



Government of the State of Israel

Essence of Financial Statements As of December 31 2010

(Unaudited)
April 2011

State of Israel
Ministry of Finance – Accountant General

Government of Israel - Financial Statements as of December 31 2010



ACCOUNTANT GENERAL
MINISTRY OF FINANCE
STATE OF ISRAEL

April 28 2011

To

The Users of the Financial Statements,

I am honored to present the financial statements of the Government of the State of Israel for the year ended December 31, 2010.

The financial statements are prepared in accordance with accounting standards that are based on international accounting standards which are implemented in the Western World's leading countries. Israel's admission into the OECD, which represents a significant milestone in the Country's integration into the global economy, requires the Government of Israel to meet modern international standards, including adequate transparency as well as high quality and reliable financial reporting, while keeping to the abovementioned criteria.

Over the last few years, the Accountant General's Division has introduced a number of significant reforms in the financial reporting practices of the Government of Israel, with the aim of improving their quality and reliability and increasing the relevance of information contained therein. In preparing the Government's financial statements for 2010, special attention was paid to transitioning to financial management and reporting audited by independent auditors. For the first time, the Government's financial statements include audited financial data for most Government ministries and divisions: data for 44 ministries and divisions - out of a total of 86 – have been audited.

In addition, it should be noted that the Government has made significant progress in adopting accounting standards which are based on the International Public Sector Accounting Standards (IPSAS), as well as in appointing accounting and reporting managers for each Government ministry. Furthermore, additional ministries have implemented the Merkava System (a comprehensive cross-organizational ERP system for Government offices used for managing organizational resources, including finance, logistics and HR). It should also be noted that this year, the Government of Israel's consolidated financial statements were prepared, for the first time, by way of consolidating all Government entities and branches, including Government companies controlled by the Government. Consolidated presentation as aforesaid provides users of financial statements with economic information regarding the activities of the broad Government, including all its branches.

The aim of the financial statements, as in any economic entity, is to provide financial information that is useful to a broad array of users for the purpose of assessment and decision making. As a result, the Division of the Accountant General has initiated, with the cooperation of the Civil Service Commission, a financial statements analysis course designed for Government senior staff personnel. The purpose of this course is to provide users of financial statements with tools for extracting information from the financial statements and using it as a tool for decision making purposes. In addition, the Government's financial statements are designed to bring proper transparency and accountability to the general public, regarding the use of public resources entrusted in its hands.

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Reliable financial statements represent a key source of information for the purpose of acknowledging with the State's assets and liabilities, and provide the basis for improvement of various significant processes in the long term.

The Government of Israel's financial statements for 2010 are the last financial statements to be filed during my term as Accountant General of the State of Israel. I can mark in satisfaction, that the significant effort made in this area in the past few years has resulted in a significant improvement in the quality, reliability and relevancy of the financial data and information of the Government of Israel as presented to the general public. Activity in this area has created a sound foundation, which will allow the Government to attain the goal of issuing audited financial statements for the Government as a whole, in accordance with international accounting standards.

Respectfully yours,



Shouki Oren

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Preface to the Financial Statements

Lately, governments of leading nations in the Western World have introduced far-reaching reforms in government accounting, intended to provide adequate disclosure and transparency as to their financial activity. As a result, on August 5, 2004, on the Accountant General's initiative, the Government of Israel passed Government Resolution No. 2375 regarding the adoption and implementation of International Public Sector Accounting Standards (IPSAS) by government ministries and by non-commercial statutory corporations.

In light of the Government Resolution, the Government of Israel has been engaged – over the last few years - in the process of instituting a reform in government accounting, which mainly involves: a gradual adoption of International Public Sector Accounting Standards; accounting-based management of the State's assets and liabilities; transitioning from cash-based reporting to accrual-based reporting; as well as enhancing the reliability of financial reporting through independent auditing of the financial statements. The reform aims to provide the general public, decision makers, and other users of the financial statements with reliable and comprehensive information as regards the financial position of the Government of Israel, under the assumption that transparency is one of the cornerstones of proper and efficient administration.

The financial statements filed herewith constitute yet another step in the implementation of the accounting reform led by the Accountant General in the past few years. According to the decision of the Accountant General, the 2010 financial statements are to be issued no later than April 30 2011, with the aim of including in them audited financial data for most Government ministries and Government-owned companies.

A significant part of the data in the financial statements is presented according to International Public Sector Accounting Standards. However, it should be noted that the statement of assets presented herein does not represent all the assets held by the State of Israel. Not included are numerous assets with highly significant value or cost, such as: the majority of infrastructure assets, a significant part of the State's investment in the defense sector, all State land, all heritage assets, some of the assets abroad, and the majority of intangible assets.

Furthermore, it should be noted that the information regarding the Government of Israel's assets and liabilities is not based on a unified accounting and reporting system. The accounting systems used in some of the government ministries do not support accrual-based accounting. Some of the financial information is unaudited and is based, among others, on auxiliary systems used alongside the main accounting system, as well as on reports received from various bodies which administer certain assets and liabilities on behalf of the Government of Israel. The Accountant General does not have full information regarding the quality of the control processes instituted in some of the aforesaid bodies.

The database used in the preparation of data for the financial statements, mostly regarding property, plant and equipment, is not a closed accounting and reporting system. Therefore, it is impossible to verify data completeness, which is essential for determining that the statements of financial position encompass all of the assets and liabilities of the Government of Israel, or that the statements of financial performance adequately reflect the results of the Government of Israel's operations and are prepared in accordance with generally accepted accounting principles.

The statements of financial performance are not fully accrual-based, as some of the Government ministries still report their data on a cash basis, with a material amount of financial data not being administered using an enterprise accounting and reporting system. Therefore, in certain cases, the statement of financial performance is based on data from the auxiliary systems maintained alongside the main accounting system, and on extensive use of assessments and estimates.

The net accounting deficit does not reflect the Government of Israel's budgetary deficit, as it is calculated using altogether different measurement tools, which are based on accrual-basis GAAP. These principles express changes in assets and liabilities which are not necessarily related to cash flow and which are not fully reflected in the State budget, in accordance with the Budget Foundations Law and with the budgetary deficit measurement method common around the world.

The net accounting deficit reflects expenses which are accounted for in the present, but which will only materialize as a cash expense and budgetary charge in the future, if at all, and so this accounting deficit does not require current financing.

An example thereof is expenses arising from increase in provision for employee benefits recognized in the present for increased employee entitlement to pension, based on actuarial calculations, but which shall only materialize following each employee's retirement and which shall be spread in the cash flow over the years according to actual pension payments. Despite the transition to cumulative pension and affixing the population entitled to budgetary pension, a shorter discount period of the provision for this period creates a material actuarial accounting cost, which shall have a significant effect in the coming years and shall then gradually decrease as we progress towards the date on which the State shall no longer have any obligation in this regard.

Another material component in the net accounting deficit is the finance charge for the entire government debt, including indexation and interest rate differences payable, which have been accumulated but which are not yet due. It should be emphasized that in the budgetary deficit, these expenses are only expressed upon their actual realization at the time of payment, so that the total expenses do not include debt which is not yet due for repayment.

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Independent auditing of financial statement data

The Government of Israel's consolidated financial statements for 2010 are unaudited. However, the Accountant General is leading a gradual process of transitioning Government ministries and units to accrual-based financial reporting, as well as appointing independent auditors to audit their financial statements. The Government of Israel's consolidated financial statements for the 2010 fiscal year were prepared according to a hierarchical structure, which is mainly based on accounting principles regarding consolidation of financial statements, and which is being developed as part of the accounting reform under way in all government ministries and units.

The following table details the hierarchical structure for the Government of Israel's financial reporting for 2010, and includes information, for each of these Government units, as regards their underlying reporting method and the independent auditor's opinion on their statements (if audited):

Hierarchical level	Government entity	Accrual based reporting	Audited financial statements	Auditor's opinion
*	Government of Israel (consolidated)			
	Government ministries included in the			
**	Government budget (solo)			
***	Accountant General Division	✓		
****	New York offices of the Ministry of Finance	✓		
****	Internal Government Insurance Fund	✓	✓	Unqualified
***	Ministry of Defense	✓		
***	Ministry of Education	✓	✓	Abstained
****	Administration for Rural Education	✓	✓	Unqualified
****	Center for Independent Education	✓	✓	Abstained
****	SHAS Torah Education	✓	✓	Unqualified
****	Educational Television			
****	Torah Institutions Division			
***	Ministry of Health	✓	✓	Qualified
****	Sheba Medical Center	✓	✓	Unqualified
****	Rambam Medical Center	✓	✓	Unqualified
****	Assaf Harofe Medical Center	✓	✓	Unqualified
****	Wolfson Medical Center	✓	✓	Unqualified
****	Ziv Medical Center	✓	✓	Unqualified
****	Poria Medical Center	✓	✓	Unqualified
****	Hillel Yaffe Medical Center	✓	✓	Unqualified
****	Western Galilee Medical Center	✓	✓	Unqualified
****	Barzilai Medical Center	✓	✓	Unqualified
****	Sourasky Medical Center (Ichilov)	✓	✓	Unqualified
****	Bnai Zion Medical Center	✓	✓	Unqualified
****	Abarbanel Mental Health Center			
****	Tirat Hacarmel Hospital			
****	Beer Ya'acov Mental Health Center – Ness Ziona			
****	Mizra Mental Health Center			
****	Kfar Shaul Mental Health Center - Eitanim			
****	Beer Sheba Mental Health Center			
****	Lev Hasharon Mental Health Center			

