

# Israel

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## Globalizing Israel's economy

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In 2006 and 2007, the Israeli market has continued its rapid growth and active integration into the global economy, accompanied by a number of reforms to enhance the sophistication of the capital markets. During this period, there has been an influx of foreign investment in the industrial, hi-tech and infrastructure sectors, in which leading global financial institutions and other corporate entities have participated.

The principal reforms and changes can be summarized as follows:

### Adoption of IFRS

The Professional Practice Committee of the Israel Accounting Standards Board has decided that from January 1 2008 the financial statements of public companies in Israel will be prepared according to the International Financial Reporting Standards (IFRS), in place of national accounting standards. For the financial year 2007, Israeli companies are required to produce comparison numbers on the basis of IFRS.

The change to full IFRS adoption is a further step in the globalization of Israel's economy, and aims to make the financial reporting of Israeli companies acceptable and understandable around the world. In the US, Israel has 100 companies registered with the Securities and Exchange Commission (SEC), more than any foreign country except Canada. Israel has taken this step to enable non-US companies registered with the SEC to report solely in IFRS, without the need to reconcile with generally accepted accounting principles (GAAP). Many Israeli companies are also listed on European exchanges (notably the London Stock Exchange) and after 2007 those companies will no longer be

allowed to use national GAAP for their European regulatory reporting.

The change to IFRS also raises a number of legal questions affecting Israeli public companies, such as the recognition of profits in determining the legality of shareholder dividends.

### Bachar reforms

The package of reforms of the Israeli capital markets legislated in 2005, known as the Bachar reforms, are being implemented.

The reforms seek to reduce the concentration of the banking system in the capital markets. The main areas of reform are: divestment by the banks of their holdings of provident and mutual funds; encouragement of competition in the provident and mutual fund markets, as well as the pensions market; and improved diversification of sources of finance to the economy, which in turn will improve competition among the banks.

The Bachar reforms have led to banks disposing of their holdings in mutual funds and provident funds, mainly to insurance companies and private investment houses which have increased competition within Israel's financial sector. This has boosted competition in corporate lending.

### Infrastructure projects

The rapid expansion of Israel's economy in recent years has led to growth in national infrastructure projects, including in the areas of power, natural gas, alternative energy, water, roads, tunnels, welfare, education, ports and telecommunications. These projects, which increasingly take the form of build-operate-transfer (BOT) or build-own-operate (BOO), invariably involve international lenders and multinational foreign contractors.

Examples of these projects are: the Cross Israel Highway, a main route spanning the length of Israel, connecting peripheral areas to the central region and offering an alternative

to existing transportation routes; the Carmel Tunnels BOT project, which includes the construction and maintenance of four toll tunnels through the Carmel Mountains in Haifa; the Road 431 private finance initiative, a 23km stretch of highway connecting two of Israel's most traveled roads; and a number of desalination and energy projects.

### Privatization

Successive Israeli governments have encouraged the privatization of a number of state enterprises. This policy has resulted in the state's role being restricted to that of a regulator. Privatization has also reduced the centralization of government companies. The national telecommunications company Bezeq, the state airline El Al, and the national oil refinery ORL have all been privatized in recent years. In the near future, the Postal Authority is also expected to be privatized. Other privatization targets include the Electricity Corporation, which will be reorganized into distinct private sector companies, and the Ports Authority, whose privatization will encourage competition among Israel's ports.

### Investment funds

Israel's venture capital industry has had a vital role in developing the country's world-renowned high-tech industry – Israel has among the highest number of Nasdaq-listed high-tech companies. In turn, the venture capital industry has grown substantially over the past few years due, amongst other reasons, to tax exemptions on investments in Israeli venture capital funds, funds established in conjunction with banking and finance companies, and investment by major organizations in Israel's technology companies. Early participants in the venture capital market who have succeeded in their investment activity and built reputable brand names in the industry have raised subsequent funds, establishing continuity in the market.

With the general advancement of the capital markets globally and with Israel's capital markets maturing generally, other types of investment funds have been established for the Israeli market, including hedge funds. Israeli managers of such funds now specialize in buyouts, mezzanine finance and real estate (both locally and focusing on various areas internationally), and have even entered untried territory such as clean technologies and contemporary art. Hedge fund managers typically focus on equities and derivatives of Israeli companies and their securities, although market history suggests that local talent may soon expand to coverage of other markets as well. In any event, the Israeli market for private investment funds is expected to continue to expand and develop in the months ahead.

