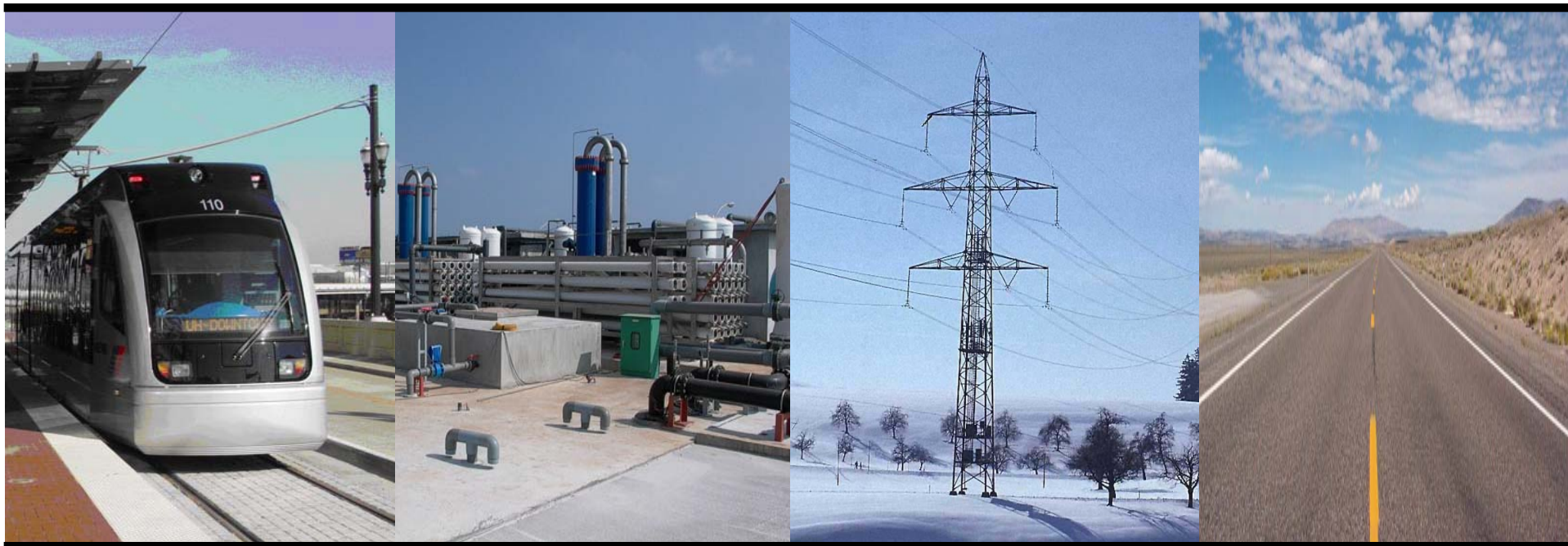




Israel Infrastructure Fund

# *Financing PPP Projects*

**Private Equity Funds – Leading The Trend**



**June 2007**

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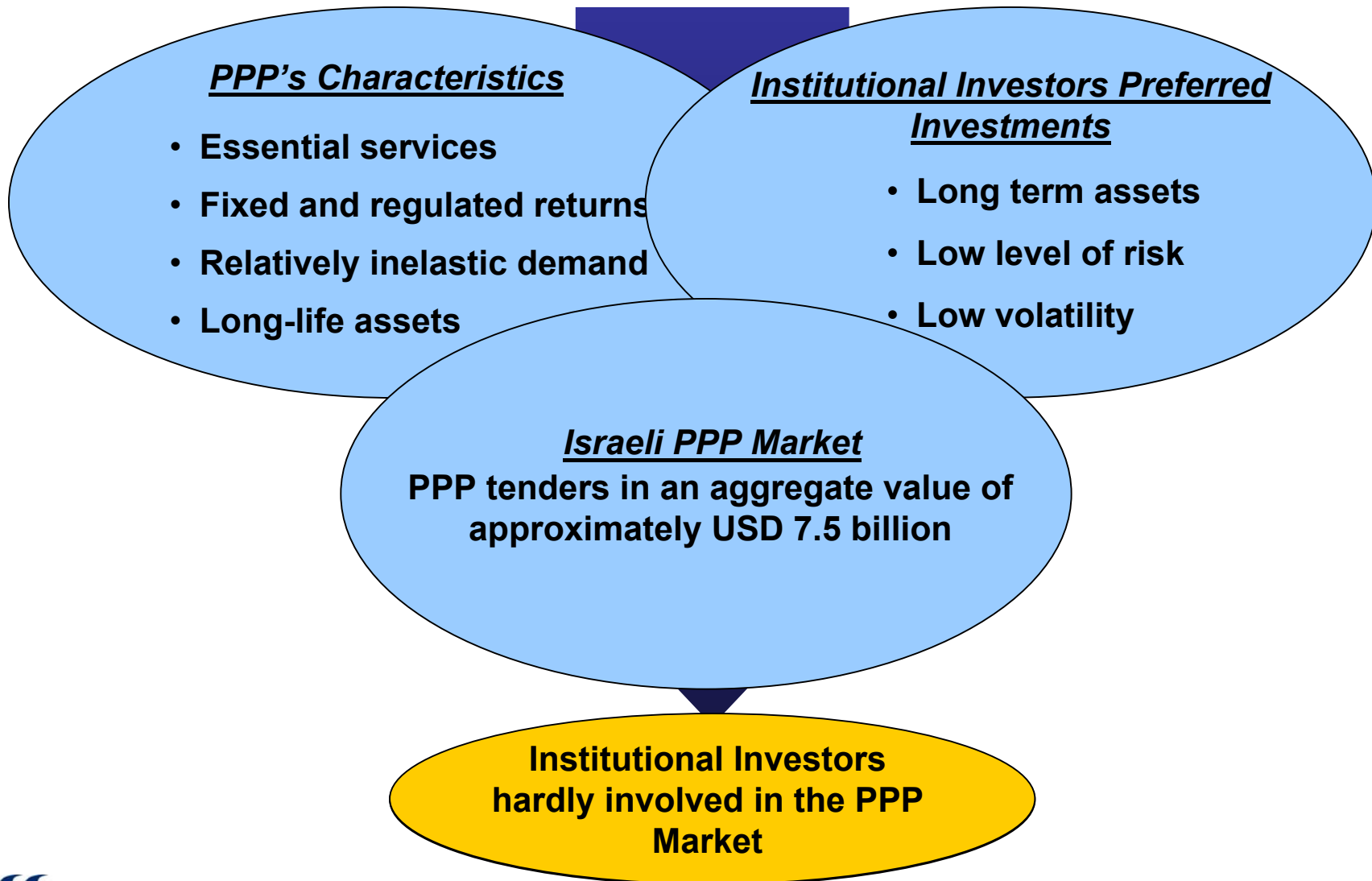
# Israel Infrastructure Fund

- **Israeli Infrastructure Fund (IIF) is a private equity fund that facilitates Israeli and foreign financial investors wishing to invest in PPP projects in Israel and abroad.**
- **IIF is led by an experienced Investment Committee and a professional management team with a thorough acquaintance with the international and especially Israeli PPP and infrastructure markets.**
- **IIF set as one of its main targets the enhancement of the Israeli institutional and financial investors limited participation in the PPP market.**