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Hierarchical level	Government entity	Accrual based reporting	Audited financial statements	Auditor's opinion
****	Sha'ar Menashe Mental Health Center			
****	Laniado Hospital - Netanya			
****	Shoham Medical Center For Geriatric Medicine - Pardes Hana			
****	Shmuel Harofe Geriatric Medical Center			
****	Rishon Lezion Geriatric Hospital			
****	Fliman Geriatric Hospital			
***	Ministry of Transportation	✓	✓	Qualified
****	National Road Safety Authority	✓	✓	Qualified
****	Port of Hadera	✓	✓	Qualified
***	Retirement Administration	✓	✓	Unqualified
***	Israel Police	✓		
***	Ministry of Construction and Housing	✓	✓	Qualified
***	Ministry of Social Affairs and Social Services			
***	Ministry of Industry, Trade and Labor			
***	Ministry of Interior	✓	✓	Unqualified
****	Population, Immigration and Border Authority	✓	✓	Qualified
***	Israel Land Administration			
***	Office for Rehabilitation of Holocaust Survivors	✓	✓	Qualified
***	Israel Prison Service			
***	Prime Minister's Office			
****	Government Advertising Agency	✓	✓	Unqualified
****	NATIV Agency			
***	Israel Tax Authority			
***	Ministry of Justice	✓	✓	Qualified
***	Ministry of Foreign Affairs			
***	Ministry of Immigrant Absorption	✓	✓	Qualified
***	Administration of Courts	✓	✓	Abstained
***	Water Authority	✓	✓	Unqualified
***	Ministry of Science, Culture and Sports	✓	✓	Unqualified
****	Ministry of Science and Technology	✓	✓	Unqualified
****	Culture and Sports Authority	✓	✓	Unqualified
***	Ministry of Agriculture and Rural Development	✓		
***	Ministry of Finance	✓	✓	Qualified
****	Administration of Government Housing Assets	✓	✓	Qualified
****	Government Vehicle Administration	✓	✓	Qualified
***	Ministry of Public Security	✓		
***	Ministry of Tourism	✓	✓	Qualified
***	Israeli Parliament (the Knesset)			
***	Ministry of Environmental Protection	✓	✓	(*)
***	Ministry of Religious Services	✓		
***	Ministry of National Infrastructure	✓	✓	Unqualified
****	Earth and Marine Research Administration	✓	✓	Unqualified
***	Office of the State Comptroller			
***	Agricultural Research Organization			

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Hierarchical level	Government entity	Accrual based reporting	Audited financial statements	Auditor's opinion
***	Enforcement and Collection Authority	✓	✓	Abstained
***	Central Bureau of Statistics	✓	✓	Unqualified
***	Settlement Division			
***	Coordination of Government Activities in the Territories			
***	Employment Service			
***	Israel Tax Authority - SHAAM	✓		
***	Rabbinical Courts	✓	✓	Qualified
***	National Agency for Mapping			
***	Ministry of Communication	✓		
***	Government Printer	✓	✓	Qualified
***	President's Bureau	✓		
***	Public Utility Authority - Electricity	✓		
***	Central Election Committee			
	Statutory corporations not Included in Government budget			
**	Government budget			
***	National Insurance Institute	✓	✓	(*)
	Corporations and government societies not Included in Government budget			
**	Government budget			
***	Cross Israel Highway Ltd.	✓	✓	Unqualified (*)
***	MA'ATZ - Israel National Highway Road Company Ltd	✓	✓	(*)
***	NETA - Metropolitan Mass Transit System Ltd.	✓	✓	(**)
***	ARIM - Urban Development Ltd.	✓	✓	(*)
***	ASHRA – The Israel Export Insurance Corporation Ltd.	✓	✓	Unqualified (*)
***	Israel Bank of Agriculture Ltd.	✓	✓	(*)
***	Administration of Agricultural Sector Arrangements Ltd.	✓	✓	(*)
***	M.I. Holdings Ltd.	✓	✓	(*)
***	Inbal Insurance Company Ltd.	✓	✓	Unqualified
***	Marine Education Company Ltd. (Marine Schools)	✓	✓	Unqualified
***	Hakfar Hayarok Ltd. (named after Levi Eshkol)	✓	✓	(*)
***	Sde Boker Academy	✓	✓	(**)
***	Tadmor Central Hospitality Training School Ltd.	✓	✓	(*)
***	System Management Company	✓	✓	(***)
***	New Power Plants for the Production of Electricity in Israel Ltd.	✓	✓	(***)
***	Israel Electric Company Ltd.	✓	✓	Unqualified
***	Mekorot Water Company Ltd.	✓	✓	(*)
***	Mekorot National Water Carrier And Properties Ltd.	✓	✓	(*)
***	Marine Trust Ltd.	✓	✓	(*)
***	Life Science Research Israel Ltd.	✓	✓	Unqualified
***	Dead Sea Preservation Company Ltd.	✓	✓	(**)

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Hierarchical level	Government entity	Accrual based reporting	Audited financial statements	Auditor's opinion
* * *	Eilat Foreshore Development Company Ltd.	✓	✓	(**)
* * *	Arad & Dead Sea Region Development Company Ltd.	✓	✓	(*)
* * *	Old Acre Development Company Ltd.	✓	✓	(*)
* * *	Environmental Services Company Ltd.	✓	✓	(**)
* * *	The Geophysical Institute of Israel	✓	✓	(*)
* * *	HELED – Municipal Government Company for Housing Reconstruction in Petah Tikva Ltd.	✓	✓	(*)
* * *	Company for the Restoration and Development of the Jewish Quarter in the Old City of Jerusalem Ltd.	✓	✓	(*)
* * *	Israel Government Tourism Corporation Ltd.	✓	✓	(*)
* * *	Israel Ports Development and Assets Company Ltd.	✓	✓	(**)
* * *	Israel Oceanographic and Limnological Research Ltd.	✓	✓	(*)
* * *	MATIMOP - Israeli Industry Center for R&D	✓	✓	(**)
* * *	AMIDAR - National Company for Immigrant Housing Ltd.	✓	✓	(*)
* * *	PRAZOT - The Jerusalem Municipal Housing Company Ltd.	✓	✓	(*)
* * *	East Jerusalem Development Company Ltd.	✓	✓	(*)
* * *	KARTA - Central Jerusalem Development Company Ltd.	✓	✓	(***)
* * *	Shikmona – Municipal Company for Housing Reconstruction in Haifa Ltd.	✓	✓	(*)
* * *	Association of Better Housing	✓	✓	(**)
* * *	Israel Association of Community Centers Ltd.	✓	✓	(*)
* * *	Israel Consumer Council	✓	✓	(**)
* * *	Holy Sites Authority	✓	✓	(*)
* * *	Western Wall Heritage Foundation	✓	✓	(*)
* * *	Ayalon Park - Ariel Sharon	✓	✓	(**)
* * *	A.T. Communication Channels Ltd.	✓	✓	(**)
* * *	Israel Postal Company Ltd.	✓	✓	(**)
* * *	Eilat Port Company Ltd.	✓	✓	(*)
* * *	Ashdod Port Company Ltd.	✓	✓	Qualified (*)
* * *	Haifa Port Company Ltd.	✓	✓	(**)
* * *	Israel Natural Gas Lines Company Ltd.	✓	✓	(*)
* * *	Israel Railways Ltd.	✓	✓	(**)
* * *	Petroleum & Energy Infrastructures Ltd.	✓	✓	(*)
* * *	ISORAD Ltd.	✓	✓	(*)
* * *	GAPIM Ltd.	✓	✓	(***)
* * *	Israel Aerospace Industries Ltd.	✓	✓	(*)
* * *	Israel Military Industries Ltd.	✓	✓	(**)
* * *	Rotem Industries Ltd.	✓	✓	Unqualified (*)
* * *	RAFAEL - Advanced Defense Systems Ltd.	✓	✓	(*)
* * *	Corporation A.	✓	✓	(**)
* * *	Company for Location and Restitution of Holocaust Victims' Assets Ltd.	✓	✓	(**)

- (*) As of December 31 2010, opinions regarding the financial statements of these entities have not yet been published as of the date of signing the financial statements of the Government of Israel. The information included in the financial statements and used to consolidate the financial statements of these entities is based on accounting data or unaudited drafts as of December 31 2010. Such information is not final, as it is still pending independent auditing as of the date of the publication of the Government's financial statements. When published, audited information regarding these entities may be materially different than the information used for the Government of Israel's consolidated financial statements.
- (**) These entities were consolidated based on financial statements as of December 31 2009 or as of earlier periods, since their financial statements as of December 31 2010 have not been filed as of the date in which the consolidated financial statements of the Government of Israel were published. When published, audited information regarding these entities may be materially different than the information used for the Government of Israel's consolidated financial statements.
- (***) Inactive companies, at their setup stage or under liquidation, which have not filed financial statements.

The Government of Israel's consolidated financial statements for 2010 were prepared based on a hierarchy created in accordance with consolidation accounting principles, as well as for financial reporting purposes of the various entities included in the Government of Israel's financial statements.

Due to difficulties in implementation, which pertain to both methodology and cost-efficiency considerations, the hierarchy defined for the purpose of financial reporting is being developed as part of the accounting reform implemented in all Government ministries and units. Thus, its configuration is not yet final.

Furthermore, the hierarchal structure for financial reporting purposes has yet to be determined for government companies and statutory corporations, and so at this time, such entities are presented at the highest hierarchal level, although it is possible that under GAAP, some of these entities should be presented under certain government ministries.

Main Differences as Compared with Financial Statement Data for the 2009 Fiscal Year

The Accountant General's annual work plan emphasized that steps be taken which will lead to significant improvements in reporting quality for fiscal 2010. Key changes include the following:

1. Increasing the quality and reliability of the financial statements -

For the first time, the Government of Israel's financial statements for 2010 include audited financial data (by independent auditors) for 44 government ministries (out of 86 government ministries and divisions), which account for approximately 34% of the total budgeted expenses of Government ministries, as well as audited financial data for the majority of Government companies required by law to file audited financial statements. As aforesaid, the independent auditing of financial statements for Government ministries was significantly enhanced this year, thus increasing the reliability of financial reporting, strengthening the internal control over the work of Government ministries, and increasing the overall relevancy of the financial statements as a managerial tool for making strategic decisions. Additional details in this matter can be found in the Preface to the Financial Statements, in the section entitled Independent Auditing of Financial Statement Data, as well as in Note 2 – Significant Accounting Policies (not available in the English version).

2. Consolidation of government companies -

For the first time in the Government of Israel's financial statements, the statements for 2010 consolidated the financial statements of 59 Government companies controlled by the Government for financial reporting purposes, in accordance with the requirements of Israel Government Accounting Standard 6 - *Consolidated and Separate Financial Statements (Revised 2010)*. As aforesaid, in 2010 the Government companies were consolidated for the first time, restating comparative data for 2009. The presentation of the Government's financial position and financial performance in a consolidated format provides users of financial statements, for the first time, with more extensive economic information regarding the activity of the Government and its various branches, in accordance with international financial reporting standards. It should be noted, however, that most Government companies have yet to file audited financial statements as of December 31 2010. Therefore, the consolidated data for Government companies is based, in many cases, on unaudited financial statements drafts as of December 31 2010, or on interim financial statements for the third quarter of 2010 as well as on annual reports as of December 31, 2009, and/or on drafts of such financial statements as of the abovementioned dates.

