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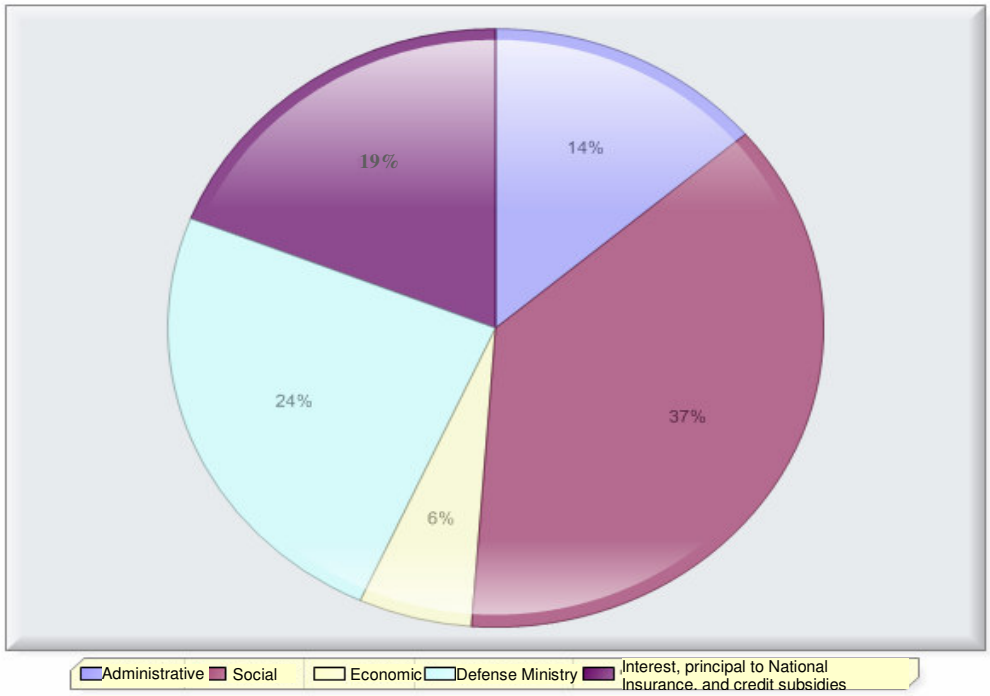
Appendix A - List of Investee Companies

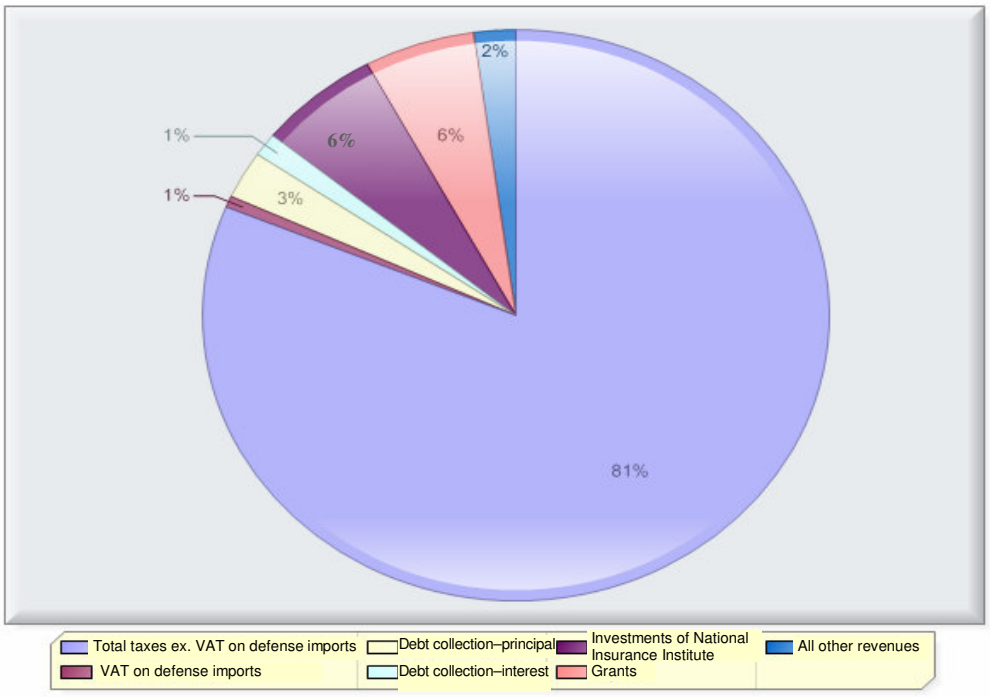
Preface to the Financial Statements

The Preface to the Financial Statements presents additional information about the government's activity regarding various subjects, including the distribution of government revenues and expenses, the calculation and financing of the government deficit, and government debt management and risk management policy.

The following diagram shows the distribution of government expenses (excluding principal redemptions) – 2006 state budget execution



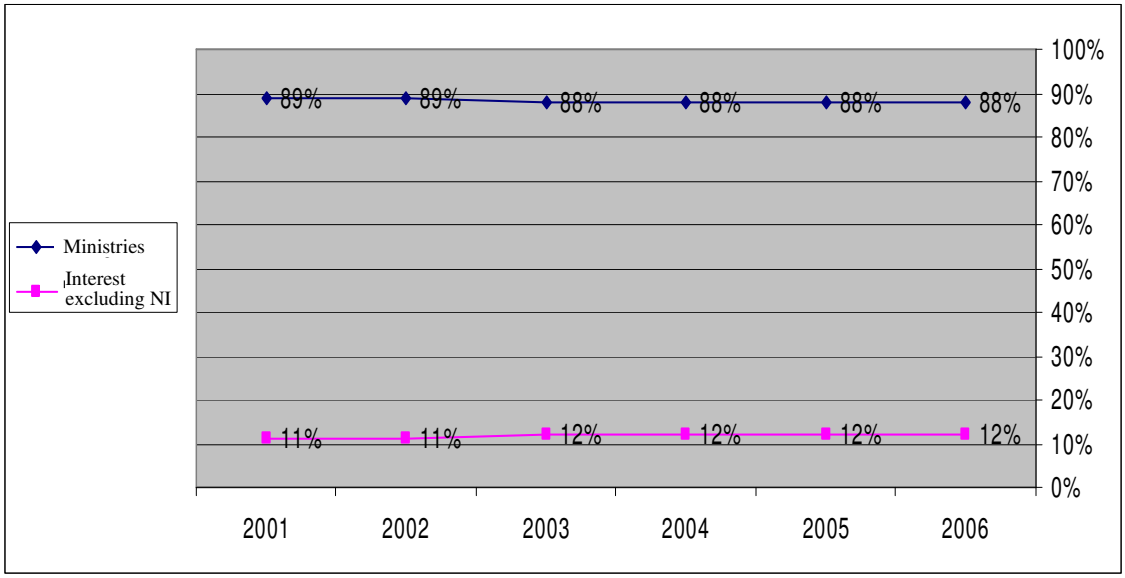
The following diagram shows the distribution of government revenues (excluding funding), including principal and interest – 2006 state budget execution



Preface to the Financial Statements (continued)

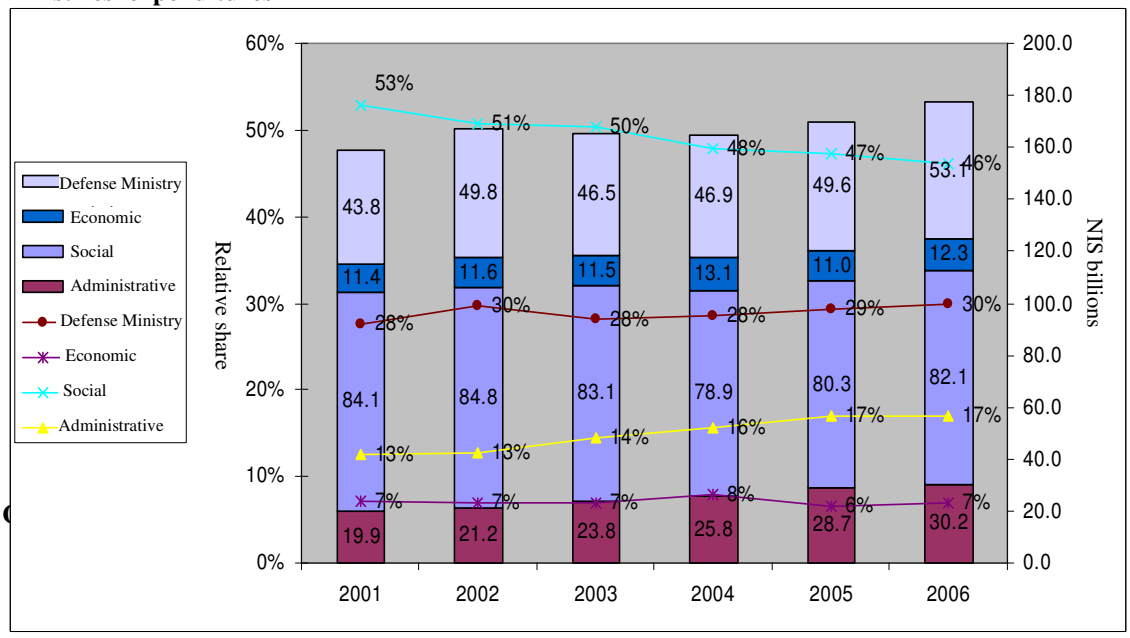
Note: The expenses and revenues shown in the diagrams above, which are used to calculate the government deficit, include principal redemption to the National Insurance Institute and investments of the National Insurance Institute with the Accountant General Division.

The interest component as a percentage of the total expenditure budget over the years



The weight of government debt has a direct effect on the volume and flexibility of government expenses. The diagram above describes the weight of interest expenses out of total expenses (excluding principal redemptions). As shown, the interest component has comprised approximately 12% of total expenditures in recent years, reflecting an expense of approximately NIS 35 billion. Given the 2006 GDP, if the debt-to-GDP ratio had attained the Maastricht target of 60%, interest expenses would have been reduced accordingly and would stand at just NIS 21 billion, substantially increasing flexibility in government spending with no change in the deficit.

Distribution of ministries' expenditures in various segments over the years as a percentage of total ministries' expenditures



Preface to the Financial Statements (continued)

Government Deficit

The government's deficit/surplus expresses the difference between its total expenditures on the purchase of goods and services, supports, and interest payments, and its revenues from tax collection and from the sale of goods and services. In a calculation excluding the government's activity in granting loans and collecting loan repayments, the figure obtained is the "deficit/surplus excluding net credit granted."

The deficit can be broken down into domestic deficit/surplus and deficit/surplus abroad; the domestic deficit/surplus is the difference between total domestic payments and the government's domestic revenues, while the deficit/surplus abroad is the difference between payments abroad and the government's revenues abroad.

The government deficit is one of the most important macro-economic variables taken into consideration by the government in planning its annual budget. The government's deficit expresses the degree of "pressure" on the demand for resources in the economy and the extent of its involvement in the capital market in order to finance the deficit. In general, the government strives to lower the deficit to the extent possible, both in order to reduce its involvement in the capital market and in order to reduce national debt. The deficit is usually measured as a percentage of the gross domestic national product (GDP).

Deficit Financing

The deficit is financed through loans in Israel, loans abroad, privatization, and changes in the government's deposits with banks.

Domestic loans from the public (net)

Funding in Israel through the issuance of tradable bonds and nontradable bonds to institutional investment entities, offsetting principal repayments on loans taken in the past.

Loans from abroad (net)

Funding abroad through the issuance of bonds, loans funded through private offerings, and funding through the Bonds Organization, offsetting principal repayments on past loans.

Capital income (privatization)

The government's revenues from the sale of government companies and from the sale of banks of which it holds shares under the bank shares arrangement.

Changes in bank balances

The government's cash balances at banks are usually used for current financing in the short term, rather than as a permanent source of financing of the annual deficit.

Preface to the Financial Statements (continued)

The Deficit and Deficit Financing in 2006

In 2006, the government deficit (excluding net credit granted) amounted to a total of NIS 6.1 billion, or approximately 0.9% of GDP, versus a planned deficit in the state budget of NIS 17.2 billion, or 3% of GDP.

Note: The classification of revenues and expenses for the purposes of calculation of the deficit may not necessarily be aligned with the classification performed according to accounting definitions. Furthermore, as the government accounting system does not support the classification of expenses as domestic expenses or expenses abroad, sorting was performed using the budget classification and statistical data.

Preface to the Financial Statements (continued)

(In NIS billions)	Original deficit planning and financing	Budget including changes*	Execution
Surplus+ / deficit- excluding credit	**-17.2**		**-6.1**
Domestic excluding net credit granted	-11.2		-2.3
Abroad excluding net credit granted	-6.0		-3.9
Surplus+ / deficit –	**-14.6**		**-2.9**

Domestic	-8.6		0.9
Abroad	-5.9		-3.7
Revenues	**204.4**		**216.6**
Domestic revenues	191.5		202.3
Of which: debt collection – principal	5.7		5.7
Revenues abroad	13.0		14.3
Of which: debt collection – principal	0.0		0.1
Expenses	**219.0**	**235.3**	**219.5**
Domestic expenses	200.1	213.2	201.4
Of which: credit granted	3.1	3.2	2.6
Expenses abroad	18.9	22.1	18.1
Total financing	**14.6**		**2.9**
Loans from abroad (net)	**2.6**		**-1.8**
Loans received from abroad	16.0		11.7
Principal redemption abroad	13.3	13.7	13.6
Domestic loans (net)	**9.9**		**-4.4**
Domestic loans received	49.1		34.4
Domestic principal redemption	39.1	38.7	38.8
Net capital income	**2.0**		**4.7**
Privatization – domestic	2.0		3.6
Privatization – foreign currency			1.2
Changes in bank balances			**4.4**

Notes:

* The increase in the budget including changes results from the transfer of surpluses from 2005 to 2006 in the amount of NIS 16.3 billion.

** A total of NIS 2,960 million paid in respect of damages incurred during the Second Lebanon War in 2006, in accordance with the Property Tax Law, was not budgeted and was not included in the state's expenses and revenues; however, it is included in the accounting definition of government revenues and expenses (for further details, see the Budget Execution section).

The low deficit in comparison to the budget planning is mainly accounted for by the revenue side. Total revenues were approximately NIS 12.1 billion higher than the original planning, and most main revenue items posted surpluses. Compared with the original planning, based on which the deficit was planned, actual expenses were higher by approximately NIS 1 billion. According to the accounting definition, which includes payment for damages incurred during the Second Lebanon War, expenses were higher by approximately NIS 4 billion.

Preface to the Financial Statements (continued)

(In NIS billions)	Original budget	Budget including changes	Execution
Surplus(+) / deficit (-) excluding net credit granted	**-17.2**		**-6.1**
Revenues excluding principal collection	**198.7**		**210.7**
Total taxes excluding VAT on defense imports	168.0		175.9
Income and property taxes	88.6		99.0
Customs and VAT excluding VAT on defense imports	74.1		72.6
Fees	5.3		4.3
VAT on defense imports	1.2		1.4
Collection of interest debts	2.5		2.9
Investments of the National Insurance Institute	12.4		13.6
Grants	11.6		12.4
All other revenues	3.0		4.7
Expenses excluding credit granted	**215.9**	**232.1**	**216.9**
Ministries	173.7	190.6	175.1
Administrative	27.0	30.2	27.1
Social	81.3	84.8	80.2
Economic	13.2	15.0	12.0
Defense	43.4	57.6	53.1
Miscellaneous	3.5	3.0	2.7
General reserve	5.3	0.0	
Interest, principal for National Insurance and credit subsidies	42.2	41.5	41.8

The comparison of execution data to the original net budget in this report is presented in the context of the measurement of the planned deficit at the beginning of the year. Many changes have been made to the budget since the original planning, such as a budget cutback and transfer to the general reserve, allocation from the general reserve, and transfer of required budget surpluses from 2005. Therefore, this presentation alone does not provide an indication of the extent of the ministries' budget execution; the detailed financial statements below should be used instead.

The deficit to be financed is the deficit including net credit granted, which totaled approximately NIS 2.9 billion.

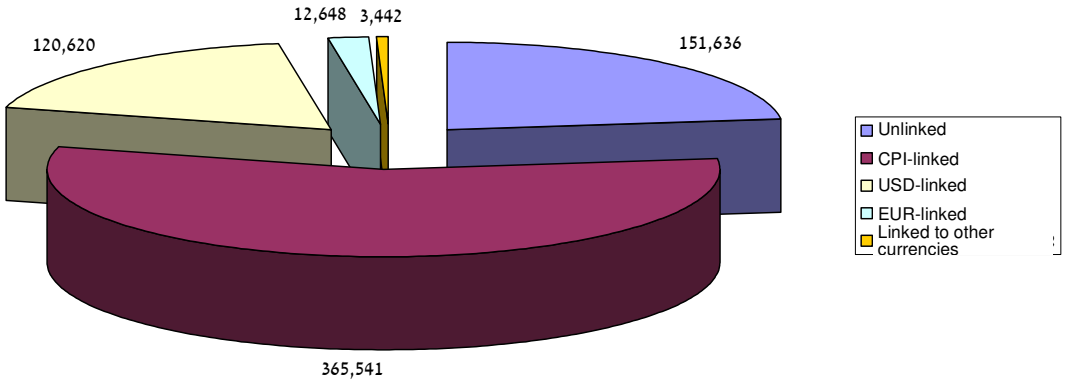
The high volume of privatization, at a total of approximately NIS 4.7 billion, and the continued implementation of the reform in the government's cash flow by the Accountant General over the last two years, enabled the government to refrain from funding to finance the deficit and to reduce the volume of its debt by approximately NIS 6.2 billion: net funding was negative both in Israel (NIS 4.4 billion) and abroad (NIS 1.8 billion).

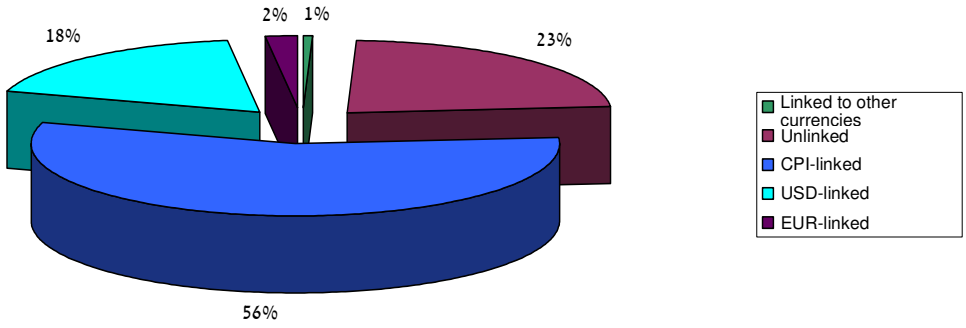
Government Debt Management

There are numerous, diverse objectives in the management of government debt, including the minimization of costs and of economic and budgetary (accounting) risks; increasing the sophistication of the domestic market; taking into consideration the monetary policy and macro-economic policy in the economy; building independence in financing in foreign currency funding abroad; and more. The key issues in debt policy concern debt structure and mix – the establishment of the desirable rate of external debt out of total government debt, the optimal debt duration (term to maturity), and the preferable types of interest (fixed or floating) and linkage (CPI-linked or unlinked). The funding policy relies on various strategic models that enable decision makers to apply a policy that achieves the optimal balance among the various debt management objectives.

Preface to the Financial Statements (continued)

Distribution of loans by linkage (including Bank of Israel and National Insurance)





(*) For additional information, see Note 11 – Internal Loans and Note 12 – External Loans.

Preface to the Financial Statements (continued)

Government Policy on Financial Risk Management

Government debt is exposed to several market risks, including interest rate risk, inflation risk, spread risk, and exchange rate risk. The government issues new debt at large volumes in order to refinance past debts and finance its current deficit. An increase in interest rates in Israel and abroad and an increase in the state of Israel's interest spreads will increase the burden of debt on the state budget in the coming years. Due to the fact that about half of government debt is linked to the consumer price index while one quarter is denominated in foreign currency (mostly in United States dollars), inflation and depreciation of the shekel against the various currencies will increase the government's interest and principal payments.

The Debt Management Unit at the Accountant General Division plans its funding such that to the extent possible, debt repayment volumes will be uniform over the years. Low volatility of repayments reduces volatility in funding from year to year, thereby decreasing exposure to changes in interest rates (refinancing risk).

In addition, the Unit works to diversify the currency mix of the debt in foreign currency through funding in different currencies and by executing currency swap transactions that reduce the exposure of the debt to the exchange rate of a particular currency. In 2006, the Unit carried out two currency swap transactions at a total volume of USD 750 million.

Privatization

Extensive privatization of government companies, operating in a variety of fields including communications, energy, shipping, and aviation, has been carried out in recent years. Commercial banks that handle the majority of financial activity in Israel are also being privatized.

The privatization of these entities is aimed at reducing the government's involvement in areas that do not comprise the core activity of central government and at allowing improved, more efficient utilization of public resources. In addition, privatization creates the potential for implementation of processes that increase professionalism and efficiency at the privatized companies, leading to increased competitive capability and enhanced profitability – developments that benefit both the companies themselves and the economy in general.

Privatization revenues are an important source of financing for government activity, particularly for financing the deficit and bond redemptions. These revenues allow reduced volumes of government bond issuance, which constitutes an alternative financing source, thereby promoting the creation of macro-economic conditions that support the reduction of interest rates; this benefits the business sector as well as households, which enjoy less costly credit sources. Another positive outcome of the privatization process is to diminish the government's dependence on direct and indirect tax revenues, a development which allows a reduction of the tax burden, leading to improved well-being and encouraging economic growth. Privatization revenues totaled approximately NIS 4.7 billion in 2006: NIS 2.6 billion from the privatization of ORL Ashdod, NIS 1.6 billion from the privatization of Discount Bank, and NIS 0.5 billion from the privatization of Bank Leumi.

State Guarantees

The Accountant General is authorized to provide a guarantee, on behalf of the state of Israel, to a loan, a loan guarantee, an export business, or another financial obligation, if in his opinion such a guarantee can

Preface to the Financial Statements (continued)

aid the development or encouragement of an industry with economic importance, or aid any other purpose in the interests of the general public.

State guarantees are used for any of the following purposes:

Securing the debt of a particular industry within the economy – government aid through state guarantees in cases in which an industry is in crisis and/or in need of support.

Foreign trade – government aid through state guarantees in cases of market failure in the insurance of export transactions in the medium and long term. Guarantees and/or insurance against political and commercial risk in foreign trade are provided by an interministerial committee headed by the Accountant General. After obtaining approval, guarantees are managed via the Israel Export Insurance Corp. Ltd.

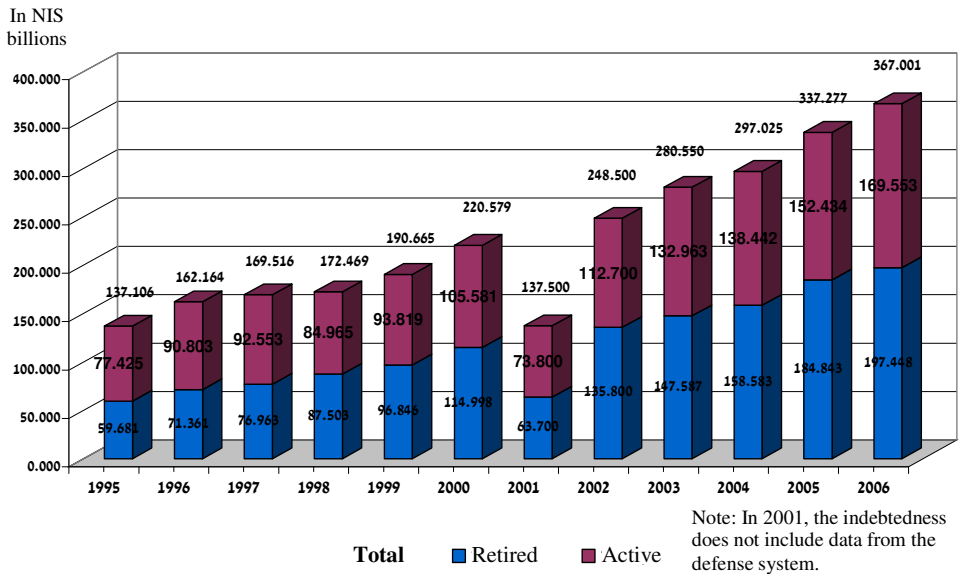
Securing the debt of government companies – aid to government companies through guarantees for the receipt of a loan or other liability.

Guarantees are granted under the State Guarantees Law, 5718-1958, following a case-by-case examination of their necessity and contribution to the achievement of the objectives of economic policy and approval by the Knesset Finance Committee. Under the law, the amount of valid state guarantees at any time cannot exceed ten percent of the total state budget for that fiscal year, excluding the development budget (see Note 15(1)).