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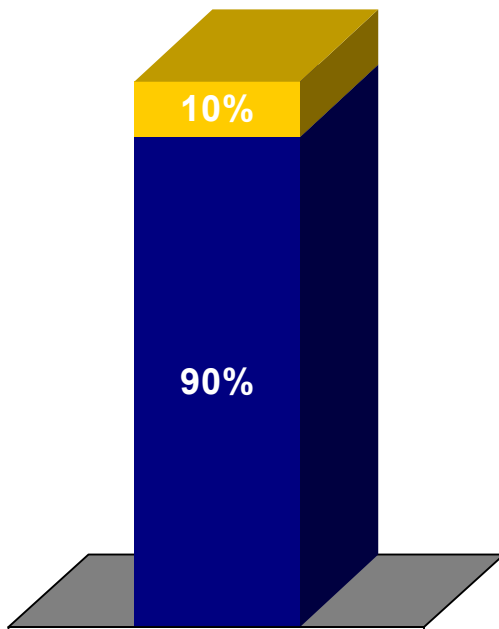
**Although, the PPP investment profile fits the needs of institutional investors, currently only few of them have joined this market**



# The first large PPP projects in Israel were financed by long terms loans from banks and sponsors' equity

## The Financing Structure of The First Israeli PPP Projects

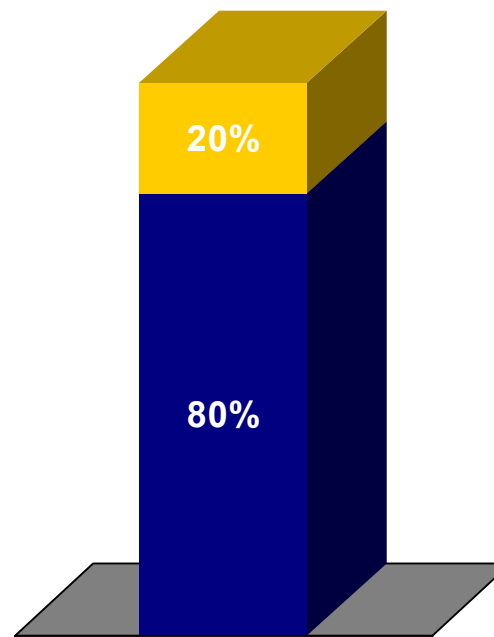
Cross Israel Highway



- Sponsors
- Local & foreign commercial banks \*

Total ~ 1.3 bn USD

Carmel Tunnels



- Local commercial bank
- Sponsors

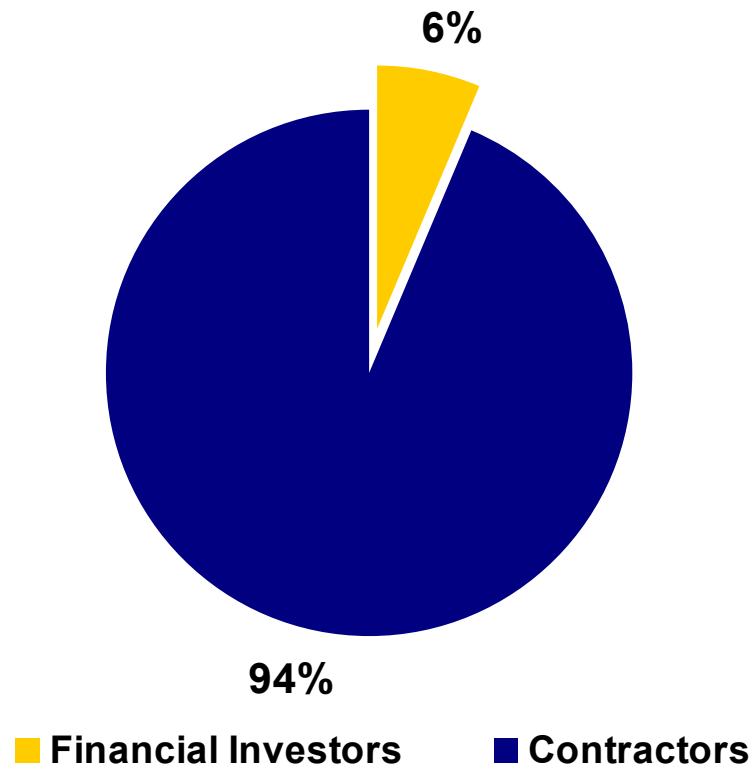
Total ~ 300 m USD

\* The local bank led consortium of financiers (mainly banks).