## Capital markets

Recommended firms
<b>Tier 1</b> Goldfarb Levy Eran Meiri & Co Gross Kleinhendler Hodak Berkman & Co Meitar Liguornik Geva & Leshem Brandwein Naschitz Brandes & Co Yigal Arnon & Co
<b>Tier 2</b> Gornitzky & Co Herzog Fox & Neeman Zellermayer Pelossof & Co
<b>Tier 3</b> Caspi & Co Danziger Klagsbald & Co Efrati Galili & Co Fischer Behar Chen Well Orion & Co Shibolet & Co S Horowitz & Co Weksler Bregman & Co Yaacov Salomon Lipschutz & Co Yehuda Raveh & Co

## Banking

Recommended firms
<b>Tier 1</b> Herzog Fox & Neeman Kantor Elhanani Tal & Co S Horowitz & Co
<b>Tier 2</b> Gornitzky & Co Gross Kleinhendler Hodak Berkman & Co Yigal Arnon & Co
<b>Tier 3</b> Caspi & Co Goldfarb Levy Eran Meiri & Co Naschitz Brandes & Co Shibolet & Co Weksler Bregman & Co Yaacov Salomon Lipschutz & Co Yehuda Raveh & Co Zellermayer Pelossof & Co

## Mergers and acquisitions

Recommended firms
<b>Tier 1</b> Fischer Behar Chen Well Orion & Co Goldfarb Levy Eran Meiri & Co Gross Kleinhendler Hodak Berkman & Co Herzog Fox & Neeman Meitar Liguornik Geva & Leshem Brandwein Yigal Arnon & Co
<b>Tier 2</b> Caspi & Co Gornitzky & Co Naschitz Brandes & Co S Horowitz & Co Zellermayer Pelossof & Co
<b>Tier 3</b> Amit Pollak Matalon & Co Danziger Klagsbald & Co Erdinast Ben Nathan & Co Advocates Ori Rosen & Co Sharir Shiv Friedman & Co Shibolet & Co Weksler Bregman & Co Yaacov Salomon Lipschutz & Co

## Project finance

Recommended firms
<b>Tier 1</b> Gornitzky & Co Herzog Fox & Neeman S Horowitz & Co Yehuda Raveh & Co Yigal Arnon & Co
<b>Tier 2</b> Caspi & Co Goldfarb Levy Eran Meiri & Co Gross Kleinhendler Hodak Berkman & Co M Firon & Co Advocates and notaries Yaacov Salomon Lipschutz & Co Zellermayer Pelossof & Co
<b>Tier 3</b> Shibolet & Co Tadmor & Co Weksler Bregman & Co

Foreign involvement in Israel and Israeli investment abroad is fuelling the capital markets and M&A activity of domestic companies. "There is lots of foreign money coming into Israel," said one lawyer, "and lots of Israeli money going out to Eastern Europe and Asia."

One partner estimates that direct foreign investment increased by \$10 billion between 2005 and 2006. American private-equity houses are pushing many of the deals. Israel has a reputation for its hi-tech, biotech and telecommunications companies and many venture capitalists are coming to Israel to take advantage of these growing sectors.

But this is not one-way traffic. One peer commented: "Money is cheap so there is lots of investment abroad." Israeli real-estate investors in particular are looking outside the Middle East for their next investments. The domestic market is relatively small and lawyers recognize that "in certain areas and industries it is saturated", so investors are looking to diversify their portfolios by committing money overseas as well as mitigate risk.

Israelis are not however deserting their domestic markets. One lawyer noted: "There has been a tremendous rush for Israeli companies to list on the Tel Aviv Stock Exchange as well as abroad." But in this scramble to offer, some lawyers fear that companies are not waiting long enough to list. For lawyers however this means more prospectuses and more work.

## **Fischer Behar Chen Well Orion & Co**

Fischer Behar Chen Well Orion & Co has had an excellent 12 months. The firm, which specializes in corporate work, moves up to the top tier for mergers and acquisitions.

Corporate work has dominated the firm's work this year, with several significant consolidations in the booming technology sector. In 2007 leading lawyer Avraham Well advised Barak, an Israeli internet service provider, and its shareholders on a NIS1 billion (\$232 million) merger with NetVision and GlobCall, and represented Team Computers & Systems during its NIS500 million merger with Malam Systems and its subsequent share offering.