The Government's Obligations for Employee Benefits

The government of Israel has actuarial obligations in a total amount of NIS 367,001 million for benefits for its employees. The following diagrams present an analysis of the distribution of the government's obligations for employee benefits over the years, divided by sectors:

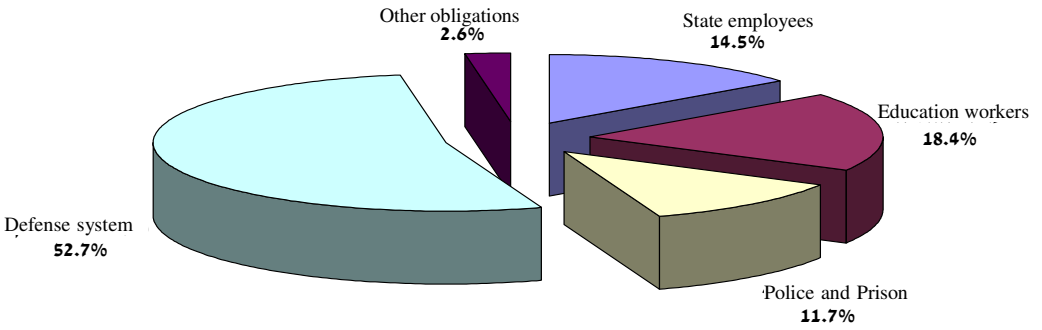
Development of Indebtedness (Relative) over the Years (in nominal prices)



Note: In 2001, the indebtedness does not include data from the defense system.

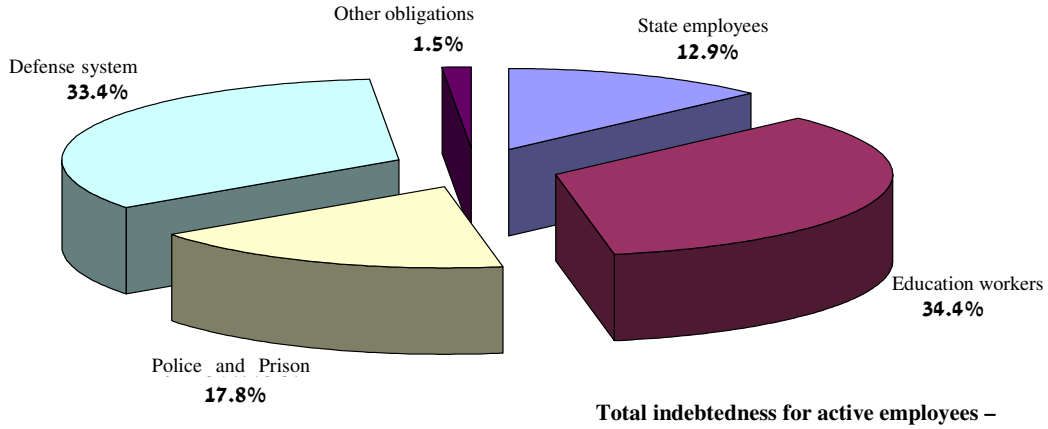
Preface to the Financial Statements (continued)

Indebtedness for Retirees, by Sector



Total indebtedness for pension payments – NIS 197.448 billion

Indebtedness for Active Employees, by Sector



Total indebtedness for active employees – NIS 169.553 billion

Changes Compared to "Information Regarding the Assets and Liabilities of the Government of Israel as at December 31, 2005"

The reports submitted below constitute an additional step forward in the accounting reform led by the Accountant General over the past three years. The main essence of the reform is the adoption of international generally accepted accounting principles, primarily the principle of fair disclosure. In furtherance of the Accountant General's policy of making the Israeli government's financial data more transparent and available, the schedule for publication of the report has been advanced this year as well, so that the report was approved one month earlier than in 2005. In accordance with the Accountant General's decision, the financial statements from 2006 forward will be published on March 31 each year, in conformance with the standards applied to publicly traded companies in Israel.

The report reflects an additional far-reaching change in government reporting, in that state budget performance data are analyzed in depth. This analysis presents issues related to budget construction and execution, which are detailed in the chapter entitled "Review of the financial information of the government of Israel as at December 31, 2006," below.

Budget execution data are presented in this report according to the following principles:

1. **Budget execution data are presented by executing comptrollerships. Such presentation conforms to the budget volume as approved by the Knesset, and consequently allows monitoring of the budget's execution. In addition, this presentation conforms to the norms recommended by the OECD, in that it creates positive pressure which leads to accountability on the part of the executing parties with respect to the execution data for which they are responsible. This presentation method allows efficient monitoring of the execution of the budget approved by the Knesset.**

2. **Along with the budget execution data of each executing government unit (classified by areas of activity – the third aggregate level of detail in the state Budget), an explanation is provided regarding substantive areas of activity (budgets of over NIS 100 million) and regarding material under-execution (over NIS 50 million or under 60% execution) in both expenses and revenues, if any, at the budget programs level (the second aggregate level of detail in the state budget, which is also the lowest level approved by the Knesset).**

In addition, the Accountant General's annual work plan stressed a wide range of gaps discovered in the report dated December 31, 2005. Thanks to the measures taken, there was an additional significant change in the quality of reporting in 2006. The following are among the material changes:

1. **Preface chapter: As part of the publication of the financial statements, a preface was added, containing analysis of macro-economic data on the following subjects: the government deficit and deficit financing, government debt management policy and risk management policy, additional information regarding privatization and state guarantees, and information regarding the government's obligations for employee benefits.**

2. **These statements present full comparative data. This information provides the foundation for accrual accounting and ensures that the rules applied are consistent and reliable.**

3. **Continued comprehensive treatment of the collection of debts owed to the government, through the establishment of a collection administration and implementation of the conclusions of the committee for the examination of debt collection appointed by the Accountant General last year (see also Note 1(I) below). Within this framework, a note on the volume of debts by government ministries is presented for the first time.**

Changes Compared to "Information Regarding the Assets and Liabilities of the Government of Israel as at December 31, 2005" (continued)

4. **The statements present a separation, with regard to the critical majority of the balance sheet data (mostly financial assets and liabilities), between assets and liabilities that are to be repaid or realized during the current year and those to be repaid in later periods.**

5. **As part of the process of preparation of the financial statements and improvement of the financial reporting of the government of Israel, for the second year, the Head of the Audit Unit in the Accountant General Division directed the financial auditors in the government ministries' comptrollerships to carry out financial reviews to examine the quality and reliability of the financial data of each ministry, based on a detailed work procedure prepared by the Accountant General Division. The review, which was completed at the majority of government comptrollerships, constitutes a significant step towards a change in the administrative and reporting norms within the government.**

6. **External audit at government ministries: As part of the overall process of improvement of the financial reporting of government ministries, the first stage in the Accountant General's plan for external audit by accountants of the financial statements of government ministries that have transitioned to the Merkava system is slated for implementation this year.**

7. **Intellectual property: For the first time, comprehensive mapping was carried out from the accounting perspective with regard to the intellectual property at the Agricultural Research Organization in the Ministry of Agriculture, including the determination of the monetary value (based on cost) of the intellectual property (see Notes 1(P), 9); preparations have begun for a similar mapping process within the health care system.**

8. **Government companies: Within the effort to comply with the principle of the relevancy of data, the state's principal holdings in government companies were included in this report, based on the financial statements of the government companies, as shown in Appendix A.**

9. **National Insurance: For the first time, Note 15 ("Contingent Liabilities and Contractual Engagements") presents the deficit of the National Insurance Institute as well as details of the types of payments covered by direct obligations of the government of Israel (see Note 15).**

Review of the Financial Information of the Government of Israel as at December 31, 2006

1. Review of Budget Execution Data

1.1. Budgetary Supervision and Test of Report Data Quality

The preparation of the state budget execution report for 2004 (published in June 2005) included a sample test of deviations in budget execution and of changes in budgetary allocations during the course of the reporting year. The results of the examination indicated strict budgetary supervision up to the budget programs level – the lowest aggregate level approved by the Knesset. However, at the lowest level, the level of budgetary regulations, there were many deviations and changes of allocations.

In light of this, the Accountant General instructed the Head of the Audit Unit at the Accountant General Division to perform a financial review in all government ministries' comptrollerships, addressing several key issues that have a direct impact on financial reporting. The Head of the Audit Unit then directed the financial auditors in the government ministries' comptrollerships to carry out such reviews. Up to the publication date of the report for 2005 (April 2006), 18 comptrollerships had completed the checks. Up to the publication date of the report for 2006 (March 2007), the review was completed at the majority of government ministries, with an emphasis on budget execution and balances payable. The review pointed to a number of problems common to all ministries, allowing the Accountant General to formulate procedures aimed at improving processes in the following areas, to be published over the course of the next year:

- **The review found that during the conversion of data to the Merkava system, appropriate records of the financial data was not always retained, damaging the reliability of the data.**
- **The review found insufficient adherence to adequate recording of accounts receivable and accounts payable, according to generally accepted accounting principals, on a cumulative basis.**
- **At several government ministries, the review found insufficient adherence to budgetary recording based on a uniform methodology (such as records of income with offsetting expenses, etc.).**
- **The review found that changes in budget execution allocations were made during the budget year.**
- **The review found that government ministries did not monitor legal claims or record adequate provisions for such claims.**
- **The review found insufficient adherence by government ministries to adequate recording of the volume of contractual engagements and of the rate of the expected cash flows (payment in installments, aging) in respect of such engagements.**

Also note that the second part of the financial review will be completed during 2007, emphasizing balances of contractual engagements (open contracts) at government ministries and recording of expected cash flows in respect of such engagements.

The first stage in the Accountant General's plan for an audit by external accountants of the financial statements of government ministries that have made the transition to the Merkava system is scheduled for implementation during the coming months (four ministries are to be audited at first: the Courts Administration, the Ministry of Health, the Ministry of

Review of the Financial Information of the Government of Israel as at December 31, 2006 (continued)

Environmental Protection, and the Water Commission). Completion of the process in all government ministries is expected to lead to a significant additional step forward in the quality of the government's financial reporting.

1.2. The State Budget and Budget Execution

The state budget is the government's work plan and the government's most important document, as it specifies the government's policies and goals in the most binding manner. The budget is the principal work tool of government ministries' financial activity. The analysis of budget execution data presented in this report raises several issues related to the construction of the budget as well as to its execution. The notes to the budget execution report indicate several processes that occasionally lead to low execution by some government ministries, and which should be addressed:

- **Belated approval of the state budget – the state budget for 2006 was not approved by the Knesset until June 2006. Until that time, the government operated in accordance with Section 3B of the Basic Law: The State Economy, under which the government is permitted to spend 1/12 of the budget of the preceding year. This led to budgetary uncertainty at the government ministries, reduced the amount of time available to execute the budget following its approval, and caused substantial under-execution in the cash budget and belated recording of liabilities.**

- **Estimates that are significantly incongruent with actual execution volumes in some budget regulations. However, it should be noted that budgetary planning is sometimes influenced by numerous uncertainties, such as with regard to price indices, interest rates, exchange rates, wage agreements, statutory approvals, etc.**

- **It was found that there were cases in which the ordinary budget framework was expanded without an expansion of the commitment authorization budget framework, or a commitment authorization was budgeted in the ordinary budget during the course of the year, so that the ministry was unable to utilize the full budget available to it.**

- **As of 1994, in accordance with a government resolution, all Construction and Housing Ministry sites are managed as "closed economies," meaning that total planning and development expenses cannot exceed the total income to be collected by the Ministry from the contractors upon marketing of the sites in respect of those costs, plus subsidies. As noted, the capture of income to cover all development expenses is performed at the date of marketing, whereas expenses are executed according to the rate of actual development. This leads to increased use of the surpluses mechanism.**

- **It was found that additions and changes, including between items, were made to ministries' budgets towards the end of the fiscal year. This somewhat impaired the ministries' ability to carry out adequate budget planning and optimal execution, so that in practice it was not possible to fully execute the budget. However, a significant improvement was apparent this year in comparison to the findings from the previous year, especially with regard to the date of transfer of surpluses relative to the date of approval of the budget (see details in the section entitled "Report on changes from the original budget to the approved budget for 2006").**

- **Budgeting of substantial volumes of reserves, which are sometimes unfrozen as needed and as the requisite certainty is attained towards the end of the fiscal year. The unfreezing of reserves in this manner requires approval by the Ministry of Finance and the Finance Committee.**

Review of the Financial Information of the Government of Israel as at December 31, 2006 (continued)

- **Participation regulations – reporting on participation regulations sometimes does not constitute fair disclosure with regard to budget execution in the state's books. Moreover, there are interministerial transfers which are not within the participation regulations, although in essence they are participation regulations. Centralized work at the Ministry of Finance is required in order to resolve the problem. During 2006, a joint centralized work process of the Accountant General Division and the Budgets Division at the Ministry of Finance began, aimed at improving transparency and fair disclosure of these data. The outcomes of this process are to be implemented in the state budget for 2008.**

It should be clarified that the surplus and reserve mechanisms are the budgeting methods commonly used within the state budget, in accordance with the Foundations of the Budget Law, 5745-1985.

2. Review of the information regarding the assets and liabilities of the government

The part of the report which relates to information regarding the Israeli government's assets and liabilities is not based on a comprehensive recording and reporting accounting system. The state of Israel's current bookkeeping method supports cash basis financial information. This information is unaudited and its source is the system of auxiliary accounts maintained alongside the main accounting system, as well as reports received from various entities that manage certain assets and liabilities on behalf of the state of Israel. The Accountant General does not have complete information regarding the quality of the auditing process among some of the said entities.

There is an inconsistency regarding balances of material amounts between the Accountant General's auxiliary accounts and those of the entities at which these balances are maintained. This inconsistency will be resolved with the progress of the Merkava project, in parallel with the financial review at government ministries.

The database used in preparing the balance sheet data does not constitute a closed system and it is therefore not possible to test the data for completeness, although such a test is essential in order to determine that the balance sheet reflects the entirety of the Israeli government's assets and liabilities and is prepared in accordance with generally accepted accounting principles.

However, since the end of 2003 the Accountant General Division has been in the midst of a fundamental change in the quality of the government's information systems. In this context, an integrative resource management (ERP – enterprise resource management) system called Merkava was installed. The Merkava system can provide an appropriate solution for the problems described above. By the reporting date, the system had been installed in government departments that constitute 16% of the state budget. By the end of 2007, an additional 55% of the state budget will be administered through the Merkava system; by the end of 2008, the figure will reach a cumulative 73%.

In the preparation of the report, the Accountant General relies on the financial statements of government companies under the responsibility of the Government Companies Authority. In this context, due to the earlier publication schedule, data for government companies are based on the draft financial statements of government companies as at December 31, 2006, as received from the Government Companies Authority; in cases in which no such reports were received, the data are based on quarterly financial statements for the third quarter of 2006 and on reports as at December 31, 2005, and on other draft financial statements (see Appendix A).

Information Regarding Assets of the Government of Israel

	Note	December 31, 2006 NIS millions	December 31, 2005 NIS millions
Deposits with banks and funds	2	4,691	8,997
Accounts receivable and debit balances	3	2,593	(**)1,337
Current and non-current inventory	4	1,194	(**)978
Investment in apartments for rent	5	4,003	3,881
Fixed assets	6	9,264	(*)6,742
Loans and other investments	7	55,882	(**)58,694
Investments in investee companies	8	60,631	(**)55,960
Other assets	9	267	(**)170

(*) Reclassified.

(**) Restated.

Assets with very significant value or costs are not yet included in the asset position presented in the report, such as all infrastructure assets, all state investments in the defense system, all state land, all heritage assets, some assets located abroad, and the majority of intangible assets.

The asset position presented in the report does not represent the entirety of assets of the state of Israel; only a small part of these assets are included. Therefore, the total amount of the assets is not presented in the report.

Surveys of government assets are carried out as part of the assimilation of the Merkava system in the government ministries. The completion of these surveys will gradually allow full reporting of the state's assets. (See Note 1(G) below). In addition, a project which will organize the intellectual property created in the government sector has been initiated; some of the intellectual property assets of the Agricultural Research Organization have been included in this report for the first time (see Notes 1(P), 10 below), and the mapping of these assets abroad is in its final stages.

Dr. Yaron Zelekha, CPA
Accountant General

Yariv Nehama, CPA
Senior Deputy Accountant General
and Substitute of the Chief Accountant

Jerusalem, March 29, 2007

Information Regarding Liabilities of the Government of Israel

	Note	December 31, 2006 NIS millions	December 31, 2005 NIS millions
Current liabilities			
Accounts payable and credit balances	10	4,775	5,247
Domestic loans - current maturities	11	47,618	54,898
Foreign loans - current maturities	12	19,374	20,321
		71,767	80,466
Long-term liabilities			
Accounts payable and credit balances	10	13,378	8,485
Liabilities for losses of investee companies	8	2,987	1,909
Domestic loans less current maturities	11	469,932	459,370
Foreign loans less current maturities	12	116,963	127,091
Government obligations for support of pension funds	13	87,453	(**)88,274
Government obligations for employee benefits	14	367,001	337,277
		1,057,710	1,022,412
Total liabilities		**1,129,477**	**1,102,878**
Contingent liabilities and contractual engagements	15		

(**) Restated

Report on State Budget Execution (Gross) in 2006 – Expenses by Government Ministry Comptrollerships (in NIS millions)

Ministry	Note	Final Budget	Execution	Difference	Percent Executed
Ministry of Health	1	18,102	17,941	161	99%
Accountant General	2	126,847	126,991	(144)	100%
Israel Police	3	6,773	6,577	196	97%
Israel Prison Service	4	1,791	1,714	77	96%
Bureau for Rehabilitation of the Disabled	5	1,542	1,476	66	96%
Ministry of Education, Culture, and Sports	6	25,415	24,107	1,308	95%
Computerized Processing Services Division (Sha'am)	7	123	117	6	95%
Public Works Department (Ma'atz)	8	25	22	3	87%
Pensions Administration	9	7,161	6,921	241	97%
Rabbinical Courts	10	120	113	7	94%
Settlement Education Division	11	2,182	1,991	191	91%
Ministry of Foreign Affairs	12	1,403	1,321	82	94%
Ministry of Social Affairs	13	4,587	4,255	332	93%
Maayan Hachinuch Hatorani	14	253	233	20	92%
Israel Tax Authority	15	1,643	1,450	193	88%
Office of the State President	16	29	27	2	93%
Central Bureau of Statistics	17	170	140	30	82%
Israel Educational Television	18	140	115	25	82%
Center for Independent Education	19	795	767	28	96%
Courts Administration	22	1,394	1,184	210	85%
Agricultural Research Organization	23	274	227	47	83%
Office of the Prime Minister	24	3,822	2,910	912	76%
Ministry of Transportation	26	9,114	8,398	716	92%
Employment Service	27	180	159	21	88%
Ministry of the Interior	28	5,653	4,518	1,135	80%
Ministry of Defense	29	59,419	54,842	4,577	92%
The Knesset	30	584	625	(41)	107%
Ministry of Communications	31	61	58	3	96%
Ministry of Science and Technology	32	175	131	44	75%
Ministry of Industry, Trade, and Labor	33	4,779	3,690	1,108	77%
Ministry of Justice	34	1,302	854	448	66%
Electricity Supervision Authority	35	13	10	3	79%
Ministry of Finance	36	540	403	137	75%
Ministry of Immigrant Absorption	37	1,609	1,346	263	84%
Ministry of Agriculture	38	1,217	801	416	66%
Ministry of Construction and Housing	39	7,828	5,242	2,625	66%
Nativ	40	0	4	(4)	****
Total transferred to following page		297,065	281,680	15,385	

Report on State Budget Execution (Gross) in 2006 – Expenses by Government Ministry Comptrollerships (in NIS millions) (continued)

Ministry	Note	Final Budget	Execution	Difference	Percent Executed
Total transferred from previous page		297,065	281,680	15,385	
Ministry of Internal Security	41	244	158	86	65%
Office of the State Comptroller	42	324	191	133	59%
Ministry of Environmental Protection	43	560	338	222	60%
Ministry of National Infrastructures	44	533	372	161	70%
Settlement Division	45	170	104	66	61%
Water Commission	46	1,367	857	510	63%
Coordination of Activity in the Territories	48	196	120	76	61%
Israel Mapping Center	49	132	78	54	59%
Central Elections Committee	50	218	168	50	77%
Government Housing Administration	51	136	82	54	60%
Ministry of Tourism	52	567	330	237	58%
Government Vehicles Administration	54	84	16	68	19%
National Authority of Religious Services	55	356	260	96	73%
Total		301,951	284,749	17,202	94%
Expenses executed from a compensation fund in 2006, not budgeted within the Budget Law:					
Compensation fund	(*)	-	2,960	(2,960)	****
Total (including compensation fund)		301,951	287,709	14,242	95%

(*) Expenses and revenues in 2006 related to a compensation fund, which were not budgeted within the Budget Law

Revenues	
Monthly provision from property tax	47
Monthly provision from purchase tax	529
Special provision by directive of the Finance Minister	2,185
Total revenues (see State Revenues Report)	2,761
Expenses	
Expenses of the fund	(2,960)
Total surplus of revenues over expenses	(199)

Business Enterprises

Business Enterprise	Note	Final Budget	Execution	Difference	Percent Executed
Hadera Port	**20**	25	22	3	88%
Israel Land Administration	**21**	3,560	4,139	(579)	162%
Government Advertising Bureau	**25**	263	211	52	80%
Jaffa Port	**47**	4	3	1	91%
Government Printer	**53**	73	36	37	49%
Total		**3,925**	**4,411**	**(486)**	**124%**

Analysis of State Budget and Budget Execution by Expense Categories

Category	Budget		Execution		Difference		Percent executed
	Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
Regular budgets	191,441	(12,498)	178,158	(11,019)	**13,283**	**(1,480)**	**93%**
Development budgets	13,421	(1,430)	9,234	(974)	**4,187**	**(456)**	**69%**
Credit granted	3,234	-	2,567	-	667	-	79%
Principal repayments	59,085	-	59,968	-	(883)	-	101%
Interest and fee payments	34,770	-	35,048	-	(278)	-	101%
Total gross budget	**301,951**	**(13,928)**	**284,975**	**(11,993)**	**16,976**	**(1,936)**	**94%**

(*) Budget execution, relative to the net budget, plus designated revenues actually received, stands at 95%.