3. Investment in public private partnerships (PPPs) -

In the past few years, the Government of Israel instituted a reform, following which a significant increase in the implementation of public private partnership (PPP) projects has been recorded, leading to increased momentum in the development of infrastructure projects in the State of Israel, estimated at tens of millions of NIS. In PPP arrangements and projects, the Government grants the operator (a private sector entity) a right to provide services to the public using existing infrastructure or facilities or using infrastructure or facilities constructed especially for this purpose. The Government is promoting such projects in the areas of water, transportation, energy, and public construction.

For the first time, the Government of Israel's financial statements for 2010 include a detailed note regarding the Government's investments in such projects, in a new format which includes complementary explanations of reported financial information.

4. Public housing assets -

Public housing assets are apartments used to provide housing solutions for those eligible. The properties are managed by housing companies which rent them to those eligible for housing and sell them to tenants, in accordance with rules determined from time to time by the Ministry of Finance and the Ministry of Construction and Housing. For the first time, in the Government of Israel's financial statements for 2010, public housing assets are presented according to the fair value model, including restated comparative data for the previous year.

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Summary Financial Analysis of the Financial Statements

The Government of Israel's financial statements for fiscal year 2010 provide the Government, the Knesset and the general public with a comprehensive overview of the manner in which the executive authority manages its overall resources. The findings of the summary financial analysis of the financial statements focus on the government level and do not go into detail, in order to clarify, in outline, the Government of Israel's financial position and its financial performance as a single economic entity. The Government of Israel's operations are financed primarily through tax proceeds, which serve for realizing the Government of Israel's policies in a broad and complex range of areas, such as: defense, health, education, transportation, etc. Detailed information regarding the Government of Israel's revenues and expenses, its assets and liabilities, along with other important financial issues, is presented in the full financial statements and the accompanying notes. That information may contribute to a better understanding of economic Government processes which influence the State and its citizens, thus contributing to their improvement.

SUMMARY FINANCIAL DATA FOR THE GOVERNMENT OF ISRAEL (NIS billions)

	<u>Consolidated</u>		<u>Government of Israel</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
			For the year ended December 31	
<u>Financial performance</u>				
Revenues from taxes and fees	244.0	222.0	214.7	195.3
Revenues from transfers	11.4	9.2	11.4	9.1
Revenues from exchange transactions	66.1	60.1	21.5	18.2
Other revenues	6.8	7.6	6.4	5.9
Total revenues	<u>328.3</u>	<u>298.9</u>	<u>254.0</u>	<u>228.5</u>
Employee salaries and benefits	145.8	93.0	138.2	85.4
Appropriations, allocations and transfers	188.4	170.8	115.6	110.4
Operating expenses	83.0	77.7	55.0	51.8
Administrative, public relations and other costs	10.4	10.6	5.6	6.9
Finance expenses, net	30.6	44.3	39.3	53.1
Total expenses	<u>458.2</u>	<u>396.4</u>	<u>353.7</u>	<u>307.6</u>
Share of profit (loss) of investees	(0.4)	0.3	(30.6)	(18.1)
Net accounting deficit (*)	<u>(130.3)</u>	<u>(97.2)</u>	<u>(130.3)</u>	<u>(97.2)</u>
<u>Financial position</u>				
Current assets	93.1	97.6	52.7	59.3
Financial investments and loans	56.3	61.4	112.5	114.8
Property, plant and equipment	296.0	290.1	193.1	187.2
Other assets	3.7	4.0	1.4	1.4
Total assets	<u>449.1</u>	<u>453.1</u>	<u>359.7</u>	<u>362.7</u>
Current liabilities	161.4	141.6	127.0	119.4
Long term domestic and foreign loans	525.8	531.3	656.4	641.6
Provision for employee benefits	543.9	473.2	527.2	457.6
Reserves for insurance events	360.6	320.9	0.2	0.2
Other long term liabilities	146.6	144.9	338.4	302.9
Total liabilities	<u>1,738.3</u>	<u>1,611.9</u>	<u>1,649.2</u>	<u>1,521.7</u>
Net assets/ equity (*)	<u>(1,289.2)</u>	<u>(1,158.8)</u>	<u>(1,289.5)</u>	<u>(1,159.0)</u>

(*) Consolidated net accounting deficit and equity include the minority share and owners of minority interests.

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NET ACCOUNTING DEFICIT vs. BUDGETARY DEFICIT (NIS millions)

<u>Government of Israel</u>	<u>For the year ended December 31 2010</u>
Budgetary deficit (*)	30,162
Employee benefits - actuarial expenses less payments	68,927
Losses of investees not expressed in the budget	30,584
Government loans - net finance expenses less cash payments	4,541
Net changes in National Insurance Institute loan	4,003
Support of pension funds - expenses incurred less payments	1,295
Property, plant and equipment - depreciation expenses less cash purchases during the year	(8,175)
Government loans - net financial revenues less cash proceeds	(1,770)
Other changes in assets and liabilities	696
Net accounting deficit	<u>130,263</u>

(*) See Part B – Budget Implementation Reports for 2010.

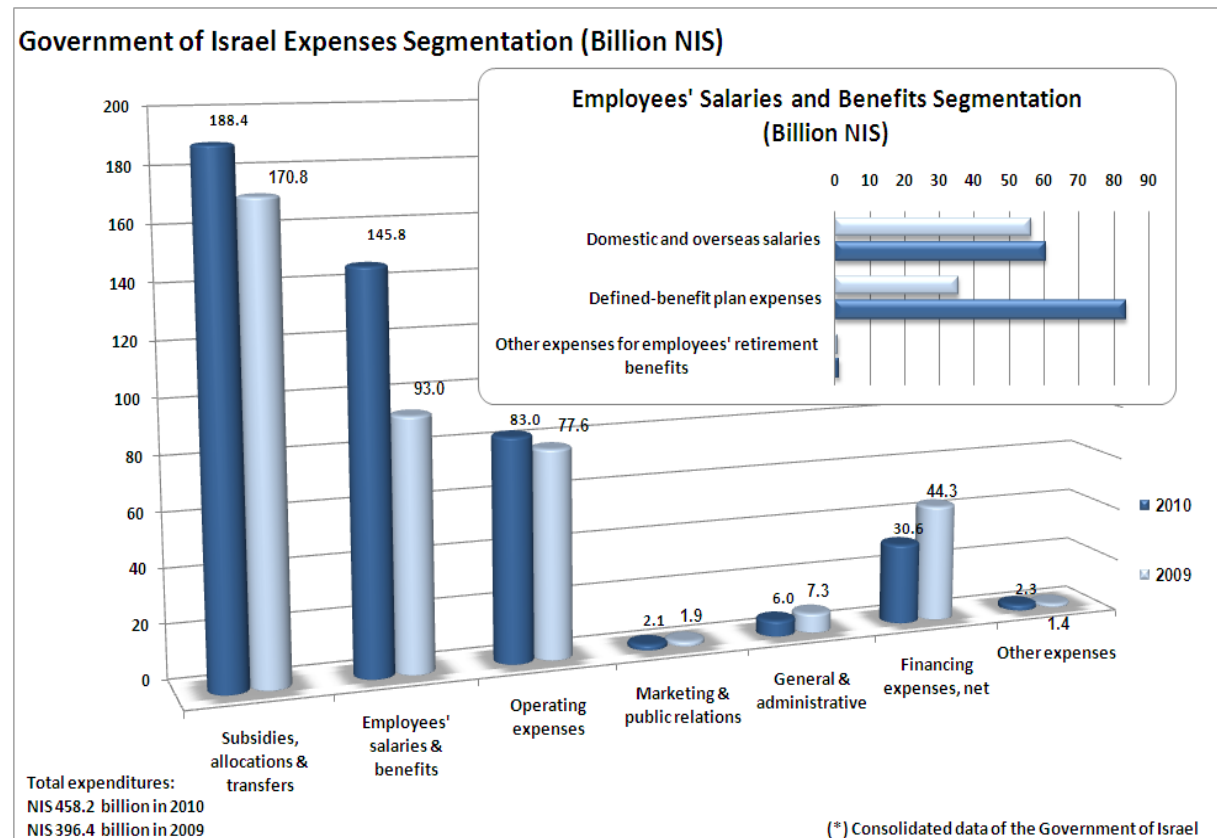
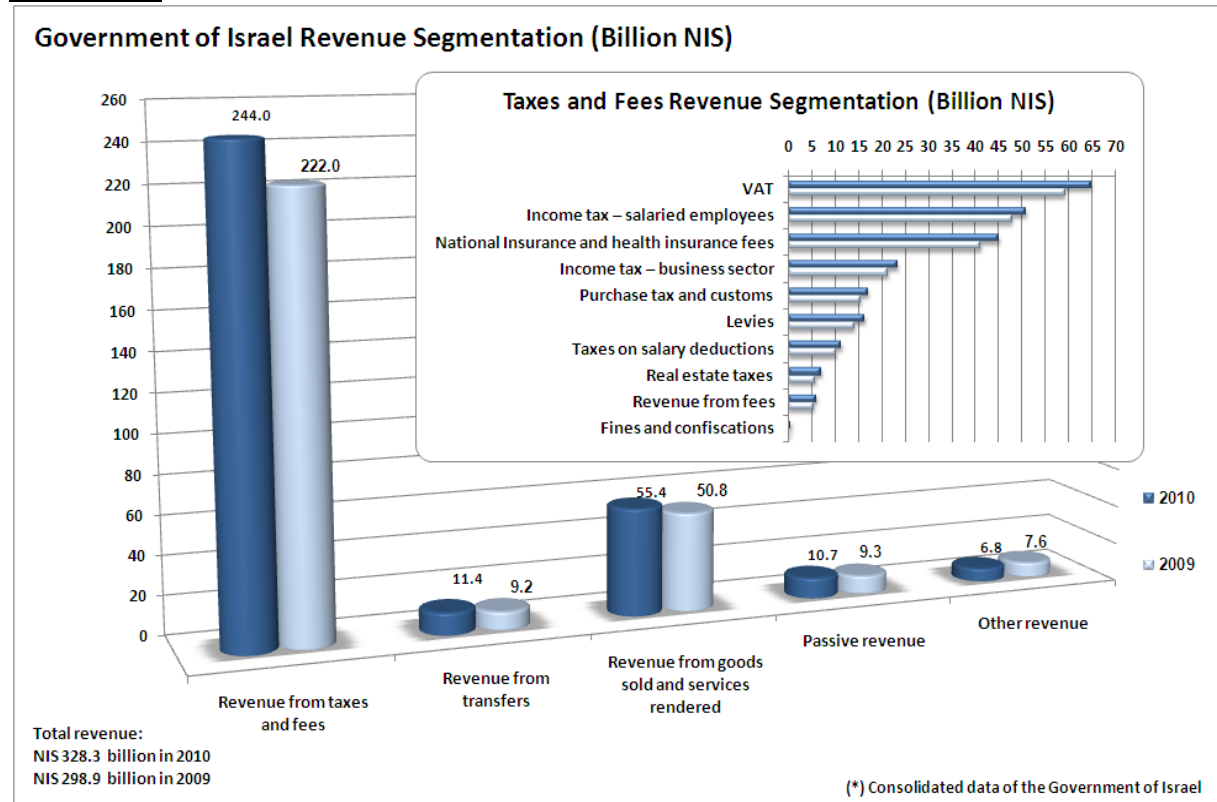
Financial statements - accrual-based

- Financial statements provide comprehensive information on the Government of Israel's financial position, which supports decision making and Government accountability in the use of its resources.
- Revenues - recognized when incurred regardless of their collection date.
- Expenses - recognized when the obligation arises, regardless of the date of repayment.

