than the PE criterion.

Income determination

In general, the annual results (i.e. the excess of income over expenses or vice versa) of

an Israeli company or branch, as detailed in the taxpayer's audited financial statements, form the basis for computing the taxable income of the business.

The base amount is then adjusted pursuant to the provisions of the tax law to arrive at 'taxable income'.

Dividend income

Received by an Israeli-resident company

Dividends received by an Israeli-resident company from another Israeli-resident company that originate from income accrued or derived in Israel are exempt from corporate tax, except for dividends paid from income taxed under a reduced tax regime. This affords the opportunity to transfer after tax profits within an Israeli group of companies for further investment.

Dividends received by an Israeli-resident company from a non-resident company, as well as dividends received from an Israeli company that arise from foreign-source income of the distributing company, are generally taxable for the receiving company at the rate of 26.5%. Under certain circumstances, the receiving company may elect to be taxed on such dividends at the corporate tax rate, in which case it will also be entitled to a foreign tax credit with respect to corporate taxes paid by the company distributing the dividend (i.e. an 'underlying' tax credit).

Received by a non-resident shareholder

Dividends received by a non-resident shareholder from an Israeli company are generally subject to tax at the rate of 25% (30% if paid to a 10% or more shareholder), subject to a reduced rate of tax under an applicable tax treaty.

Several of Israel's tax treaties have very beneficial withholding tax (WHT) rates for dividends being paid from Israel. The ITA is very sensitive to treaty shopping, and it will be necessary to demonstrate to the ITA that the foreign holding entity has business substance in its country of residence that will support its residency for treaty purposes and that the structuring of the holding through that entity was not implemented for tax treaty benefit purposes. Furthermore, many of the treaties contain a beneficial ownership clause as a condition to enjoying the treaty WHT rates.

Interest income

Received by an Israeli-resident company

Interest income received by an Israeli-resident company is subject to the regular corporate tax rate.

Received by a non-resident

Interest income received by a non-resident company is generally subject to tax at the corporate tax rate or subject to a reduced rate of tax under an applicable tax treaty. Interest received by a non-resident from deposits of foreign currency with an Israeli bank is exempt from tax, subject to certain conditions.

Rent/royalties income

Rent and royalty income, less allowable deductions for tax purposes, is subject to tax at the regular corporate tax rate.

Partnership income

From an Israeli tax perspective, a partnership is, in principle, a fiscally transparent vehicle. Accordingly, Israeli tax law does not tax partnerships as such; however, generally, each partner is taxed in respect of its share of the partnership income, with

the taxable income allocated to a corporate partner taxed at the regular company tax rate. Consequently, the actual distribution of partnership income to a partner is a non-taxable event.

Foreign income

An Israeli-resident company is liable for tax on its worldwide income. Double taxation is avoided by way of a foreign tax credit mechanism that also applies unilaterally in the absence of an applicable double taxation treaty (DTT).

Under the controlled foreign company (CFC) regime in Israeli tax law, an Israeli company or individual may be taxed on a proportion of the undistributed profits of certain Israeli-controlled non-resident companies in which the Israeli shareholder has a controlling interest (10% or more of any of the CFC's 'means of control').

Other taxes

Value-added tax (VAT)

As of October 1 2015, the VAT rate is 17%

Exports of goods and certain services and various other transactions are zero-rated, and certain transactions are exempt. Banks and other financial institutions pay VAT-equivalent taxes at the rate of based on their total payroll and on profits. Not-for-profit organizations pay VAT-equivalent tax (wage tax) at the rate of 7.5% of their total payroll.

Customs duties

Customs duty is imposed on certain products imported into Israel. The rates of duty depend upon their classification according to the Harmonised Customs Tariff and the country of origin. Israel has concluded free-trade agreements with the United States, Canada, Mexico, the European Union (EU), and the European Free Trade Association (EFTA).

Excise taxes

The government imposes excise taxes on a variety of goods (e.g. fuel, tobacco). The excise taxes are levied item-by-item.

Municipal tax

Municipal tax is levied annually on buildings by local municipalities based on the size, location, and purpose of the property.

Transfer tax

The purchaser of real estate is generally subject to acquisition tax at rates up to a maximum of 10% (the highest rate applies when the purchase price exceeds approximately 15.5 million Israeli shekels [ILS]).

Stamp taxes

There are no stamp taxes imposed in Israel.

Accounting and Reporting

Local Statutory Requirements

Under the Israeli Companies Law, 1999, Israeli companies and branches of foreign entities must maintain books of accounts to record the assets and liabilities of the company, the transactions, payments, receipts and all the data required to present the company's financial position to its shareholders.

Israeli Tax Regulations (Bookkeeping) 1973 describe in great details the various books and records that a company must maintain such as invoices, receipts, inventory lists, fixed assets registrar and more. These regulations dictate the format, nature and timing of each document recorded in the books.

The use of an Electronic Record System is permitted if the bookkeeping software is approved by the tax authorities. The accounting records language can be either Hebrew or Arabic but using English for subsidiaries of foreign entities may be permitted if an approval is obtained in advance from the tax authorities. The accounting records should be maintained in local currency (New Israeli Shekel).

The server on which the company's accounting records are recorded should be located physically in Israel, however in cases of subsidiaries of multinational groups, the tax authorities may grant an authorization to hold the server out of Israel if an accessible on-line back up is available at the company's site for inspection purposes.

The accounting record must be kept for 7 years from the end of the tax year that the entries recorded relate to, or for 6 years from the date that the annual tax return for the relevant tax year was filed (whichever is later).

Financial Reporting

Rules for statutory filings

The Israeli Companies' Law requires from listed companies - the filing of financial statements in accordance with the Securities Law and from unlisted companies - the filing of financial statements prepared in accordance with "generally accepted accounting principles."

The Law also requires the presentation of the financial statements to the annual general meeting of shareholders. The Board of Directors and management of the company are responsible for the preparation and fair presentation of the financial



statements. The financial statements must be approved by the Board of Directors and the balance sheet must be signed on behalf of the Board.

Public companies

Public companies must issue the audited annual financial statements within three months after the end of the year. In addition, public companies must issue quarterly reports within two months after the end of each quarter (except the 4th quarter). These quarterly reports must be reviewed by the independent auditors of the company. Public companies must prepare the annual and quarterly financial statements in accordance with IFRS. The Securities Law also requires management to disclose a discussion and analysis of the results of operations in annual and quarterly reports of public companies. Public companies must also report on the effectiveness of their internal controls over financial reporting.

Audit Requirements

Under the Israeli Companies Law, 1999, Israeli companies and branches of foreign entities must appoint a Certified Public accountant ("CPA") or an accounting firm as the companies independent auditor. All the companies must file audited financial statements with the Registrar of Companies. The auditor of the company is appointed by the General Annual shareholder's meeting. The auditors audit the financial statements of the company and signs the audit opinion (also referred to as the "Auditor's report").

The auditor's report should include a statement that the financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations in conformity with the relevant generally accepted accounting principles ("GAAP").

Audited financial statements must also be filed with the tax authorities when filing the annual tax return. Israeli auditing standards are prescribed by the Israeli Institute of Certified Public Accountants ("ICPA") and are incorporated into the Auditors (Mode of Performance) Regulations, 1973.