Report on State Budget Execution for 2006 – Revenues by Budget Items (in NIS millions)

Details	Note	Approved budget	Budget execution	Difference	Percent executed
Current receipts (excluding compensation fund)	(1)	174,136	183,273	(9,137)	105%
Receipts from loans and capital account	(2)	97,300	84,176	13,124	87%
Total		**271,436**	**267,449**	**3,987**	**99%**

(1) Current Receipts

Budget item	Details	Approved Budget	Budget execution	Difference	Percent executed
01	Income tax	75,500	84,329	(8,829)	112%
02	Taxes on salary expenses	7,700	8,086	(386)	105%
03	Land appreciation tax	1,400	1,761	(361)	126%
04	Purchase tax	2,000	3,301	(1,301)	165%
05	Property tax	200	113	87	57%
07	Employers tax	1,800	1,384	416	77%
	Income and property taxes	**88,600**	**98,974**	**(10,374)**	**112%**
11	Customs and import levies	2,000	1,897	103	95%
13	Purchase tax	12,400	11,277	1,123	91%
14	Net VAT receipts	49,700	49,833	(133)	100%
15	Tobacco tax	900	745	155	83%
18	Fuel tax	9,900	10,098	(198)	102%
20	Stamp tax	400	112	288	28%
24	Vehicle fees	2,300	2,454	(154)	107%
25	Fees, fines, and licenses	3,000	1,867	1,133	62%
	Taxes on expenditure	**80,600**	**78,283**	**2,317**	**97%**
34	Interest in foreign currency	150	452	(302)	301%
35	Interest collection	2,300	2,408	(108)	105%
41	Interest from the Bank of Israel	-	(51)	51	-
	Interest and profits	**2,450**	**2,809**	**(359)**	**119%**
43	Royalties from natural resources	234	261	(27)	112%
44	Royalties from government companies	275	100	175	36%
45	Dividends from government companies	597	483	114	81%
	Royalties and dividends	**1,106**	**844**	**262**	**67%**
46	Reimbursement on account of previous years	83	54	29	65%
47	Miscellaneous revenues	930	1,938	(1008)	208%
48	Earmarked revenues in excess of estimate	172	172	0	100%
50	Government asset usage fees	195	199	(4)	102%
	Miscellaneous receipts	**1,380**	**2,363**	**(983)**	**171%**
Total	**Current receipts**	**174,136**	**183,273**	**(9,137)**	**105%**
Revenues received in 2006 from a compensation fund, not budgeted within the Budget Law:					
	Compensation fund revenues	-	2,761	(2,761)	****
	Total revenues (incl. compensation fund)	**174,136**	**186,034**	**(11,898)**	**107%**

Report on State Budget Execution for 2006 – Revenues by Budget Items (in NIS millions) (continued)

(2) Receipts from Loans and Capital Accounts

Budget item	Details	Approved Budget	Budget execution	Difference	Percent executed
51	Collection of principal	5,700	5,732	(32)	101%
53	Collection of principal in foreign currency	40	110	(70)	275%
63	Revenues from Israel Land Administration	532	1,537	(1,005)	289%
	Repayment of investments and loans	**6,272**	**7,379**	**(1,107)**	**118%**
71	Provisions for pensions – economic units	-	(1)	1	0%
72	Provisions for pensions – business enterprises	11	9	2	82%
73	Provisions for pensions – companies	13	6	7	46%
	Provisions for pensions and severance pay	**24**	**14**	**10**	**67%**
75	Capital revenues	2,000	2,019	(19)	101%
76	Other capital revenues	-	2,650	(2,650)	-
	Capital revenues	**2,000**	**4,669**	**(2,669)**	**233%**
81	Loan from the National Insurance Institute	12,411	13,550	(1,139)	109%
82	Revenue from emissions and deposits	49,051	34,445	14,606	70%
	Domestic loans	**61,462**	**47,995**	**13,467**	**78%**
900	Independence and development loans	4,570	5,307	(737)	116%
901	Less: Distribution expenses	(219)	(225)	6	103%
902	Defense aid from the USA	10,488	12,372	(1,884)	118%
904	Civilian aid from the USA	1,104	2	1,102	0%
908	Other loans	11,599	6,663	4,936	57%
	Loans and grants from abroad	**27,542**	**24,119**	**3,423**	**88%**
Total	**Proceeds from loans and capital accounts**	**97,300**	**84,176**	**13,124**	**87%**

Report on Differences between the Original (Gross) Budget and the Approved Budget in 2006, by Government Ministry Comptrollerships (in NIS millions)

Details	Original budget	Changes	Total budget before surpluses	Surpluses	Budget including changes	Budget execution	Percent executed out of original budget	Percent executed out of budget including changes
Accountant General	132,791	(6,877)	125,914	931	126,845	126,991	96%	**100%**
Knesset	543	(16)	527	57	584	625	115%	**107%**
Office of the Prime Minister	3,219	31	3,250	572	3,822	2,910	90%	**76%**
Ministry of Finance	469	(38)	431	109	540	403	86%	**75%**
Ministry of the Interior	4,272	555	4,827	825	5,652	4,518	106%	**80%**
Israel Police	6,462	254	6,716	58	6,774	6,577	102%	**97%**
Ministry of Justice	1,136	17	1,153	149	1,302	854	75%	**66%**
Ministry of Foreign Affairs	1,352	6	1,358	46	1,404	1,321	98%	**94%**
Office of the State Comptroller	222	0	222	102	324	191	86%	**59%**
Ministry of Tourism	347	5	352	216	568	330	95%	**58%**
Ministry of National Infrastructures	348	8	356	177	533	372	107%	**70%**
Central Elections Committee	281	(85)	196	22	218	168	60%	**77%**
Ministry of Defense	45,324	8,193	53,517	5,902	59,419	54,842	121%	**93%**
Ministry of Environmental Protection	322	92	414	146	560	338	105%	**60%**
Coordination of Activity in the Territories	152	(4)	148	49	197	120	79%	**61%**
Ministry of Education, Culture, and Sports	24,568	249	24,817	598	25,415	24,107	98%	**95%**
National Authority of Religious Services	229	59	288	68	356	260	114%	**73%**
Ministry of Social Affairs	4,243	135	4,378	208	4,586	4,255	100%	**93%**
Ministry of Health	17,506	251	17,757	346	18,103	17,941	102%	**99%**
Agricultural Research Organization	260	(5)	255	19	274	227	87%	**83%**
Israel Mapping Center	95	(1)	94	37	131	78	82%	**59%**
Ministry of Housing	6,654	80	6,734	1,095	7,828	5,242	78%	**67%**
Ministry of Immigrant Absorption	1,446	(273)	1,173	436	1,609	1,346	93%	**84%**
Israel Prison Service	1,609	142	1,751	42	1,793	1,714	107%	**96%**
Settlement Education Administration	2,058	95	2,153	29	2,182	1,991	97%	**91%**
Ministry of Agriculture	617	309	926	291	1,217	801	130%	**66%**
Educational Television	95	44	139	1	140	115	121%	**82%**
Ministry of Industry, Trade, and Labor	3,652	(113)	3,539	1,240	4,779	3,690	101%	**77%**
Pensions Administration	7,250	(89)	7,161	0	7,161	6,921	95%	**97%**
Ministry of Transportation	9,282	(1,399)	7,883	1,230	9,113	8,398	90%	**92%**
Total transferred to next page	**276,804**	**1,625**	**278,429**	**15,001**	**293,429**	**277,644**		

Report on Differences between the Original (Gross) Budget and the Approved Budget in 2006, by Government Ministry Comptrollerships (in NIS millions) (continued)

Item	Original budget	Changes	Total budget before surpluses	Surpluses	Budget including changes	Budget execution	Percent executed out of original budget	Percent executed out of budget including changes
Total transferred from previous page	**276,804**	**1,625**	**278,429**	**15,001**	**293,429**	**277,644**		
Electricity Supervision Authority	12	(1)	11	2	13	10	83%	79%
Maayan Hachinuch Hatorani	192	60	252	0	252	233	121%	92%
Public Works Department (Ma'atz)	0	25	25	0	25	22	****	87%
Israel Tax Authority	1,463	49	1,512	131	1,643	1,450	99%	88%
Courts Administration	1,186	42	1,228	166	1,394	1,184	100%	85%
Ministry of Communications	46	4	50	11	61	58	126%	96%
Ministry of Science	137	(7)	130	44	174	131	96%	75%
Office of the State President	26	2	28	1	29	27	104%	93%
Settlement Division	77	21	98	72	170	104	135%	61%
Water Commission	1,218	(518)	700	667	1,367	857	70%	63%
Center for Independent Education	763	24	787	8	795	767	101%	96%
Ministry of Public Security	160	22	182	62	244	158	99%	65%
Bureau for Rehabilitation of the Disabled	1,462	66	1,528	14	1,542	1,476	101%	96%
Employment Service	156	6	162	18	180	159	102%	88%
Government Housing Administration	80	17	97	39	136	82	103%	60%
Government Vehicle Administration	62	0	62	21	83	16	26%	19%
Computerized Processing Services	104	14	118	6	124	117	113%	95%
Central Bureau of Statistics	151	2	153	17	170	140	93%	82%
Rabbinical Courts	106	7	113	7	120	113	107%	94%
Total	**284,205**	**1,460**	**285,665**	**16,287**	**301,951**	**284,749**	**100%**	**94%**

The differences between the original budget ceiling (NIS 284,205 million) and the approved budget ceiling (NIS 301,951 million) are mainly the result of the transfer of budget surpluses from the previous year and of increases in budgets of expenditure regulations conditional upon income (income received from sources external to the state budget).

At the level of each government ministry's budget, standing alone, differences between the original budget and the approved budget also include the movement of reserve budgets (including the general reserve) among government offices, as well as budget changes (additions and/or cutbacks). These additional differences at the level of a single ministry are neutralized at the general level of the state budget and as such they do not change the overall budget ceiling.

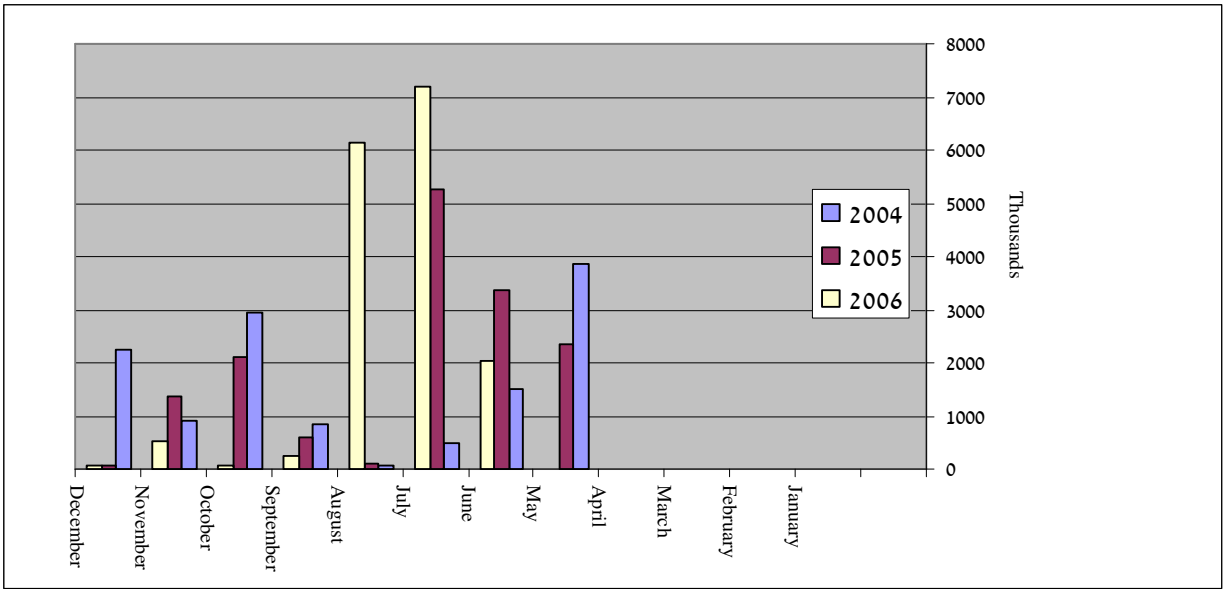
Report on Differences between the Original (Gross) Budget and the Approved Budget in 2006, by Budget Items, Gross (in NIS millions)

Budget Item	Details	Original budget	Changes	Total budget before surpluses	Surpluses	Budget including changes	Budget execution	Percent executed out of original budget	Percent executed out of budget including changes
01	State President and President's Office	26	2	28	1	29	27	104%	**93%**
02	Knesset	435	(9)	426	57	483	386	89%	**80%**
03	Members of government	16	(3)	13	0	13	14	88%	**108%**
04	Office of the Prime Minister	3,536	93	3,629	631	4,260	3,255	92%	**76%**
05	Ministry of Finance	1,810	69	1,879	134	2,013	1,777	98%	**88%**
06	Ministry of the Interior	378	70	448	139	587	410	108%	**70%**
07	Ministry of Public Security	7,914	367	8,281	100	8,381	8,119	103%	**97%**
08	Ministry of Justice	2,208	61	2,269	215	2,484	2,026	92%	**82%**
09	Ministry of Foreign Affairs	1,352	6	1,358	46	1,404	1,321	98%	**94%**
11	State Comptroller	222	0	222	102	324	190	86%	**59%**
12	Pensions and severance pay	8,232	18	8,250	0	8,250	7,956	97%	**97%**
13	Miscellaneous expenses	949	(353)	596	105	701	454	48%	**65%**
14	Elections and party financing	505	(44)	461	22	483	406	80%	**84%**
15	Ministry of Defense	45,261	8,256	53,517	5,902	59,419	54,842	122%	**93%**
16	Emergency expenditures	171	109	280	84	364	312	182%	**86%**
17	Coordination of Activity in the Territories	152	(4)	148	49	197	121	80%	**62%**
18	Local authorities	3,732	551	4,283	463	4,746	4,043	108%	**85%**
19	Ministry of Science and Technology	137	537	674	44	718	600	438%	**83%**
20	Ministry of Education and Culture	27,130	(42)	27,088	550	27,638	26,372	97%	**95%**
21	Higher Education	5,945	(311)	5,634	300	5,934	5,752	97%	**97%**
23	Ministry of Social Affairs	4,243	135	4,378	208	4,586	4,254	100%	**93%**
24	Ministry of Health	17,279	99	17,378	246	17,624	17,649	102%	**100%**
25	Disability benefits	1,475	66	1,541	14	1,555	1,487	101%	**96%**
26	Ministry of Environmental Protection	201	59	260	139	399	202	100%	**51%**
27	National Insurance	22,160	334	22,494	0	22,494	22,465	101%	**100%**
29	Ministry of Construction and Housing	222	2	224	74	298	210	95%	**70%**
30	Ministry of Immigrant Absorption	1,446	(273)	1,173	436	1,609	1,345	93%	**84%**
32	Miscellaneous support	4,478	(1,445)	3,033	476	3,509	3,007	67%	**86%**
33	Ministry of Agriculture	870	197	1,067	401	1,468	1,008	116%	**69%**
34	Ministry of National Infrastructures	156	32	188	62	250	173	111%	**69%**
	Total transferred to next page	**162,641**	**8,579**	**171,220**	**11,000**	**182,220**	**170,183**		

Report on Differences between the Original (Gross) Budget and the Approved Budget in 2006, by Budget Items, Gross (in NIS millions) (continued)

Budget Item	Details	Original budget	Changes	Total budget before surpluses	Surpluses	Budget including changes	Budget execution	Percent executed out of original budget	Percent executed out of budget including changes
	Total transferred from previous page	**162,641**	**8,579**	**171,220**	**11,000**	**182,220**	**170,183**		
35	Atomic Energy Committee	148	(2)	146	0	146	146	99%	**100%**
36	Ministry of Industry, Trade, and Labor	1,684	102	1,786	385	2,171	1,698	101%	**78%**
37	Ministry of Tourism	236	(13)	223	135	358	258	109%	**72%**
38	Support for economic sectors	1,758	22	1,780	689	2,469	2,041	116%	**83%**
39	Ministry of Communications	46	4	50	11	61	58	126%	**95%**
40	Ministry of Transportation	409	89	498	47	545	450	110%	**83%**
42	Construction and housing grants	2,177	(168)	2,009	1	2,010	1,641	75%	**82%**
43	Israel Mapping Center	95	(1)	94	37	131	78	82%	**59%**
44	Credit subsidies	35	(9)	26	0	26	27	77%	**104%**
45	Interest and fee payments	35,495	(729)	34,766	0	34,066	35,048	99%	**101%**
46	Discharged Soldiers Law	1,326	(75)	1,251	54	1,305	1,217	92%	**93%**
47	General reserve	5,320	(5,318)	2	0	1	0	0%	**0%**
51	Government housing	56	17	73	35	108	64	114%	**59%**
52	Police buildings and prisons	317	49	366	60	426	332	105%	**78%**
53	Justice and courts	197	4	201	105	306	102	52%	**33%**
54	Supervisory agencies	134	61	195	30	225	180	134%	**80%**
55	Ministry of Finance	104	(25)	79	70	149	28	27%	**19%**
56	Equal Rights Commission	3	0	3	0	3	2	67%	**67%**
57	Local authorities	16	0	16	115	131	50	313%	**38%**
58	Municipal water corporations	24	(95)	(71)	106	35	27	113%	**75%**
60	Ministry of Education	546	(29)	517	87	604	395	72%	**66%**
67	Ministry of Health	226	152	378	100	478	294	130%	**61%**
68	Foreign Workers Department	45	2	47	2	49	40	89%	**80%**
70	Ministry of Housing	4,255	246	4,501	1,020	5,521	3,390	80%	**61%**
73	Water works	447	4	451	511	962	586	131%	**61%**
76	Ministry of Industry	87	(1)	86	148	234	52	60%	**22%**
78	Tourism development	111	18	129	80	209	73	66%	**35%**
79	Transportation development	4,016	(589)	3,427	850	4,277	3,798	92%	**89%**
83	Other development expenses	3,168	(835)	2,333	605	2,938	2,525	80%	**86%**
84	Debt repayment	59,085	0	59,085	0	59,085	59,968	101%	**101%**
Total	**Total**	**284,207**	**1,460**	**285,667**	**16,283**	**301,951**	**284,749**	**100%**	**94%**

The following diagram presents the transfer of budget surplus over the years:



Surplus transfer dates improved significantly between 2004 and 2006. Early transfer of surpluses enables the ministries to plan and execute budgets more efficiently, especially in surpluses with regard to which a government obligation is in effect towards external parties.

In 2007, it was agreed that the large majority of referrals to the Finance Committee for the transfer of required budget surpluses from 2006 to 2007 would be transferred by mid-April at the latest.

The state budget for 2006 was approved in early June 2006.

The state budget for 2005 was approved in lat March 2005.

The state budget for 2004 was approved in early January 2004.

Report on Execution of Commitment Authorizations in 2006 by Government Ministries (in NIS millions)

Details	Commitment authorization	Budget execution	Difference	Percent executed
Accountant General	4,517	1,006	3,511	22%
Knesset	10	0	10	0%
Israel Land Administration	1,433	172	1,261	12%
Office of the Prime Minister	506	286	220	57%
Ministry of Finance	258	146	112	57%
Ministry of the Interior	300	69	231	23%
Israel Police	1,844	1,253	591	68%
Ministry of Justice	63	35	28	56%
Ministry of Tourism	224	213	11	95%
Ministry of National Infrastructures	461	12	449	3%
Ministry of Defense	35,121	27,873	7,248	87%
Ministry of Environmental Protection	143	96	47	67%
Coordination of Activities in the Territories	29	3	26	10%
Ministry of Education, Culture, and Sports	1,936	433	1,503	22%
National Authority of Religious Services	93	18	75	19%
Ministry of Social Affairs	96	53	43	55%
Ministry of Health	910	648	262	71%
Agricultural Research Organization	9	7	2	78%
Israel Mapping Center	1	1	0	100%
Ministry of Construction and Housing	4,412	3,430	982	78%
Ministry of Immigrant Absorption	530	199	331	38%
Israel Prison Service	820	657	163	80%
Settlement Education Administration	11	11	0	100%
Ministry of Agriculture	835	726	109	87%
Israel Educational Television	3	6	(3)	200%
Ministry of Industry, Trade, and Labor	1,910	1,578	332	83%
Ministry of Transportation	3,154	10,265	(7,111)	(*) 325%
Israel Tax Authority	33	31	2	94%
Courts Administration	166	66	100	40%
Ministry of Science and Technology	45	41	4	91%
Settlement Division	26	29	(3)	112%
Water Commission	7,666	7,608	58	99%
Ministry of Public Security	1,667	1,488	179	89%
Government Housing Administration	839	457	382	54%
Sha'am - Computerized Processing Services	9	9	0	100%
Central Bureau of Statistics	11	3	8	27%
Commitment Authorization	**70,091**	**61,571**	**8,520**	**88%**

(*) The noted deviation results from the Ministry of Transportation's entrance into the Merkava system, which necessitated renewed recording of contractual engagements of the Ministry of Transportation in the amount of NIS 7.6 billion that constitute an existing contractual engagement to Israel Railways (see Note 15.XXVIII).

Notes to the Budget Execution Report

1. Ministry of Health

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue			
2401	General activity area	1	412	(44)	394	(39)	18	(6)	96%
2404	Professional training	2	118	(58)	107	(56)	11	(2)	91%
2410	Extended illness treatment services	3	1,726	(560)	1,726	(555)	0	(5)	100%
2413	Mental health services	4	1,508	(70)	1,515	(66)	(7)	(3)	100%
2416	Public health services	5	757	(112)	763	(108)	(6)	(4)	101%
2419	Transfers to institutions	6	669	-	673	-	(4)	-	101%
2420	National Health Insurance Law	7	12,373	(1,378)	12,373	(1,378)	0	-	100%
6719	Support for various organizations	8	228	-	178	-	50	-	78%
9401	Tel Hashomer Medical Center	9	1,031	-	1,031	-	0	-	100%
9402	Rambam Hospital - Haifa	9	671	-	662	-	9	-	99%
9403	Nahariya Hospital	9	433	-	423	-	10	-	98%
9404	Wolfson Hospital - Holon	9	407	-	398	-	9	-	98%
9405	Assaf Harofeh Hospital	9	516	-	516	-	0	-	100%
9406	Hillel Yaffe Hospital	9	299	-	299	-	0	-	100%
9407	Barzilai Medical Center	9	306	-	305	-	1	-	100%
9408	Poriah Hospital - Tiberias	9	162	-	161	-	1	-	99%
9409	Ziv Hospital - Safed	9	185	-	178	-	7	-	96%
9410	Bnei Zion Municipal Government Hospital	9	275	-	269	-	6	-	98%
9411	Tel-Aviv-Jaffa Municipal Government Medical Center	9	917	-	917	-	0	-	100%
9412	Transfer of hospitals' revenues to central revenue pool	9	510	-	510	-	0	-	100%
9471	Tel Hashomer Medical Center revenues	9	(1,031)	-	(1,031)	-	0	-	100%
9472	Rambam revenues	9	(671)	-	(662)	-	(9)	-	99%
9473	Wolfson Hospital revenues	9	(407)	-	(398)	-	(9)	-	98%
9474	Nahariya Hospital revenues	9	(433)	-	(423)	-	(10)	-	98%
9475	Assaf Harofeh Hospital revenues	9	(516)	-	(516)	-	0	-	100%
9476	Hillel Yaffe Hospital revenues	9	(299)	-	(299)	-	0	-	100%
9477	Barzilai Ashkelon Medical Center revenues	9	(306)	-	(305)	-	(1)	-	100%
9478	Poriah Hospital revenues	9	(162)	-	(161)	-	(1)	-	99%
9479	Safed Hospital revenues	9	(185)	-	(178)	-	(7)	-	96%
9480	Bnei Zion Municipal Government Hospital Haifa revenues	9	(275)	-	(269)	-	(6)	-	98%
9481	Tel-Aviv-Jaffa Government Medical Center revenues	9	(917)	-	(917)	-	0	-	100%
9482	Supplement of hospitals' revenues	9	(510)	-	(510)	-	0	-	100%
	Others		311	(110)	212	(69)	99	(41)	68%
	Total expenses		18,102	(2,332)	17,941	(2,271)	161	(61)	99%

Notes to the Budget Execution Report (continued)

1) This area of activity is designated to finance the employment of head office employees, routine operation of the Ministry, financing of projects related to health care, such as health insurance for children of foreign workers, emergency services, emergency actions, etc.

2) This area of activity is designated to finance training and courses for physicians and nurses as well as for physicians and nurses who are new immigrants, employment of interns, and operation of nursing schools.

3) This area of activity is designated for the purchase of hospitalization services at geriatric facilities and the operation of government geriatric hospitals, and for the financing of supplies of medical devices (such as prostheses).

4) This area of activity is designated to finance the activity of community-based rehabilitation facilities for mentally disabled persons, diagnosis of mental disability, purchase of drug and alcohol rehabilitation services, purchase of clinic and ambulatory mental health services, psychiatric hospitalization, and the operation of government psychiatric hospitals.

5) This area of activity is designated to finance the activity of Well Baby Clinics (Tipat Halav), student health care, inoculations, food service operation, laboratories, child development stations, and operation of health bureaus.

6) This area of activity is designated to finance various supports for health maintenance organizations (Kupot Holim) and supports for other public entities, such as public hospitals.

7) This area of activity is designated to finance transfers from the state budget to National Insurance for supplements to the cost of the health care basket, under the National Health Insurance Law.

8) This area of activity is designated to finance support for health maintenance organization infrastructures.

   This area of activity was under budget by approximately NIS 50 million, as a result of the non-execution of a regulation aimed at transferring support to Clalit Health Services for 2006. The Ministry of Health Support Committee did not receive the required data from the health maintenance organization by the deadline for the 2006 fiscal year and therefore decided not to transfer the support in 2006.

9) These areas of activity are designated to finance general hospitals, as explained below:

   The general government hospitals are auxiliary units of the Ministry of Health which operate as "business enterprises," under Section 8 of the Foundations of the Budget Law. Consequently, the hospitals' budgets are contingent upon their revenues. The hospitals' revenues mainly derive from the sale of hospitalization services and health care services to the health maintenance organizations, with the manner of account settlement between the hospitals and the health maintenance organizations determined by the Ministry of Health. Mutual account settlement is carried out between the Ministry of Health and the general hospitals with regard to various matters, including the following: transfer of financing to the annual operations budget; centralized payments by the Ministry of Health to various suppliers; centralized collection by the Ministry from various clients; interim financing made available by the Ministry to the hospitals; financing in respect of key budget items; and supplementary units (such as nursing schools, radiology schools, etc.), as well as financing of deficits from previous years.

   The hospitals' budgets do not include the majority of costs, such as professional liability insurance (managed by Inbal), or costs of long-term projects, including construction, infrastructure development,

Notes to the Budget Execution Report (continued)

and acquisition of medical devices, which are financed through central budgets of the Ministry of Health.