Budget implementation report - cash-based

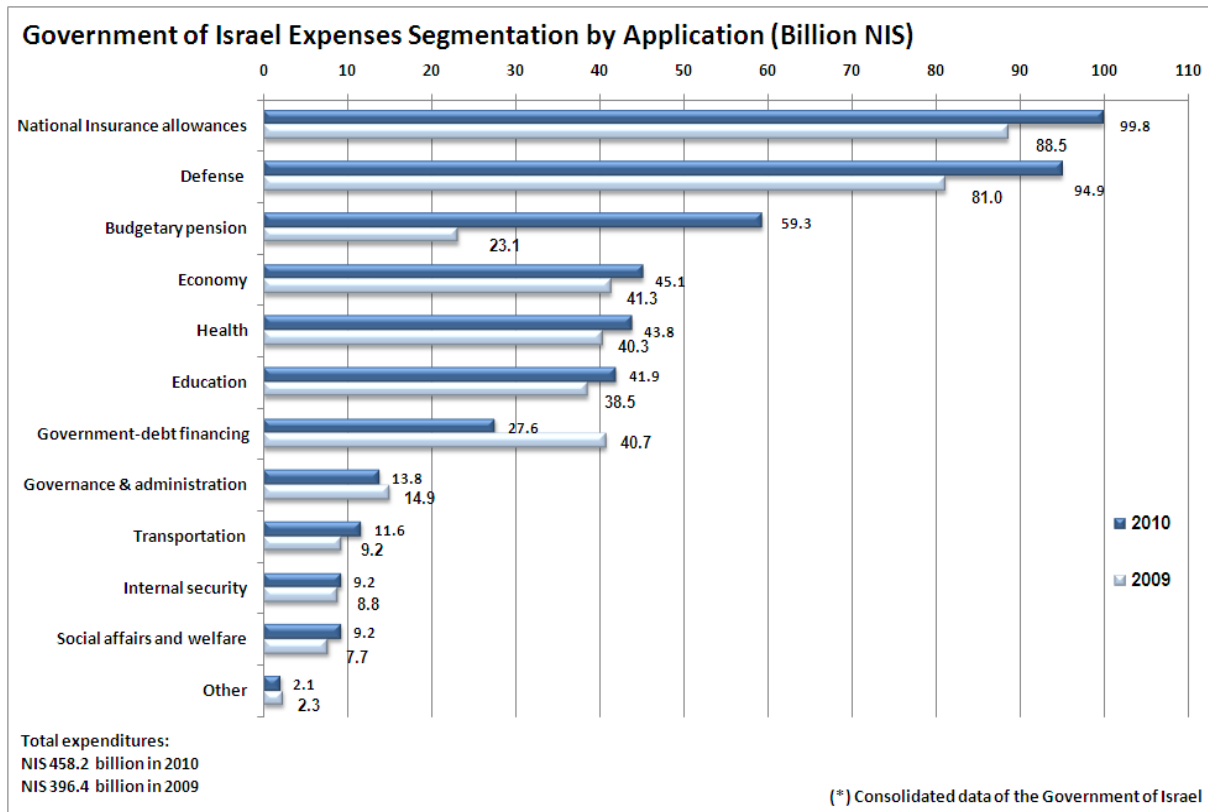
- The budget implementation report describes the manner in which the Government of Israel used its available sources in a given period, so as to achieve its goals in that period.
- Proceeds - amounts received in cash, such as taxes and fees collected.
- Payments - amounts paid in cash – such as pension payments.

Analysis of select financial data from the Government of Israel's Consolidated Financial Statements