Meanwhile Ron Lehman assisted communications company SigValue when it was taken over by Amdocs for \$84 million. Clal Insurance also turned to Lehman for guidance on its \$120 million cross-border acquisition of Guard Financial Group, an American insurer, and for help establishing a joint venture in Romania. The firm also helped Clal secure a \$56 million term loan from HSBC to fund acquisitions.

As this transaction suggests, the firm's strong corporate practice often brings in work for the banking department in the form of acquisition or asset finance. This year Eran Yaniv counselled venture fund Gilo Ventures 2 on obtaining a \$5 million loan from Bank Leumi Provident Funds and assisted the lender, Silicon Valley Bank, on a \$3 million venture financing.

In other finance work, all-rounder Avraham Well guided Eurohypo through several transactions worth a total of NIS250 million, including refinancing projects in Tel Aviv and Jerusalem. The firm also advised Israel National Gas Lines on financing a NIS1 billion national system to transport natural gas.

### **Leading lawyers**

Avraham Well

## **Goldfarb Levy Eran Meiri & Co**

Goldfarb Levy Eran Meiri & Co is a star player in capital markets, both at home and abroad. The firm is regularly involved in listings on the Tel Aviv Stock Exchange (TASE), and in London and New York.

The firm has a reputation for expertise in property transactions. In August 2006 the firm helped real-estate company Boymelgreen Capital on an \$85 million offering and in January 2007 assisted Eurotrade Real Estate International on its \$15.4 million listing on TASE.

Technology transactions are also a speciality. The firm advised Micronet on its \$7.4

million listing in Tel Aviv in October 2006 and counselled Cellcom Israel and the selling shareholder on the mobile-phone company's \$400 million offering in New York. The firm has also guided a number of biotech companies through their listings in Tel Aviv and, in March 2007, helped the underwriters during Rosetta Genomics' \$30.2 million listing in New York.

On the debt side, the firm advised Israel Aerospace Industries on a \$250 million public offering of debentures.

Merger work continues to flood in to the firm. Corporate partner Oded Eran commands considerable respect from peers. One described him as "an excellent lawyer" while another called him a "good lawyer who knows his business".

This year the M&A team employed the firm's expertise in technology, representing Lipman Electronics Engineering during its \$890 million merger with VeriFone Holdings and TranSwitch Corporation on its \$15 million purchase of Mysticom. In other sectors, the firm advised Migdal Group, an insurance company, on a joint venture with Bear Sterns.

### **Leading lawyers**

Ashok Chandrasekhar  
Oded Eran

## **Gornitzky & Co**

Project finance is a key aspect of Gornitzky & Co's practice. Recently the firm advised international investors on the construction of a \$1 billion desalination plant in Hadera, worked on railway projects in Jerusalem and Tel Aviv, and acted on the construction of several motorways across Israel.

Corporate work is also a firm strength. In June 2007 the firm advised Newlog, a dispatching company, on its merger with UTI and subsequent purchase of Trans-Clal Commerce for \$37 million. Jack Smith led this deal. He was described by peers as a "good lawyer who is seen on deals, is professional and knows his business".

Meanwhile in real-estate work, Pinhas Rubin – described by one lawyer as "a Midas lawyer who is larger than life" – advised Elad Properties on a joint venture with IDB Development Corporation to build a combined casino and hotel in Las Vegas. The memorandum of understanding was signed in June 2007 and between \$6 billion and \$8 billion is expected to be invested in the project.

### **Leading lawyers**

Pinhas Rubin

## **Gross Kleinhendler Hodak Berkman & Co**

On July 1 2007 Gross Kleinhendler Hodak Halevy Greenberg & Co merged with Berkman Wechsler Bloom & Co. The merged entity is now the third-largest law firm in Israel, boosting the well respected firm's capacity to do high-quality work further.

Firm head David Hodak specialises in corporate work. M&A is the firm's forte. In September 2006 the firm advised petrol distributor Paz on its NIS3.25 billion acquisition of Asdod Oil Refinery and counselled York Capital Management on its NIS1.24 billion takeover of Psagot Ofek, an Israeli broker.

The Israeli communications sector has been very active this year. Gross Kleinhendler assisted NetVision during its merger with Barak and GlobCall in January 2007 and represented Optium, which is listed on Nasdaq, on its \$35 million acquisition of Kailight, an Israeli telecommunications company.

The firm's regulatory department receives a steady stream of work from Gross Kleinhendler's involvement in major mergers. Ofer Hanoh is advising Mizrahi Tefahot Bank on acquiring Yahav Bank from Bank Hapoalim for NIS225 million and giving regulatory guidance to First International Bank of Israel on selling its provident funds to Direct Insurance.