The ICPA publish the auditing standards which are mainly based on international auditing standards.

Accounting Standards

Private companies

Most of the Israeli private companies issue their financial statements in accordance with accounting standards generally accepted in Israeli ("Israeli GAAP"). According to Israeli accounting standard issued in July 2006 by the Israeli Accounting Standards Board, entities that are not subjected to the Israeli Securities Law are permitted (but not required) to prepare their financial statements in accordance with IFRS.

In July 2010, the Israeli Accounting Standards Board issued an Israeli accounting standard, according to which, small and medium entities are permitted (but not required) to prepare their financial statements in accordance with IFRS for SMEs commencing January 1, 2011.

Public companies

Implementing IFRS is required for consolidated financial statements of listed public companies except for banking institutions (listed and unlisted, including credit cards

companies) who must prepare their financial statements in accordance with specific instructions issued by the Israeli Banking Inspector (see also below).

Listed companies are not required to issue IAS 27's separate financial statements, but only certain financial data on a "standalone" basis in accordance with specific statutory disclosure requirements.

Israeli banking institutions in Israel apply an accounting framework issued by the Israeli Banking Inspector, which, with respect to their core banking business and other several substantial issues, is based on US GAAP applied by banking institutions in the US. IFRS based accounting is applied for several other issues.

Certain foreign companies listed on the local stock exchange can report under US GAAP or IFRS as adopted by the EU (but are then required to reconcile to IFRS in a footnote). In addition, dual listed companies (those listed locally and in certain stock exchanges abroad), that report under US GAAP can report also locally under US GAAP.

Reporting under IFRS is required by the Israeli Insurance Inspector for all insurance companies and pension funds' management companies.

IFRS conversion plans

In accordance with a roadmap announced several years ago by the Israeli Accounting Standards Board, IFRS for SMEs is anticipated to be obligatory for small and medium entities, but a final decision is yet to be made.

Plans for IFRS converging as the basis of tax reporting

Taxable income is principally based on the legal entity's Israeli GAAP statutory accounts, with a number of adjustments provided in the tax law. Israeli courts have ruled that in the absence of a tax treatment determined under law, accounting principles may serve as guidance to determine the tax treatment.

Following the mandatory adoption of IFRS by the Israeli public companies and voluntary adoption by some private companies and as an interim measure, the Israeli parliament has legislated that during tax years 2007 - 2013 IFRS based financial statements will not be accepted for the preparation of corporate tax returns. It should be mentioned that no legislation was published regarding the extension of the temporary order with respect to tax year 2014. In addition, it is not yet clear whether in 2015 an official order will be published regarding the acceptance of IFRS based financial statements (with certain guidelines and limitations) for the preparation of corporate tax returns with respect to the tax years 2015 and thereafter. Also, should the aforementioned official order will not be published, it is expected that, a same legislation regarding the extension of the temporary order will be published with respect to the tax year 2015.

Consequently, these returns are generally to be based on Israeli GAAP (it should be noted that Israeli GAAP has adopted certain IFRS based standards, thus, indirectly, the IFRS accounting treatment in certain areas may still influence the Israeli tax treatment). Under certain conditions, subsidiaries of foreign entities may apply for an approval from the tax authorities to use IFRS or US GAAP financial statements as the basis for their tax reporting.



PwC Israel

Eitan Glazer, Audit Partner Energy & Cleantech Practice leader

Established in 1924, PwC Israel helps organizations and individuals create the value they're looking for. We are a member of the PwC network of firms with 169,000 people in more than 158 countries. The firm currently has 60 partners and about 1,200 professionals. Headquartered in Tel Aviv, we have branches in Haifa, Jerusalem and Omer.

Our clients operate in all sectors of the Israeli economy. They range from start-ups to large multinationals. We help them to obtain their goals, from inception to IPO or M&A, using our industry-wide expertise and relationships. We can tap into the know-how, global reach and resources of the entire PwC network, allowing us to support clients in resolving complex business issues, managing processes and risks and improving performance both in Israel and worldwide.

We offer three main lines of services:

Assurance and financial reporting

Our assurance services are tailored to the industry and specific business of each client, based on a standardized audit methodology used by PwC firms worldwide. Our audit teams adjust their work to the audit environment of each client to ensure efficiency and quality. Whenever needed, we use multinational audit teams, which combine assurance practitioners from different PwC firms.

Tax consulting

Our tax practice is one of the few in Israel offering a complete suite of Israeli and international tax services, providing a one-stop shop solution.

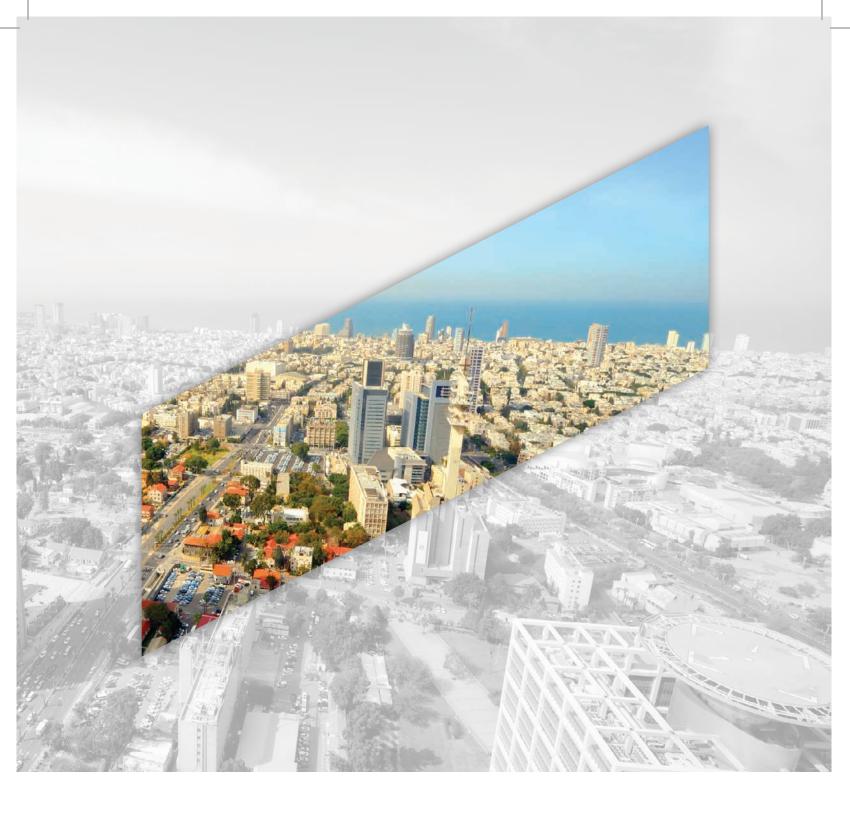
We provide a whole array of services through specialized teams: corporate, international, US, property, individual and indirect tax. We also have a dedicated team providing services related to the ITA's automated reporting systems (Sha'am).