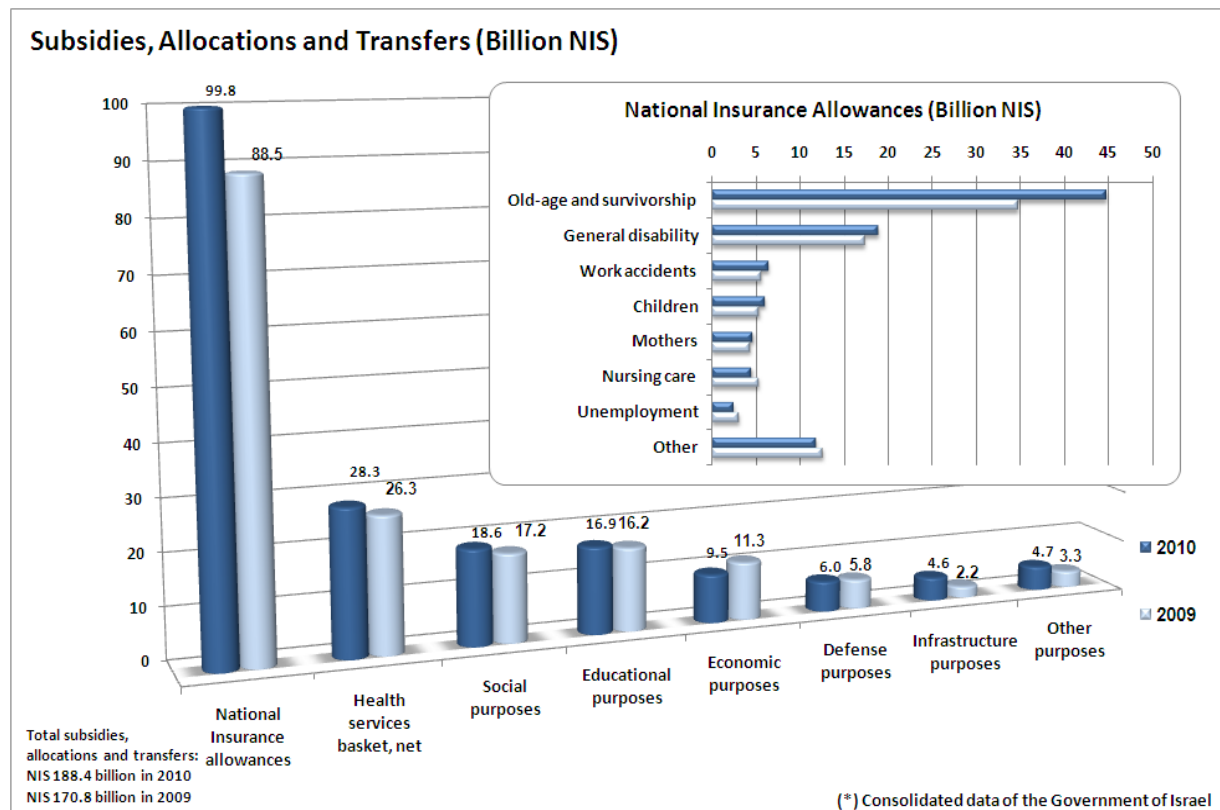


State of Israel
Ministry of Finance – Accountant General

Government of Israel - Financial Statements as of December 31 2010

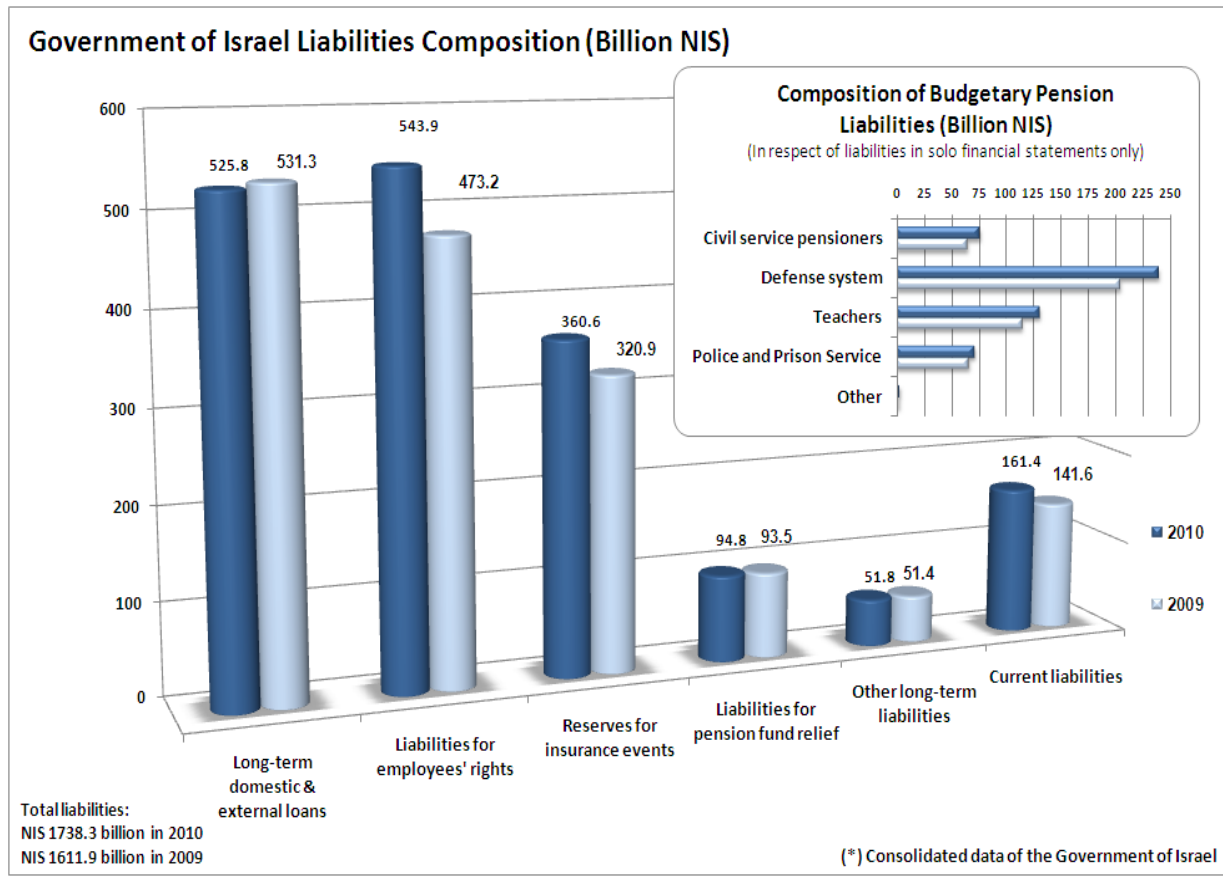
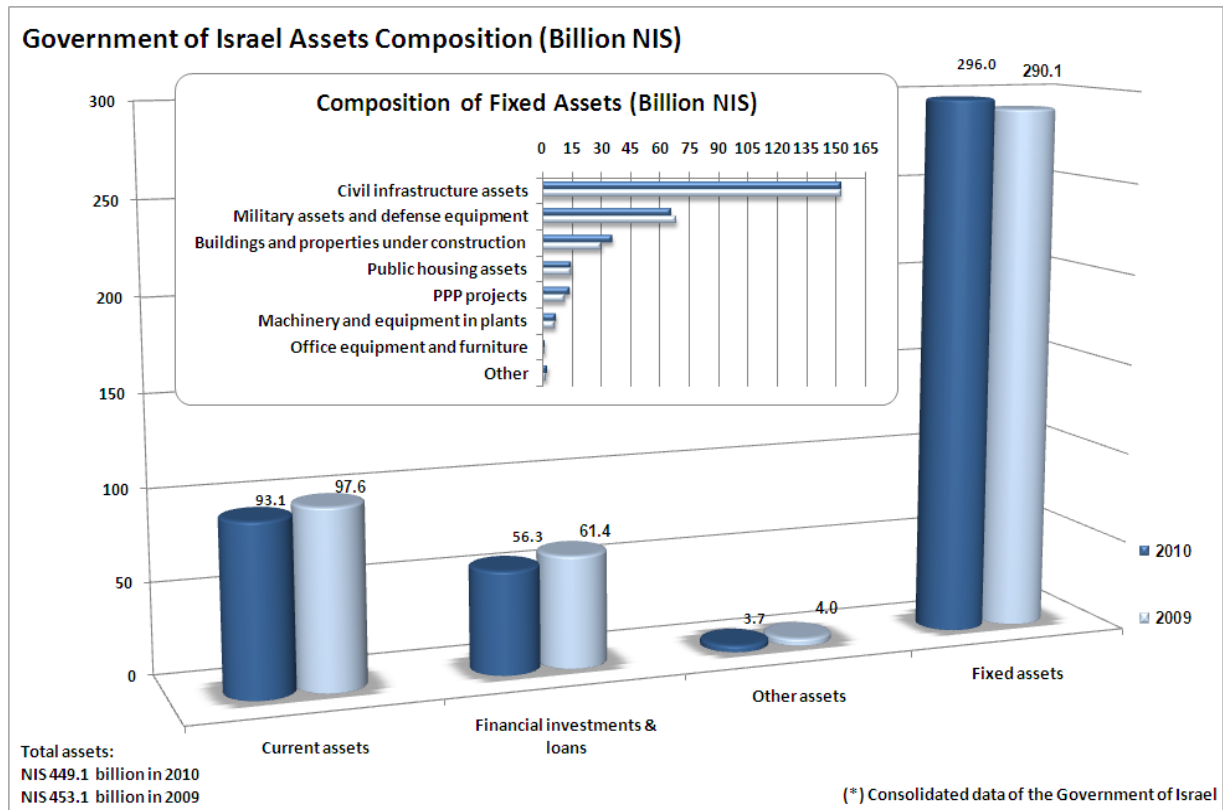


The defense area includes, among others, budgetary pension expenses for employees of the defense sector. Other areas presented above do not include expenses for budgetary pension, since these could not be reasonably separated.



State of Israel
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Government of Israel - Financial Statements as of December 31 2010



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Sensitivity Analysis - Government Loans (NIS millions)

Government of Israel			
Profit (loss) from changes in	+1%	Book value (*)	-1%
Consumer Price Index	(4,426)	442,512	4,426
US dollar exchange rate	(885)	88,540	885
EUR exchange rate	(147)	14,741	147
Total	<u>(5,458)</u>	<u>545,793</u>	<u>5,458</u>

(*) The balance for some Government loans which are influenced by changes in the Consumer Price Index or changes in the US dollar or Euro exchange rates, as of December 31 2010. For further information regarding the total liability for Government loans, please see the following notes to these financial statements: Note 14 – Domestic Loans and Note 15 – Foreign Loans.

Government of the State of Israel

Financial Statements as of December 31 2010

(Unaudited)

State of Israel
Ministry of Finance – Accountant General

Government of Israel - Financial Statements as of December 31 2010

STATEMENTS OF FINANCIAL POSITION (NIS millions)

	Consolidated (*)		Government of Israel	
	December 31		December 31	
	2010	(**) 2009	2010	(**) 2009
Current assets:				
Cash and cash equivalents	21,071	27,826	12,893	20,666
Deposits and short term investments	12,498	11,862	1,296	1,088
Current maturities of long term loans	3,412	4,492	5,374	6,134
Accounts receivable	50,179	47,636	32,437	30,650
Current inventories	5,914	5,813	681	732
	<u>93,074</u>	<u>97,629</u>	<u>52,681</u>	<u>59,270</u>
Long term investments, loans and accounts payable:				
Long term loans	33,770	37,989	33,770	37,989
Investments in investees (companies and entities)	2,756	3,004	64,869	62,180
Royalties payable	5,862	5,649	5,862	5,649
Other financial assets	13,939	14,682	8,008	9,015
Non current inventories	1,642	1,976	975	913
	<u>57,969</u>	<u>63,300</u>	<u>113,484</u>	<u>115,746</u>
Investment in public private partnerships (PPPs)	<u>14,319</u>	<u>11,872</u>	<u>14,319</u>	<u>11,872</u>
Property, plant and equipment	<u>281,661</u>	<u>278,256</u>	<u>178,743</u>	<u>175,308</u>
Intangible assets	<u>2,118</u>	<u>2,063</u>	<u>481</u>	<u>453</u>
	<u>449,141</u>	<u>453,120</u>	<u>359,708</u>	<u>362,649</u>

(*) Consolidated data for the Government of Israel and the National Insurance Institute.

(**) Restated.

The assets presented in this statement do not represent the overall assets of the State of Israel, but rather only a small portion thereof.

The list of Government assets presented in this statement do not yet include a large number of assets the value or cost of which is highly material, such as some infrastructure assets, State investments in the defense sector, all State lands, all heritage assets, some of the assets abroad and the majority of intangible assets.

The notes to the financial statements constitute an integral part thereof.

State of Israel
Ministry of Finance – Accountant General

Government of Israel - Financial Statements as of December 31 2010

STATEMENTS OF FINANCIAL POSITION (NIS millions) (cont.)

	Consolidated (*)		Government of Israel	
	December 31		December 31	
	2010	(**) 2009	2010	(**) 2009
Current liabilities:				
Short term credit	603	985	169	532
Domestic loans - current maturities	86,566	60,822	82,374	68,680
Domestic loans - current maturities	29,550	37,869	29,550	37,869
Accounts payable	44,731	41,961	14,862	12,278
	161,450	141,637	126,955	119,359
Long term liabilities:				
Domestic loans – less current maturities	435,259	442,544	580,368	569,034
Foreign loans – less current maturities	90,554	88,749	76,057	72,620
Provision for losses of investees	4	4	209,864	178,356
Provision for support of pension funds	94,806	93,511	94,806	93,511
Provision for employee benefits	543,874	473,165	527,239	457,598
Reserves for insurance events	360,632	320,951	146	158
Provision for legal proceedings	5,181	4,969	4,308	4,109
Other long term liabilities	33,444	35,288	16,279	15,842
	1,563,754	1,459,181	1,509,067	1,391,228
Liabilities for public private partnerships	13,133	11,086	13,133	11,086
State guarantees	-	-	-	-
Contingent liabilities	-	-	-	-
Total liabilities	1,738,337	1,611,904	1,649,155	1,521,673
Net assets/ equity:				
Allocated to owners	(1,289,447)	(1,159,024)	(1,289,447)	(1,159,024)
Allocated to owners of minority interests	251	240	-	-
Total net assets / equity	(1,289,196)	(1,158,784)	(1,289,447)	(1,159,024)
	449,141	453,120	359,708	362,649


(*) Consolidated data for the Government of Israel, the National Insurance Institute, and Government companies controlled for the purpose of financial reporting.


(**) Restated.

The deficit in equity is a residual number which does not represent the cumulative Government deficit, as assets are not presented in full in the financial statements. For further information regarding this issue, please see the Preface to the Financial Statements and their Notes.

Thursday April 28 2011

Date of approval of the financial
statements


Shouki Oren
Accountant General


Joseph Itzkovich, CPA
Chief Accountant

The notes to the financial statements constitute an integral part thereof.

State of Israel
Ministry of Finance – Accountant General

Government of Israel - Financial Statements as of December 31 2010

STATEMENTS OF FINANCIAL PERFORMANCE (NIS millions)

	Consolidated (*)		Government of Israel	
	For the year ended		December 31	
	2010	(**) 2009	2010	(**) 2009
REVENUES				
Revenues from taxes and fees	243,979	221,966	214,716	195,250
Revenues from transfers	11,472	9,159	11,408	9,096
Total revenues from non exchange transactions	255,451	231,125	226,124	204,346
Revenues from sale of goods and services rendered	55,436	50,837	12,404	10,262
Passive revenues	10,657	9,275	9,115	7,986
Total revenues from exchange transactions	66,093	60,112	21,519	18,248
Other revenues	6,771	7,624	6,328	5,904
Total revenues	328,315	298,861	253,971	228,498
EXPENSES				
Employee salaries and benefits	145,816	93,038	138,182	85,395
Appropriations, allocations and transfers	188,397	170,756	115,574	110,443
Operating expenses	82,994	77,649	54,937	51,792
Marketing and public relations	2,080	1,897	1,043	911
General and administrative expenses	6,032	7,334	3,391	4,852
Financing expenses, net	30,569	44,282	39,329	53,051
Other expenses	2,276	1,405	1,194	1,181
Total expenses	458,164	396,361	353,650	307,625
Share in the profit (loss) of associates	(397)	274	(30,584)	(18,136)
Net deficit	(130,246)	(97,226)	(130,263)	(97,263)
Allocated to:				
Owners	(130,263)	(97,263)	(130,263)	(97,263)
Minority share	17	37	-	-
Net deficit	(130,246)	(97,226)	(130,263)	(97,263)

(*) Consolidated data for the Government of Israel, the National Insurance Institute, and Government companies controlled for the purpose of financial reporting.