2. Accountant General

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
1202	Pensions – state employees	1	1,089	-	1,036	-	53	-	95%
1301	Miscellaneous expenses	2	516	(135)	354	(10)	162	(125)	69%
1603	Fortification of settlements		134	-	100	-	34	-	75%
1607	Border region		123	-	122	-	1	-	99%
2102	Participation in institutional budgets	3	5,307	(37)	5,191	(21)	116	(16)	98%
2103	Participation in operations	4	482	-	479	-	3	-	99%
2106	Development of institutions of higher education	5	106	-	45	-	61	-	42%
2701	National Insurance Law – state allocations	6	14,272	-	14,272	-	0	-	100%
2702	State allocations for allowances	7	4,703	-	4,683	-	20	-	100%
2703	State allocations for National Insurance	8	3,265	-	3,262	-	3	-	100%
2705	Administration expenses and reserves	9	250	-	248	-	2	-	99%
3205	Support for public products	10	141	-	144	-	(3)	-	102%
3208	Support for transportation	11	128	-	55	-	73	-	43%
3326	Arrangements with the agricultural sector	12	143	(1)	131	-	12	(1)	92%
3501	Atomic Energy Committee		146	-	146	-	0	-	100%
4502	Domestic loans – interest and fee payments	13	27,725	-	27,844	-	(119)	-	100%
4504	Foreign loans – interest and fee payments	14	7,045	-	7,204	-	(159)	-	102%
4601	Discharged Soldiers Law	15	1,305	-	1,217	-	88	-	93%
8301	Investments in government enterprises	16	163	-	83	-	80	-	51%
8306	Investments in companies	17	177	-	98	-	79	-	55%
8311	Development of missions abroad	18	117	-	2	-	115	-	2%
8402	Domestic loans	19	45,412	-	46,393	-	(981)	-	102%
8404	Foreign loans	20	13,673	-	13,574	-	99	-	99%
	Other		425	(124)	309	(19)	116	(105)	73%
	Total expenses		126,847	(297)	126,992	(50)	(145)	(247)	100%

1) This area of activity is designated to finance pension payments by the Ministry of Defense, and to finance the Ministry's participation in pension payments for employees of Rafael who retired as a result of restructuring agreements.

   This area of activity was under budget by NIS 53 million, due to the fact that no demand for payment was received from the Ministry of Defense.

2) This area of activity is designated to finance unique issues, such as the system of tax payments to Income Tax and National Insurance for interest rate benefits in loans to state employees; interest

Notes to the Budget Execution Report (continued)

payments to the Israeli-Chinese Fund for Scientific and Strategic Research and Development; participation of the Ministry of Education in a credit tender for local authorities; participation in the company Culture and Economic Projects for State's Workers Ltd.; financing of the multinational force in the Sinai; etc.

This area of activity was under budget by NIS 162 million, mainly for the following reasons:

- NIS 40 million in the Industrial Science Park project adjacent to Ben Gurion University, due to the failure to receive American aid which constitutes designated income for the financing of the project.
- NIS 24 million in the State Employee Loans program, due to low demand for loans.
- NIS 20 million in the Local Authorities Credit Tender program, due to non-payment of tender expenses, following the receipt of a tender exemption.

3) This area of activity is designated to finance the government's support of higher education institutions through the Planning and Budgeting Committee of the Council for Higher Education. These sums are paid directly to some 40 higher education institutions, based on the decisions of the Planning and Budgeting Committee, and also include financing of the activity of the Council for Higher Education itself, and participation in international projects in the area of higher education and in other government ministries.

   This area of activity was under budget by NIS 116 million, mainly resulting from budgeting incongruent with actual execution. Higher education institutions are budgeted according to several criteria, primarily the number of students completing undergraduate studies; it is difficult to forecast the number of graduates each school year at some 40 institutions.

4) This area of activity is designated to finance the state's participation in certain projects in the area of higher education, such as research, pre-academic preparatory courses, student aid, etc.

5) This area of activity is designated to finance the government's participation in development initiatives at higher education institutions, in the areas of construction and accessibility to disabled persons at these institutions.

   This area of activity was under budget by NIS 61 million, resulting from the fact that the budget was not approved for execution at the institutions by the Planning and Budgeting Committee at the Council for Higher Education due to noncompliance with the requirements of the PBC (Planning and Budgeting Committee).

6) This area of activity is designated to finance the state's share in payments to the National Insurance Institute for activities included under Section 32 of the National Insurance Law.

7) This area of activity is designated to finance transfers by the state to the National Insurance Institute for activities required under laws other than the National Insurance Law which are carried out by the Institute and financed by the state.

8) This area of activity is designated to finance agreements between the government and the National Insurance Institute aimed at promoting the government's objectives, such as payments to victims of hostilities, an agreement regarding grants to mothers giving birth to triplets or more, an agreement regarding allowances for working children, etc.

Notes to the Budget Execution Report (continued)

9) This area of activity is designated to finance the administration and operation expenses of the National Insurance Institute.

10) This area of activity is designated to finance the establishment grant for the Israel Postal Company (upon the conversion of the Postal Authority into a company) and payments to the Israel Broadcasting Authority for the support of restructuring programs.

11) This area of activity is designated to finance a budget balancing grant to the Israel Airports Authority for the operation of land border crossings. This grant is aimed at covering the authority's surplus of expenses over revenues.

12) This area of activity is designated to finance a supplementary arrangement for Kibbutzim for their debts to banks.

13) This area of activity is designated to finance interest and linkage payments in respect of loans taken by the state or funding performed by the state in the domestic market to finance its routine activity.

14) This area of activity is designated to finance interest and exchange rate difference payments in respect of loans taken by the state or funding performed by the state in markets abroad, in foreign currency.

15) This area of activity is designated to finance discharge grant payments, payments of deposits, grants, and a fund for additional aid (a fund for the coverage of scholarships for academic and pre-academic education) for discharged soldiers.

    This area of activity was under budget by NIS 88 million, for the following reasons:

    - The estimated budget was determined using coefficients based on realization of deposits in previous years.

    - A decrease in the number of students choosing to study in pre-academic preparatory programs.

16) This area of activity is designated to finance credit for loans to state employees through Bank Yahav and to education employees through Bank Massad and Beinleumi Bank.

    This area of activity was under budget by NIS 80 million, resulting from low demand for loans from state employees.

17) This area of activity is designated to finance the state's participation in rehabilitation (restructuring programs) of entities in crisis, such as Rafael, Israel Military Industries, Ashot Ashkelon.

    This area of activity was under budget by NIS 79 million, resulting mainly from a technical error in which a loan was allocated to the wrong regulation. The transaction was corrected in early 2007.

18) This area of activity is designated to finance the establishment, development, renovation, and purchase of Israeli missions' offices abroad.

    This area of activity was under budget by NIS 115 million, resulting from overbudgeting and slow progress in the projects abroad.

19) This area of activity is designated to finance principal payments of loans taken by the state or funding preformed by the state in the domestic market. This area of activity includes expenses for a principal and interest repayment in the amount of NIS 881 million to the Bank of Israel which was debited and withdrawn by the Bank of Israel from the government's account with the Bank of Israel, in

Notes to the Budget Execution Report (continued)

contradiction of the position of the Ministry of Finance, which is backed by a legal opinion stating that the said debt should be expunged. The dispute between the Bank of Israel and the Ministry of Finance has not yet been resolved (see Note 11).

20) This area of activity is designated to finance principal payments of loans taken by the state or funding performed by the state in markets abroad, in foreign currency.

This area of activity was under budget by NIS 99 million, due to the fact that the estimates used as the basis for budgeting during the course of the year are influenced by market conditions at the date of execution of the payments – primarily currency exchange rates, inflation, and fees; therefore, there are slight deviations in percentages. This under-execution is not material relative to the volume of the budget in shekel terms; the volume of the budget in question is large, and the budgeting is performed without a safety margin for possible market fluctuations.

3. Israel Police

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0702	Israel Police and police units	1	5,368	(349)	5,200	(253)	168	(97)	97%
0715	Israel Prison Service and Israel Police pensions	2	1,221	(3)	1,225	(2)	(4)	-	100%
5201	Police facility buildings	3	184	(55)	152	(32)	32	(23)	83%
	Total expenses		6,773	(407)	6,577	(287)	196	(120)	97%

1) This area of activity is designated to finance:

Routine activity, excluding IT, construction, police officers' salaries, and pensions; including: Investigations, Intelligence, Operations and Security Department, Logistical Support Department, Traffic, Budgets Department, and Border Guard.

This area of activity was under budget by NIS 168 million, mainly due to the following reasons:

- Paid employment, NIS 31 million – police officers are employed at various events (such as soccer games, the Public Works Department, festivals, etc.). The extent of employment depends on the demand for these services. In this budget year, not all of the budget allocated for this task was utilized.

- NIS 18 million – projects not realized by the Ministry of Transportation, such as the light railway in Jerusalem, operation of public transportation lanes, paid employment of the Head of Road Safety.

- The Ministry of Defense, which finances the activity of Border Guard units in the Judea and Samaria region, decided to offset NIS 16 million of its debts due to disputes between the ministries.

- NIS 13 million – participation in security of educational institutions was transferred at the end of the year, so that it was not possible to realize the expense on schedule.

- NIS 14 million – due to the deceleration in activity of the Immigration Police in comparison to the forecast financial estimate.

Notes to the Budget Execution Report (continued)

- NIS 11 million – non-debiting of state asset usage fees.
- NIS 37 million – amount funded used as a reserve budget that cannot be used unless approved by the Budget Division. In 2006 there was no need to unfreeze these sums.

2) This area of activity is designated to finance the payment of pensions and retirement bonuses, and the discount of some future pension payments against the decrease in monthly pension payments.

3) This area of activity is designated to finance the acquisition and development of means such as communications equipment, changes in forensic identification laboratory technologies, systems development in the area of IT and combat equipment, the computerized DNA database, IT projects, and construction and renovation of police buildings.

4. Israel Prison Service

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0710	Israel Prison Service	1	1,414	(132)	1,379	(127)	35	(5)	98%
0715	Israel Prison Service pensions	2	214	-	209	-	5	-	98%
5203	Prison development	3	139	-	103	-	36	-	74%
0701	General activity area		24	-	23	-	1	-	96%
	Total expenses		1,791	(132)	1,714	(127)	77	(5)	96%

1) This area of activity is designated to finance:

- Salary expenses of Israel Prison Service wardens.
- Routine operation and maintenance expenses for water, electricity, equipment, fuel, etc.
- Payment to prisoners for their employment in prisons, clothing, medical care, and education.
- Operation of the system of wardens, including expenses for clothing, food, and training, and payment to wardens for comptrollership, planning, and budgeting services.

2) This area of activity is designated for the payment of salaries to Israel Prison Service retirees.

3) This area of activity is designated to finance:

- Development, renovation, and expansion of prisons.
- IT expenses at prisons, including the setup of a new IT system.

Notes to the Budget Execution Report (continued)

5. Bureau for Rehabilitation of the Disabled

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
2501	Benefits for disabled persons	1	1,542	(2)	1,476	(1)	66	(1)	96%
	Total expenses		1,542	(2)	1,476	(1)	66	(1)	96%

1) This area of activity is designated to finance benefits for disabled victims of war and persecution, and to finance medical rehabilitation and support for foundations dealing with Holocaust survivors.

This area of activity was under budget by NIS 66 million, mainly due to the following reasons:

A. Contractual engagements and agreements in the amount of approximately NIS 15 million which were not paid because invoices were not received by the end of the year, mainly from hospitals, health maintenance organizations, and hotels.

B. Supports in the amount of approximately NIS 15 million which were not paid, because an addition in the amount of NIS 20 million was approved only in September 2006, so that the Bureau did not have sufficient time to utilize it.

C. An additional budget in the amount of approximately NIS 50 million was approved for the Bureau for the second half of the year, designated for payment to new disabled persons who should have been registered in 2006. Of this amount, approximately NIS 22 million were not utilized, as the Bureau did not have sufficient time to register all of the new disabled persons.

6. Ministry of Education, Culture, and Sports

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
1931	Culture	1	418	(18)	350	(18)	68	-	84%
2021	Administrative units	2	225	(18)	171	(9)	54	(9)	76%
2022	Administration and ministry employees	3	635	(2)	605	(2)	30	-	95%
2023	Teachers Administration	4	1,862	(1)	1,762	-	100	(1)	95%
2024	Pedagogical Administration - general	5	1,213	(35)	1,014	(4)	199	(31)	84%
2025	Preschool education	6	3,029	(619)	2,973	(619)	56	-	98%
2026	Primary education	7	8,324	(231)	8,091	(156)	233	(75)	97%
2027	Secondary education	8	7,209	(365)	6,985	(294)	224	(71)	97%
2029	Independent and recognized education	9	275	-	238	-	37	-	87%
2030	Transportation, supplies, and development	10	685	(3)	622	(3)	63	-	91%
2031	Culture	11	118	-	92	-	26	-	78%
2038	Transfers to Torah institutions	12	701	(2)	692	(1)	9	(1)	99%
6002	Education development program	13	481	-	337	-	144	-	70%
	Others		240	(1)	175	(1)	65	-	73%
	Total expenses		25,415	(1,295)	24,107	(1,107)	1,308	(188)	95%

Notes to the Budget Execution Report (continued)

1) This area of activity was essentially identical to activity area 2031 – Culture, which was presented as a single item until October this year. In October, in accordance with a government decision, the decision was made to divide the culture item into general culture and Torah and ultra-Orthodox culture; therefore, this area of activity is designated to finance Torah and ultra-Orthodox culture (see additional explanation in Section 11).

   This area of activity was under budget by NIS 68 million, due to the fact that as of the end of the year, adequate financial statements had not yet been received from foundations and local authorities which were required in order to allow payment by the ministry.

2) This area of activity is designated to finance all activities of the Ministry of Education headquarters, including the Information Systems Department, the Economics and Budget Division, the Comptrollership Department, the Spokesperson Unit, External Relations, the Religious Education Administration, and the Public Relations Unit.

   This area of activity was under budget by NIS 54 million, mainly due to agreements signed towards the end of the year, as the budget was approved in June and the ministry had not yet entered into contractual engagements with suppliers, as well as due to the fact that the school year is spread over two budget years, from September to August, and payments are transferred based on the relative share each year.

3) This area of activity is designated to finance salaries, overtime pay, and vehicle expenses for ministry employees, including supervisors and administrative employees, continuing education programs and training, maintenance of the ministry, and personal injury insurance for students.

4) This area of activity is designated to finance terms of employment and incentives for teachers' organizations, teacher training colleges, and continuing education programs for teachers. This area is also designated to finance loans, scholarships, funds, and continuing education grants for teaching personnel.

   This area of activity was under budget by NIS 100 million, mainly due to the salary budget balance at colleges, which resulted from a budget estimate incongruent with actual execution.

5) This area of activity is designated to finance the ministry's pedagogical policy, formulation of teaching formats, management of the educational system and control of achievements, welfare services, advancement of minorities, Jewish education in the Diaspora, community centers (Matnasim), informal education, adult education, etc.

   This area of activity was under budget by NIS 199 million, mainly due to:

   - Commitments not yet paid by the end of the year, as well as added budgets in the total amount of NIS 237 million received near the end of the year, so that the ministry was unable to execute the payments by the end of the year.

   - Non-collection of designated revenues in the amount of NIS 30 million, mainly as a result of incorrect assumptions regarding the volume of activity during the construction of the revenue budget, as well as from cancelled regulations.

6) This area of activity is designated to finance salaries of preschool teachers and preschool teaching assistants who are state employees, and to finance salaries of preschool teachers in pre-kindergarten schools at institutions with national priority status.

Notes to the Budget Execution Report (continued)

This area of activity was under budget by NIS 56 million, due entirely to the salary budget estimate being incongruent with actual execution.

7) This area of activity is designated to finance salaries of teachers in special education and in institutions with a long school day, and to finance all levels of employees within the system under the Compulsory Education Law (transportation, janitors, secretaries, psychologists, etc.).

   This area of activity was under budget by NIS 233 million, due to:

   - Budget estimates incongruent with actual execution, as a result of numerous changes, such as the cost-of-living increment, change in minimum wage, and wage-erosion increment, in teachers' salary costs over the year.

   - An execution balance in the designated revenue budget in the amount of NIS 75 million from the long school day and nutrition program budgets. The revenue budget was prepared based on estimates, but in practice there was only partial implementation of the nutrition program and under-implementation of the long school day.

8) This area of activity is designated to finance the entire system of secondary education, including tuition hours and fees, teaching of subjects, support for technological education institutions, and the Examinations Division.

   This area of activity was under budget by NIS 224 million, due to the following reasons:

   - NIS 153 million as a result of budget estimates incongruent with actual execution.

   - Designated revenues in the amount of NIS 71 million which was not collected, partially due to incorrect estimates and partially due to the fact that the revenues were transferred to a central budget item of the Settlement Division.

9) This area of activity is designated to finance the employment of teachers in recognized unofficial education in all branches of education, such as preschool, primary education, and special education, and to finance licensing, supervision, and operation of these institutions.

10) This area of activity is designated to finance various logistical matters, such as rental fees, heating and cooling of classrooms, consulting and supervision in renovations, supplies, and transportation for teachers and students.

    This area of activity was under budget by NIS 63 million, due to commitments in respect of renovations at educational institutions which were not yet completed at the end of the year and for which invoices had not yet been received, so that the ministry did not pay the suppliers.

11) This area of activity is designated to finance budgetary support for various cultural institutions and entities, such as theaters, museums, musicals, cinema, music and orchestras, dance, opera, literature and periodicals, plastic arts, festivals, culture in the community, heritage of the ethic groups of Israel, Arab and Druze culture, etc.

12) This area of activity is designated to finance support for Kollelim (institutes of advanced religious studies for young married men – Avrechim), grants to Torah institutions, support for Yeshivot Hesder (institutes for combined religious studies and military service), and the payment of minimum allowances to Avrechim.

Notes to the Budget Execution Report (continued)

13) This area of activity is designated to finance construction, development, and supplies for educational institutions through local authorities, as well as peripheral infrastructures to improve the appearance of educational institutions.

This area of activity was under budget by NIS 144 million, due mainly to the following reasons:

- An addition to the budget received near the end of the year; this allowed commitments to be recorded, whereas execution has yet to be completed.
- Construction authorizations are granted from October to the end of the budget year, so that some did not have sufficient time to carry out construction plans, and accordingly payments were not transferred.

7. Computerized Processing Services (Sha'am)

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0510	Computerized Processing Services	1	111	(14)	107	(14)	4	-	96%
	Others		12	-	10	-	2	-	83%
	Total expenses		123	(14)	117	(14)	6	-	95%

1) Sha'am (Computerized Processing Services) provides a variety of IT services to the State Revenue Administration and the Israel Tax Authority in areas such as computerized data processing, programming, systems analysis, feasibility studies, etc.

This area of activity is designated to finance:

- Employees' salary expenses.
- Expenses for software and hardware maintenance, raw materials, communication lines, and maintenance and operation of the Sha'am building.
- Expenses for upgrades of central computers and development of the Sha'am building.

8. Public Works Department (Ma'atz)

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
40	Public Works Department		25	-	22	-	3	-	87%
	Total expenses		25	-	22	-	3	-	87%

The previous Public Works Department, an auxiliary unit, was closed after the establishment of the new Public Works Department, which is known as the National Road Safety Company. However, there are remaining financial commitments of the Public Works Department as an auxiliary unit, mostly as a result of payment of salaries to employees who have not yet retired or been redirected to other government

Notes to the Budget Execution Report (continued)

offices, invoices to various suppliers, past debts, court rulings, and operation of the existing building prior to its transfer to the Government Housing Administration.

The auxiliary comptrollership is scheduled to be closed in 2007.

9. Pensions Administration

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
1202	State employee pensions	1	4,749	(325)	4,539	(309)	210	(16)	96%
1203	Pensions under to the Pensions Law	2	244	-	244	-	0	-	100%
1205	Pensions under external arrangements	3	301	(107)	292	(104)	9	(3)	97%
1210	Transfers pursuant to laws and agreements	4	1,848	-	1,828	-	20	-	99%
	Others		19	-	18	-	1	-	95%
	Total expenses		7,161	(432)	6,921	(413)	240	(19)	97%

1) This area of activity is designated to finance routine payment of pensions each month to retired employees of the state and of corporations and to their survivors. In addition to routine payments, one-time payments are made to retirees, such as retirement bonuses, convalescence pay, clothing, and Jubilee grants.

   This area of activity was under budget by NIS 210 million, mainly due to over-budgeting of one-time payments to retirees who were scheduled to retire in 2006.

2) This area of activity is designated to finance pension payments for officers in government agencies, according to Knesset resolutions. These officers include the State President, the Prime Minister, ministers and deputy ministers (including director-generals who have served for long periods and whose terms of employment are equivalent to those of deputy ministers), judicial officers, and the State Comptroller.

3) This area of activity is designated to finance pension payments for retirees of external entities, such as the Israel Broadcasting Authority, the Postal Authority, the National Insurance Institute, and the Gaza Coast Regional Council. Payments to retirees of the National Insurance Institute and retirees of the Gaza Coast Regional Council are performed by the Pensions Administration, which concurrently collects the full cost (including the cost of producing the pay stubs) from the aforesaid entities.

   The regulation for payment to the Israel Broadcasting Authority is based on an agreement under which pensions are paid to retirees who were state employees; in return, the employer transfers 25% of the salary of active employees to state revenues.

   Payment to the Postal Authority is based on an agreement that took effect in 2006, under which the Authority transfers an amount in advance for each retiree, according to actuarial calculations.

4) This area of activity is designated to finance:

   - Amounts of aid which the state has committed to transfer to the older pension funds under arrangements.

Notes to the Budget Execution Report (continued)

- Aid to balanced older pension funds.
- Aid to employers pursuant to the raising of the retirement age. This aid is currently transferred for the purchase of pensions for the period from the age of 65 to the new retirement age.

10. Rabbinical Courts

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0403	Rabbinical courts	1	120	(1)	113	-	7	(1)	94%
	Total expenses		120	(1)	113	-	7	(1)	94%

1) The Rabbinical courts are part of the national judicial system in Israel, according to the Rabbinical Courts Jurisdiction (Marriage and Divorce) Law, 5713-1953. The Rabbinical courts are invested with authority parallel to that of the courts in the areas of alimony, child custody, property division, guardianship, and inheritance.

   This area of activity is designated to finance:

   - Payment of salaries to head rabbis, Dayanim (religious court judges), permanent employees, etc.
   - Routine operation, such as rental payments, security, and postal fees.
   - Handling matters related to Agunot ("anchored") women, representation of the courts in CIS countries, and the testing committee for the certification of rabbinical court advocates.

11. Settlement Education Division

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
2028	Settlement education	1	2,151	(244)	1,978	(169)	173	(75)	92%
2030	Transportation, supplies, and development		31	-	13	-	18	-	42%
	Total expenses		2,182	(244)	1,991	(169)	191	(75)	91%

1) This area of activity is designated to finance the Settlement Education and Youth Aliyah Administration, which serves as a national district of regional-settlement secondary schools, youth villages, and residential educational institutions. The Administration is also responsible for placement, registration, and supervision at residential educational institutions, at the Association for the Advancement of Education and Hamifal Educational Children's Homes. The Administration supervises maritime education in Israel and serves as a national center in the areas of life sciences, environmental science, and agriculture.

   This area of activity was under budget by NIS 175 million, due to the following reasons:

Notes to the Budget Execution Report (continued)

A. Under-execution in the amount of NIS 99 million resulted from designated revenue items, as follows:

- Under-execution in the amount of NIS 60 million resulted from superfluous budgeting of the regulation "Revenues from the Jewish Agency" – this regulation has been irrelevant since 2004. Until that year, the Jewish Agency transferred funds to the NAALE program through the Settlement Education Administration in order to finance participants in the program. As of 2004, the policy was changed, and the Agency began to transfer the funds directly. The Budgets Division was contacted in order to cancel the regulation, but the matter has yet to be addressed.

- Under-execution in the amount of NIS 39 million resulted from over-budgeting of revenue regulations.

B. Under-execution in the amount of NIS 76 million resulted from the following causes:

- An addition to the budget in the amount of NIS 70 million was received only in November-December 2006, and therefore has not yet been utilized.

- The Settlement Education Administration transitioned to the new Merkava financial system in early November 2006, and the activity of the Habochan system was halted as of the end of September. As a result, payments were delayed at the end of the budget year.

Note:

Within the Settlement Education Administration are four government educational institutions that constitute government execution units and conduct financial activity at a volume of approximately NIS 80 million. This activity is not expressed in the state budget (the budget in the institutions' regulations stands at 0). These institutions, two of which are residential educational institutions, were budgeted properly until 1995. From 1996 forward, subsequent to a government decision to transfer these institutions to management by public entities, budgeting ceased. Due to halted processes and the failure to complete the transfer of their management, the educational institutions continue to operate with no budget under the regulations. Such financial conduct is in violation of the Budgets Law and of accepted rules of fair disclosure. In the current situation, the relevant budget regulations are presented with substantial exceptions in execution.

