November 4, 2013

Office of Transportation Public Private Partnerships

Via email: i66ppta@vdot.virginia.gov

Dear Sirs,

Re: Response of Shikun & Binui Ltd. (a member of the Arison Group) to the Request for Information regarding the Interstate 66 Corridor Improvements, issued on June 27, 2013 (the "RFI" and "Project", respectively)

We are delighted to submit this response to the RFI issued by the Office of Transportation Public Private Partnerships ("OTP3"), in coordination with the Virginia Department of Transportation ("VDOT") and the Virginia Department of Rail and Public Transportation ("DRPT"), with respect to the Project, and to express our strong interest to participate in the anticipated procurement process for the Project.

Shikun & Binui is potentially interested in designing, building, financing, operating and maintaining the Project.

As we have not yet conducted, at this preliminary stage, a detailed study and analysis of the various improvement concepts considered for the Project (including the technical, operation and maintenance, traffic and revenue as well as financing aspects of each such concept), we have only responded to the questions in the RFI to the extent that we could at this stage.

We intend to continue studying the Project after the submission of this response, and we would appreciate the opportunity to attend a one-on-one meeting with your team regarding the Project, during which we will be able to further elaborate on this response and to discuss proposals and ideas regarding the Project.

This document has two parts. In the first part we provide a brief presentation of Shikun & Binui and its affiliated toll roads operations company that may be involved on its behalf in the pursuit of this Project. In the second part we provide our responses and comments to the questions of the RFI.

Shikun & Binui Ltd., a member of the Arison Group

Shikun & Binui is the leading infrastructure and real estate group in Israel.

For over 80 years Shikun & Binui, through its subsidiaries (some of whom have been active since 1924, long before the establishment of the State of Israel), has been involved in large scale complex infrastructure and construction projects, both in Israel and outside of Israel. Shikun & Binui is a global group active in about 20 countries around the world.

Shikun & Binui is a multi-faceted socially responsible international group that balances business with social and environmental responsibility in order to successfully create a sustainable environment. As part of its commitment Shikun & Binui has adopted sustainable construction standards and is fully committed to norms of honesty, transparency, innovation and excellence.

Shikun & Binui is a public company whose shares are being traded on the Tel Aviv Stock Exchange, and is being controlled by the Arison Group, one of the largest and most reputable business groups in Israel.

Shikun & Binui's financial stability was not affected (and has even improved) throughout the global financial crisis, and the group retained a solid financial status with significant activity growth over the last several years. In this respect, the turnover of the group in 2012 was approximately $ 1.6 billion (out of which about half was generated from activities outside of Israel) and its net profit for the year 2012 was approximately $ 120 million. The backlog of the group as of December 31, 2012 was approximately $ 2.6 billion.

The group has extensive capabilities, knowledge and experience in PPP projects, and specifically in PPP toll road projects. In this respect, Shikun & Binui has invested equity, was a major (or sole) partner of the lead contractor and a shareholder of the operations and maintenance firms of several large-scale transportation PPP projects, as follows:

- Cross Israel Highway (Road no. 6) – a new free-flow tolled highway, under operation since 2004 (construction was completed ahead of schedule); Total investment, including the project's northern extension (also known as Section 18), was approx. $ 1.5 billion.

  Shikun & Binui has recently sold its equity stake in the concessionaire of the Cross Israel Highway and increased its holdings in the highway's operator.

- Carmel Toll Tunnels (Israel) – new tolled facility, including 3.7-mile twin tunnels, under operation since late 2010 (construction was completed ahead of schedule); Total Investment was approx. $ 360 million.

- Roads Rehabilitation, Operation and Maintenance PFI project (Israel) – including the design, finance, rehabilitation and long-term operation and maintenance of approx. 168 miles of existing roads network in the northern part of the State of Israel. Rehabilitation completed early this year (well ahead of schedule); Total Investment was approx. $175 million.

Shikun & Binui's concessions (in all sectors, including transportation, social infrastructure, water and renewable energy) account for nearly half of all of the concessions (PPP) projects in Israel to date.

In its concessions (PPP) projects, Shikun & Binui's strategy is to own interests in all three major entities of such projects, i.e. in the concessionaire (as an equity investor), in the lead contractor and in the operation and maintenance firm, and to be deeply involved in all aspects of the development and execution of the project, including the project financing, design, construction, operations and maintenance, toll operations, life-cycle maintenance, etc.. As a result, the group has developed in-house expertise in all of the above aspects.