(**) Restated.

The statements of financial performance are not fully accrual-based, as some of the Government ministries still report their data on a cash basis, and some do not process their financial data using an enterprise accounting and reporting system. Therefore, the statement of financial performance is based, among others, on data from the auxiliary systems maintained alongside the main accounting system, as well as on extensive use of assessments and estimates.

The net accounting deficit does not reflect the Government of Israel's budgetary deficit, as it is calculated using altogether different measurement tools which are based on accrual-basis GAAP. These principles express changes in assets and liabilities which are not necessarily related to cash flow and which are not fully reflected in the State Budget, in accordance with the Budget Foundations Law and with the budgetary deficit measurement method common around the world. The net accounting deficit includes expenses that are currently accounted for but which will only materialize as cash expenses and budgetary charges in the future. For further information regarding this issue, please see the Preface to the Financial Statements and their Notes.

The notes to the financial statements constitute an integral part thereof.

State of Israel
Ministry of Finance – Accountant General

Government of Israel - Financial Statements as of December 31 2010

STATEMENTS OF FINANCIAL PERFORMANCE - EXPENSES BY FUNCTION (NIS millions)

	Consolidated (*)		Government of Israel	
	For the year ended December 31			
	2010	(**) 2009	2010	(**) 2009
Expenses by Function:				
National Insurance pensions	99,788	88,467	26,527	27,509
Defense (***)	94,901	81,038	84,766	71,830
Budgetary pension (***)	59,257	23,118	59,257	23,118
Market and economy	45,069	41,267	19,021	16,134
Health	43,758	40,325	43,761	40,325
Education	41,899	38,515	41,477	38,025
Government debt financing	27,555	40,661	38,948	52,466
Governance and administration	13,762	14,937	13,564	14,768
Transportation	11,628	9,193	7,710	5,904
Public security	9,230	8,824	9,230	8,824
Society and welfare	9,210	7,714	8,147	7,477
Other	2,107	2,302	1,242	1,245
Total expenses	<u>458,164</u>	<u>396,361</u>	<u>353,650</u>	<u>307,625</u>

(*) Consolidated data for the Government of Israel, the National Insurance Institute, and Government companies controlled for the purpose of financial reporting.

(**) Restated.

(***) The defense area includes, among others, budgetary pension expenses for employees of the defense sector. Other areas presented above do not include expenses for budgetary pension, since these could not be reasonably separated.

The notes to the financial statements constitute an integral part thereof.

State of Israel
Ministry of Finance – Accountant General

Government of Israel - Financial Statements as of December 31 2010

STATEMENTS OF CHANGES IN NET ASSETS/ EQUITY (NIS millions)

CONSOLIDATED

	Balance as of December 31 2009 (*)	Changes in net assets (**)	Net deficit for the period	Balance as of December 31 2010 (*)	Allocated to owners	Allocated to minority interests
Accrued deficits	(1,161,419)	(1,985)	(130,246)	(1,293,650)	(1,293,901)	251
NON-BUDGETARY CAPITAL RESERVES						
State guarantees fund	1,005	27	-	1,032	1,032	-
Compensation fund (property tax)	721	1,728	-	2,449	2,449	-
Internal Government Insurance Fund	894	31	-	925	925	-
Other capital reserves	15	33	-	48	48	-
Total non-budgetary capital reserves	2,635	1,819	-	4,454	4,454	-
Total net assets	(1,158,784)	(166)	(130,246)	(1,289,196)	(1,289,447)	251

(*) Restated.

(**) Including from designated surplus, from cumulative effect for the beginning of the year as a result of asset recognition, change of accounting methods, and revaluation of assets and liabilities.

State of Israel
Ministry of Finance – Accountant General

Government of Israel - Financial Statements as of December 31 2010

STATEMENTS OF CHANGES IN NET ASSETS/ EQUITY (NIS millions) (cont.)

GOVERNMENT OF ISRAEL

	Balance as of December 31 2009 (*)	Changes In net assets (**)	Net deficit for the period	Balance as of December 31 2010
Accrued deficits	(1,161,659)	(1,979)	(130,263)	(1,293,901)
NON-BUDGETARY CAPITAL RESERVES				
State guarantees fund	1,005	27	-	1,032
Compensation fund (property tax)	721	1,728	-	2,449
Internal Government Insurance Fund	894	31	-	925
Other capital reserves	15	33	-	48
Total non-budgetary capital reserves	2,635	1,819	-	4,454
Total net assets	(1,159,024)	(160)	(130,263)	(1,289,447)

(*) Restated.

(**) Including from designated surplus, from cumulative effect for the beginning of the year as a result of asset recognition, change of accounting methods and revaluation of assets and liabilities.

The deficit in equity is a residual number which does not represent the cumulative Government deficit as assets are not presented in full in the financial statements. For further information regarding this issue, please see the Preface to the Financial Statements and their Notes.

THE NOTES TO THE FINANCIAL STATEMENTS CONSTITUTE AN INTEGRAL PART THEREOF.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010

NOTE 1 – GENERAL:

- A.** The Government of Israel's financial statements as of December 31, 2010, are filed in accordance with Section 12 of the State Comptroller Law of 1958 [Consolidated Version] and in accordance with Section 49a of the Budget Foundations Law of 1985.
- B. The Government of Israel** – The Government of Israel is the executive branch of the State of Israel. Heading the Government is the Prime Minister, and its members are ministers who are in charge of the various ministries. The Government of Israel retains authority in most national and public aspects, and represents the State of Israel internationally. The following is a general description of the Government's main ministries and divisions (the scope of their activity totaling NIS 354 billion) through which the Government operates (in descending order, according to the scope of financial activity):

(1) Ministry of Finance

The Ministry of Finance is the Government's primary economic ministry. This Ministry is responsible for mapping out the Government's economic policy, including preparation of the state budget proposal; supervising the implementation of the approved budget; managing State revenues; collecting direct and indirect taxes; promoting investments in Israel and from abroad; and supervising the capital market as well as the savings and insurance industries. The Ministry includes divisions, bureaus and units that handle various aspects of the State's economic policy, including: the Accountant General; the Budget Division; the Tax Authority; the Capital Markets, Insurance and Savings Division; the International Relations Division; the Wages and Labor Agreements Division; the Government Companies Authority; the State Revenues Administration; the Economic and Research Division; as well as the Office for Rehabilitation of Holocaust Survivors. The Ministry fulfills many roles related to Israel's economy and maintains close contact with the Knesset and its committees regarding economic matters, budgeting and economic legislation. It also maintains ongoing contact with economic bodies in Israel and overseas on issues related to the State's economy.

The Accountant General Division - The Accountant General Division is an administrative unit of the Ministry of Finance, responsible for overseeing highly influential areas of Government activity. The Accountant General is responsible, *inter alia*, for the following main issues:

- Implementing the State budget; managing state assets, including Government housing and vehicles; signing contracts and agreements undertaken by the State; initiating and promoting public private partnerships (PPP) in the fields of transportation, water, energy and other infrastructure ventures; operating inter-ministerial tender committees in various areas; issuing the Government of Israel's financial statements and handling the Government's accounting; implementing centralized government procurement and setting policy on this issue; managing the Government ministries' IT systems, etc.
- Direct responsibility for the implementation of several laws and provisions, such as: the State Assets Law, the Budget Foundations Law, the State Loans Law, the State Guarantees Law and the Foreign Trade Guarantees Law, the Mandatory Tenders Law, the Civil Service (Retirement) Law, the Internal Audit (Section 2c) Law, and the State's administrative directives on regulation, finance and economy (TAKAM Directives).

NOTE 1 – GENERAL (cont.):

Israel Tax Authority - The Israel Tax Authority was established on September 1, 2004, following the Government of Israel's decision to merge its tax collection entities. The Income and Property Tax Division (also known as the Income and Property Tax Commission), the Customs and Value Added Tax (VAT) Division and Sha'am (the IT branch of the Income Tax Division) merged to become the Tax Authority. The Tax Authority's primary role is tax collection and enforcement of the State of Israel's import and export laws.

As regards income and property taxation, the Tax Authority is responsible for collecting direct taxes, property taxes, extraordinary levies, payroll taxes and revenue taxes. The Tax Authority operates under the following laws, regulations and directives: the Income Tax Directive, the Land Tax (Betterment and Purchase) Law, the Property Tax and Compensation Fund Law, investment incentive laws, the Value Added Tax (VAT) (Payroll and Profit Tax) Law, the Administrative Offences Law, the Tax (Collection) Order, the Income Tax Law (Taxation during Inflation), the Income Tax Law (Adjustments due to Inflation), as well as various tax-related provisions that are included in other laws and regulations.

Regarding customs and VAT, the Tax Authority is responsible for collecting indirect taxes, which are imposed on the consumption of goods and services. The taxes collected are: VAT – imposed at a uniform rate on all market activities; customs duty – imposed on imported goods; purchasing tax – imposed on both local industry and import; excise on fuels – a fixed tax imposed on all types of fuels.

Retirement Administration - The Retirement Administration of the Ministry of Finance is the entity responsible, on behalf of the Ministry of Finance, for making pension payments to civil service employees under the Civil Service (Pensions) Law (Consolidated version) of 1970. The Administration pays the Government's budgetary pension to all retirees, with the exception of employees of the Ministry of Defense, the Israel Police, the Prison Service, the General Security Service, the Mossad, and employees of those divisions related to the Ministry of Defense. In addition, the Administration is an arm of the Minister of Finance and the Accountant General for the disbursement of the various aid payments to pension funds and to employers, implementation of labor agreements, and management of salary deduction payments to all government employees – all in accordance with the Government's policy.

(2) Ministry of Defense

The Ministry of Defense is responsible for State security on the state, military and civil levels. Its purpose is to aid and support the Israel Defense Forces (IDF) by operating systems that are civil in nature, which the military need not necessarily establish and operate on its own. The Ministry's core work is primarily financial, commercial and engineering-related, with a range of other related fields (rehabilitation, discharged soldiers, heritage etc.). The Ministry manages and monitors the defense budget and handles acquisitions for the IDF, research and development activity, defense procurement and export of defense equipment and services, and construction of defense-related national infrastructures, etc. In addition, the Ministry issues directives for states of emergency and provides public services, such as rehabilitation of disabled IDF veterans, commemoration projects for fallen soldiers and support of bereaved families as well as assistance to discharged soldiers. Israel's defense sector is comprised of three organizational elements:

- State officials – the Minister of Defense heads the defense sector and all of its units.