12. Ministry of Foreign Affairs

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0901	General area of activity	1	171	-	171	-	0	-	100%
0902	Representation of the state abroad	2	1,120	(41)	1,053	(18)	67	(23)	94%
	Others		112	(16)	97	(8)	15	(8)	87%
	Total expenses		1,403	(57)	1,321	(26)	82	(31)	94%

1) This area of activity is designated to finance expenses of the ministry's management, the Administrative Division, salaries, training, post and telephones, maintenance of the ministry building, headquarters operation, and municipal taxes.

Notes to the Budget Execution Report (continued)

2) This area of activity is designated to finance centralized expenses of the ministry's missions abroad, including tax payments to the United Nations, salary and incidental expenses (vacation and severance pay) to ministry employees abroad, and the construction and development of new missions around the world.

This area of activity was under budget by NIS 67 million, mainly due to the following factors:

- Designated revenues. This refers to the acquisition of missions abroad in which the sources of revenue derived from the development regulation of the Ministry of Foreign Affairs at the Accountant General Division, or from the sale of assets. In 2006, the rate of cash expenditure required almost no unfreezing of revenues.

- Purchasing and construction (mainly abroad) – refers to activities that extend over several years, with payment performed according to the project's rate of progress. The actual rate of progress was slower than expected; therefore, the payments were not performed by the ministry.

- Under-execution in the amount of approximately NIS 16 million resulted from non-payment to contractors for the construction of new missions abroad, primarily in Bratislava and Zagreb, due to the fact that the work extends over more than one budget year. The actual rate of progress was slower than expected; therefore, not all of the payments were performed by the ministry.

13. Ministry of Social Affairs

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
2301	General area of activity	1	351	(3)	304	(2)	47	(1)	87%
2306	Rehabilitation	2	566	(123)	536	(113)	30	(10)	95%
2308	Service for Mentally Retarded Persons	3	1,245	(415)	1,193	(402)	52	(13)	96%
2310	Personal and social services	4	2,067	(659)	1,942	(616)	125	(43)	94%
2311	Correction and alienated youth services	5	293	(20)	262	(16)	31	(4)	89%
2312	Development support – social services	6	65	(24)	18	(5)	47	(19)	28%
	Total expenses		4,587	(1,244)	4,255	(1,154)	332	(90)	93%

1) This area of activity is designated to finance employees' salaries, ministry maintenance expenses, IT and automation services, training activities, and the operation of district bureaus.

This area of activity was under budget by NIS 47 million, mainly due to the following factors:

- Under-execution in the amount of NIS 19 million resulted from funds of estates transferred from the Custodian General, as approved by the public committee. These approvals are valid for the current year and the following year; therefore, execution is spread over this entire period.

- Under-execution in the amount of NIS 8 million occurred in the automation item. This refers to an additional budget granted at the end of 2006 for the purchase of equipment and means for the Automation Unit. The purchase will be performed in early 2007.

Notes to the Budget Execution Report (continued)

- Under-execution in the amount of NIS 6 million resulted from the Central School program. This is a school in which the ministry trains social workers. Courses at the school begin in September and October and continue throughout the year. Expenses under this item are executed commensurate with the progress of the courses; therefore, not all of the budget was executed.

2) This area of activity is designated to finance diagnosis and professional rehabilitation services for disabled persons, placement of handicapped persons in residential facilities, community and home-based care for disabled persons, rehabilitation and treatment of blind persons, and maintenance and operation of government homes for handicapped persons.

3) This area of activity is designated to finance diagnostic services for mentally retarded persons, community and home-based care for mentally retarded persons, out-of-home care in public and private residential facilities for mentally retarded persons, and out-of-home and community-based care for autistic persons.

   This area of activity was under budget by NIS 52 million, due to the fact that many local authorities have not yet filed the required execution reports, and consequently the payments were not performed.

4) This area of activity is designated to finance:

   - Participation in payment of salaries of employees of social services bureaus at local authorities and in organization and management expenses at local authorities.

   - Treatment and aid for alcoholics, homeless persons, children living in poverty, and families in distress.

   - Maintenance and operation of domestic violence prevention centers and participation in maintenance of children cared for by the Ministry of Social Affairs in day care centers and family-based day care facilities.

   - Services for children and youth – out-of-home care, including foster homes, children in residential education facilities, and community-based activities.

   - Service for elderly persons – out-of-home care including supervision of homes for the elderly, participation in maintenance of elderly persons in geriatric facilities, and special aid for elderly persons (heating, convalescence pay, day centers and clubs, assisted living facilities).

   This area of activity was under budget by NIS 125 million, due to the following:

   - Many local authorities did not report their expenses in time, and therefore did not receive the full payment owed to them from the 2006 budget.

   - NIS 43 million in designated revenue, due to the fact that for every payment to suppliers for welfare services in local authorities, the authority is debited for 25% of the amount of the allocation. Collection is performed during data processing (budgeting and account settlement); as a result of dates being advanced, processing was partial, and some commitments were postponed to the following year, leading to lower-than-expected collection.

5) This area of activity is designated to finance:

   - Salaries of youth investigators, youth parole officers, and adult parole officers, care for substance addiction victims, participation in rehabilitation of youth at government and municipal MIFTAN schools.

Notes to the Budget Execution Report (continued)

- Service for Youth in the Community, including: immigrants, alienated ultra-Orthodox (Haredi) youth, street gangs, and out-of-home placements for adolescents.
- Service for Women and Girls in Distress: shelters for battered women, aid centers for women and girls who are victims of rape, and a shelter for victims of trade in women.
- Youth Protection Authority: placement of adolescents in homes and residential facilities under power of law.

6) This area of activity is designated to finance infrastructure development in welfare institutions.

This area of activity was under budget by NIS 47 million, due to inaccurate budgeting of revenues and of expenses in the area of development.

14. Maayan Hachinuch Hatorani

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
2029	Recognized independent education	1	253	(2)	233	(1)	20	(1)	92%
	Total expenses		253	(2)	233	(1)	20	(1)	92%

1) This area of activity is designated to finance payments to administrative employees, teachers' salaries, equipment purchases and school maintenance, transportation for students, and payment of budgets to exempt institutions (ultra-Orthodox schools budgeted by the ministry but managed independently).

15. Israel Tax Authority

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0520	Israel Tax Authority	1	1,398	(154)	1,327	(142)	71	(12)	95%
5510	Development of Tax Authority	2	111	(27)	9	(27)	102	-	8%
	Other		134	(1)	114	(1)	20	-	85%
	Total expenses		1,643	(182)	1,450	(170)	193	(12)	88%

1) This area of activity is designated to finance the system of tax collection in Israel (direct and indirect taxes) and the implementation of the Income Tax Ordinance, the Customs Ordinance, the VAT Law, the Property Tax Law, collection of special levies, collection of taxes on salaries, profit taxes, purchase tax, excise tax, and import levies.

This area was under budget by NIS 71 million, mainly due to the following causes:

- Services received in November and December (such as security and maintenance) and not yet paid for, as well as purchases of electronic equipment whose settlement date has not yet arrived.

Notes to the Budget Execution Report (continued)

- Under-execution in the amount of NIS 13 million resulted from an estimate higher than actual execution in designated revenue items.

2) This area of activity is designated to finance:

- Establishment of the "Dor Hadash" foreign trade system, which will be used to manage the state of Israel's foreign trade (imports and exports).
- Maintenance of X-ray screening devices for containers at Haifa Port and the Jordan River border crossing.
- Maintenance of information systems and infrastructures and purchases of IT equipment.

This area of activity was under budget by NIS 102 million, mainly due to the following causes:

- Under-execution in the amount of NIS 48 million – the setup of X-ray screening devices for containers at the Jordan River and Haifa is partially funded by the American government. As the transfer of aid was delayed by the American government, payments were also delayed.
- Under-execution in the amount of NIS 40 million – the budget balance in the amount of NIS 40 million was designated for the establishment of the "Dor Hadash" foreign trade system, but was not utilized due to the fact that as at the reporting date the winner of the tender had not yet been announced.

16. Office of the State President

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0101	State President and President's office		29	(1)	27	-	2	(1)	93%
	Total expenses		29	(1)	27	-	2	(1)	93%

17. Central Bureau of Statistics

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0403	National statistics	1	170	(11)	140	(7)	30	(4)	82%
	Total expenses		170	(11)	140	(7)	30	(4)	82%

1) This area of activity is designated to finance the preparation of routine statistical reports and special activities required in order to maintain the statistical system. In addition, in 2006 a trial was carried out in preparation for the population census to be held in 2008, including unique activities such as special purchases, hiring of personnel, and the performance of various activities related to the census.

Notes to the Budget Execution Report (continued)

18. Israel Educational Television

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
2033	Israel Educational Television	1	123	(29)	106	(14)	17	(15)	86%
	Others		17	(3)	9	-	8	(3)	54%
	Total expenses		140	(32)	115	(14)	25	(18)	82%

1) This area of activity is designated to finance:

- Personnel salaries.
- Israel Educational Television's own productions: financing production and broadcasting of educational programs for schools, immigrants, adult education, etc., by purchasing a number of broadcasting hours from private entities, under law, through the ministry's own productions, and through combinations of its own productions with private entities.
- Broadcasting expenses to Bezeq for the use of its transmitters.

19. Independent Education Center

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
2029	Independent recognized education	1	795	-	767	-	28	-	96%
	Total expenses		795	-	767	-	28	-	96%

1) This area of activity is designated to finance routine expenses of educational institutions in the ultra-Orthodox sector, including:

Salary payments, routine maintenance (electricity, water, etc.), transportation for students, and other routine expenses.

Institutions in the ultra-Orthodox sector include:

- Recognized but unofficial schools owned by the ministry.
- Exempt institutions owned by various foundations.

Notes to the Budget Execution Report (continued)

20. Hadera Port

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
9502	Hadera Port expenses		25	-	22	-	3	-	88%
9572	Hadera Port revenues		(25)	-	(22)	-	(3)	-	88%
	Total expenses		0	-	0	-	0	-	0%

21. Israel Land Administration

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
9801	General activity area	1	195	-	182	-	13	-	93%
9802	Land administration	2	188	-	161	-	27	-	86%
9803	Infrastructure planning and evacuations	3	1,139	-	813	-	326	-	71%
9804	Purchase of rights to land	4	482	-	327	-	155	-	68%
9806	Discounts for land	5	447	-	601	-	(154)	-	135%
9807	Reserve for marketing expenses	6	176	-	0	-	176	-	0%
9808	Special payments	7	933	-	2,055	-	(1,122)	-	220%
9872	Current income	8	(588)	-	(547)	-	(41)	-	93%
9873	Capital income	9	(3,012)	-	(3,592)	-	580	-	119%
	Others		40	-	0	-	40	-	0%
	Total expenses		0	-	0	-	0	-	0%

1) This area of activity is designated to finance salary expenses, legal expenses, and general operating expenses of the Administration.

2) This area of activity is designated to finance land management expenses, such as tax assessments, management of Development Authority assets, mapping and measurement, IT expenses, and land protection.

3) This area of activity is designated for payment of expenses for land utilization planning, development through management companies, evacuation of properties, betterment levies, and reimbursement in respect of previous years.

   This area of activity was under budget by NIS 326 million, mainly due to planning: general and detailed planning, planning and development in minority sectors, development through companies, and other evacuations. The following are the main reasons for the under-execution:

   A. Under-execution in the amount of NIS 144 million resulted from the following cause: statutory planning depends on approvals from the planning committees, which are external to the Israel Land Administration and extend over several years. Each year, a budget is earmarked for the planning companies in the amount of the milestones expected to be met during that budget year.

Notes to the Budget Execution Report (continued)

However, some milestones are not met in accordance with forecasts, for reasons that do not depend on the Israel Land Administration.

B. Under-execution in the amount of NIS 61 million resulted from the following cause: infrastructure contractors are operated by the Administration via management companies. Infrastructure projects generally extend over more than one budget year. Thus the amount of the commitment is spread over several years, according to the expected progress of actual execution in each budget year. This expectation is updated from time to time, based on the progress of the infrastructure work. However, obstacles occasionally arise during the execution of infrastructure work, leading to delayed execution compared to forecasts.

C. Under-execution in the amount of NIS 71 million – expense plan for financially-based evacuations. The under-execution resulted from the following causes:

- NIS 20 million – the balance of commitments at the end of the year in respect of which payment will be performed in 2007.

- NIS 51 million – balance of unutilized budget derived from the non-execution of payments for the evacuation of properties, for various reasons; for example, NIS 31 million not utilized due to a delay in the evacuation of the Geological Survey of Israel and the Kurdani base.

4) This area of activity is designated to finance the acquisition of properties and to finance compensation for expropriation of properties required for the purpose of development or other public goals.

This area of activity was under budget by NIS 155 million, due to the following causes:

A. Under-execution in the amount of NIS 32 million resulted from the Compensation for Expropriation program – the date of payment of compensation for expropriations is the date on which the owner of the rights arrives to receive the compensation for the property as a final amount. This date is not determined by the Administration. In cases in which the owner of the rights does not agree to the amount of compensation established, a court proceeding is held. Therefore, compensation to entitled parties was not paid in full by the end of the budget year.

B. Under –execution in the amount of NIS 115 million – acquisition plan – under-execution resulted from the following causes:

- NIS 52 million – balance of commitments at the end of the year for which payment will be executed in 2007.

- NIS 63 million – balance of unutilized budget mainly arising from transfer compensation regulations not yet realized due to the fact that their realization depends on the rate of progress in negotiations between the Administration and the Bedouin population in the Negev with regard to their transfer to permanent towns.

5) This area of activity is designated to grant discounts in the allocation of property rights in national priority areas, according to the decisions of the Israel Land Council, based on predefined criteria. Revenues from the execution of these transactions are recorded according to the full price of the transaction, while an expense is recorded in the budget of the Israel Land Administration in the amount of the discount granted. This area of activity was over budget by NIS 154 million (135%), due to the following cause:

These property transactions are recorded in the following manner: revenue from the property transactions described above is recorded in area of activity 98-73 (see Item 9), and the discount is

Notes to the Budget Execution Report (continued)

recorded as an expense in that area of activity. An exception in this area indicates that more transactions entitled to a discount under the Israel Land Council's criteria were performed than estimated at the beginning of the year and budgeted by the Budgets Division. Note that a parallel exception exists in the revenues from these transactions, as noted in Item 9, as more transactions of marketing land in national priority areas were performed than planned. Consequently, the total exception in revenue exceeds the total exception in the expense in respect of discounts.

6) This area of activity is designated for reserves.

Under-execution in the amount of NIS 176 million, constituting the entire budget of this area of activity, resulted from the fact that there was no need to unfreeze the reserves.

7) This area of activity is designated for the transfer of the surplus of revenues over expenses to the various land owners (Development Authority land, state land, and KKL – Jewish National Fund land) – the Administration is a business enterprise; therefore, revenues are recorded separately from expenses for land, according to the specific ownership of the land. Each month, the surplus of revenues over expenses generated is transferred to the owners. The surplus in respect of Development Authority and state lands is transferred to the state treasury. The surplus in respect of KKL lands is transferred to KKL.

This area of activity was over budget by NIS 1,122 million (120%), as revenues this year were higher than usual and higher than expenses, so that the Administration transferred a higher amount to the state treasury and the KKL treasury.

8) This area of activity is designated to record revenues from rental of assets, annual leasing fees, and remuneration from quarries.

9) This area of activity is designated to record revenues in respect of permit fees (charged for changes in land designation, construction permits, etc.), consent fees (paid by lessees of land who transfer their rights to third parties), capitalized leasing fees, sale of properties, and revenues from projects (repayment of initial financing given to various projects from the Administration's budget).

22. Courts Administration

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0820	Courts	1	1,146	(107)	1,078	(101)	68	(6)	94%
5303	Courthouse construction	2	217	-	80	-	137	-	37%
	Other		31	-	26	-	5	-	84%
	Total expenses		1,394	(107)	1,184	(101)	210	(6)	85%

1) This area of activity is designated to finance the payment of salaries to employees and judges in the court system and for all routine expenses, including management and maintenance of court units (management, Supreme Court, District Court, Magistrate Court, and Labor Court).

This area of activity was under budget by NIS 68 million. Most of the under-execution (approximately NIS 62 million) resulted from a balance in invoices for November and December not yet paid by the ministry in 2006. These accounts were settled in early 2007.

Notes to the Budget Execution Report (continued)

2) This area of activity is designated to finance:

- Construction of new courthouses. The budget includes the construction of several buildings, including the courthouse in Tel Aviv and the courthouse in Petach Tikva. Construction is carried out through the Government Housing Administration.

- Court system computerization project ("Net Hamishpat"). The focus of this project is a transition to paper-free courts, based on electronic files that allow remote access through identification cards and digital signatures.

This area of activity was under budget by NIS 137 million. Most of the under-execution resulted from the Tel Aviv courthouse construction project, which was halted due to disagreements with the Tel Aviv municipality concerning various payments claimed with regard to the project; consequently, other alternatives were examined for the construction of the courthouse in a different location. During the examination of the alternatives, changes occurred, including a change of ministers at the Ministry of Justice; each minister formulated a different approach, so that it was not possible to begin work on the project.

23. Agricultural Research Organization

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
3324	Agricultural Research Organization	1	264	(89)	224	(69)	40	(20)	85%
	Others		10	(2)	3	-	7	(2)	34%
	Total expenses		274	(91)	227	(69)	47	(22)	83%

1) The Agricultural Research Organization is comprised of several institutes located within the Volcani Center at Beit Dagan, and three regional agricultural farms: Neve Yaar farm in the north, Gilat farm in the south, and Hamercaz farm in central Israel.

This area of activity is designated to finance research and development in all areas of agriculture: orchards, animals, land and water, plant protection, agricultural engineering, food technology, agricultural produce storage, and field crops.

24. Office of the Prime Minister

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0401	General area of activity	1	394	(53)	214	(2)	180	(51)	54%
0402	Prime ministership	2	543	(1)	250	-	293	(1)	46%
0406	Financing of disengagement operations	3	2,534	-	2,279	-	255	-	90%
0421	Office of the Vice Prime Minister	4	167	(55)	35	-	132	(55)	21%
	Others		184	(21)	132	(18)	52	(3)	72%
	Total expenses		3,822	(130)	2,910	(20)	912	(110)	76%

Notes to the Budget Execution Report (continued)

25. Government Advertising Agency

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
8910	Government Advertising Agency expenses	5	263	-	211	-	52	-	80%
8990	Government Advertising Agency revenues		(263)	-	(211)	-	(52)	-	80%
	Total expenses		0	-	0	-	0	-	0%

1) This area of activity is designated to finance:

- The routine operation of the office.
- Professional services and automation services.
- The National Projects Administration, which mainly includes the budget for government resolutions for the development of Jerusalem and for maintenance and development of the Kotel (the Western Wall).
- The Giur (conversion to Judaism) system, the state archives, and supports of the Custodian General.
- Statutory authorities: the Begin Center, the Rabin Center, and the Israel Anti-Drug Authority.
- Financing of activity following the war in northern Israel.
- The Winograd Committee.

This area of activity was under budget by NIS 180 million, mainly due to the following factors:

A. The Multi-Year Negev Development Program was under budget by NIS 50 million (out of a budget of NIS 50 million), due to the failure to receive revenue designated for the Multi-Year Negev Development Program. The budget resolution stated that this expense would be contingent upon revenues from 2006 (this referred to revenue from civilian American aid); however, this revenue was not received, and accordingly the expense budget was not realized.

B. The Multi-Year Program for Development of the Old City and Mount of Olives was under budget by NIS 42 million (out of a budget of NIS 43 million), due to the fact that the budget and the approval by the Exemption Committee for the contractual engagement with the Jerusalem Development Authority were received in June, while the project's steering committee approved the plans only in November, so that the project was not executed in full in 2006.

C. The Multi-Year Program for Encouragement of Growth in Jerusalem was under budget by NIS 19 million, due to the fact that the ministry contracted with the Jerusalem Development Authority to execute the projects, and payment is performed subject to reports of actual execution. At the reporting date, not all of the reports had been received.

D. The Automation Program was under budget by NIS 20 million, due to projects for which contracts were signed near the end of the year, so that the projects were not completed in 2006 and the payments were not performed in full.

Notes to the Budget Execution Report (continued)

E. The balance of under-execution results from budgets allocated only in the second half of 2006, so that tenders and projects were postponed to the final months of 2006, and the budget was not executed in full.

2) This area of activity is designated to finance the activity of the Office of Prime Minister, which includes security for the Prime Minister and the office, consulting to the Prime Minister and the office, operation of the Prime Minister's house, and the Prime Minister's travel abroad. In addition, this area is used to budget the offices of former Prime Ministers, the Authority for the Advancement of the Status of Women, the Masa and Taglit projects, relations with the Diaspora, the National Security Council, the Computer for Every Child project, the Memorial Council and support for commemoration organizations, plans for development of communities in the Arab, Druze, and Circassian sector, ministers' offices at the Prime Minister's office, and the Pension Department, which was added to the office during 2006.

   This area of activity was under budget by NIS 293 million, due to the following factors:

   A. The regulation Jewish Education in the Diaspora was under budget by NIS 94 million as a result of a reduction in the number of participants in the project versus the government resolution and due to the failure to receive reports on the progress of execution.

   B. The regulation Multi-Year Arab Sector Community Development Program was under budget by NI S138 million, due to the fact that the government approved the program in August, and the government ministries had insufficient time for its implementation.

   C. Contractual engagements entered into during the year for expenses of the Prime Ministership (travel abroad, security, etc.), for which payment will be rendered in 2007, after receiving an invoice.

3) This area of activity is designated to finance payment of compensation to evacuees and programs for changing the location of settlements.

   This area of activity was under budget by NIS 255 million, due to the following factors:

   A. The Government Ministry Activities Financing Program, which is aimed at participation with other government ministries, was under budget by NIS 155 million, due to the fact that the comptrollers of the various ministries did not submit payment requests and execution reports, and consequently these amounts have not yet been transferred.

   B. Aid to evacuees which is conditional upon approval by an eligibility committee; some of the committees convened near the end of the year, so that the funds were not paid in 2006. Furthermore, some of the payments approved by the committee are delayed for various reasons, such as missing documents, legal problems, etc.

   C. Current contractual engagements of the SELA (Aid for Gaza Strip Residents) Administration for which invoices have not yet been submitted, and therefore the amounts have not yet been transferred.

4) This area of activity is designated to finance the Negev and Galilee Development Office, which is responsible for regional economic development in the Negev and Galilee areas.

   This area of activity was under budget by NIS 132 million, due to the following factors:

Notes to the Budget Execution Report (continued)

A. The Negev Development Multi-Year Program regulation was under budget by NIS 55 million in designated revenues, due to failure to receive budgets originating with civilian American aid, leading to non-realization of the expense budget.

B. Projects for which payment is performed commensurate with the rate of progress of the work. In 2006, the work was not completed and no execution reports were submitted.

5) This area of activity is designated to finance all expenses of the Government Advertising Agency with regard to salaries, routine expenses, and the purchase of media and services for its clients, which are government ministries, government companies, and statutory corporations.

This area of activity was under budget by NIS 52 million, due to the following factors:

A. Under-execution in the amount of NIS 20 million resulted from a budget for advertising abroad presented for approval by the Finance Committee in September 2006 and approved by the committee in October 2006. Consequently, actual execution was incongruent with the approved estimated budget.

B. Under-execution in the amount of NIS 28 million resulted from actual execution incongruent with the estimated budget.

26. Ministry of Transportation

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
3208	Support for transportation	1	2,213	(35)	2,071	(25)	142	(10)	94%
4003	Ministry of Transportation – main	2	271	(48)	236	(47)	35	(1)	87%
4007	Road safety	3	198	(6)	146	(6)	52	-	74%
7930	Urban roads	4	987	(47)	829	(22)	158	(25)	84%
7931	Mass transit and transportation	5	717	-	563	-	154	-	79%
7935	Cross-Israel Highway	6	560	-	455	-	105	-	81%
7940	Inter-city roads	7	1,956	-	1,929	-	27	-	99%
8306	Investments in companies	8	2,100	-	2,100	-	0	-	100%
	Others		112	(21)	69	(20)	42	(1)	62%
	Total expenses		9,114	(156)	8,398	(119)	716	(37)	92%

1) This area of activity is designated to finance subsidies of public transportation, including:

- Subsidies for public transportation operators such as Egged, Dan, and others, including operators winning tenders under the transportation industry reform, as well as subsidies for the aforesaid entities for the replacement of old buses with new buses.

- Subsidies for the railway: As part of the transfer of the activity of Israel Railways from the Port Authority to the status of a government company, an agreement in principle was signed for subsidization of the routine activity of Israel Railways. The agreement is in effect until the end of 2008.

Notes to the Budget Execution Report (continued)

- Various supports, such as support for shipping, incentives for land transport, and financing of air travel discounts for residents of Eilat.