Shikun & Binui has decided to expand its global concessions activities into a limited number of additional markets. The first and foremost is the US market, due to the vast demand for transportation infrastructure in this market, and a potential growth in the market appetite for PPP solutions, being one of the tools available to the public sector to deal with the increasing gap between infrastructure investment needs and available public funds. Shikun & Binui established last year a local presence in Addison, Texas, to manage its development activities in the US market, and is currently pursuing toll concession projects. It is Shikun & Binui's intention to become a long term player in this market.

Below are two examples of toll road concession projects which are a part of Shikun & Binui's experience. The capabilities, knowhow and expertise which were required in order to develop and execute these projects correspond, in a broad range of aspects, to those which are required for the anticipated Project:

1. *Cross Israel Highway:*
    - The first BOT and the first toll road project in Israel. A 30-year concession contract with the State of Israel. Operating since 2004. Serves as a main north-south transportation corridor in Israel.
    - Total project costs (including the northern extension, also known as Section 18) of approx. $ 1.5 billion, financed through 28-year debt facilities, involving both local and international debt markets, including $ 325 million of investment grade rated project bonds' private placement with North American financial institutions.
    - Total length of approximately 140 km (95 miles) long. Project scope includes 13 interchanges, 4 tunnels and 150 bridges.
    - Completed about 6 months ahead of schedule.
    - Free-flow toll road with electronic collection system, which includes both transponder and video detection systems. 99.5% of the video transactions are deciphered. The road serves approximately 2.4 million customers, out of which approximately 1 million are registered customers. In average about 170,000 cars per weekday, and 700,000 transactions per day (2011 figures). Approx. 98% toll collection rate.
    - Shikun & Binui was a 33.3% shareholder of the concessionaire at financial close, and has recently sold its equity interest to an Israeli infrastructure fund.

- Shikun & Binui was a major partner in the lead contractor and continues to perform extensions and heavy maintenance on the project since its opening.
- Shikun & Binui is the owner (together with its partners) of the project's operator (as further elaborated below).

2. *Carmel Tunnels Project:*
   - The first and only BOT toll tunnel project in Israel. Operating since late 2010.
   - Total project costs of approx. $ 360 million.
   - Total length of approx. 4 miles, out of which approximately 3.7 miles of twin tunnels with two lanes in each tunnel (i.e. a total about 7 miles). The project scope includes 3 interchanges and 7 bridges.
   - The project was completed approx. 5 months ahead of schedule.
   - Tolling system includes both electronic and booth collection system.
   - Shikun & Binui holds 50% of the shares of the concessionaire and was a major partner (50%) in the lead contractor.
   - The Project is operated by an affiliate of the operator of the Cross Israel Highway on the basis of a long term services contract.

For more information about Shikun & Binui you are kindly invited to visit our English website at: http://en.shikunbinui.co.il/

Highway Operation Company - Derech Eretz (DE):

Derech Eretz (DE) group is a group of leading road operators which operate, among others, the Cross Israel Highway, the Carmel Tunnels Project and other road projects in Israel. Shikun & Binui currently holds approx. 35.5% of the interests in DE.

DE will contribute to the Shikun & Binui team its extensive operation and maintenance experience, knowledge and capabilities. Shikun & Binui teams with DE in the development of toll road PPP projects worldwide.

DE has significant experience, knowledge and capabilities in all the aspects of operation and maintenance of toll roads, including traffic management, toll collection (including of fully automated free-flow toll systems and video detection systems) and routine maintenance of such roads. In this respect, DE has a vast experience in electronic toll collection (ETC) using video detection systems. During the year of 2011, DE processed 120 million video transactions on the Cross Israel Highway with a deciphering license plate rate enabling DE to collect about 98% of the invoices.

Response to the Requested Information

a. General:

1. Shikun & Binui is potentially interested in designing, building, financing, operating and maintaining the Project, to the extent that it will be developed and procured under a public-private-partnership model, i.e. either a toll concession or an availability payment structure, and provided that the Project is demonstrated to be financially feasible as procured.

2. Based on our preliminary review of the technical concepts currently considered for the Project and the OTP3's detail-level screening analysis, we believe that the financial viability of some of these concepts is a main concern in the development of the Project.

   It seems from the detail-level screening analysis that, in the short term, the only technical concept which may be financially feasible as a stand-alone P3 project, based on currently available and anticipated funding sources, is the managed lanes concept.

   We are therefore in the opinion that in order to efficiently and timely address the immediate needs for capacity improvements on this corridor, the agency should adopt a phased approach to the development of the Project, whereby the various technical concepts will be prioritized and developed in accordance to their financial feasibility, i.e. technical concepts which are self-sustained from a financial point of view (or those which require a minimal public subsidy) will be promoted for implementation in the first phase of the Project, while other technical concepts will be evaluated and considered for implementation in future phases, in accordance with capacity needs and availability of financial resources.