NOTE 1 – GENERAL (cont.):

- Military system – the Israel Defense Forces. The IDF is headed by the General Staff (MATKAL), which is headed by the Chief of Staff, who holds the highest rank in the military.
- Civilian system – Ministry of Defense, support divisions and corporations (government companies supervised by the Minister of Defense, such as Israel Aerospace Industries and Israel Military Industries).

(3) Ministry of Education

The Ministry of Education is responsible for the education system, including preschools and kindergartens, schools, higher education institutions, and informal education. The Ministry focuses on legislation and planning of educational services, professional licensing in the field of education and teaching, and supervision of educational institutions. The Ministry is responsible for the implementation of several key laws, including the Compulsory Education Law of 1949, the State Education Law of 1953, the Council for Higher Education Law of 1948, the Special Education Law of 1988, the Public Libraries Law of 1975, etc. The Ministry's main goals include, *inter alia*, implementing the recommendations of the National Task Force for the Advancement of Education in Israel, narrowing gaps and promoting academic achievements, cultivation of values and teaching national heritage, promoting science and technology education, empowering the teaching staff and improving its quality, etc.

Administration for Rural Education – The Administration for Rural Education & Youth-Aliyah is a division of the Ministry of Education, which serves as a national district for regional-settlement schools as well as for youth village schools, as a headquarters for managing boarding school education within the Ministry of Education, as well as a national pedagogical center in the fields of life sciences, agriculture and maritime education. The rural education system includes 120 schools teaching more than 66,000 students from 7th through 12th grades.

(4) Ministry of Health

The Ministry of Health is responsible for health services in the State of Israel. It determines overall policy, supervision, licensing, coordination, and is in charge of standard setting. In addition, the Ministry directly operates approximately half of the various types of hospital beds (via government hospitals), and the majority of personal services provided through family health centers. The Ministry's primary responsibilities include:

- Planning, supervision and monitoring, licensing and registration of the healthcare system's operations in Israel, licensing of medical professionals, preparation of a master plan for applied medical research, training nursing personnel for work in medical institutions, as well as organizing and preparing the healthcare system for states of emergency.
- Securing general hospitalization services as well as psychiatric, rehabilitation and geriatric services, securing preventive medical services, supervising and monitoring HMOs as required by the State Health Insurance Law of 1994, and monitoring food production for local consumption and export.

(5) Ministry of Transportation

The Ministry of Transportation is responsible for setting transportation policy and for air, sea and land transportation services. In addition, the Ministry handles legislation that regulates

NOTE 1 – GENERAL (cont.):

transportation issues, sets pricing for transportation, monitors and enforces traffic laws, and provides meteorological services. The Ministry's primary responsibilities include:

- With regard to land transportation, the Ministry is responsible for maintaining passenger and cargo transportation services, during peace time as well as during states of emergency, developing urban and inter-city roads, developing railway and port infrastructures, vehicle licensing, monitoring public transportation companies as well as activities intended to improve road safety.
- Regarding air transportation, the Ministry is responsible (through the Civil Aviation Authority) for providing international and domestic aviation services, supervising the Airports Authority and Israeli airlines, monitoring flight safety and airworthiness, administering flying rights to airlines, planning airspace and licensing of flight personnel and aircrafts.
- In the area of maritime transportation, the Ministry is responsible (through the Shipping and Port Authority) for operating maritime and port services, monitoring Israeli shipping companies and sea-craft, training maritime personnel and licensing maritime professions and seafaring vessels.

(6) Israel Police

The Israel Police is responsible for law enforcement, maintaining public order, maintaining the security of person and property while upholding fundamental human rights, all in accordance with the authority granted to each and every police officer under the Police Ordinance (new version) of 1971, as well as additional legislation. This authority includes authority to investigate offenses and to apprehend criminals, bringing those accused of crimes to justice, the authority to supervise and regulate traffic, as well as authority over the licensing and management of businesses. The Israel Police is responsible for enforcing the law and maintaining public order throughout the country, and is in charge of fulfilling the following roles and completing the following tasks:

- Fighting crime: investigating crimes, exposing criminals and bringing them to justice, as well as discovering unreported crimes and preventing crime.
- Maintaining public order: addressing public complaints regarding violations of law and order, handling illegal protests and gatherings, managing business licensing, responsibility for public safety.
- Monitoring and regulating traffic: ensuring traffic flow and directing traffic, enforcing traffic laws, investigating traffic accidents and bringing traffic offenders to justice.
- The Police is also in charge of internal security – preventing and thwarting terrorist attacks.

(7) Ministry of Construction and Housing

The Ministry of Construction and Housing is responsible for planning and implementing government policy regarding housing solutions for the entire population of Israel. The Ministry effects the creation of infrastructure and construction as well as the provision of public housing solutions and subsidizing mortgages for the acquisition of apartments.

This includes supervising and monitoring mortgage banks and attending to the needs of special groups and those who appeal eligibility decisions. In addition, the Ministry

NOTE 1 – GENERAL (cont.):

encourages residential housing construction, the enforcement of construction standards, the restoration of older neighborhoods as well as urban renewal.

(8) Ministry of Social Affairs and Social Services

The Ministry of Social Services is responsible for protecting, rehabilitating, and assisting any person, family and community who are in temporary or long-term crisis, due to disability, poverty, social anomalies, functioning difficulties, unemployment, discrimination or exploitation. The Ministry provides its services to the public through its various divisions and through local authorities, non-profits and other organizations. Services include: diagnosis and treatment, prevention and education, training and registration of professionals, the construction and maintenance of boarding schools and residences for victims of abuse and for people with disabilities.

(9) Ministry of Industry, Trade and Labor

The Ministry of Industry, Trade and Labor is an economic ministry whose main purpose is to encourage Israel's economic growth, to utilize and develop the country's human potential, to monitor domestic and foreign trade, and to handle employment issues. In achieving its goals, the Ministry employs a number of major forms of assistance: granting benefits under the Encouragement for Capital Investment Law of 1990 and the Industry Research and Development Law of 1984, investments in the development of industrial areas, support and encouragement of export, assistance to small and medium-sized businesses, advancement and development of human capital, etc.

(10) Ministry of Interior

The Ministry of the Interior provides services and information on civil issues, including recording demographic data, issuing documentation and passports, emergency services, supervising elections, enforcing planning and construction laws, registering firearms and the Fire Brigade, the Local Government Administration, the Water Authority – which is in charge of the management, restoration and development of the water system throughout the local authorities as well as water and sewage corporations, supervision of swimming sites, etc. In addition, the Ministry is responsible for the Population, Immigration and Border Authority.

(11) Israel Land Administration

The Israel Land Administration is the Government agency responsible, under the Israel Land Administration Law of 1960, for managing State lands, as well as the Jewish National Fund (JNF) lands and the Development Authority lands, which comprise 93% of Israel's area (approximately 5.4 million acres), according to policy set by the Israel Land Council. The Israel Land Council determines the realty policy for managing State lands and approves the Administration's budget. The Minister of National Infrastructures serves as chairman of the Council. The Israel Land Administration's primary areas of operations are: managing the land inventory for which the Israel Land Authority is responsible, creating reserves for public lands for national purposes, marketing land and designating it for various purposes, regulating lessees and residents, and monitoring various land uses.

(12) Office for Rehabilitation of Holocaust Survivors

The Office for the Rehabilitation of Holocaust Survivors is responsible for implementing the Persons Disabled by Nazi Persecution Law and Persons Disabled in War against the Nazis Law. The Office provides monthly remuneration payments, medical care, and rehabilitation and welfare services to Holocaust survivors, those disabled pursuant to Nazi persecution and

NOTE 1 – GENERAL (cont.):

those disabled pursuant to the war against the Nazis, with the goal of improving their well-being. The Office is also responsible for implementing the Holocaust Survivors Benefits Law of 2007, which entitles Holocaust Survivors to financial aid and other benefits.

(13) Israel Prison Service

The Israel Prison Service (IPS) is a security-related ministry and an executive arm of the Government of Israel. The Service's primary areas of operations include safe and proper incarceration of prisoners and detainees, while providing for their basic needs and maintaining their dignity. The Service provides corrective tools to prisoners with the aim of improving their chances of successfully integrating into society upon their release.

(14) Prime Minister's Office

The Prime Minister's Office in Israel is responsible for coordinating the operations of government ministries in various areas, and assisting the Prime Minister of Israel with his daily agenda. The Office is responsible, *inter alia*, for formulating government policy, conducting cabinet meetings and supervising the implementation of government policy. The Office also regulates government entities that are directly under the supervision of the Prime Minister's Office, including:

- The Authority for the Advancement of the Status of Women, which was established to promote the status of women in Israel and to coordinate government and non-government entities acting to promote the status of women.
- The Government Advertising Bureau (LAPAM), which functions as an advertising and production firm for Government ministries, statutory corporations, Government companies and public entities.
- The Israel State Archives, which is the official archive of the State of Israel. The Archives were established upon the founding of the State of Israel, and their operations are set forth in the Archives Law of 1955, which constitutes the legal, administrative and professional framework for managing the State's archive system.

(15) Ministry of Justice

The Ministry's primary roles include: organization of Israel's judicial system, preparation of most legislative proposals for the Knesset, provision of legal advice to the Government and its ministries, criminal law enforcement via the general prosecution system. The Ministry of Justice is comprised of approximately 50 divisions, and is charged with numerous and varied responsibilities, including the Legal Counsel and Legislation Administration, the Attorney General, the Civil Legal Aid, the Public Defense System, the Administrator General and the Official Receiver, the Land Registry and Regulation Division, the Division of the Primary Government Appraiser and the Commission for Equal Rights of Persons with Disabilities. In addition, the Ministry monitors the operations of the Corporations Authority, which includes the Companies Registrar, the Partnerships Registrar, the Associations Registrar, the Pledge Registrar, the Endowments Registrar, the Political Parties Registrar, and the Israel Money Laundering and Terror Financing Prohibition Authority, the Certification Authorities Registrar per the Electronic Signature Law, the Authority for Technology, Information and Privacy Protection, the Department for the Rights of Jews from Arab Countries, and units responsible for professional licensing including the Certified Public Accountants Council, the Land Appraisers Council, the Registrar of Real Estate Agents and the Private Investigators and Security Services Licensing Department.