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# The PPP's equity market was governed by construction companies, with little participation of the financial investors

## Financial Investors Share in the First Projects \*



**Total Equity ~ 185 m USD**

## Main Reasons

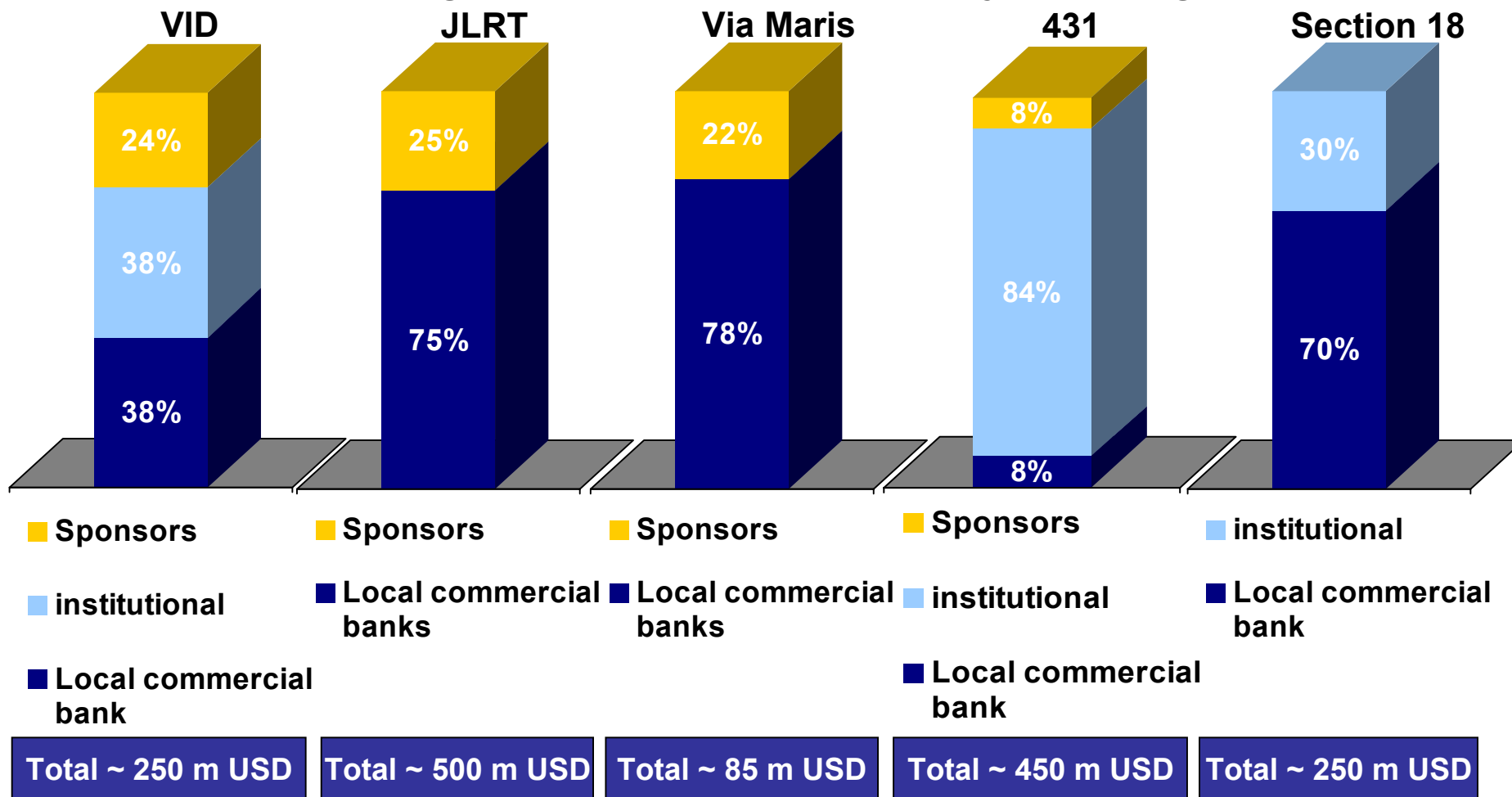
- Lack of experience
- Difficulty in risks assessment
- Lack of projects (especially in operation phase)
- Financial market condition
- Complexity

\* Percentage of total equity contribution (at financial close).