   On this basis, we would recommend that the managed lanes concept will be prioritized and developed as the first phase of the Project, while other capacity improvements (such as the metrorail extension and light rail transit concepts) will be accounted for in the design of the first phase and considered for implementation in future phases, when such improvements will be necessary and sufficient funding sources will be available.

b. Procurement Process:

4. Our main concern regarding the anticipated milestones and timeline outlined in Section 3 of the RFI, would be the synchronization of the Tier 2 NEPA Process with the procurement process. As currently contemplated, the final RFP is scheduled to be issued concurrently with the completion of the environmental process and the proposals will be due a few months later. This timeline implies that an industry-review draft RFP is likely to be issued several months before the final RFP (possibly shortly after the announcement of shortlisted proposers), and that shortlisted proposers will be expected to comment on the draft RFP and to commence preparation of their proposals well ahead of the completion of the environmental process. This would require

proposers to invest significant efforts and money at a time when the environmental approval of the project is still pending, thus transferring the environmental process risk to the private sector, which is not in a position to manage the risk and might not be willing to accommodate it. We therefore recommend that this uncertainty in the RFP process be either eliminated (through adjustment of the timeline for commencement of RFP phase until after the completion of the environmental process) or the risk will be assumed by the public sector (e.g. through a stipend that will be payable if the procurement is terminated prior to proposals due date).

Apart from the aforesaid, the anticipated timeline appears to be reasonable for the Project.

7. Depending on the final scope of the Project and the model that will be chosen, we anticipate that a period of approx. 6 months be required for the preparation of committed proposals if the Project is procured using an availability payment structure, and approx. 8 months if the Project is procured as a toll concession.

d. Commercial and Financial Structure:

16. Shikun & Binui will potentially be interested in participating in the Project if it includes one or more of the various improvement concepts discussed in the Tier 1 DIES (except if the project scope includes a metrorail extension or a light rail transit only), so long as the chosen concept and the anticipated financial structure demonstrate a robust and viable project.

    Taking into consideration budget constraints, we would recommend that the financing of the capital cost of the Project be predominantly based on projected self-generated revenues (such as toll revenues) on the Project.

17. As demonstrated above, Shikun & Binui has participated in procurements for, and invested equity in, toll concession highway projects as well as in availability payment structures, and is potentially willing to accept either a traffic and revenue risk if VDOT chooses to pursue the Project as a toll concession, or a performance risk if the VDOT chooses to pursue the Project as an availability-payments based concession.

    The key factors that we will consider, however, in determining whether or not to participate in the Project (from a "pure" equity perspective) will include:

    - If a toll concession: the financial feasibility of the Project based on projected toll revenues (also taking into consideration any public funds allocated to the Project) and the Project's risk matrix.
    - If an availability payment structure: the Project's risk matrix, including specifically the level of comfort with respect to available sources of funds (in addition to projected toll revenues, if applicable) and the assessment of appropriation risk.

18. We would recommend that the concession period for either managed lanes or BRT concepts will not significantly exceed 50 years. Based on our experience, a longer concession period (beyond approx. 50 years) is usually not as beneficial and does not provide best value to the public owner, due to: (a) the great uncertainty surrounding the later concession years, that is accounted for in reserves and contingencies in the proposals, (b) the challenge of securing efficient financial structure for such a long period, and (c) the relatively modest net present value impact of the projected toll revenues in the later years of the concession period (resulting in relatively small near term savings to the public owner).

e. <u>Additional Considerations:</u>

22. it would be very helpful for our internal analysis if VDOT publishes the detailed preliminary financial feasibility study which is briefly summarized in the Detail-Level Project Screening Report, and the latest traffic and revenue study for the managed lanes concept.

As stated above, we would appreciate the opportunity to attend a one-on-one meeting with your team regarding the Project.

The person that will lead Shikun & Binui's team for this project (and be the primary contact with respect to this response) will be Eran Golan, Head of US Operations at Shikun & Binui Concessions, whose contact details are as follows:

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As this document is submitted as a response to the RFI and not as part of a response to a competitive procurement process, this document shall not create any legal or other obligation upon Shikun & Binui Ltd., or any of its officers, employees or representatives, and accordingly, Shikun & Binui Ltd. does not warrant the completeness or accuracy of the information included herein and it disclaims any responsibility for any damages and/or losses whatsoever resulting from the use of the information included herein.

Should you have any questions or need clarifications to any of the above, we are at your disposal.

Sincerely yours,

Shikun & Binui Ltd.