This area of activity was under budget by NIS 142 million, due to the fact that the various suppliers failed to submit execution reports to the Ministry of Transportation, and consequently the amounts were not paid by the ministry.

2) This area of activity is designated to finance salaries and routine operation, including municipal taxes, electricity, water, telephones, welfare activities, training, cleaning, parking, building maintenance, repairs, transport, and postal fees.

3) This area of activity is designated to finance the subject of road safety in Israel, including employees' salaries and financing of various safety activities, such as information, surveys, and research, safety activities at local authorities, public relations activities, and reinforcements of traffic judges.

   This area of activity was under budget by NIS 52 million, as a result of belated contractual engagements with local authorities due to the late approval of the state budget (June 2006). Consequently, the aforesaid engagements began late, and the authorities did not submit execution reports pursuant to the engagements; therefore, the payments have not yet been performed by the ministry.

4) This area of activity is designated to finance participation in projects at local authorities and at the Ayalon Highways company – these projects are carried out by the authorities themselves or through municipal companies (Moriah in Jerusalem, Yefe Nof in Haifa), with the participation rate ranging from 70%-100% – and to finance payments to management companies carrying out projects, mainly in the minorities sector.

   This area of activity was under budget by NIS 158 million, as a result of the following factors:

   - Under-execution in the amount of NIS 24 million resulted from non-collection of designated revenues.

   - Under-execution in the amount of NIS 134 million resulted from the same causes described in Item 3 above.

5) This area of activity is designated to finance:

   - The municipality of Jerusalem – for public sector works in the city's light railway project.

   - NTA – a government company, for a mass transit project in the Tel Aviv metropolitan area.

   - Local authorities and Ayalon Highways – for the construction of public transportation lanes.

   This area of activity was under budget by NIS 154 million, mainly due to the Jerusalem light railway project, which includes the construction of special lanes for public transportation. The project is one year behind schedule due to difficulties encountered by the executing contractor; therefore, the ministry did not transfer the payments in full.

6) This area of activity is designated to finance the government company Cross-Israel Highway, which is responsible for public sector works in the construction of the highway and for examination, supervision, and account settlement with Derech Eretz, which is the franchise holder for the construction, operation, financing, and maintenance of the highway.

Notes to the Budget Execution Report (continued)

This area of activity was under budget by NIS 105 million, due to the following factors:

- Expropriation of land – The Cross-Israel Highway company conducts negotiations with land owners, at the conclusion of which the amount of compensation to be paid is determined. This is a lengthy process and its outcome is difficult to foresee; the process was not completed in 2006, and consequently compensation payments were not performed.

- During the execution of the project, graves were discovered along the southern part of the highway. Work ceased due to a dispute regarding the required engineering solution pursuant to the discovery; consequently, payments were stopped and under-execution resulted.

7) This area of activity is designated to finance inter-city road development and maintenance projects carried out by the National Roads Company – the new Ma'atz.

8) This area of activity is designated to finance the development of Israel Railways. Israel Railways Ltd. is a government company wholly owned by the state, whose objective is to develop and operate trains in Israel.

27. Employment Service

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
3615	Employment Service	1	180	(7)	159	(6)	21	(1)	88%
	Total Expenses		180	(7)	159	(6)	21	(1)	88%

1) This area of activity is designated to finance:

- Salaries of employees at the head office and at employment bureaus, including payments for employee retirement, retirement encouragement bonuses, vacation and sick day redemption, and security expenses.

- Expenses related to the office's routine activity, including rent, usage fees, maintenance, municipal taxes, post, telephones, routine maintenance and renovations, expenses for salaries of occupational consulting employees, and provision of advice to job seekers and external entities.

- Expenses related to the IT system, including end equipment (hardware, software) for all of the service's bureaus.

- Support and participation in employment of unemployed persons at public agencies.

- Aid to evacuees of Gush Katif, such as financing of job placement coordinators, occupational training vouchers, and stipends for trainees who are not working.

- Encouragement of employment of Israelis in the hotel industry as a substitute to foreign workers.

Notes to the Budget Execution Report (continued)

28. Ministry of the Interior

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0601	General area of activity	1	177	(1)	138	(1)	39	-	78%
0604	Population Administration	2	136	(11)	102	(11)	34	-	75%
0605	Physical planning	3	138	(36)	66	(13)	72	(24)	48%
1401	Financing of political parties	4	165	-	0	-	165	-	0%
1801	Balancing grants for local authorities	5	4,442	-	3,773	-	669	-	85%
1803	Designated grants for local authorities	6	295	-	265	-	30	-	90%
	Others		300	(2)	174	(2)	126	-	58%
	Total expenses		5,653	(50)	4,518	(26)	1,135	(24)	80%

1) This area of activity is designated to finance the ministry's expenses, including expenses of the administration and districts, salary expenses, training activities and employee welfare, maintenance and operation expenses, and IT expenses.

2) This area of activity is designated to finance expenses of the Population Administration, including salary expenses, computerization of the population registry, operation expenses of bureaus, the purchase of special forms for printing identification cards and passports, special activities in the area of border control, and handling of foreign workers.

3) This area of activity is designated to finance the preparation of outline plans, the activity of the Construction Standards Coordination Agency, salary expenses of the Administration's employees, the Administration's expenses for planning policy and procedures, the operation of statutory committees, expenses of the National Planning and Construction Council and district committees, preparation of master and outline plans for the Arab sector, and expenses of the National Infrastructures Committee.

   This area of activity was under budget by NIS 72 million, as a result of the following factors:

   A. Under-execution in the amount of NIS 24 million in designated revenues resulted from erroneous budgeting. This refers to revenue received from the Israel Land Administration according to the ministry's execution. Under the government resolution to promote outline planning in Israel, the need arose for an addition to the ministry's budget; however, due to the Budget Division's opposition to enlarging the ordinary budget, the designated revenue budget was over-budgeted.

   B. Under-execution in the amount of NIS 48 million resulted from the following causes:

      - Over-budgeting by the Budgets Division. This refers to long-term contractual engagements with suppliers for the preparation of local, detailed outline plans in the Jewish and Arab sectors which require a relatively small budget each year.

      - Under-execution in the amount of NIS 17 million resulted from an additional budget received according to the government resolution for detailed planning in Bedouin and Druze communities. As this is a lengthy, complex process (conducting a tender), the ministry has not had sufficient time to prepare for it and therefore these amounts were not expended.

4) This area of activity is designated to finance expenses for the financing of political parties, due to the national elections in 2006.

Notes to the Budget Execution Report (continued)

This area of activity was under budget by NIS 165 million. Budget regulations within this item should be associated with the Knesset, as the Knesset is responsible for Knesset elections. In 2006, the regulation Party Financing – Elections was associated with the budget of the Ministry of the Interior instead of the Knesset budget. As a result, all expenses for the financing of the parties for the elections held in 2006 executed by the Knesset were paid from the Knesset's budget under the regulation Party Financing – Current, creating an exception in this regulation, while no expenses at all were performed using the regulation recorded at the Ministry of the Interior (see Note 30, the Knesset). This matter will be addressed in 2007.

5) This area of activity is designated to finance balancing grants allocated to local authorities based on criteria determined by the ministry, payments to accompanying comptrollers, accountants, and financing of restructuring arrangements for local authorities.

This area of activity was under budget by NIS 669 million, due to the following factors:

A. Under-execution in the amount of NIS 400 million mainly resulted from the following causes:

- Balancing grants for development – under-execution in the amount of NIS 217 million resulted from the transfer of the budget in August by the Budgets Division for aid to local authorities in northern Israel, and the receipt of an additional budget in September for distribution to the local authorities. Criteria were established and contractual engagements approved only in December; therefore, the amounts have not yet been transferred.

- Non-designated balancing grant – under-execution in the amount of NIS 98 million resulted from two causes: NIS 55 million are grants contingent upon collection which were not paid due to authorities' failure to submit reports demonstrating increased collection. Under-execution in the amount of NIS 43 million resulted from grants designated for authorities which were delayed due to the authorities' failure to streamline.

- Contractual engagements with accompanying accountants and comptrollers – under-execution in the amount of NIS 45 million resulted from two main causes:

  1. NIS 19 million in respect of agreements for the preparation of financial statements for 2005, for which payment is executed only after the reports are filed.

  2. NIS 26 million for advancement of the 2007 budget for new contractual engagements. Because the budget was received during December 2006, the ministry had insufficient time to utilize it.

- Discounts on municipal taxes for Gaza Perimeter settlements – under-execution in the amount of NIS 17 million resulted from failure of Gaza Perimeter authorities to submit execution reports, so that payments were not made by the ministry.

- Aid to flood victims – under-execution in the amount of NIS 13 million resulted from contractual engagements for development approved only in December.

B. Under-execution in the amount of NIS 228 million resulted from funds not transferred to local authorities for restructuring programs, due to their non-compliance with milestones signed with them as well as due to the fact that payment dates for future milestones have not yet arrived.

C. Under-execution in the amount of NIS 41 million resulted from conditional grants for the month of December which were not transferred to local authorities due to their failure to submit execution reports.

Notes to the Budget Execution Report (continued)

6) This area of activity is designated to finance designated grants to local authorities and participation in security budgets for local authorities, training budgets, including organizational development, payments to firefighting associations, and payments for religious services for non-Jewish groups.

29. Ministry of Defense

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
15	Ministry of Defense		59,419	(3,795)	54,842	(3,504)	4,577	291	92%
	Total expenses		59,419	(3,795)	54,842	(3,504)	4,577	291	92%

Pursuant to a directive of the Accountant General, work is currently underway to adjust the budget regulations of the defense system to the state budget regulations, with the aim of raising the level of control, supervision, and transparency of budget execution in the defense system. In addition, a reporting format has been formulated by the defense system and the Accountant General Division that allows more precise macro-economic analysis of defense system data.

30. Knesset

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0202	Members of Knesset	**1**	113	-	101	-	12	-	90%
0203	Knesset operations	**2**	271	(2)	215	-	56	(2)	79%
1401	Party financing – current	**3**	101	-	238	-	(137)	-	236%
0605	Others		99	-	71	-	28	-	72%
	Total expenses		584	(2)	625	-	(41)	(2)	107%

Note: The Knesset budget is established and executed by the Knesset and is not under the responsibility of the government.

1) This area of activity is designated to finance salaries of Members of Knesset as well as incidental benefits such as vehicles, communication with voters, security, and protection.

2) This area of activity is designated to finance professional services for Knesset committees, international relations, ceremonies and commemoration, salaries of factions' parliamentary staff, expenses of Knesset employees, administration, security, and information system management.

This area of activity was under budget by NIS 56 million, due to the following causes:

- Routine obligations (such as: IT, security, administration, maintenance equipment, various events, and continuing education for employees) started in the system in the 2006 budget year, but for which invoices were not yet submitted and/or paid as of December 31, 2006. The ministry has a

Notes to the Budget Execution Report (continued)

commitment authorization budget, but not for these obligations; therefore, each year the ministry transfers the balance of surpluses in respect of these contractual engagements to the subsequent year.

- Projects budgeted but not yet implemented as the ministry has yet to reach a decision regarding their execution.

- Erroneous budget estimates in various projects, such as the volume of consulting and activities in information systems and publications and public relations at the spokesperson's bureau, records and periodicals, and purchase of books and journals.

3) This area of activity is designated to finance expenses for routine financing of factions elected to the current Knesset. This budget is determined according to the Political Parties Financing Law, 5733-1973, which stipulates metrics based on which each faction elected to the current Knesset is budgeted.

This area of activity was over budget by NIS 137 million, due to the budgeting of routine expenses for the financing of parties, while execution was for routine expenses for the financing of parties (total execution NIS 92 million) as well as for expenses for the financing of parties due to the elections to the 17th Knesset (total execution NIS 146 million). The election expense financing budget was erroneously budgeted under the Ministry of the Interior comptrollership (see further explanation under the Ministry of the Interior comptrollership, Section 4).

31. Ministry of Communications

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
39	Ministry of Communications		61	(1)	58	(1)	3	-	96%
	Total expenses		61	(1)	58	(1)	3	-	96%

32. Ministry of Science and Technology

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
19	Ministry of Science and Technology	1	175	(17)	131	(15)	44	(2)	75%
	Total expenses		175	(17)	131	(15)	44	(2)	75%

1) The budget of the Ministry of Science is primarily comprised of the following areas:

- Scientific infrastructures area – A major area of the ministry, including aid for long-term infrastructure research at research institutions in Israel. The studies are selected through calls for proposals dealing with key issues in the fields of nanotechnology, biotechnology, electro-optics, medicine, computers, the environment, water, agriculture, and social sciences.

Notes to the Budget Execution Report (continued)

- Scientific international relations area – Aimed at Israel's participation in scientific research programs of the European Union, participation in the activity of international scientific organizations, and the organization of international conferences in Israel.

- Science and the community – activity to reduce inequalities in the area of science, through the operation of ten R&D centers in peripheral regions, as well as scholarship programs for students, minorities, and women.

- Israeli space agency operation program – Aid in the financing, construction, and launch of the Israeli-French satellite Venus for the purpose of observations in the areas of agriculture and the environment.

- Administrative and service expenses.

33. Ministry of Industry, Trade and Labor

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
3601	Administration and services	1	296	(5)	275	(4)	21	(1)	93%
3614	Manpower planning, and direction	2	738	(5)	610	(2)	128	(2)	83%
3617	Professional Training Division	3	789	(24)	539	(22)	250	(2)	68%
3802	Industrial research and development	4	1,557	(658)	1,371	(607)	186	(51)	88%
3803	Benefits to encourage capital investments	5	564	-	536	-	28	-	95%
3813	Supports for industry	6	109	-	16	-	93	-	15%
7601	Development of industry	7	234	(40)	52	(7)	182	(33)	22%
	Others		492	(62)	291	(45)	220	(16)	57%
	Total expenses		4,779	(794)	3,690	(688)	1,108	(106)	77%

1) This area of activity is designated to finance management, salary, and administration expenses of the head office and districts.

2) This area of activity is designated to finance:

   A. Consulting to the management and various units of the ministry on economic subjects, with a focus on matters related to the labor market in particular and the ministry's areas of activity in general.

   B. Analysis of the consequences of economic and social policies for various labor market variables related to manpower, employment, and unemployment.

   C. Emergency Personnel Unit. The unit handles recruitment and confinement to duty stations of personnel, staffing of essential enterprises during emergencies, and organization of essential sectors for the operation of the economy during emergencies.

   D. Operation of the Mehalev ("From Dependency to Self-Sufficiency") program – integration of recipients of permanent subsistence allowances into the labor market.

Notes to the Budget Execution Report (continued)

In addition, this area of activity also includes the budget for the Women's Employment Division, which is comprised of several parts:

A. Development of services to assist working mothers in finding day care facilities for their children.

B. Operation of day care and family-based care facilities to assist in the integration of single parents and women into the labor market.

This area of activity was under budget by NIS 128 million, due to the following factors:

A. Under-execution in the amount of NIS 44 million resulted from an additional budget for the Single Parent Employment Encouragement program which was received in September, so that the ministry had insufficient time to execute it.

B. Under-execution in the amount of NIS 34 million in the execution of the Mehalev program resulted from the fact that the decision to extend the program by an additional year was made at the end of 2006. The administration initiated tenders in November; therefore, not all of the budget was executed.

C. Under-execution in the amount of NIS 16 million in the Integration Program Development program, as a result of disputes between the ministry and the service providers with regard to the manner of payment and of reporting, causing a delay in payment.

3) This area of activity is designated to finance several main subjects:

- Training of income maintenance recipients and unemployed job seekers with less than 12 years of education in occupations that will enable them to find employment.

- Development of human capital in line with economic activity and growth, on various levels: technicians, practical engineers, and professional training in industries with high rates of foreign workers.

- Training for adolescents who have dropped out of formal educational institutions and preparation for work and IDF service.

- Supervision and regulation of the training market in classified and recognized occupations.

This area of activity was under budget by NIS 250 million, mainly due to the following factors:

- The Adult Courses program was under budget by NIS 95 million due to the fact that the courses include job placement, and payment is performed only after job placement of course graduates has been demonstrated, leading to a delay of payments.

- The Technicians and Practical Engineers Training program was under budget by NIS 59 million due to the fact that the budget is used to budget Mahat (the Government Institute for Technology and Science Education) colleges; the academic year is spread over two budget years, and the final payment is executed only after the performance of a review and the receipt of final data. This procedure takes time, leading to under-utilization.

- The Youth Training per Student program was under budget by NIS 54 million, for two reasons. First, an addition to the budget in the amount of NIS 26 million was received on November 29, 2006, and the ministry had insufficient time to utilize it. Second, this is a different type of activity in which the academic year only begins in September, so that only initial payments are transferred

Notes to the Budget Execution Report (continued)

at the end of the year, while the main part of the payment will be performed in 2007, after receiving actual attendance reports.

4) This area of activity is designated to finance the development of the knowledge-intensive product export industry, creation of jobs in technological fields, and forging of international agreements to advance the objectives of the Research and Development Law.

This area of activity was under budget by NIS 186 million in the Research and Development Grants program, for the following reasons:

- Under-execution in the amount of NIS 51 million resulted from designated revenue which was not received due to an inaccurate forecast, as it involves designated revenue that should have been received from royalties, which is composed of numerous variables; therefore, the ministry was unable to execute payments in respect thereto.

- The balance of the under-execution resulted from the budgeting method of Chief Scientist regulations – a budget error originating in the full budgeting of the expense in the cash budget instead of the commitment authorization budget, while full payment for the approved R&D program is performed only in the third year after closing the file; this is a lengthy procedure including a requirement from the industry for reports audited by an external accountant, an accountant's audit performed on behalf of the Office of the Chief Scientist with regard to reported expenses, and a technological examination by a professional examiner on behalf of the Office of the Chief Scientist.

5) This area of activity is designated to finance the encouragement of economic initiatives for physical capital investments in industry in Israel, construction and expansion of industrial plants, industrial buildings, hotels, and tourist enterprises at an international standard that will contribute to the Israeli economy.

6) This area of activity is designated to finance a special program created by the government following the reduction of grants under the Encouragement of Capital Investment Law. The program was designated for 52 communities. Within the program, projects were selected that could benefit the entire community, rather than the individual entrepreneur.

This area of activity was under budget by NIS 93 million, due to the Focused Treatment program, in which the budgeting of projects was faulty, in that equal criteria for distribution were not presented. The Accountant General therefore formed a committee to examine this matter. Performance of the project is delayed until this examination is concluded.

7) This area of activity is designated to finance the development and creation of sources of employment in peripheral communities, infrastructure development, industrial parks and marketing of the parks to entrepreneurs, and focused treatment of a predefined number of communities in Development Areas.

This area of activity was under budget by NIS 183 million, due to the Industrial Zone Development program, as follows:

A. NIS 33 million for designated revenue not received for the following reasons:

- Funds are collected from the entrepreneurs only after approval of the transaction by the Israel Land Administration; delays in this procedure led to a delay in the collection of the revenues.

- The preliminary step to marketing the properties is the issuance of a blueprint of the lot to the entrepreneur in order to collect funds from the entrepreneur. This step is performed by the

Notes to the Budget Execution Report (continued)

companies selected in a tender. In early 2006, delays formed in the tender to select these companies, leading to a slowdown in the pace of marketing and of revenues.

B. The balance of the under-execution resulted from new contractual engagements approved in September, where the implementation of new projects could begin only after the approval.

34. Ministry of Justice

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0801	Management and headquarters	1	686	(122)	515	(81)	171	(42)	75%
0802	Office of the State Attorney	2	162	(7)	158	(5)	4	(2)	98%
0803	Registration and administration of property and assessment	3	328	(257)	131	(124)	197	(133)	40%
	Others		126	(4)	50	(3)	76	(1)	40%
	Total expenses		1,302	(390)	854	(213)	448	(178)	66%

1) This area of activity is mainly designated to finance:

- Payments of salaries to employees of the ministry's management and units.
- Legal counsel to the government, and other services such as the employment of contractors and advisors.
- Administration – salaries of administrative employees, vehicle maintenance, and routine expenses of all ministry units, such as maintenance, operations, municipal taxes, post, telephones, rent, parking, training and continued education, travel abroad, security, IT, and more.
- Payments under the Legal Aid Law (expenses for legal aid in civil matters to applicants with limited financial means) and payment of salaries of legal aid employees.
- Payments under the Public Defender Law (expenses for legal representation in criminal matters to suspects, detainees, etc.) and payment of salaries of public defense employees.
- Professional units administration – salaries, operations, and IT payments for the following professional units: the Council of Chartered Accountants, the Real Estate Agents Registrar, the Council of Land Appraisers, the Department for Licensing Private Investigators and Security Services, the National Center for Mediation and Conflict Resolution, and the Department of the Rights of Jews from Arab Countries.

This area of activity was under budget by NIS 171 million, mainly due to the following causes:

- Under-execution in the amount of NIS 45 million resulted from designated revenue items budgeted according to estimates higher than actual execution.
- Under-execution in the amount of NIS 12 million resulted from the inclusion of the Custodian General budget regulations under the Administration program, whereas execution in respect of these regulations was recorded under area of activity 08-03 (Custodian General).

Notes to the Budget Execution Report (continued)

- The balance of the under-execution resulted from the fact that the ministry's budget was approved in June 2006, so that most of its contractual engagements started mid-year.

2) This area of activity is designated to finance payment of salaries to all employees of the Office of the State Attorney, the office's expense for the administration of trials, and payments of civil compensation.

3) This area of activity is designated for salary, IT, and operation payments of the following units: the Department of Land Settlement Registration, the Patent Registrar, the Companies Registrar, the Department of the Custodian General and Official Receiver, the Land Assessment Division, the Endowment Funds Registrar, the Registrar of Nonprofit Organizations, and the Custody Courts.

   This area of activity was under budget by NIS 197 million, mainly due to the following causes:

   - Under-execution in the amount of NIS 133 million resulted from non-execution of designated revenue – in the ministry's budget, under the Custodian General program, designated revenues from estates are budgeted in the amount of NIS 100 million. In practice, revenues are received by the Custodian General and recorded in its books, and do not pass through the ministry's budget.

   - Most of the contractual engagements of the units: Patent Registrar, Companies Registrar, and Nonprofits Organizations Registrar started in mid-year due to the delay in the approval of the ministry's budget, and the dates of payment have not yet arrived.

35. Electricity Supervision Authority

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
54	Supervisory bodies		13	-	10	-	3	-	79%
	Total expenses		13	-	10	-	3	-	79%

36. Ministry of Finance

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0501	General area of activity	**1**	121	(10)	89	(3)	32	(7)	74%
0502	Centralized government services	**2**	123	(5)	102	(3)	21	(3)	83%
8305	Merkava and Israel Government Portal	**3**	135	(1)	102	(1)	33	-	76%
	Others		161	(38)	110	(37)	51	(1)	68%
	Total expenses		540	(55)	403	(44)	137	(11)	75%

1) This area of activity is designated to finance:

   - Routine expenses, including training, continuing education, and maintenance of technical systems, of the divisions of the Ministry of Finance.

Notes to the Budget Execution Report (continued)

- The Office for Personal Compensation from Abroad, which includes the handling of claims by eligible residents of Israel for health-related compensation from the German government; handling of convalescence pay for disabled persons; and the transfer of current information to German authorities in various areas.
- Payment of salaries to employees of the Pensions Administration.
- The Missing Persons' Assets Division – sale of assets and rights of missing persons by the Custodian General.
- Economics and Research Division – economic consulting to the ministry, including contacts with entities and investors in Israel and worldwide interested in descriptions of the condition of the economy.

2) This area of activity is designated to finance those divisions whose activity relates to all government units, including the budgeting of the activity of the government (Budgets Division), the activity of the Accountant General Division, the maintenance of economic services in the United States, and supervision and control of the Finance Ministry's activity at the Internal Audit Unit.

3) This area of activity is designated to finance:

- Merkava – an integrative information system consolidating the management of all work processes and resources of the organization, in order to improve work processes.
- Israel Government Portal – the government's deployment of virtual service centers available to the public at any time.

37. Ministry of Immigrant Absorption

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
3001	General area of activity	1	126	(1)	114	-	12	(1)	90%
3002	Absorption services	2	374	(4)	280	(1)	94	(3)	75%
3003	Higher education students	3	122	(32)	84	-	38	(32)	69%
3005	Direct absorption program	4	640	-	634	-	6	-	99%
3006	Scientist absorption	5	165	-	129	-	36	-	78%
	Others		182	(1)	105	-	77	(1)	58%
	Total expenses		1,609	(38)	1,346	(1)	263	(37)	84%

1) This area of activity is designated to finance:

- General and administrative expenses – human resources, salary expenses, IT expenses, operations, security, planning, and research.
- Expenses of publishing information for immigrants.