Business consulting

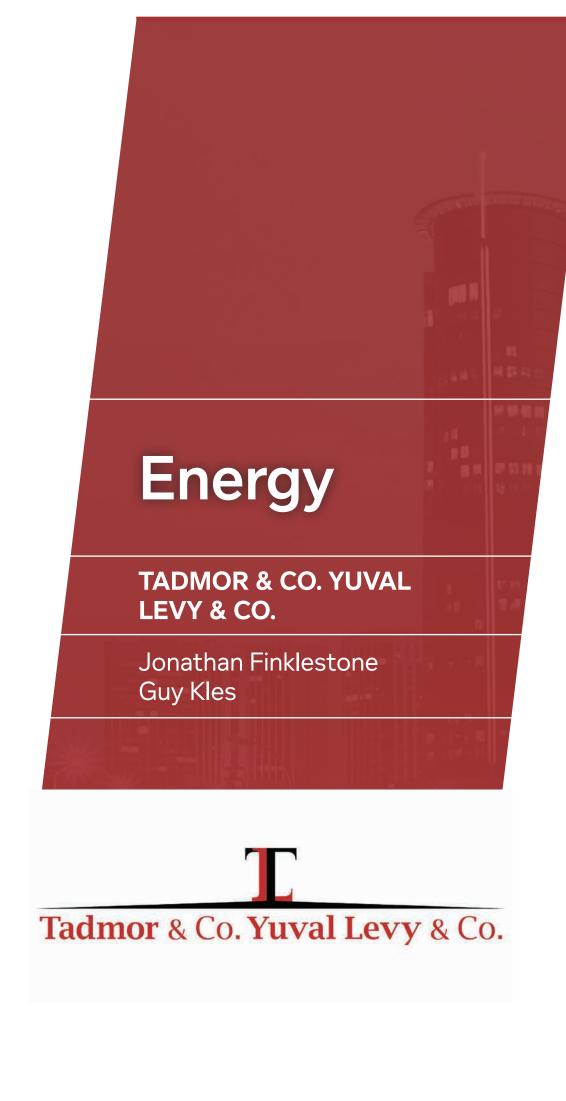
Our advisory group supports leading companies through multidisciplinary teams with rich experiences and global knowledge, and provides the tools needed to make informed decisions. Services span M&A transaction support (transaction services), economic advisory, risk management and actuary, IT, internal audit and SOX, and corporate governance and ethics, including executive compensation plans, government incentives, forensics and trusteeship.

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THE FIRST STEP FOR INTERNATIONAL LAW FIRMS DOING BUSINESS IN ISRAEL



Background to the Israeli energy sector

Since its establishment, and until the last decade, Israel's energy market was characterized by scarcity and disparity; increasing consumption; and limited competition. No large marketable energy sources were at hand and the country's primary energy sources were imported fossil fuels. In addition, electricity generation, transmission and distribution were undertaken solely by Israel Electricity Company Ltd. ("IEC"), a government-owned integrated monopoly. However, in the last decade the energy market in Israel has changed profoundly.

Firstly, in 1996 the legislature enacted the Electricity Sector Law, 5756-1996 (the "Electricity Law"), which introduced various structural changes, and transformed the Israeli electricity sector from a concession-based sector to a license-based sector. Such legal framework has enabled independent power producers ("IPPs"), for the first time in Israel's history, to own and operate large-scale conventional, solar and pump storage hydroelectricity facilities.

Secondly, following recent discoveries of offshore natural gas such as the "Tamar" field (11 TCF), which began commercial production in 2013, and the "Karish" field (1.8 TCF), the "Tanin" field (1.2 TCF) and the "Leviathan" field (22 TCF), which are expected to be operational within a few years, Israel's natural gas demand will now be met by local production and Israel will become an exporter of natural gas.

Despite these discoveries, Israel still faces significant challenges as the holders of the gas licenses require the support of prominent international oil and gas companies in developing the reservoirs and the necessary infrastructure in order to link them to Israel's distribution network.

In addition, Israel's complex relations with its neighbors rendered it an "energy island" such that electricity is entirely generated domestically with no grid connections with any neighboring economies. Therefore, and as described below, the Israeli energy market is very much under development with diverse capital investment and acquisition opportunities.

Legal and regulatory framework

Electricity

The Israeli electricity sector is dominated by IEC, which was historically granted with a concession to generate, transmit and distribute electric power in Israel. In 1996, with the enactment of the Electricity Law, it was decided to open the electricity sector to



competition and to reorganize that each activity thereunder is governed by a license. In the interim and until the reforms are fully implemented, IEC was provided with a provisional authorization to continue to perform its various functions, which has been extended several times.

The Ministry of National Infrastructures, Energy and Water Resources (the "Ministry") and the Public Utilities Authority – Electricity (the "PUA") are the regulatory bodies that oversee the electricity sector. The Minister of National Infrastructures, Energy and Water Resources is vested with certain authority with respect to the issuance, extension and revocation of licenses; approval of changes in control in license holders; and approval of pledging or granting security interests of and over license assets. In general, the Electricity Law and the regulations promulgated thereunder specify the conditions for obtaining a provisional license to produce electricity, which after fulfilling certain milestones, is replaced by a permanent license (usually for a period of 20 years), which is required in order to carry out the commercial operation of the IPP.

The PUA was established in 1996 as an administrative entity that determines tariffs, as well as setting out, and supervising the fulfillment of, the criteria established for the standard, nature and quality of the services provided in the electricity sector. In general, tariffs in Israel are a function of the type/technology of the IPP and in some instances also its capacity. Once published, the tariffs are in effect until a predetermined quota is attained or a certain time period has elapsed. Depending on the type/technology of the IPP, the regulatory regime provides for a safety net, according to which such IPP may sell all or a certain percentage of its output to the holder of a system management license (currently the IEC).

The Electricity Law has laid down the legal framework which allowed the Ministry of Finance and the Ministry to tackle electricity shortage and to elevate renewable energy through private-public-partnerships ("PPP"). Although at this stage it is clear that such goal is not feasible by 2020, the Israeli Government is keen to make sure the goal is attained thereafter.

These initiatives along with several governmental decisions have facilitated the development of large-scale projects with minimum immediate reliance on allocations from the national budget.

Oil & Gas

The oil and gas sector in Israel is governed by two primary laws: the Petroleum Law, 5712-1952 (the "Petroleum Law") and the Natural Gas Sector Law, 5762-2002 (the "Gas Law"). The Petroleum Law governs and regulates Israeli upstream activities with respect to exploration and production of oil and gas. The Gas Law governs the midstream and downstream activities and sets out a licensing regime for natural gas infrastructure, which is regulated by the Natural Gas Authority.

The Petroleum Law grants vast powers to the petroleum commissioner (the "Commissioner") who is primary responsible for regulating all upstream oil and gas activities, as well as reviewing and approving transfer or pledging of rights granted under the Petroleum Law. There are three main rights that may be granted by the Commissioner under the Petroleum Law: a preliminary permit, a license and a lease. A preliminary permit confers the right to carry out preliminary testing investigations (excluding test drilling). A license grants the right to explore for petroleum in the license area and outside such area in certain circumstances; the exclusive right to

conduct test or development drilling in the license area; and to produce petroleum. Once the Commissioner recognizes that a discovery has been made, the licensee may be granted a lease for 30 years which can be extended to 50 years.

The Petroleum Law establishes that a leaseholder is allowed in principle to export petroleum. In 2013, pursuant to the recommendation of the "Zemach Committee," the Israeli Government adopted a resolution which limits natural gas exports to approximately 40% of production (with the exception of reservoirs in existence prior to the adoption of this policy, which may export up to 50% of production).