NOTE 1 – GENERAL (cont.):

(16) Ministry of Foreign Affairs

The Ministry of Foreign Affairs formulates, implements and promotes Israel's foreign policy. The Ministry represents the State to foreign governments and international organizations, publicizes the State's positions and issues worldwide, strives to promote economic, cultural and scientific relations, and promotes cooperation with developing countries. The Ministry acts to foster relations with Jewish communities worldwide and protect the rights of Israeli citizens abroad. The Ministry operates through its main offices in Jerusalem and through Israeli delegates abroad.

(17) Ministry of Immigrant Absorption

The Ministry of Immigrant Absorption is responsible for providing government assistance to new immigrants and to returning residents. The Ministry sets policies and procedures, allocates a portion of the budget as aid for immigrants and provides special services in the areas of housing, employment and culture. These services include, *inter alia*, a program encouraging immigrant entrepreneurship, a program encouraging the return of research and development professionals, Hebrew acquisition programs, aid for student immigrants and assistance in purchasing and renting apartments and houses. The Ministry also publishes data and research concerning immigrant absorption.

(18) Courts Administration

The Courts Administration is an independent division of the Ministry of Justice. It is responsible for managing several units of the judicial branch, including: the Supreme Court in Jerusalem (which also serves as the High Court of Justice), district courts, magistrate courts, labor courts, etc. Until December 31, 2008, the Ministry was also responsible for operating the Fine, Fee and Judgment Collection Center, which collected fines and debts for the Government Ministries and the Antitrust Authority.

As of January 1, 2009, the Authority for Enforcement and Collection was established (per a Government decision), which operates as an independent unit that is separate from the Courts Administration and includes the Judgment Collection System and the Fine, Fee and Judgment Collection Center. The Authority for Enforcement and Collection is comprised of two main units:

- Judgment Collection System - enables a person to collect a judgment in his/her favor from a duly authorized Justice or Law Court, as well as to exercise documents that instill financial rights, the validity of which is similar to that of a Court ruling, such as a mortgage note, a promissory note or a check. The Judgment Collection process is governed by the Judgment Collection statutes.
- The Fine, Fee and Expense Collection Center operates under the Fine, Fee and Expense Collection Center Law of 1995. Pursuant to this Law, the Center is authorized to collect fines imposed by a court, administrative fines, options of fines, court fees and State expenses.

(19) The Water and Sewerage Authority

The Water and Sewerage Authority (hereinafter - the Water Authority) was established on January 1 2007, in order to create an entity with a comprehensive view of the water system's needs and to concentrate the authority in the hands of a professional government body that has the tools and ability to manage and monitor Israel's water system properly and effectively. The Water Authority is headed by the Water Authority Director, who holds the

NOTE 1 – GENERAL (cont.):

powers previously held by the Water Commissioner (a position that existed prior to the establishment of the Water Authority) in addition to other powers. The Water Authority Director is responsible for managing the water system in accordance with government policy and principles set by the Authority's Council regarding water and sewage, regulating the water system, and setting rules, rates and standards.

(20) Ministry of Science, Culture and Sports

The Ministry of Science, Culture and Sports is responsible for setting policy for scientific research, laying the groundwork for international scientific collaborations, propagating science within the community, promoting scientific activities in rural areas (regional research and development) and the Israel Space Agency.

The Ministry coordinates the work of the National Council for Research and Development, provides assistance to research institutions in the field of infrastructure, handles international scientific ties, develops activities that bring science closer to the community, and operates the space research agency as well as research programs applicable to industry. In addition, the Ministry is responsible for culture and sports activities (that had been the purview of the Ministry of Education in the past), provides assistance to artists and institutions, and works towards the cultivation of various sports in Israel at all levels.

(21) Ministry of Agriculture and Rural Development

The Ministry of Agriculture and Rural Development is responsible for planning and developing rural settlement, land preservation, agriculture and for veterinary services. The Ministry works in cooperation with other public entities, such as the Israel Land Administration and the Water Authority. The Ministry works according to districts determined by geographical regions, and provides information and services on issues of export, planning, research, settlement, and investments in agriculture.

(22) Ministry of Public Security

The Ministry of Public Security is an integrated body that coordinates various activities related to public security, law enforcement and peace within the State of Israel, through the following entities: the Israel Police, the Israel Prison Service (IPS), the Anti-Drug Authority and the Witness Protection Authority. The Ministry of Public Security is responsible for law enforcement, maintaining public order and interior security activity within the State of Israel. The main principles that guide the Ministry's work are derived from the Government's fundamental principles and from the legal basis for the operations of the Ministry's various branches.

The Ministry's goal is to serve as the Government's central arm for law enforcement, handling crime, maintaining public order and protecting the public from terrorism, incarcerating and rehabilitating prisoners, guarding and monitoring detainees, protecting witnesses as part of the Witness Protection Program, preventing crime and violence in society, and drug and alcohol-related prevention and treatment activities.

(23) Ministry of Tourism

The Ministry of Tourism is an economic ministry, one of its main objectives being to increase economic activity in Israel. The Ministry works to develop public tourism infrastructures both through a nationwide development company and through regional development companies. In addition, the Ministry facilitates the protection of the Dead Sea as well as of holy sites via the Holy Sites Authority. The Ministry provides assistance for the establishment of

NOTE 1 – GENERAL (cont.):

commercial tourist enterprises (attractions, hotels, etc.) throughout the country by providing grants under the Encouragement for Capital Investment Law of 1990.

(24) Ministry of Environmental Protection

The Ministry of Environmental Protection is responsible for developing and implementing Government policy on environmental quality issues. The Ministry's main activities include the formulation of an integrated and comprehensive national policy, strategic development, the formulation of standards and priorities for environmental protection and the encouragement of sustainable use of environmental resources. The Ministry is also responsible for implementing the national environmental policy, involvement in the physical planning processes, guiding local authorities regarding their environmental responsibilities, supervising and enforcing environmental laws within local authorities, developing environmental requirements and conditions for business licenses, assisting and directing environmental units, etc.

(25) Ministry of Religious Services

The Ministry of Religious Services is a government entity that is responsible for providing religious services to the Jewish public in Israel. The Ministry accompanies Jewish citizens from birth and the *brith milah* (circumcision) ceremony, though the *chupah* wedding ceremony, and eventually to interment services. The Ministry supervises 131 Religious Councils that provide religious services in cities and other municipalities, and is also responsible for the development of structures for religious purposes, such as *mikvehs* (public ritual baths) and synagogues, cemeteries and burial societies, as well as for finding burial solutions. In addition, the Ministry provides ceremonial religious objects to new immigrants and develops ties with Jews residing abroad.

(26) Ministry of National Infrastructure

The Ministry of National Infrastructure is responsible, *inter alia*, for the planning and implementing State policy concerning energy and natural resources. Government activity is manifested in planning the development of the energy market, policy setting and implementation in the Israeli economy, determining the structure of various sectors within the Israeli energy industry, regulating the structure of various sectors within the Israeli energy industry, supervising the fuel and electricity industries, regulating oil and natural gas exploration, optimizing the use of energy, developing alternative energy sources and preparing the energy industry for states of emergency. There are also comprehensive studies conducted through the Ministry in the field of earth studies, which develop technological, scientific and economic databases for use by all sectors of the economy.

- C. The Israeli Parliament (the Knesset)** - The Knesset is the parliament of the State of Israel. It is the State's legislative branch. The Knesset has three additional key roles: supervising the Government's work, electing the President of Israel and the State Comptroller, and consideration of State matters through the Knesset Committees and Plenum. There are 12 permanent committees in the Knesset that address matters such as finance, foreign relations and security, constitution, law and justice, etc. These committees discuss legislative proposals, regulations set by the Government, proposals for the daily agenda and requests submitted to the Knesset and Government by residents.
- D. Office of the State Comptroller** – The Office of the State Comptroller is responsible for the independent auditing of the various activities of the State Administration and other public entities, to ensure supervision over public funds and accountability. The State Comptroller

NOTE 1 – GENERAL (cont.):

examines legality and regularity, savings, efficiency, and moral integrity. The Office of the State Comptroller supervises all government ministries, state institutions, all branches of the defense sector, local authorities and government companies. In addition, the Office has a separate unit headed by the Ombudsman, which is responsible for the protection of citizens from government authorities.

- E. National Insurance Institute** – The National Insurance Institute was established in 1954, and operates under the National Insurance Institute Law (Consolidated Version) of 1995. Its goal is to provide social benefits and social insurance to the residents of the State of Israel. The activities of the National Insurance Institute include, *inter alia*: insurance programs for retirees and surviving relatives, mothers, children, work-related injuries, general disability, nursing, unemployment, bankruptcy, corporate liquidation, etc. Aside from pensions, the National Insurance Institute provides rehabilitation services and professional training to disabled persons, widows and victims of terrorist attacks, as well as nursing services and counseling services for the elderly. The National Insurance Institute is also responsible for the implementation of other laws and agreements pertaining to social security, such as the Income Support Law of 1980. In addition, the Institute collects health insurance payments and distributes the funds among HMOs, and is responsible for the ongoing management of the files of health insurance policyholders. The Institute is primarily funded through: national insurance fees collected from citizens, allocation by the Ministry of Finance pursuant to the National Insurance Law, the financing of laws and agreements by the Ministry of Finance, and interest earned on various investments, including investments in bonds issued by the State of Israel for the benefit of the National Insurance Institute.
- F. Government companies** – Government companies are subject to the Government Companies Law of 1975, and are supervised by the Government Companies Authority, which is responsible for monitoring and supervising these companies, as well as for their privatization and restructuring. Some Government companies constitute controlled entities of the Government of Israel for financial reporting purposes, in accordance with Government Accounting Standard 6 - *Consolidated and Separate Financial Statements* (Revised 2010). In light of the abovementioned control, the financial statements of Government companies (controlled for financial reporting purposes) were consolidated for the first time in the Government of Israel's consolidated financial statements for 2010, restating comparative data for the previous year. Data for Government companies consolidated as aforementioned is based on audited financial statements as of December 31, 2010, for some of the Government companies, as provided by the Government Companies Authority. In cases where such reports were not provided, data was based on unaudited drafts of financial statements as of December 31, 2010, or on 2010 quarterly financial statements or on audited financial statements as of December 31, 2009, or, alternatively, on drafts of other relevant financial statements, if filed. For additional information regarding information about reporting requirements, controls over financial reporting and the accounting policies of Government companies, as well as information on the financial statements of Government companies, please visit the Government Companies Authority website, at www.gca.gov.il.