2) This area of activity is designated to finance assistance to immigrants in finding employment, through training, career change training, incentives for employers, and assistance for special populations

Notes to the Budget Execution Report (continued)

(doctors, engineers, etc.), as well as for financing the absorption of immigrants from Ethiopia, including the handling of mobile-home sites, education, social absorption, and employment.

This area of activity was under budget by NIS 94 million, mainly due to the following causes:

- Under-execution in the amount of NIS 13 million in the Special Populations Assistance program resulted from the failure to report execution in a multi-year contract by the end of the year, so that, in accordance with the agreement, the payment was not executed. In addition, a regulation within this program in the amount of NIS 3 million was initiated only in December 2006; therefore, no payments were made from this regulation.

- Under-execution in the amount of NIS 48 million in the Immigrant Occupation and Employment Program resulted from the fact that payments in this program are performed following approval by ministry committees. As the budget was approved in June 2006, the committees only convened in the middle of the year, so that a large part of the payments was not performed.

- Under-execution in the amount of NIS 8 million in the Entrepreneurship program, designated for loans to immigrants which are approved by a ministry committee, resulted from the same causes described in the preceding item.

3) This area of activity is designated to finance the Students Administration, which is a joint entity of the Immigration Absorption Ministry and the Jewish Agency, responsible for all handling of eligible immigrant students. In addition, the office provides tuition aid to some 10,000 students in higher education institutions.

4) This area of activity is designated to finance the payment of "absorption baskets" and "customs grants" to new immigrants, under law, and to finance housing solutions for immigrants.

5) This area of activity is designated to finance handling of immigrating or returning scientists and assisting them in joining research institutions and the business sector.

38. Ministry of Agriculture

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
3202	Supports for agricultural production	1	259	-	221	-	38	-	85%
3321	General area of activity	2	124	(12)	89	(5)	35	(6)	72%
3322	Activities for farmers	3	226	(69)	172	(60)	54	(8)	76%
3327	Investment grants	4	369	-	173	-	196	-	47%
	Others		239	(34)	146	(30)	93	(4)	61%
	Total expenses		1,217	(115)	801	(96)	416	(19)	66%

1) This area of activity is designated to finance the payment of subsidies for the production of eggs and poultry under the Galilee Law, the government's participation in insurance against natural damage and natural disasters, and support for various subjects, such as support for industries that contribute to land conservation, support for agricultural exports, and specific support for industries in crisis.

2) This area of activity is designated to finance:

Notes to the Budget Execution Report (continued)

- Routine operating activity of administrative units in the Ministry of Agriculture, which include the Chief Scientist, the Foreign Trade Center, the Planning Authority, and administration and services units.

- Plant protection and control services, Veterinary Services and the Veterinary Institute, the Fisheries Department, the Soil Conservation and Drainage Department, the Unit for Supervision of Movements of Plants and Animals from the Palestinian Authority, the ministry's districts, Training and Professional Services, and the Agricultural Investment Administration.

3) This area of activity is mainly designated to finance expenses for salaries and salary components to the ministry's field units, including Plant Protection, Veterinary Services, Fisheries, Land Conservation, and the ministry's districts.

   Most of the activity of these units is financed by fees and service charges.

   This area of activity was under budget by NIS 54 million, mainly due to the following causes:

   - The Veterinary Services program was under budget by NIS 9 million in designated revenues, due to non-collection of fees from farmers for inoculations and services for preventing diseases in cattle, livestock, and sheep, provided by the ministry under law.

   - An additional budget in the amount of approximately NIS 6 million was received in November, so that the ministry had insufficient time to utilize it.

   - Seasonal projects not carried out during the year due to the fact that the budget was only approved in June.

   - Suppliers who did not submit invoices to the ministry by the end of the year for current activities.

4) This area of activity is designated for the payment of investment grants, under the Encouragement of Capital Investment in Agriculture Law.

   This area of activity was under budget by NIS 196 million, due to the belated approval of the ministry's budget, so that no approvals for investments were issued to farmers in the first half of the year.

   Upon the approval of the budget, approvals for investments were issued to farmers in the second half of the year, leading to a delay in the submission of execution reports by those farmers. The ministry did not pay the farmers as long as the execution reports had not been received.

Notes to the Budget Execution Report (continued)

39. Ministry of Construction and Housing

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
2906	Salaries	1	133	-	124	-	9	-	93%
2908	Headquarters operations	2	165	(4)	86	(2)	79	(2)	52%
4209	Grants, interest subsidies	3	396	(28)	277	(8)	119	(20)	70%
4212	Grants for participation in home rental fees	4	1,247	(24)	1,054	(21)	193	(3)	83%
4213	Bank management fees	5	347	-	310	-	37	-	89%
7009	Loans for home purchases	6	2,193	-	1,843	-	350	-	84%
7067	Development activities	7	609	(259)	334	(232)	275	(26)	55%
7069	Current activities	8	1,089	(518)	512	(433)	577	(85)	47%
7070	Special projects	9	836	(518)	208	(366)	628	(152)	25%
7072	Financing of continued program	10	720	(3)	494	(1)	226	(2)	69%
	Others		93	(6)	0	-	93	(6)	0%
	Total expenses		7,828	(1,359)	5,242	(1,063)	2,586	(296)	67%

1) This area of activity is designated to finance payment of salaries to employees of the ministry, including all components: peak manpower overtime, incentive pay, vehicle maintenance, and retirement expenses.

2) This area of activity is designated to finance expenses of routine activities, including payment to consultants, administration, publications, the Neighborhoods Social Rehabilitation project, the Contractors Registrar, and management of the ministry, e.g. consultants, appraisals, etc.

   This area of activity was under budget by NIS 79 million, mainly due to the following causes:

   - The Neighborhoods Rehabilitation program was under budget by NIS 21 million. The under-execution resulted from the belated approval of the state budget (in June 2006), which caused a delay in the formation of new obligations; due to the fact that this program involves long-term activities conducted throughout the year, no payments for the program were made at all.

   - The Administration program was under budget by NIS 30 million, due among other factors to an additional budget received in December for renovation of the ministry, which the ministry had insufficient time to utilize.

3) This area of activity is designated to finance grants and interest subsidies as part of aid in the form of mortgages granted to eligible persons by the Housing Ministry.

   This area of activity was under budget by NIS 119 million, mainly due to the following causes:

   - The method of recording mortgages changed in 2006, so that the capitalized amount of the total subsidy is allocated over the entire period of the loan, rather than in a single amount at the date of granting the loan, as was the practice in the past. Due to the change in method, subsidy funds remained that were not transferred this year and will be transferred to subsequent years. The change in method also led to a change in recording the subsidy, so that part of it is recorded in a different area of activity rather than under this area of activity.

Notes to the Budget Execution Report (continued)

- The budget estimate was incongruent with the volume of mortgage seekers, so that actual mortgages granted decreased in 2006.

- Under-execution in the amount of NIS 20 million resulted from unrealized designated revenues.

4) This area of activity is designated to finance rent assistance granted to eligible persons by the Housing Ministry.

   This area of activity was under budget by NIS 194 million, as a result of a change in the format of rental payment transfers to eligible persons. Under the new format, payments to eligible persons are transferred each month (for a period of three months to one year), so that smaller amounts were transferred. The under-execution is nonrecurring, with the exception of future changes in eligibility rules or changes due to the number of eligible persons.

5) This area of activity is designated to finance payment of fees to entities that perform activities related to the provision of rent assistance to eligible parties for the ministry, such as verification of eligibility and transfer of the monetary aid to the eligible persons.

6) This area of activity is designated to finance loans for home purchases to eligible persons from the ministry, according to the type of population, such as: new immigrants, long-term residents, homeowners, Kibbutzim, and Moshavim. This activity is influenced by market demand due to unexpected external factors, such as changes in the dollar exchange rate, increases in housing prices, the security situation, etc.

   This area of activity was under budget by NIS 350 million, due to a deviation in the estimate on which the budget was based. The decreased execution and realization of mortgages by persons eligible for aid from the Housing Ministry in 2006 was incongruent with the estimate, leading to under-execution.

7) This area of activity is mainly designated to finance development activities, such as land reserve planning, measurement, project management, development works, construction, renovation, and operation of hostels, construction of public institutions, and completion of development in established neighborhoods, as well as all work required in order to implement the disengagement plan, including the acquisition of mobile structures (such as "caravillas"), renovation of buildings, and development work necessary to set up the sites used to receive evacuees.

   This area of activity was under budget by NIS 275 million. The under-execution resulted from the lengthy development processes, from the preparation of plans to the actual implementation of development work, in coordination with numerous external parties, such as Israel Electric Corporation, the Israel Antiquities Authority, Bezeq, etc. The aforesaid development work was performed within multi-year contractual engagements. In most cases, this work is performed over periods of several months to several years, far longer than a single calendar period. In addition, the approval of the state budget only in June caused additional lag in the execution of the development work, and subsequently increased under-execution in this area of activity.

8) This area of activity is designated to finance a wide variety of activities in various fields performed by the ministry, including activities related to physical rehabilitation of neighborhoods, infrastructure development in minority communities, construction of religious institutions, activities related to rural construction (development work, planning, measurement, project management), construction of public institutions, and infrastructure subsidies in rural communities under government resolutions. This area of activity also includes the purchase of homes for disabled persons, evacuation from sites designated for development and marketing, renovation and maintenance of public housing, agreements with Amidar and Shikmona regulating the management of public housing, and indemnification of Amigur for purchases of homes.

Notes to the Budget Execution Report (continued)

This area of activity was under budget by NIS 577 million, mainly due to the following causes:

A. Lengthening of development processes, from the preparation of plans to actual execution of development work.

B. Under-execution in the amount of NIS 159 million in an agreement with Amidar resulted from the adjustment of the fees paid to the company to changes in the property inventory during the course of the year. As a result of the sale of homes in sales campaigns during the year, the ministry pays lower management fees.

C. Under-execution in the amount of NIS 117 million for indemnification of Amigur for the purchase of homes resulted from incorrect budgeting of the aforesaid amount in the cash budget instead of in the commitment authorization, as required.

D. Under-execution in designated revenue in the amount of NIS 85 million mainly resulted from the following causes:

- Revenues from marketing of land in the Druze and Bedouin sectors: due to the belated approval of the state budget, most marketing activity was conducted at the end of the year; therefore, only a relatively small part of the revenue was received, leading to under-execution in revenues.

- Revenues related to the closed monetary economy in rural construction: budgeting of revenues from development repayments related to rural construction was high compared to actual repayments received.

- Revenues from rent under the Amidar agreement: the revenues did not include revenue from December, which are not received until January. In addition, the inventory of homes managed decreased due to the sale of homes to tenants in sales campaigns. As there are fewer homes, the volume of rent revenues decreased, leading to under-execution in revenues.

9) This area of activity is designated to finance construction, management, and development of sites marketed by the Housing Ministry, such as: Modi'in, El'ad, Ma'ale Edumim, Homat Shmuel, and Rosh Ha'ayin.

This area of activity was under budget by NIS 628 million, due to the following causes:

- Under-execution in the amount of NIS 476 million resulted from the same causes described in Section 7.

- Under-execution in designated revenue in the amount of NIS 152 million resulted from the fact that revenues related to projects managed within the closed monetary economy were budgeted when information was not yet available with regard to the volume of marketing activity to be carried out in practice and the volume of the resultant revenues. The high budgeting led to under-execution in revenues.

10) This area of activity is designated to finance obligations from past years for the execution of all various development activities within the ministry's operations.

This area of activity was under budget by NIS 226 million, for the same reasons described in Section 7.

Notes to the Budget Execution Report (continued)

40. Nativ

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0415	Nativ	0	-	4	-	(4)	-	Deviation	
	Total expenses	0	-	4	-	(4)	-	Deviation	

The Nativ comptrollership operated in 2006 until September; during the month of September, the comptrollership was closed, and the budget regulations were transferred in full to the responsibility of the comptrollership of the Office of the Prime Minister. The execution presented for this comptrollership refers to the months of January to September, while execution from October to December appears under the comptrollership of the Office of the Prime Minister, leading to an exception in the budget of that comptrollership.

41. Ministry of Public Security

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0710	General area of activity	**1**	141	(1)	82	(1)	59	-	58%
5210	Ministry of Public Security	**2**	103	-	76	-	27	-	74%
	Total expenses		244	(1)	158	(1)	86	-	65%

1) This area of activity is designated to finance payment of salaries, operational activities, administrative activities, and projects.

   This area of activity was under budget by NIS 59 million in the Promotion of Projects Contingent upon Agreements program. The ministry was provided in advance with a cash budget for this program, over the entire project. Utilization of the budget is contingent upon approval by the Budgets Division, so that any project which the ministry wishes to initiate is transferred to the Budgets Division for examination and approval. The main projects handled by the Budgets Division in 2006 were: prison construction, addition of imprisonment places, various technological developments, and the establishment of a financial unit for the investigation of severe crimes. Payment is performed according to the progress of the projects, so that obligations were formed that have not yet been paid.

2) This area of activity is designated to finance the ministry's participation in construction projects of the Israel Police and Israel Prison Service, which include the construction of police stations and prisons.

Notes to the Budget Execution Report (continued)

42. Office of the State Comptroller

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
1102	Execution of reviews	1	164	-	132	-	32	-	80%
1104	One-time expenses	2	83	-	3	-	80	-	3%
	Others		77	-	56	-	21	-	72%
	Total expenses		324	-	191	-	133	-	59%

Note: The budget of the State Comptroller and its execution are determined by the State Comptroller with the approval of the Finance Committee, without involvement of the government.

1) This area of activity is mainly designated to finance salaries of employees engaged in current reviews in government ministries, in the defense system, and in local authorities, automatic data processing, and reviews at embassies abroad, as well as to finance the ministry's routine operating expenses.

2) This area of activity is designated to finance:

   - Upgrades of the IT, construction, and housing areas.
   - Transfer of the State Comptroller offices in Haifa from their current location.

   This area of activity was under budget by NIS 80 million as a result of projects whose implementation began in 2006, for which payment is performed according to the rate of progress of work on the project. The projects were not completed in 2006; therefore, full payment was not made for these projects.

43. Ministry of Environmental Protection

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
2601	General area of activity	1	140	-	112	-	28	-	80%
2603	Activity of ministry units	2	116	(2)	37	(1)	79	(1)	32%
5403	Supervisory authorities	3	151	-	134	-	17	-	89%
	Others		153	(51)	55	(40)	98	(11)	36%
	Total expenses		560	(53)	338	(41)	222	(12)	60%

1) This area of activity is designated to finance expenses of salaries, operations, IT, and housing of the Ministry of Environmental Protection and its districts.

2) This area of activity is designated to finance the routine activity of the ministry's units, such as:

   - Water pollution prevention – this unit carries out various activities, such as: rehabilitation of streams damaged by waste pollution; preparation of statutory master plans for rehabilitation of

Notes to the Budget Execution Report (continued)

streams; laboratory tests of water samples; surveys to assess the extent of pollution from gasoline facilities; etc.

- Promotion of environmental infrastructures at factories and local authorities.

- The environmental planning system – aimed at integrating environmental considerations within planning and decision making processes of planning institutions in order to prevent environmental hazards and dangers, while preparing guidelines for environmental impact surveys and examining the surveys.

- National air monitoring system – in 2006, electronic signs were posted to present the air quality index in real time, and a mobile monitoring station was operated.

- Education and public relations – development of curriculum programs on the subject of the environment.

- Other activities – research and surveys in all areas of the ministry's activity, supervision and enforcement activities against polluters, supervision of ionizing and non-ionizing radiation, pest control, various professional projects, etc.

This area of activity was under budget by NIS 79 million, mainly due to the following causes:

A. Under-execution in the amount of NIS 43 million – an additional budget in the amount of NIS 48 million was received in August 2006. Of this amount, NIS 5 million were allocated to operations and training items, which were executed in full. The remaining budget in the amount of NIS 43 million was not utilized, for the following reasons:

   - NIS 11 million were allocated for support of projects on environmental subjects which are mainly carried out through local authorities. Commitments were only issued in November and December 2006, after a process of calls for proposals; therefore, the budget was not executed at all.

   - NIS 32 million were allocated to various activities which required the publication of public tenders and/or tender exemption approvals. As a result, the tenders were published and the winners were selected only at the end of the year; therefore, in these activities too there was no cash execution at all.

B. Under-execution in the amount of NIS 31 million – projects with a duration of more than two years or projects implemented in stages were budgeted in past years under the ordinary budget instead of the commitment authorization budget, leading to under-execution in the current year. According to an agreement reached with the Budgets Division, this issue will be addressed as of 2007, with financing plans to be formulated for each such project.

3) The budget of the Israel Nature and Parks Authority is partly financed by the government and partly derived from revenues from the Authority's activity (such as entrance fees of sites), while budget execution is performed independently by the Authority's management. The budget is designated for operating expenses, maintenance and supervision in nature preserves and parks, preservation and development of sites, financing of research, and more. In addition, in order to enlarge the Authority's revenue base, the government participates in the financing of financial initiatives.

Notes to the Budget Execution Report (continued)

44. Ministry of National Infrastructures

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
3210	Fuel industry expenses	1	131	-	112	-	19	-	85%
8304	Miscellaneous investments	2	188	-	122	-	66	-	65%
	Others		214	(7)	138	(7)	76	-	65%
	Total expenses		533	(7)	372	(7)	161	-	70%

1) This area of activity is designated to finance maintenance and replenishment of the emergency supply of fuels (civilian and military) and to minimize illegal fuel sales.

2) This area of activity is designated to finance the performance of tasks related to planning, construction, operation, and supervision in the construction of the natural gas conduction system.

   This area of activity was under budget by NIS 66 million, due to long-term projects for the construction of the natural gas conduction system. Payments are executed based on quarterly invoices submitted by the executing company, after approval by the ministry.

   The under-execution in the amount of NIS 66 million mainly resulted from two main causes:

   - Payments not approved by the ministry by the reporting date due to noncompliance with agreements.
   - Payments for invoices whose date of settlement has not yet arrived, under the agreements.

45. Settlement Division

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
28	Settlement Division	1	170	(36)	104	(27)	66	(9)	61%
	Total expenses		170	(36)	104	(27)	66	(9)	61%

1) The Settlement Division was established in the late 1960s to develop new settlements in the Judea and Samaria, Jordan River Valley, and Golan regions. In 2002, the government passed a resolution to expand the division's activity to the Negev and Galilee regions as well. For that purpose, the regions under the division's responsibility were divided geographically.

   The budget is designated to finance the division's activities, as follows: assistance in the construction and development of settlements, initiatives and promotion of outline plans and regional plans, preservation of land and security components, foundation of Nahal outposts and handling of the outposts in all areas of Israel, assistance in construction of infrastructure and means of production for settlements/settlers, social activities and settler absorption, absorption of immigrants to settlements, participation in regional development and support systems, and special projects as directed by the government of Israel.

Notes to the Budget Execution Report (continued)

This area of activity was under budget by NIS 66 million, mainly due to the following causes:

A. Under-execution in the amount of NIS 55 million resulted from additional budgets (some in the form of commitment authorizations) which were received in November and December 2006, and therefore have not yet been executed.

B. Under-execution in the amount of NIS 9 million resulted from designated revenue items, as follows:

- NIS 6 million resulted from a delay in the transfer of revenues collected by the Arrangements Administration – the collection budget was amended in the last year, from NIS 6 million (as in the last three years) to NIS 20 million. By the end of 2006, the Administration had transferred just NIS 14 million to the division. An additional amount of NIS 8 million will be transferred in early 2007 (the delay resulted from technical causes related to locked-in deposits).

- NIS 3 million resulted from the cessation of transfers of payments to the division by the Idud company, which collects debts from settlers, due to a dispute between the division and the company concerning the height of fees paid, among other things.

46. Water Commission

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
3206	Supports for water prices	1	426	(40)	297	-	129	(40)	70%
7319	Development of water sources	2	141	-	108	-	33	-	77%
7322	Sewage facilities	3	503	(20)	325	-	178	(20)	65%
	Others		297	(4)	127	(1)	170	(3)	43%
	Total expenses		1,367	(64)	857	(1)	510	(63)	63%

1) This area of activity is designated to finance:

- Supports for water producers (private and Mekorot) for water purchases and for purchases of desalinated water. This refers to supports for private water producers and for Mekorot due to high production costs. The state collects production levies from the producers, according to an approved allocation, and approves supports according to rules (see Note 15 with regard to contractual engagements).

- Supports for the Jordan Valley water association and to Mekorot for water infusion from the Yarmuch stream, paid according to actual water quantities.

This area of activity was under budget by NIS 129 million, mainly due to the following causes:

- NIS 77 million – due to a delay in the transfer of data from Mekorot with regard to water purchases and water infusion, related to cost agreements (these sums have yet to be paid in early 2007).

- NIS 6 million – support for private water producers – not all requests were submitted by the producers.

Notes to the Budget Execution Report (continued)

- NIS 6 million – non-infusion of water due to low quantities in the Yarmuch.

2) This area of activity is designated to finance support for the development of water facilities for the reclamation of treated wastewater for agricultural use.

This area of activity was under budget by NIS 33 million, mostly due to the fact that payments are performed according to the rate of actual execution, following approval of the invoices. As invoices have yet to be submitted, payments were not performed.

3) This area of activity is designated to finance aid to local authorities in the form of loans and grants for the purposes of sewage infrastructure development throughout Israel, in order to prevent the contamination of ground water by sewage waste.

This area of activity was under budget by NIS 178 million, mainly due to long-term projects paid according to actual execution following approval by supervisors and engineers on behalf of the local authorities. This approval has yet to be received; therefore, the payments were not yet executed.

47. Jaffa Port

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
9501	Jaffa port expenses		4	-	3	-	1	-	91%
9571	Jaffa port revenues		(4)	-	(3)	-	(1)	-	91%
	Total expenses		0	-	0	-	0	-	0%

48. Coordination of Activities in the Territories

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
1720	Coordination and Liaison Administration, Judea and Samaria region	1	143	(57)	88	(33)	55	(24)	62%
	Others		53	(5)	32	(1)	21	(4)	60%
	Total expenses		196	(62)	120	(34)	76	(28)	61%

(*) Coordination of activities in the territories includes the Erez Region Coordination and Liaison Administration.

1) The unit coordinating government activities in the Territories reports to the Ministry of Defense. The unit's mission is to serve as a professional arm for liaison and coordination in civilian matters related to the Palestinian population in the Territories.

The unit serves as a knowledge center for actions by government agencies, the IDF, and the various security forces involving the Palestinian Authority and international organizations.

This area of activity was under budget by NIS 56 million, due to the following factors:

Notes to the Budget Execution Report (continued)

- Under-execution in the amount of NIS 24 million resulted from inaccurate budgeting of designated revenues.

- Under-execution in the amount of NIS 32 million resulted from the fact that the civilian administration's activity depends upon sensitive policy decisions and requires coordination between numerous parties in Israel and in the Judea and Samaria region. Thus a considerable gap has formed between the date of budgeting and the date of execution of most of the civilian administration's projects.

49. Israel Mapping Center

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
4301	General area of activity	1	132	(24)	78	(13)	54	(11)	59%
	Total expenses		132	(24)	78	(13)	54	(11)	59%

1) The office serves as an administrative body and as the entity responsible for the preparation of national infrastructures in the following areas:

- Geodesy: determining the size and shape of the earth.

- Cadastre: division of land into blocks and parcels for the purposes of land registration.

- Geo-information: maintenance of the national geographical information system.

This area of activity was under budget by NIS 54 million, as a result of:

- Under-execution in the amount of NIS 43 million resulted from delays in tenders announced towards the end of the year due to the fact that the state budget was only approved in June.

- Under-execution in the amount of NIS 11 million in revenue-contingent expenses resulted from lower-than-expected activity of the ministry, as a result of which the ministry did not generate the full revenue budgeted in this area of activity; therefore, the expense was not executed.

50. Central Elections Committee

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
1430	Expenses for Knesset elections	1	218	-	168	-	50	-	77%
	Total expenses		218	-	168	-	50	-	77%

Note: The budget of the Central Elections Committee and Knesset elections expenses is submitted to the Knesset Finance Committee by the Chairman of the Central Elections Committee and approved by the Knesset Finance Committee.

1) This area of activity is designated to finance the following activities:

Notes to the Budget Execution Report (continued)

- Preparation and purchase of equipment required for the forthcoming elections, such as: office supplies and supplies for ballot boxes.
- Coverage of expenses for maintenance of the logistical center where non-perishable supplies are prepared and stored during the pre-election period and during the elections.
- Examination of ballot box locations throughout Israel.
- Development of a new IT system for the management of laws under the Elections Law.

This area of activity was under budget by NIS 50 million, mainly due to the following causes:

- Under-execution in the amount of NIS 23 million was budgeted within the cash budget for the elections computerization project, which is implemented over the course of several years; payment for the project will be performed upon completion of the work.
- Under-execution in the amount of NIS 22 million resulted from the fact that the cost estimate for the elections was performed based on the maximum expenditure, while actual costs were lower.