There are two key components of taxation relevant to the oil and gas industry. The first component relates to the royalties that a holder of a lease must pay to the Israeli Government in an amount equal to 12.5% of the wellhead value of the petroleum produced from the leased area. The second component, introduced following the recommendations of the "Sheshinski Committee," is a levy imposed on profits derived from the sale of petroleum pursuant to the Petroleum Profit Taxation Law, 5771-2011. The levy applies only to profits from upstream operations and is designed to capitalize on the economic dividend arising from each petroleum reservoir only after the holder of a lease achieves a full return on its investment plus an additional return for some of the financial risks.

The current energy mix and future developments

Natural gas is expected to play a considerable role in Israel's future energy mix and recent discoveries have already significantly reduced the use of coal as the main source of Israeli electric power. Israel does not produce nuclear energy and currently less than 5% of the energy mix is derived from renewable sources.

The most recent regulatory hurdle facing the energy market is the approval of the draft "gas outline agreement" recently published by the Israeli Government (the "Draft").

The Draft still requires the approval of the Israeli parliament unless the Minister of the Economy decides to use his authority pursuant to the Restrictive Trade Practices Law, 5748-1988 and exempt the Draft from antitrust constraints. The Draft is the outcome of a recent dispute between the Director-General of the Antitrust Authority (the "Director-General") and the partners in the Leviathan and Tamar fields. The Director-General has reconsidered the applicability of a previous arrangement that would have allowed the partners to retain their stakes in the fields as long as they sold their shares in the Karish and Tanin fields.

Therefore, we identify several capital investment and acquisition opportunities. First, following the approval of the Draft, the partners in the Leviathan and Tamar fields will be required to sell their stakes in the Karish and Tanin fields. Second, in order to access distant markets Israel will need to facilitate the construction of a liquid natural gas ("LNG") facility. Other than development, construction and operation of an LNG facility, the local market will require: additional gas-supporting and export infrastructure; companies with the expertise to convert existing power plants to natural-gas compatible or build new power plants; companies with expertise in pollution controls; and other services which relate to the industrial application of natural gas. In the long run, investment opportunities may relate to the development of a methanol plant or to companies capable of introducing natural gas vehicles. In addition, several gas-related PPP projects have already been published such as a tender for the construction of a large scale ammonia production plant in the Negev region.



Tadmor & Co. Yuval Levy & Co.

Jonathan Finklestone, Senior Partner, Head of Project Finance Practice Group

Guy Kles, Senior Associate, Project Finance Practice Group

Tadmor & Co. Yuval Levy & Co. is a premier Israeli law firm with a global perspective dedicated to providing effective and sophisticated legal services to clients operating in all sectors of the economy. The firm's comprehensive international and local experience allows it to serve as a two-way gateway for its clients: taking its Israeli clients worldwide, while closely supporting its foreign clients in Israel. The firm is consistently ranked among Israel's elite law firms in various legal publications and directories, including Chambers Global, Legal 500, Global Competition Review, Who's Who Legal and IFLR 1000.

Being one of the premier single designated projects and energy practice groups in Israel, the firm's Project Finance practice group has an in-depth understanding of the broad spectrum of issues that relate to the regulatory framework for, and financing of, energy and natural resources; and has assumed a key role in supporting banks, institutional investors and sponsors in developing pathfinder and innovative financing structures.

Among the firm's notable transactions in the energy sector in the past twelve months are:

- Representation of a project company in procuring financing for the design, construction and operation of a 121MW Solar Energy Thermal Power Station in Ashalim, Israel. The project utilizes unique and ground breaking "Tower Technology", similar to that used at the Ivanpah project in Southern California, USA and was recently awarded as the European Solar Power Project of 2015 by IJGlobal;
- Representation of a project company in the development of 834MW natural gas fired power plant in the south of Israel. This is the largest privately owned power station in Israel;
- Representation of the lenders financing a 300MW hydroelectricity pumped-storage power plant in Ma'ale Gilboa, Israel. This is the first hydro-electric project in Israel.

Jonathan's practice covers a wide range of project and infrastructure financings in various project structures and delivery systems. His transactional work has been recognized by numerous ranking guides, including Chambers Global, Legal500, Who's Who Legal, and IFLR1000 where he is listed as a Tier 1 practitioner in Israel Projects & Energy. Clients characterize him as an "amazing lawyer" with "excellent deal-making abilities" and "vast local and international experience" and cite his "commercial attitude" and the fact that he demonstrates "industry knowledge and has excellent connections". In the past, Jonathan was a project finance attorney at the New York law offices of Chadbourne and Parke LLP.

Guy's focus is on project development, public-private partnerships and other project financing transactions, primarily in the water and power sectors. He regularly represents sponsors, banks and financial institutions in the development, financing, acquisition and disposition of infrastructure projects. Guy received his LL.M. degree focusing on energy and climate change law from Columbia University School of Law, where he was named a Harlan Fiske Stone Scholar and a recipient of the Parker School Recognition of Achievement in International and Comparative Law.

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IP Law in Israel - Overview

Intellectual property (IP) is a key driver of the innovation-based Israeli economy. The IP laws are a combination of such which are a product of the original Israeli legislation and others that are amended and updated versions of British legislation during the British mandate over of Palestine (1920-1948).

Although there are no specialized IP courts in Israel, the courts are generally IP-friendly.

In respect of counterfeits for example, rights holders can enforce their IP right, with the availability of expeditious judicial interim relief and the possible assistance of governmental agencies such as the police and the customs authority.

Patents, designs and plant varieties

The Patents Law, 1967 is an original Israeli statute which incorporates such principles as the requirement for absolute novelty and has been amended to reflect Israel's international obligations such as the Patent Cooperation Treaty. The Patent Law was amended in 2011 and 2012. One of the recent substantial changes in the Patents Law was the introduction of early publication of patent applications. A patent application and its file wrapper will now be open for public inspection after a period of 18 months from the filing (or priority) date. The amendment also introduced the right to collect reasonable damages for infringements that occurred between early publication and publication of acceptance of the patent application.

On January 2014 the Patents Law was amended again and introduced a significant reform in the patent term extension (PTE) system.

The Law governing the protection of Industrial Designs in Israel is currently the Patents and Designs Ordinance of 1924 which is the amended British ordinance that supports old concepts such as local novelty; however, on July 13, 2015, a new Designs Bill passed its first reading in the Israeli Parliament. When finally enacted the new Designs Law will replace the old Ordinance and will modernize the designs protection in Israel. Some of the major provisions of the Bill are a new definition for a "product" encompassing graphic symbols and typographic typefaces, international novelty unregistered designs protection, grace period and provisions for Israel's accession to The Hague Agreement .

Rights in new plant varieties are governed by the Plant Breeders Law, 1973.



Trademarks, appellations of origin and trade secrets

The British Trademarks Ordinance, which was introduced in 1938, is the basic Law governing protection of trademarks in Israel. The ordinance has undergone several amendments primarily aimed at implementing Israel's international obligations under treaties and conventions such as the TRIPS Agreement (introducing legislative protection for well-known marks). Recent amendments were designed to ensure conformity with the Madrid Protocol. The British Merchandise Marks Ordinance, which has also been amended, provides for criminal liability for designating goods by a false commercial description or counterfeit trademark, providing additional protection to registered trademarks.