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# As the market evolved financial investors` involvement in the senior layers of finance has increased significantly

## The Financing Structure of Israeli PPP Projects (Long Term)\*



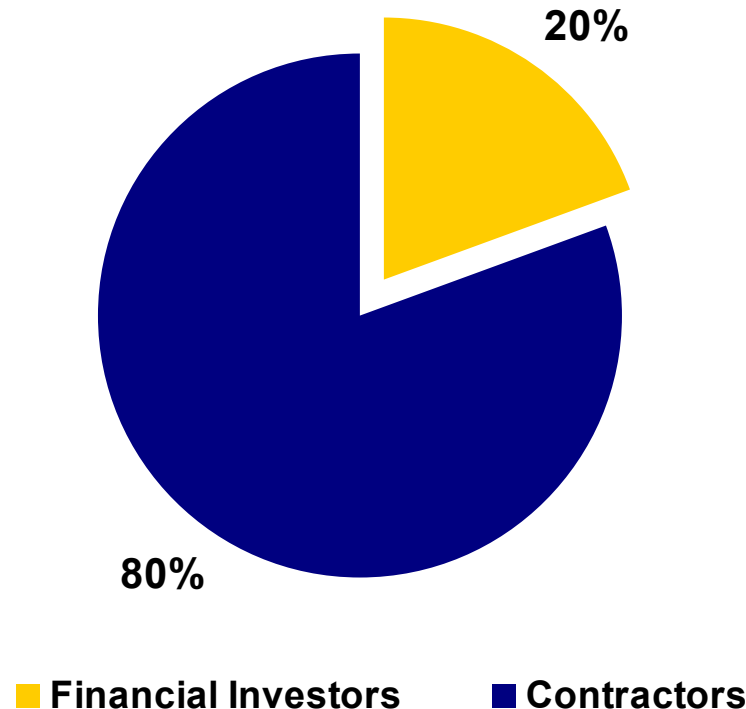
\* Large projects that achieved financial close.

\*\* Local commercial bank was the arranger and financed with other banks the short term tranches.

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# The financial investors' participation in the junior levels of finance remained relatively low and less successful

## Financial Investors Share in Current Projects \*



Total Equity ~ 300 m USD

## Main Reasons

- Lack of experience
- Difficulties in risks allocation
- Most projects will not pay dividends in the early years
- Lack of secondary market
- Complexity & high transaction costs

\* Percentage of total equity contribution in large projects that achieved financial close.

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# However, private equity funds might solve some of the current problems

## Problems

- Lack of experience
- Lack of secondary market
- Difficulties in risks allocation
- Most projects will not pay dividends in the early years.
- Complexity & high transaction costs.

## The Solution – Private Equity Fund

- Extensive experience and knowledge.
- Increasing the number of players and attracting foreign investors and funds.
- Mitigating risks by diversifying investments in a number of different aspects.
- Strong incentives for exits and listings in stock markets.
- Transaction costs divided among many investors.

# Conclusion

- **Although the Israeli PPP market has evolved in the last decade, institutional and financial investors participation in it has not reached its full potential.**
- **This market is anticipated to become even more attractive in a five years period .**
- **IIF makes an ideal tool for institutional and financial investors to join this market and overcome current obstacles and barriers:**
  - **Bringing extensive experience in international and local PPP's;**
  - **Mitigating risks by diversifying investments in a number of different aspects;**
  - **Aiming for the creation of secondary market and listing of its holdings in the stock market.**