Named partner Joseph Gross was described by peers as "a significant figure who's been doing capital markets for many years". Gross Kleinhendler was praised by the market for its domestic capital markets work. Paz again engaged the firm to help it issue NIS2.2 billion notes in October 2006 and to launch a NIS1.68 billion initial public offering (IPO) on TASE a month later.

### **Leading lawyers**

David Hodak

## **Herzog Fox & Neeman**

"They are the largest law firm in Israel, they are internationally orientated and work in all kinds of fields – whatever you want," said one client, "and they are very professional and helpful."

Herzog Fox & Neeman has a place in the top tier for its banking, M&A and project finance work thanks to a number of impressive deals and commendations from the market.

Bank Hapoalim is a regular client of the firm. This year the firm advised the Israeli bank on restructuring Elbit Medical Imaging's \$140 million loan and on restructuring Elscint's \$100 million facility. Herzog also counselled a consortium of Israeli banks on a \$550 loan to Partner Communications, and

Citibank, Lehman Brothers and Royal Bank of Scotland have also sought the firm's guidance. Citibank chose the firm to advise on the financing of Israel Corporation's \$800 million takeover of oil refineries.

The firm's strong banking team supports its equally well regarded M&A practice. This year Herzog helped VeriFone Holdings acquire Lipman Electronics Engineering for \$790 million.

Many of Herzog's corporate mandates come from private-equity houses. Markstone Capital Partners engaged the firm on a number of matters this year including its takeover of Golden Pages Publishing for NIS500 million. The firm also helped the private-equity player attain a 20% stake in Nilit, a 20% interest in Netafim and a 60% holding in Zeraim Gedera. Steimatzy, a publisher and chain of book shops, also went to Markstone for NIS200 million.

Project finance is continuing apace and Herzog Fox & Neeman is often present on deals. The firm acts for the lenders on the \$1.3 billion Cross Israel Highway project to build a toll road in the country and, in energy work, assisted a bidding consortium on a \$400 million build-operate-transfer project in the natural gas sector.

Herzog Fox & Neeman moves down a tier in capital markets due to a market perception that in equity the firm is not very present on the domestic market and only has a limited international practice. This year the firm advised the underwriters, including Lehman Brothers, on Allot Communications' \$78 million listing on Nasdaq and again counselled the underwriters, led by Goldman Sachs, on Shopping.com's \$124 million Nasdaq IPO. The firm also helped 888 Holdings list in London, raising \$250 million.

The firm's solid banking practice brings in a lot of debt work. The firm represented Bank Hapoalim and United Mizrahi Bank on the first offering of a large tranche of Derech Eretz Highways' senior debt to institutional investors in Israel worth NIS404 million. Hapoalim also used the firm to guide it on its \$2.5 billion global medium-term note programme.

#### Leading lawyers

Mark Phillips  
Alan Sacks  
Ehud Sol

#### Kantor Elhanani Tal & Co

Bank Leumi is Kantor Elhanani Tal & Co's main client. The firm provides most of the bank's financial and corporate advice; Dalia Tal leads the team. One competitor commented: "Dalia's a representative on the board

of directors at Bank Leumi, and she has a great deal of experience. She is probably the leading person in Israel."

Tal assisted Bank Leumi and FIBI on their \$100 million investment in Cellcom Israel and helped Leumi & Co buy \$180 million shares in Superpharm in July 2007. The firm also represented the bank during its divestiture of Leumi Pia's mutual funds – which manages NIS13.6 billion assets – to Harel Insurance.

In acquisition financing work, Tal advised Bank Leumi and Israel Discount Bank on financing Prisma Mutual Fund's NIS60 million acquisition of Lahak's mutual funds. A consortium of three banks also looked to Tal for guidance on the \$605 million financing of Apax and Mivtach Shamir Holdings' bid for Tnuva. But companies as well as banks chose Kantor Elhanani Tal & Co for advice on obtaining loans; Paz sought guidance from Tal on the financing of its NIS3.25 billion takeover of Ashod Oil Refinery.

#### Leading lawyers

Dalia Tal

#### S Horowitz & Co

S Horowitz & Co specializes in financial work, topping the rankings in both banking and project finance this year.