Appellations of origin and geographical indications are governed by the Protection of Appellations of Origin (Geographical Indications) Law, 1965.

The Commercial Torts Law, 1999 regulates the protection of trade secrets and also provides protection against passing off, false commercial description and other business-related torts having a bearing on IP litigation.

Copyright

Israeli law of copyright (including copyright protection of software) is governed by the Copyright Law, 2007. The provisions of the British Copyright Ordinance of 1924 regulate private copying of copyrighted works on blank tapes (recordable media other than for computer use). The protection of mask work rights derive from the Protection of Integrated Circuits Law, 5759 – 1999.

The neighboring rights of performers and broadcasters are addressed in the Performers and Broadcasters Rights Law, 5744 – 1984.

Israel's IP protection is further shaped by other statutes and regulations relevant to various specific aspects of IP protection as well as by a constantly evolving body of case law.

Online issues

The liability of online service providers, including the obligation to remove infringing materials, is an evolving issue. There are cases in which the courts have ordered local internet service providers to block access to internet sites that are located outside of Israel and to disclose the identifying details of infringing users. On the other hand, we also encounter cases in which the court refused to provide such an order in the absence of specific legislation. The matter is yet to be decided by the Supreme Court.

Administrative changes

Since 2009 the Israeli Patents and Trademarks Office has improved its computerized systems in line with the requirements of the Madrid system; it is possible to access the system for search purposes, filings of trademarks, issuance of certificates etc. Recently the use of the computerized system was extended to cover filings of oppositions, evidence and other adversary proceedings.

Under a newly signed agreement between the U.S. Patent and Trademark Office (USPTO) and the Israeli Patent Authority (IPA), as of October 1, 2014, the IPA was declared as an International Searching & Examining Authority (ISEA) for PCT applications filed at the USPTO. This reflects recognition by the USPTO of the quality of the search and examination conducted by the IPA.

The Global Patent Prosecution Highway (GPPH) is a new program that came into

effect on January 6, 2014 and is a way to accelerate procedures in one country based on favorable examination in another. The IPA is one of the 17 participating offices, that also include the USPTO and others, and, consequently, new accelerated procedures are now available to applicants of Israeli patent applications. Similarly, success in the examination of an Israeli application may be used to accelerate prosecution in other participating states.

Controversial Developments

Three-dimensional trademarks

In principle, the Trademarks Ordinance envisages the possibility of registering three-dimensional (3D) trademarks. On March 2015 the IPO issued a new Circular Letter which sets forth the current policy of IPO on the registration of 3D marks consisting of the configuration of products or their packaging. Accordingly a 3D shape of a product or packaging is to be examined like any other mark, in its entirety, and will be eligible for registration as a trademark in the event that such mark contains additional elements permitting the identification of the source of the goods, or upon demonstration, through evidence, of the following three cumulative criteria: The shape of the 3D mark serves as a trademark; The shape does not have an essentially aesthetic or functional role; and the shape has acquired a secondary meaning.

Loss of a trademark due to failure to register an authorized user

In Israel, trademark rights are acquired primarily through use; however, registration is key to acquiring the right to sue for trademark infringement (other than in the case of well-known trademarks), although an action for passing off may be available to the owner of an unregistered mark. Furthermore, registration of an authorized user is necessary for continuing validity of the registered owner's trademark lest the mark become susceptible to cancellation due to a three year period of non-use.

Patent protection of business methods and software

The recent practice of the Israeli Patent Office has been relatively conservative in that methods of doing business, as such, cannot be protected by Patents. With regard to software-related inventions, the applicable patentability standards are in a state of uncertainty. Generally speaking, the prospects of getting a patent for a software-related invention (other than a business method) are similar to those of the European Patent Office.

Parallel importation

The Law in Israel allows parallel importation namely the importation of genuine goods from a country in which they are legitimately marketed. This provides a route by which importer other than the one appointed by the rights owner (parallel importers) may import genuine goods into the country. In a recent case the Israeli Supreme Court has defined the scope of permissible use of registered trademarks by parallel importers, adopting a relatively liberal approach to parallel importation and to the freedom to use another's trademark in this context. Nonetheless, the Court imposed restrictions on the activities of the parallel importer inter-alia forbidding the creation of confusion as to endorsement by the trademark owner.

In conclusion, as can be seen, the various aspects of IP protection in Israel are based on a variety of laws and case law which have been and continue to be revised and updated to be in line with technological and international developments. Through its national legislation, and as a party to international treaties and conventions, Israel provides a safe and supporting environment for ensuring a real and effective priority to the protection of IP rights.



Reinhold Cohn & Gilat, Bareket

Dr. Ilan Cohn, Patent Attorney and Senior Partner Daphna Gilat, CPA, Senior Partner

Reinhold Cohn Group is the largest, earliest established and leading intellectual property (IP) firm in Israel offering premier expertise in filing, prosecution, renewals, protection, oppositions, opinions, due diligence, freedom to operate, enforcement, litigation, licensing, commercialization and evaluation, portfolio management and strategic counseling in all areas of intellectual property including patents, trademarks, designs, copyrights, enforcement, open source, plant breeders' rights, etc.

The Group is a full service IP firm and includes the patent attorney firm Reinhold Cohn & Partners and the law firm Gilat, Bareket & Co. Reinhold Cohn Group has a staff of about 250, amongst them over 70 are patent attorneys and attorneys at law. The expertise of the Group's attorneys covers a very wide range of technological and industrial disciplines. Reinhold Cohn Group takes pride in the diversity of its clients representing many Israeli companies as well as numerous multi-national corporations in Israel. The Group's clients include Fortune 500 companies, governmental entities, start-up companies, companies in advanced stages of research and development, private and institutional investors, scientists, entrepreneurs and inventors.

Reinhold Cohn Group and its team of professionals are internationally renowned for excellence and are continually ranked in the top tiers in leading international and local guides, such as: Managing Intellectual Property, Chambers & Partners, Legal 500, WTR1000, IAM 1000, IAM 300, Who's Who Legal, Expert Guides, BDI, and more.

llan holds a Ph.D. in Biology (1988) from the Hebrew University of Jerusalem. He has close to 30 years of experience in the field of patents and in other spheres of intellectual property;. Ilan gained extensive experience and expertise in transforming intellectual property assets, particularly patents, into a first tier, value-creating asset.

He is a member of the Board of Directors of several companies and also serves as a member of investment committees of venture capital funds, technological incubators and accelerators. For several years, Ilan has been personally recommended in leading international guides, such as Chambers & Partners, MIP IP Stars, IAM Patent 1000 and Expert Guides. Also Ilan is the only Israeli patent attorney who is ranked in the prestigious IAM300 patent strategists guide.

Daphna holds an LL.B. degree (1989) & CPA (1989), both from Tel Aviv University and is a licensed mediator since 1999. With over 20 years of extensive experience in the field of intellectual property, Daphna represents and advises prominent international and Israeli companies, including multinational, industrial and start-up companies, as well as government institutions, in a variety of matters. Daphna specializes in managing transactions, including licensing and commercial agreements, transactions related to start-up companies, venture capital, international transactions and additional commercial agreements related to technology. Daphna has been recognized and commended for several years in the prestigious IAM Patent 1000 guide.

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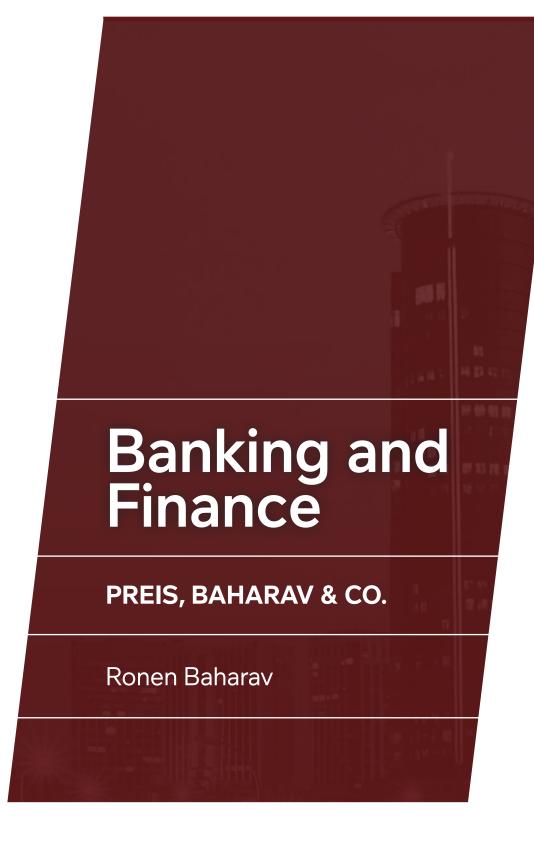
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Market Trends and Insights

The Israeli banking and finance sector has been the focal point of regulatory and popular attention in recent years, following the markets crisis in 2008 as well as local defaulting debtors with high public exposure.

It is worth pointing out that the credit defaults that drew much public and regulatory attention had a relatively limited effect on the composition and profitability of the public savings but the actual influence of the defaults on the regulatory side were significant.

The economic conditions, increasing appetite for risk appetite and regulatory inconsistency combine to support a thriving and diverse market, where the balances of yield and risk change among different types of lenders, and the structure and form of transactions may be influenced by the regulatory requirements that apply to different lenders.

For many years, the role of extending credit to businesses has been concentrated in the local banking sector. Although this remains true for consumer loans, this is certainly not the case today for the corporate market.

Banking sector participants and competition

Large Borrowers and Loans

In this segment, credits are offered by banks, institutional lenders such as insurance companies and provident funds, as well as leverage funds and other investment funds and other lending firms (focusing mostly on short term lending). All of these players compete with the capital markets, which offer – for suitable borrowers – an opportunity to raise debt on competitive terms.

The introduction of private lending services by institutional lenders was, unsurprisingly, not welcomed by the local banks. Banks have rightfully pointed out the inconsistent regulation, which imposes greater, and more costly, requirements on banks in comparison to the regulation facing institutional lenders. It is fair to say, that although the regulatory requirements applicable to institutional lenders have been developing, it has not reached the level of the regulation imposed on the banks. In addition to the unfairness of this regulatory inconsistency, it has been implied that it resulted in institutional loans being inferior in their quality to bank loans. This implication is doubtful. However, it is evident that private loans, whether originated by banks or by institutional investors, have been relatively more secured and incurred lower losses than capital markets debt (publicly



issued debentures) in many of the credit default cases that have drawn public and media attention.

Due to the increasing capital requirements imposed on the banks, there has been a significant increase in the number of transactions offered by banks as syndicated loans, including transactions that previously would have typically been offered by a bank on single lender terms. Furthermore, institutional lenders appear more frequently as arrangers, and not just as participants. In addition, there has been a significant increase in the secondary market activity concerning non-public loans, as banks offer institutional lenders diverse methods of participation in loans, whether as a straight forward assignment or through derivatives, including the issuing of credit linked notes and purchasing protection under credit default swaps. We anticipate that this trend will grow, and that banks will continue to invite institutional lenders to participate in the loans originated by the banks, both in respect of new transactions – as syndicated loans, and in respect of the existing loan portfolio of the banks, by way of assignment or derivative transactions. This trend, in combination with evolution of the regulatory requirements, will probably reduce the gap between banks and institutional lenders.

Commercial and Consumer Segments

The increasing competition between banks and institutional lenders has had limited influence on the commercial market segment, and almost none on the consumer segment. In these segments the strength of the banks is based on the physical accessibility of their branches, as well as their long-term banking relationships with borrowers. However, a couple of recent developments may present a threat to the prominence of banks in these segments: (i) the introduction and development of financing firms, specializing in short term financing for commercial businesses (including factoring and similar financing models); (ii) peer to peer financing schemes and initiatives; and (iii) attempts to establish "social" banking corporations (such as consumers credit unions).

Short term financing firms, offering factoring and similar financing models, operate in Israel. However, these firms face the challenge of raising funds in order to finance their activities. Under current Israeli legislation, these firms are barred from raising debt in the capital markets by public issuance of debentures, since raising such debt and extension of credit as one requires a banking license. Therefore, these short term financing firms are reliant on other sources of finance (including loans from banks and institutional lenders, with whom these firms are to compete). In order to enable these firms to develop their financing operations and increase their market share, an amendment of the law has been suggested, allowing these firms to raise up to NIS 2.5 billion by public debt issuance. The proposed amendment faces the objection of the Bank of Israel and the chances of its success are currently unclear, and, as always, the details which will be included in such amendment are not final. In any event, even if the amendment passes, it will limit the potential development of these firms, as their portfolio will be capped, at any given time, practically, to the amount of debt they can raise (in addition to their equity).

Until now, the attempts to establish credit unions have not been successful. Such credit unions require a banking license, and, despite public support, the Bank of Israel has been reluctant in waiving, or easing, the regulatory requirements applying to any candidate to obtain a banking license. A major threshold relates to the minimum equity required, which, even after concessions by the Bank of Israel, is set at NIS 75 million, a level which such entities have not been able to reach.

Several initiatives to establish peer to peer lending schemes operate in Israel, inspired by the success of such schemes in other countries. Presently, the influence of these

schemes is limited. However, there is an increasing interest of institutional lenders to cooperate, invest or even acquire such schemes, as they can facilitate a consumer lending arm for the institutional lenders, who do not benefit from the presence of country-wide branches and have limited personnel to develop such lending operations. Once the cooperation of institutional investors and peer to peer lending schemes evolves, the influence on the market will certainly become more significant.

Another reform that has been supported by media and certain regulators relates to the separation of credit card companies from the banks. Currently, all credit card companies in Israel are controlled by banks. Some believe that if the banks are forced to divest their holdings in the credit card companies, the level of competition in the affected segments (commercial and consumers segments) will increase. It is not clear if, when and how such a reform will be carried out. It is also unclear how the credit card companies will finance their activities after such a separation from the banks, and – as a result – what effect such a separation will have on the behavior of the relevant market participants.