Acquisition financing is the mainstay of the firm's banking practice. In October 2006 Anthony Bloch – who was praised by one partner who said: "If they gave an Oscar for legal drafting and structuring, he'd get it." – acted for the banks on a \$650 million loan to finance Paz's acquisition of Ashdod Oil Refinery. In the same month the firm assisted the banks on the \$150 million financing of York Global Finance's takeover of Psagot Group while in January 2007 the firm was engaged to guide the lenders on the financing of a proposed bid for Tnuva.

In other financing work, the firm is advising Bank Hapoalim on financing the Tel Aviv Light Railway and is continuing to help Bank Hapoalim and Bank Leumi on the Jerusalem Light Railway project. Bloch, Michelle Lieberman and Ruth Oren represented Shafir on several road projects, including the NIS300 million construction of a connecting road between two motorways. Oren was highlighted by one rival as "a very senior person with a terrific reputation".

On the corporate side, the firm is often chosen to act as Israeli counsel on international deals. This year the firm advised on the merger between Abbott Laboratories and GE and on the merger between Alcatel and Lucent. For domestic clients, the firm counselled Bank Hapoalim on acquiring a Kazakh

bank and has given advice on numerous offerings on the Israeli capital markets to big players including Goldman Sachs, Merrill Lynch and Morgan Stanley.

#### Leading lawyers

Anthony Bloch  
Clifford Davis  
Ruth Oren

#### Zellermayer Pelosof & Co

"I was very impressed with their work and very very very happy," commented one M&A client. "They were very professional, extremely responsive – we didn't have to wait forever to get a reply – had a great business understanding, tons of experience, and could provide solutions to complicated measures."

Zellermayer Pelosof & Co's core practice is corporate and it has a good reputation with international companies. This year Apax consulted the firm on buying a \$1.03 billion controlling stake in Tnuva while Airbus used the firm when it sold two aircraft to Israil. The firm also assisted Nilit during its takeover by Markstone.

The firm's equity capital markets practice is equally healthy. Named partner Michael Zellermayer represented the underwriters – Merrill Lynch and JPMorgan – on Voltair's \$80 million listing on Nasdaq while Avraham Ortal, who was described by fellow lawyers as "a fine lawyer", advised Polymer Logistics on its \$40 million offering on London's Alternative Investment Market in November 2006. Ortal also helped Gmul Real Estate on a \$45 million debt offering on TASE.

#### Leading lawyers

Avraham Ortal

#### Other notable firms

Caspi & Co moves down a tier this year in banking, capital markets and M&A. Despite huge respect for named partner Ram Caspi, market commentators expressed doubt about the firm's breadth and capacity. "Ram has to do everything," said one lawyer, "and he doesn't have the back up to do legal work." Caspi as an individual was however repeatedly praised. One rival said: "I see Ram more often than my wife! He deserves his reputation: he's an incredible dealmaker, he's very knowledgeable and he's creative. He's the number one in Israel."

The lawyers at Meitar Liquornik Geva & Leshem Brandwein also received personal praise. Clifford Felig was described by peers as "a very good lawyer, capable on both the professional side and the execution side," while Dror Brandwein was mentioned for his out-

standing capital markets work. Fellow corporate partner Dan Shamgar was also recognized for his activity in the market and presence on deals.

**Naschitz Brandes & Co** moves down a tier this year for M&A but maintains a good reputation for corporate law with other law firms: “They know the material, they know how to execute deals and they are not arseholes.” Aaron Lampert was particularly well regarded.

**Yigal Arnon** has had an excellent year with particular success for its project finance practice. The firm continues to advise the Israeli government on the Jerusalem Light Railway and has advised a bidder on the Tel Aviv Light Railway. Doron Tamir has a good reputation for his projects work. One client said: “He is excellent. I am very fond of working with him.” The firm is also well known for its corporate work. In August 2006 the firm advised BioConsul, an American biotech consultant, on its NIS25 million IPO in Israel.

**Shibolet & Co** has particular expertise in M&A. This year the firm helped Plainfield, an American private-equity fund, acquire Gadish Provident Fund from Bank Hapoalim for NIS650 million and assisted Internet Gold – Golden Lines on its \$140 million purchase of O12 Golden Lines, an international calling and internet company. The firm was also engaged as local counsel during VNU’s acquisition of Buzzmetrics and represented Chiasma during one of the largest rounds of Israeli venture capital financing which raised more than \$40 million. In other corporate work, Shibolet & Co acted for the underwriters, including JP Morgan, Lehman Brothers and Merrill Lynch, on the NIS5 billion IPO of Israeli Refineries on TASE.