Real Estate Mortgages

As a result of historically low interest rates, the real estate mortgages market continues to grow. In order to limit the associated risks, the Bank of Israel imposed limitations and restrictions on the amounts that can be extended to borrowers, including the limit on mortgage loans to 50% of the real estate's purchase price, (in certain conditions, 70-75%), on the maximum term of the loans to 30 years, (requiring that at least 1/3 of the loan bears a fixed rate interest), and additional restrictions.

High Yield Lenders

In addition, leverage and investment funds offer high yield loans to relevant borrowers. These transactions involve mezzanine or other subordinate debt, but also senior loans where the "traditional" banking financing is not available. A number of funds operate in Israel, and can provide interesting borrowing opportunities for businesses that face difficulties in funding their operations through "ordinary" banking loans.

International Banks

Although many international banks have Israeli or Israeli related operations, they have not entered the popular commercial and consumer segments, and have not therefore affected competition in these segments. However, international banks are significant participants in large corporate and infrastructure financing and are involved, both as arrangers and as participants, in syndicated loans.

Another key field of expertise of international banks has been private banking, including the set up and operation of representative offices in Israel and other on-shore/off-shore combinations.

Currency Trade

It is well known that the Bank of Israel is active in the currency markets, aiming to ensure that the Israeli shekel does not become too strong, which may be detrimental to the Israeli economy.

Until now, no restrictions have been imposed on currency trade in Israel. Certain regulation was introduced in 2010 and in 2011, but in essence it imposes disclosure and reporting obligations, rather than limitations on trade. It is possible, however, that additional regulation will be introduced in the future in order to protect the shekel from currency speculation.



Preis, Baharav & Co.

Ronen Baharav, Founding Parnter

Preis, Baharav & Co. is an elite boutique law firm, specializing in all areas of corporate transactions and business law. Our preeminent practice handles, on a regular basis, some of the most complex and challenging domestic and international mergers and acquisitions and finance transactions. We provide ongoing legal advice to entrepreneurs, startup companies, funds, institutional investors, corporations and financial institutions on transactions and on corporate and commercial matters.

Our domestic and international clients include prominent and established public and private companies, visionary startups, entrepreneurs, institutional investors and financial institutions operating in variety of industries and jurisdictions. Our clients engage Preis, Baharav & Co. to provide them with legal advice, both on a regular basis and for their largest and most complex transactional matters.

Preis, Baharav & Co. was founded based on core values of partner level service, commitment to excellence, efficiency and teamwork, and it has rapidly gained a reputation for excellence, quality and partner-level service. The firm and our partners have been recognized in leading international rankings of law firms such as Chambers Global and Legal500. The following has been written about us in those rankings:

Preis, Baharav & Co. has 'a great mix of talent and experience' ... Preis, Baharav & Co. has 'a deal-making approach' and 'a quality of service to match the largest and most prominent Israeli law firms'.... 'an impressive list of clients' ... Ronen Baharav 'stands out at the top of the leading banking and finance lawyers in Israel' ... Ziv Preis is 'smart, tireless and pleasant to work with'. (Legal500)

'The service level is exceptional, and they bring significant added value to their legal work'. Ronen Baharav ... receives excellent feedback from clients, who describe him as 'extremely smart, with an in-depth understanding of financial transactions', adding: 'He always provides professional added value'. ... 'He is a brilliant attorney who has a keen understanding of both legal and business issues'. ... 'Sources are highly impressed by Ziv Preis'... He is lauded for his 'in-depth understanding of complex M&A transactions, and his ability to resolve complex matters in an efficient and innovative manner'. Clients are full of appreciation for his skills and say that he 'provides the quality of service of a top law firm in a more dedicated, efficient and cost-effective manner.' (Chambers and Partners).

Recent transactions include:

- Representing an Israeli bank in the issuance of credit linked notes, linked to certain assets in the credit portfolio of
 the bank, and in the sale of certain other assets in the credit portfolio of the bank, to an Israeli insurance group, in an
 aggregate amount exceeding ILS 500 million;
- Representing an Israeli insurance company in connection the acquisition of a credit linked note issued by an Israeli Bank in the amount of ILS 100 million;
- Representing an Israeli insurance group in connection with a CDS transaction with an Israeli bank in the amount of ILS 50 million;
- Representing an Israeli provident funds manager in connection with funding a refinancing of municipal debentures, in an amount of approx. ILS 95 million;
- · Representing an Israeli leverage fund in several loan transactions, in the aggregate amount of approx. ILS 50 million.

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Employmentand Labor Law Overview

Employees enjoy a constantly evolving level of protection in Israel through a web of labor laws and regulations created by the Israeli legislator, working together with an active labor judiciary. Doing business in Israel therefore requires a thorough understanding of these laws and the legal framework around them, the need for updates regarding any new developments and the ability for an employer to quickly adapt.

Basic rights granted to Israeli employees under Israeli labor law

Minimum Wage Law: Enacted in 1987 the law provides a minimum hourly rate, which is updated from time to time. Currently, the hourly rate is NIS25, however it is due to gradually rise at July 1st 2016 and again at January 1st 2017, then it will be updated to NIS26.88

Mandatory Pension Fund: The Mandatory Pension Insurance Expansion Order - 2008, provides that all employees (with few exceptions) are entitled to pension insurance. Previously, the obligation to provide pension insurance only applied to employees who were subject to collective bargaining arrangements or pursuant to the terms of one's employment agreement.

Pension funds require employers to contribute for the "remuneration" of the employee, an amount equal to 5%-6% of the employee's monthly salary, up to a maximum amount determined based on the average monthly salary in Israel (approximately NIS9,300 as of August 2015). These contributions will constitute the employee's pension fund at his retirement, along with additional statutory contributions for severance payments (6-8.33% of the employee's salary).

Israeli pension funds also include a disability insurance component, part of the aforementioned contribution, which can also be paid separately. In addition, the employer is obligated to deduct 5.5-6% from the employee's monthly salary and transfer such amount to the employee's pension fund.

Severance Payment: Pursuant to the Israeli Severance Payment Law – 1963, upon dismissal (and under certain circumstances in connection with an employee's resignation), an employee is entitled to receive severance payment equal to the amount of the employee's latest monthly salary multiplied by the number of years of continuous employment with the same employer or at the same place of employment.

Each month employers may set-aside an amount equals to 8.33% of the employee's



salary to ensure compliance with the statutory obligations. Since the amount set aside is a percentage of the employee's monthly salary, whereas the severance payment is calculated based on the employee's latest monthly salary, shortfalls in the employer's aggregated contributions or severance reserve could occur. In order to avoid this potential liability, the law allows the employer and the employee to agree that the latter shall only be entitled to receive, upon termination of his employment, all severance payment amounts actually set aside during the course of his employment.

This arrangement also provides that the employee will be entitled to severance pay upon resignation (as opposed to dismissal) something he would not otherwise be entitled to.

Termination - Prior Notice: Employees, who have been employed by the same employer for more than one year, are entitled to receive, at minimum, a 30-day prior notice. Employees who are employed on an hourly basis or have been employed for less than a year are entitled to a shorter prior notice period.

Workweek and Overtime: The Hours of Work and Rest Law – 1951 ("Work and Rest Law") sets forth a five/six day working week consisting of 43 hours. The Israeli legislator also limits the maximum number of overtime hours an employee is entitled to perform and regulates the payment for such working hours. Generally, payment for overtime hours (above the 8th or 9th hour of work per day or the 44th hour of work per week) is calculated as follows: (a) each of the first two hours of overtime, is paid on a 125% basis and (b) any hour thereafter is paid on a 150% basis. The Work and Rest Law provides for several exceptions, including for employees holding management positions that require a special measure of "personal trust," who are not entitled to special remuneration for overtime.

Weekly Rest Day: Employment of Israeli employees on a Saturday is subject to receipt of regulatory permits from the Ministry of Economy.

Vacation: The Annual Vacation Law - 1951, sets forth the minimal number of annual vacation days to which an employee is entitled. The laws also establish certain legal holidays during which the employee is entitled to a day off, in addition to his annual vacation days.

Sick Leave: According to the Sick Leave Payment Law - 1976, an employee is entitled to one and a half days of paid sick leave per each full month of employment, up to a maximum of 90 days. Sick days may be accumulated and carried over but not redeemed. An employee is entitled to a sick leave payment, as of the second day of absence, in an amount equal to 50% of his daily salary, and as of the fourth day of absence, for full pay.

Key non-statutory elements of the Israeli labor law regime

Collective Agreements; Expansion Orders: Collective labor agreements, arrangements, and expansion orders serve to standardize various binding employment conditions. The issues usually addressed by them are wages, social rights, working hours, payment for overtime and dismissal-related matters. Any employer that is a member of an employers' organization is subject to all general collective agreements and arrangements to which that organization is a party.

Expansion orders are administrative mandates issued by the Minister of Economy based on general collective agreements. The expansion orders serve to expand the content of collective labor agreements so that their provisions shall also apply to employers and employees that were not initially a party thereto. Several expansion orders are applicable to all Israeli employers and employees (such as recuperation pay and reimbursement of travel expenses).

Termination – Hearing Proceeding: Under Israeli law, a prior hearing proceeding is a prerequisite to the termination of employment of any employee, regardless of the employee's position or seniority. In the mandatory written hearing notice, the employer must present valid reasons for considering such termination and give the employee sufficient time to prepare for the hearing. At the hearing, the employer must give the employee the opportunity to reply to the issues mentioned in the hearing notice. Failure to hold any of these demands, might lead to a wrongful termination suit against the employer.

Rules under Israeli labor law aimed at protecting the employees' nonfinancial rights

Employment Agreement: Under the Law of Notice to an Employee (Terms of Employment) – 2002, an employer is required to provide each new employee, within 30 days of the start of employment, with a written notice outlining certain terms of his/her employment.

Discrimination: The Law of Equal Opportunities at Workplaces – 1988 prohibits a differential treatment of employees based on gender, race, sexual orientation, religion, etc. Differentiation between employees will not be deemed discriminatory if it is due to the specific nature or characteristics of the job or position. Furthermore, under Israeli law it is prohibited to differentiate with respect to employment terms between female and male employees performing similar jobs. With respect to age discrimination, it is worth noting (a) that the mandatory retirement age for both female and male employees in Israel is 67 and (b) that in recent years, the labor courts have held that the mere fact that the employee has reached the mandatory retirement age does not necessarily constitute a reason to terminate his/her employment.

Female Employees: The Employment of Women Law – 1954 (the "Women Labor Law"), provides a broad umbrella of protective provisions to Israeli women employees and for men who are willing to take on the role of primary child caregivers. The Women Labor Law prohibits the termination of an employee undergoing fertility treatments or who is pregnant, without the employer having obtained the approval of the Commissioner of Employment of Women in the Ministry of Economy in the Ministry of Economy. The law also prohibits the termination of an employee who is on maternity leave until 60 days after her maternity leave ends.

Disabled Employees: A recent expansion order, applying to all employers, requires that all employers that employ over 100 employees must integrate in their organizations people with disabilities (whether physical or mental). By 2016, all organizations employing more than 100 employees will need to show that at least 3% of their labor force comprises people with disabilities.

Recent trends in Israeli labor law

Unionization Attempts: In recent years, the Israeli labor courts have upheld a number of initial attempts by employees to organize collective employment relationships at their respective companies by joining labor unions, several of which are in the high-tech industry. In light of these precedents, the applicable rules in this area are evolving at a rapid pace.

Security, Catering and Cleaning Service Providers: Recently, the Israeli legislator has imposed on companies engaging workers in the security, catering and cleaning service sectors an increasing obligation to ensure that these workers are being compensated in accordance with applicable laws. The legislator also placed administrative, civil and criminal liability on the companies benefiting from such services, who will fail to meet their statutory oversight obligations.



S. Friedman & Co.

Tal Enat-Ben Arieh Efrat Siboni

Operating from our offices in Tel Aviv and Haifa, we represent and provide legal advice to some of Israel's largest corporations as well as multinational corporations operating in Israel. The firm's multidisciplinary approach and its embrace of a fruitful collaboration among attorneys from different practice groups, enables us to provide our clients with effective solutions that are uniquely tailored for each client's needs and the particulars of every transaction. Our clients represent a wide spectrum of sectors, including shipping, homeland security, industrial companies, retail, medical devices, on-line advertising, pharma, higher education, high-tech, bio-tech, and others. Our comprehensive experience and the highest degree of expertise of our team, result in longstanding relationships with our clients, which are a rarity nowadays. Moreover, the fact that our firm has succeeded in maintaining those relations is the most powerful proof of the quality of our services to our clients and the high regards in which our clients uphold our advice.

The firm's Labor and Employment Law Department is renowned for its extensive experience, broad range of expertise and innovative solutions with respect to all aspects of Israeli labor and employment law both on the individual and the collective levels. The Department represents and advises some of Israel's largest employers, including private and public companies, non-profit organizations and academic institutions, as well as multinational companies operating in Israel. The Department guides its clients on all aspects of labor law and labor relations including with respect to employee recruitment and termination, collective bargaining processes, work disputes and strikes and with respect to a host of employment-related matters in connection with M&A transactions. The Department frequently represents clients in all legal proceedings before labor courts, various government authorities as well as in alternative dispute resolution tribunals and mediation procedures. The Department works closely with other practice groups within the firm to provide clients with comprehensive solutions to all of their labor law needs.

Adv. Tal Enat-Ben Arieh With over 25 years of experience in the field, Tal, who is considered among Israel's leading labor and employment attorneys, heads the firm's labor and employment practice group. Tal's expertise focuses on labor law, both collective and individual. Tal specializes in representing employers on a wide range of employment law matters, including employment and consulting agreements, collective arrangements and executive compensation and regularly advises clients in connection with sensitive and complex employment situations. Tal's extensive expertise in labor law litigation ranges from individual claims to collective disputes, strikes and other emergency situations.

Adv. Efrat Siboni is a partner at the firm's labor and employment practice. Efrat provides clients with legal advice on a wide range of labor and employment law issues. Efrat has gained extensive litigation experience representing employers before the Israeli labor courts and in mediation, and other dispute-resolution proceedings.

During the last 12 months the department has handled unique and unprecedented legal issues, such as:

- The representation of a global shipping company as part of a worldwide debt restructuring whereby the company was required to address employees' strikes-related issues and negotiate the terms of new collective agreements.
- · Advising a Fortune 500 multinational company in all of its Israeli labor and employment law issues, including a complex termination of employment process of an entire subsidiary's workforce.

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