51. Government Housing Administration

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
51	Government Housing Administration	1	136	(89)	82	(63)	54	(26)	60%
	Total expenses		136	(89)	82	(63)	54	(26)	60%

1) The Government Housing Assets Administration is responsible for the management of the housing assets of government ministries (excluding functional housing, such as hospitals, schools, and defense facilities). This is in order to maximize size advantages in handling the housing of all government ministries, on one hand, and to standardize the rules and conditions for the residences of the ministries, on the other hand. In recent years, the Government Housing Administration has been working to move government ministries to government campuses.

Under-execution in the amount of NIS 54 million mainly resulted from the following causes:

- Under-execution in the amount of NIS 28 million resulted from a different pace of progress than expected in various projects.
- Under-execution in the amount of NIS 9 million resulted from over-budgeting of a designated revenue regulation.
- Under-execution in the amount of NIS 4 million resulted from a delay in receiving designated revenue from the municipality of Haifa.

Notes to the Budget Execution Report (continued)

52. Ministry of Tourism

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
3703	Israel Tourism Marketing Administration	1	205	(10)	135	(2)	70	(8)	66%
7801	Development of infrastructures	2	208	(25)	72	-	136	(25)	35%
	Others		154	(2)	123	-	31	(2)	80%
	Total expenses		567	(37)	330	(2)	237	(35)	58%

1) This area of activity is designated to finance the Israel Tourism Marketing Administration, which is responsible for marketing tourism inside and outside Israel. Most of its activity is conducted abroad through tourism marketing bureaus throughout the world. The bureaus work to encourage incoming tourism to Israel by various means, throughout the year (seminars, public relations, advertisements, sales and image, marketing agreements with tourism wholesalers, etc.).

   This area of activity was under budget by NIS 70 million, mainly due to the following reasons:

   A. The marketing budget received at the beginning of the year was low, and the ministry used it in order to cover obligations from the preceding year. Additional budgets were only received towards the middle of the year, allowing new contractual engagements to be made.

   B. Contractual engagements are for a period of one year; therefore, it is not possible to pay for them prior to execution.

   C. Under-execution in designated revenue in the amount of NIS 8 million resulted from over-budgeting.

2) This area of activity is designated to finance infrastructure development in two main areas:

   - Development of tourism infrastructures through the Israel Government Tourist Corporation (hereafter IGTC) – this activity includes tourism infrastructures in tourism towns and various tourism centers in Israel, according to the work plan and development policy set forth by the management of the ministry.

   - The Dead Sea Protection Project – this project deals with protection against salt sedimentation and against the rising level of the floor of the Dead Sea Industries pool, which threatens to flood the foundations of hotels and various infrastructures. The project is in the process of implementation, according to a work plan approved by a committee handling this subject.

   This area of activity was under budget by NIS 136 million, due to the following causes:

   A. Under-execution in the amount of NIS 96 million resulted from the Regional Infrastructures Development program, as follows:

      - Under-execution in the amount of NIS 85 million resulted from long-term work started in 2005 and not yet completed.

      - New orders were issued to the IGTC in October-December 2006 for dozens of projects, following a lengthy procedure of approval by an interministerial committee. Therefore, by the

Notes to the Budget Execution Report (continued)

end of the budget year, NIS 11 million had not yet been paid in respect of obligations planned for this year.

B. Under-execution in the amount of NIS 8 million resulted from the Dead Sea Protection program – due to disputes between the Accountant General Division and the Tamar Regional Council with regard to the contractual engagement for the development of sewage infrastructures, the agreement was only signed at the end of December 2006.

C. A long-term contractual engagement with consultants and planners in the amount of NIS 7 million, which has yet to be executed.

D. Under-execution in the amount of NIS 25 million resulted from uncollected designated revenues.

53. Government Printer

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
8903	Government Printer	1	72	-	36	-	36	-	50%
8904	Reserve for increases in prices		1	-	0	-	1	-	0%
8989	Government Printer revenues		(73)	-	(40)	-	(33)	-	55%
	Total expenses		0	-	(4)	-	4	-	0%

54. Government Vehicles Administration

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0506	Auxiliary services for government offices	1	84	(62)	16	(34)	68	(28)	19%
	Total expenses		84	(62)	16	(34)	68	(28)	19%

The Government Vehicles Administration is an administrative unit in the Accountant General Division. The unit's main role is to supply vehicle services to all government offices and their auxiliary units, as well as to supervise the manner of use of these resources, including through the stipulation of instructions and enforcement of compliance.

This area of activity was under budget by NIS 68 million, mainly due to the following cause: the state budget was only approved in June 2006; therefore, the Vehicles Administration issued a vehicle replacement plan only in the third quarter of the year. Vehicles were received and paid for in 2007.

(*) In 2006, a decision was made to issue a tender for the acquisition of most government vehicles and management of the vehicles using the operating lease method (see Note 6).

Notes to the Budget Execution Report (continued)

55. National Religious Services Authority

Activity area	Area of activity	Note	Budget		Execution		Difference		Percent executed
			Gross	Designated revenue	Gross	Designated revenue	Gross	Designated revenue	Gross
0408	Religious services	1	345	-	255	-	91	-	74%
	Others		11	-	5	-	7	-	45%
	Total expenses		356	-	260	-	98	-	73%

1) This area of activity is mainly designated to finance:

- Participation by the National Religious Services Authority in the budget of the religious councils at a rate of 40% of their routine activity, including the payment of salaries to administrative employees, rabbis, butchers, Mikveh attendants, and Kessoth, training for religious council employees, various initiatives, and maintenance and renovation of Iruvin (boundaries) and Mikvaot (ritual baths).

- Supervision and control of religious councils.

- Operation and development of cemeteries throughout Israel.

- Renovation and development of religious buildings, such as synagogues and Mikvaot.

This area of activity was under budget by NIS 91 million, mainly due to the following causes:

A. Under-execution in the amount of NIS 36 million resulted from the fact that the National Religious Services Authority participates in the development and maintenance of cemeteries throughout Israel. The budget for the project was received in advance, but because the projects extend over several years, payments are performed according to the rate of actual progress. The actual rate of progress was incongruent with the budget estimate.

B. Under-execution in the amount of NIS 21 million resulted from the fact that the handling of the development of religious buildings was transferred from the Housing Ministry to the National Religious Services Authority towards the end of 2006; therefore, the project has not yet been completed. The project will be carried out during the course of 2007.

C. Under-execution in the amount of NIS 13 million resulted from an addition to the budget at the end of 2006 for various activities at religious and regional councils, such as training, Iruvin, diesel fuel, etc. As invoices for these expenses have yet to be transferred from the regional councils, payments have not been transferred.

D. Under-execution in the amount of NIS 11 million resulted from an addition to the budget in December to finance repayment of salary and pension debts to religious council employees, to be performed in January 2007.

Note 1 – Reporting Rules and Accounting Policy

A. General

The financial information of the Israeli government as at December 31, 2006 (the "Report") is submitted in accordance with Section 12 of the State Comptroller Law, 5718-1958 [Consolidated Version] and in accordance with Section 49A of the Foundations of the Budget Law, 5745-1985.

B. Definitions

In this Report -

Investee Companies – Companies, including partnerships or joint ventures, the state of Israel's investment in which is included in this Report based on the equity accounting method.

CPI - the Consumer Price Index published by the Central Bureau of Statistics.

Bank of Israel Report – Annual Financial Statements of the Bank of Israel for 2005 – the Payment and Settlement System (published in March 2006). As of the date of publication of this Report, the Bank of Israel report for 2006 has not yet been published.

C. Distinction between current and non-current items

In accordance with generally accepted accounting practices, current and non-current items are to be presented separately, with separate disclosure for each asset and liability regarding amounts that are to be realized or repaid in the coming year versus amounts to be realized or repaid after a period longer than one year. Because the existing computerized system does not support the management of monetary balances, this Report contains a separation that was carried out manually with respect to most balances in the balance sheet. As the transition to the Merkava system is completed, it will become possible to make a more accurate presentation of the information.

D. Comparative information

Generally accepted accounting practices require the presentation and disclosure of comparative information relating to all amounts presented in the financial statements of previous reporting periods. This Report includes full comparative data.

E. Foreign currency and linkage

Assets and liabilities that are linked to the CPI are included based on linkage to the known CPI as of the date of this Report, or according to the CPI for the month of this Report, depending on their terms. Assets and liabilities denominated in foreign currencies or linked to such currencies are included in this Report based on the representative exchange rates published by the Bank of Israel as of the reporting date.

The following are the details regarding the CPI, exchange rates, and the rate of change therein:

Note 1 – Reporting Rules and Accounting Policy (continued)

	December 31		Change over the period January - December	
	2006	2005	2006 (%)	2005 (%)
Consumer Price Index (in points)	102.9	103	(0.1)	2.4
U.S. dollar exchange rate (in NIS per USD 1)	4.225	4.603	(8.21)	6.84
Euro exchange rate (in NIS per EUR 1)	5.564	5.446	(2.16)	(7.32)

F. Inventory

(1) Current inventory

In accordance with Government Accounting Standard No. 12 regarding inventory, inventory is to be presented according to cost or net realizable value, whichever is lower. Cost is to be determined in accordance with a standard method, such as "first in first out" (FIFO), moving average, etc.

In this Report, inventory value has been determined on a cost basis, without examining whether its value has been impaired as of the date of the Report.

In accordance with a work procedure established by the Accountant General, reports were received from most government ministries regarding their warehouse inventories. Of the reported inventory amounts, it was found that approximately 82% of the inventory is managed in accordance with accepted accounting methods, primarily using the moving average method as well as the FIFO method. Some of the reported inventory is managed according to the "last in first out" (LIFO) method and the last price method.

(2) Non-current inventory

Emergency inventory

- Most of emergency inventory (other than food inventory, which is presented based on the food list presented to the Accountant General – see Note 4(2) below) is presented in accordance with Government Accounting Standard No. 12, according to which inventory is measured at the lower of cost and net realizable value.
- Cost of inventory (other than food inventory) is managed using the moving average method.
- Inventory is presented after a provision for decline in value of slow and dead inventory, in accordance with management's estimates.

G. Fixed Assets

As part of the Merkava project, a fixed asset management process was initiated in 2004 at those ministries in which the system has been implemented.

Fixed assets presented in this Report include 5,000 buildings, of which 4,000 were assigned a financial value. These assets mainly consist of government housing properties administered by the Accountant General.

The presentation of the inventory of assets is incomplete. This is especially so with regard to:

- **State lands.**

Note 1 – Reporting Rules and Accounting Policy (continued)

- **State investments in infrastructures.**
- **Investments in the defense system.**
- **Assets abroad.**
- **Real estate and equipment assets.**
- **Assets under the B.O.T. method in which the state has rights, including the Kiryat Haleom parking lot, which is scheduled to be transferred to the state in 2023; the Energy Building, to be transferred to the state in 2022; the Herzeliya courthouse, to be transferred to the state when 20 years have elapsed from the issuance of a completion certificate (expected in June 2007); the Petach Tikvah courthouse, to be transferred to the state when 20 years have elapsed from the issuance of a completion certificate (expected in August 2007); and other assets.**

Additional steps are being taken in order to complete the inventory of assets, as part of the government housing assets survey, including:

1. **Update of the financial value of 1,000 buildings registered in the financial system without financial values.**
2. **Update of the government housing assets survey with regard to 13 assets under ownership and input of the assets in the Merkava system.**
3. **Continued setup of the information system regarding assets owned abroad by the Ministry of Foreign Affairs, the Ministry of Industry, Trade, and Labor, the Israel Police, the Ministry of Finance, and the Ministry of Tourism, comprising more than 110 properties under ownership, as well as update of data and input into the data format in the Merkava system (this process is to be completed subject to approval by the Department of Information Systems).**
4. **In accordance with the directive of the Attorney General, in the early 1990s, the Israel Land Administration, the Israel Mapping Center, and Mekorot started a project aimed at registration of all properties of the National Water Carrier, from the Kinneret lake to Rosh Ha'ayin (Stage I). An examination conducted by the Accountant General in 2002 revealed that during the project, the properties were not registered in the name of the state. The project was transferred to the Government Housing Administration and is currently in an advanced stage of implementation, scheduled for completion in 2008. As of the reporting date, over 100 property parcels have been registered in the name of the state. Some 450 additional parcels are in stages of expropriation and registration. In addition, the preparation of a new enterprise plan was completed for the National Water Carrier, Stage I, which will allow additional expropriations and the registration of some 1,000 additional parcels in the name of the state.**
5. **In June 2006, the Accountant General Division and the Israel Land Administration began to conduct an asset survey at government hospitals and to input the assets to the Merkava system, with the aim of achieving better management of state assets used by government hospitals, property allocation by the Israel Land Administration, new Urban Building Plans for the hospitals' needs, and return of unneeded lands to the state. The process was halted in July 2006, at the request of the Minister of Health, in order to examine the subject of the incorporation of hospitals, and is currently expected to be renewed.**
6. **The Ministry of Defense was contacted in order to update the inventory of state assets managed by the ministry. Near the reporting date, an initial (partial) report was received from the Ministry of Defense. These data have yet to be checked and processed by the Accountant General Division.**
7. **The Government Companies Authority, in coordination with the Accountant General, addressed a request to all government companies to submit a list of assets held by the companies, including state assets, by the end of 2006, in order to update the inventory of assets within the general**

Note 1 – Reporting Rules and Accounting Policy (continued)

information system. As of the reporting date, the Authority's response with regard to the list of state assets held by government companies has not yet been received.

8. **A work plan was prepared and approved by the Accountant General for the registration of assets included within the disengagement plan (the SELA Administration). Implementation of the work plan will proceed once approvals are received from the relevant parties and once budgetary resources are made available.**
9. **The construction of a system for the state's handling and tracking of compensation and expropriations of land by the state is currently under examination.**
10. **In addition, there are additional groups of assets whose construction has not yet begun, including school properties allocated by the state at no cost to local authorities, and measurement and control stations of the Water Authority.**

The following recognition and measurement rules were applied in the presentation of government housing assets:

- Cost – Nominal historical cost, net of accrued depreciation (see Note 6(2)(A) below).
- Fair value model – Fair value based on nominal data for December 2003, net of accrued depreciation (as at December 31, 2006; see Note 6(2)(B) below).

Due to constraints arising from the difficulty of locating original ownership documents and/or an inability to derive cost from old ownership documents, a model for the determination of fair value was applied to some of the assets. Thus the accounting policy applied in this Report may not be consistent, as required by basic accounting documents. A lateral examination of fixed asset groups for the purpose of implementing a uniform accounting policy will be performed concurrent with the implementation of the Merkava system.

H. Investments in Homes for Rent

Presented partly according to nominal historical cost, and partly according to an estimated realizable value (lower than the cost) determined by the Price Committee at the Ministry of Construction and Housing at the transfer of the homes in trust to housing companies for rental.

I. Handling of Debts to the Government

The database available to the Israeli government does not currently allow current monitoring of provisions for debts which are uncollectible, in the opinion of the parties responsible for debt collection. General or specific provisions for doubtful debts were made in the Report in certain cases only.

In 2005, the Accountant General appointed a committee to examine the issue of collection of debts to the government. The committee examined and mapped the various types of debts, examined the existing managerial, operational, and legal infrastructure and the supporting information systems, and delivered severe findings to the Accountant General with regard to the manner of handling of debts and debt collection by the state.

Note 1 – Reporting Rules and Accounting Policy (continued)

In accordance with the recommendations of the committee that examined the debt collection issue, an administrative unit was established at the Accountant General Division with the role of supervising, guiding, and controlling all activities of government ministries related to debt collection, with the exception of tax debts handled by the Tax Authority and tax debts handled by the National Insurance Institute (hereinafter: the "Collection Administration").

In 2006, the Collection Administration acted to identify and map registered debts payable to the government. The mapping process gave rise to an estimated volume of debts to the government of approximately NIS 10 billion. It is emphasized that this figure is not final, and it is still not possible to identify the volume of the segment of problematic debts. Furthermore, this amount does not constitute a sum of the debt aging reports of the various government ministries; instead, it is comprised of both revalued and nominal values, depending on the nature of the documentation at each government unit. The mapping process further indicates that collection is managed by the professional units based on a computer infrastructure that does not meet the basic requirements for proper collection process management.

In light of the above, several steps were taken in 2006 to improve the collection system, including the following:

1. **Publication of a Temporary Order instructing government ministry comptrollers to formulate a work plan on the subject of debt collection for 2006. In addition, ministry comptrollers were required to address the subject of collection in their work plans for 2007.**

2. **Guidance for the development of the collection module and the foreclosure module in Merkava.**

3. **Mapping of the Tax (Collection) Ordinance, and appointment of various comptrollers to the position of Head of Collection, in order to apply the ordinance.**

4. **Change in legislation in order to apply the Tax (Collection) Ordinance to additional payments owed to the government.**

5. **Guidance of the various governmetn ministries in locating the miscellaneous failures and increasing collection, including the construction of tenders in order to transfer collection to external entities, and formulation of collection campaigns and future payment capitalization campaigns.**

6. **Construction of a budget for the engagement of professional external collection experts to advise the Collection Administration, and to advise other government ministries through the Administration and at its discretion.**

7. **Examination and creation of a mechanism to carry out provisions for doubtful debts at all government ministries, in respect of the various debts.**

In addition, towards the end of the year, an external accounting firm examined the balance of material debts at the Ministry of Justice, the Ministry of Housing, the Ministry of Health, the Water Commission, the Ministry of Communications, the Ministry of National Infrastructures, and the Settlement Division, in order to determine whether these debts accord with the accounting definition of an asset and fulfill the criteria for recognition of an asset, and in order to examine the possibility of constructing a methodology for recording provisions for doubtful debts (see Note 3).

The Collection Administration is currently continuing its routine work to formulate a uniform methodology for handling debts at the various government ministries and to construct a legal and IT

Note 1 – Reporting Rules and Accounting Policy (continued)

infrastructure aimed at increasing the depth, strength, and efficiency of collection systems at government ministries.

J. Other Investments

The state's investments in companies in which the government of Israel has no material influence are presented according to historical nominal cost, with the exception of investments in companies in which the government lost its material influence during the reporting period, which are presented based on the equity accounting method at the date of realization of the government's holdings.

K. Investments in Investee Companies

Investments in investee companies in which the government of Israel has material influence or control are presented according to the state of Israel's stake in the shareholders' equity of each company. The determination of the value of the investments in these companies according to the equity accounting method is based entirely upon the companies' financial statements, some of which are unaudited and/or are not up to date.

In the preparation of this Report, the Accountant General performed no examinations to check the data; the data were taken "as is" from the financial statements of the companies or from data of the Companies Authority (see Appendix A).

This Report does not differentiate between companies which, according to GAAP, are controlled by the government of Israel, those that are jointly controlled, and those in which the state of Israel has material influence. In 2005, the Accountant General formulated a comprehensive format to examine control in the government sector, based on GAAP for this sector. This format was submitted to the Government Companies Authority during February of 2005, but the Authority has not yet responded. The format was also distributed to the Ministry of Health with regard to government hospitals and health corporations. The Health Ministry's data were transmitted to the Accountant General during 2005. These data were processed, giving rise to the conclusion that the Ministry of Health controls the hospitals and health corporations.

Unrealized gains arising from mutual transactions between the government and the government companies and among these companies themselves have not been cancelled in the calculation of the value of the government's holdings according to the equity accounting method.

Attached to this Report as Appendix A is a list of investee companies, including the percentages of the government's holdings and information regarding the original documents which were used to establish the value based on the equity accounting method (audited/draft statement), as well as companies which were not included because financial statements were not received.

L. Tradable Loans Managed at the Bank of Israel

Tradable loans issued on the stock exchange and nontradable bonds for pension funds are presented at nominal value, adding or deducting the premium or deduction formed at the date of issue, as required by GAAP. Loans linked to changes in the purchasing power of the shekel or the dollar are presented as revalued according to the linkage base.

Amortization of the premium or deduction is performed according to the effective interest rate method.

Note 1 – Reporting Rules and Accounting Policy (continued)

M. Obligation for Vacation Days

This report does not present the government's obligation for its employees' entitlement to vacation days, as required by GAAP. It will become possible to present this item as the MERKAVA system is assimilated within the government ministries.

N. Events after the Reporting Date

In accordance with GAAP, events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date on which the financial statements are approved for publication. Two types of events can be identified:

(1) Events that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and,

(2) Events that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

This Report discloses non-adjusting events after the reporting date, to the extent that the Accountant General received information regarding such events.

O. Impairment of Assets

In this Report, the need to perform amortization for impairment of assets was not considered. Accounting rules for the government sector regarding impairment of assets are significantly different with regard to a substantial part of the government's assets – those that do not generate cash flows. These rules were formulated as an International Accounting Standard in January 2005. The Accountant General intends to formulate criteria over the coming year for examining impairments on the basis of these rules.

P. Intangible Assets

Intangible assets presented in this Report primarily include plant species protected under cultivators' rights (hereinafter: the "Species"), which were developed and registered by the Agricultural Research Organization (hereinafter: the "Volcani Center") at the Ministry of Agriculture.

Rules for the recognition and measurement of such intangible assets are in accordance with the directives of International Accounting Standard No. 38 (IAS 38) – Intangible Assets (hereinafter: the "Standard"). In accordance with the directives of the Standard, assets were measured using the historical cost method, net of accrued amortization and net of the provision for impairment (see explanation in Note 9 below).

In general, government institutions in Israel in which research is carried out do not act to protect the knowledge or technology that belong to the state, nor do they take action to realize the commercial potential inherent in such information and technology. This is in contrast to the situation in most Western countries, which began during the 1980s to create economic and legal infrastructures for the commercial implementation of government-owned knowledge and intellectual property rights. The failure to protect this knowledge detracts from the potential to transform it into a realizable

Note 1 – Reporting Rules and Accounting Policy (continued)

product; it is harmful to the public interest in general, and damaging to the ability to develop initiatives based on such knowledge, such as new manufacturing enterprises, which could constitute the basis for increased employment and increased tax revenues for the state.

In recent years, an interministerial steering committee headed by a senior deputy to the Accountant General and composed of representatives of Ministry of Finance divisions (the Budget Division, the Wages and Labor Accords Unit, the Civil Service Commission, and the Legal Bureau) and of representatives of the Ministries of Justice and of Science and Technology (hereinafter: "the Committee") has been working on this matter. The committee's function is to regulate government sector intellectual property, and in the second stage to regulate such property in the broader public sector as well. The committee deals with the following subjects:

1. **Establishing a model for the commercialization of the knowledge created at government research entities.**

2. **Registration and financial reporting of intellectual property assets created in government research entities.**

The Committee has completed the work of regulating the commercialization of intellectual property rights at the Agricultural Research Organization in the Ministry of Agriculture; it has formulated a commercialization model for government hospitals and is working on the formulation of a model and rules regarding this matter within the defense system.

Additionally, in 2006, an interministerial committee was appointed to formalize intellectual property in the area of Automatic Data Processing. The committee is due to present its recommendations to the Accountant General in the first half of 2007.

The Accountant General is also working to regulate this matter through primary and secondary legislation (e.g. the Health Corporations Regulations), publish Accountant General directives, and make changes to the relevant Civil Service Code provisions. A directive for the regulation of intellectual property within the health care system has been written and is expected to be published shortly.

A directive was recently published instructing government ministries to coordinate and approve every action related to knowledge product management with the Accountant General Division, including record-keeping, protection, commercialization, and waiver of rights, with the exception of the purchase of intellectual property products and development that has the potential to general intellectual property. Concurrently, centralized work is being carried out in order to regulate rules for record-keeping and financial reporting of intellectual property assets to be created at government research institutions; within these rules, assets at the Agricultural Research Organization have already been given expression in a note to this Report (see Note 9).

In 2007, the Accountant General Division intends to gather information about all intellectual property assets developed by the government (by distributing mapping questionnaires). It will then be possible to complete the inclusion of data regarding the intellectual property rights of the government of Israel in the government's financial reports.

Q. Use of Estimates

In preparing this Report in accordance with generally accepted accounting practices, the Accountant General is required to use estimates and approximations that influence the reported

Note 1 – Reporting Rules and Accounting Policy (continued)

data regarding the assets and liabilities and the contingent assets and liabilities disclosed in the Report. It is hereby clarified that actual results may differ from such estimates.

R. Adoption of International Public Sector Accounting Standards by the Israeli Government

In July 2004, the Ministerial State Comptrollership Committee (hereinafter: the "Committee") accepted the Accountant General's recommendation regarding the establishment of a committee to draft accounting rules for the government sector (hereinafter: the "Israel Government Accounting Standards Board") and regarding that committee's composition and powers. The Committee also approved the Accountant General's recommendation to adopt the international public sector accounting standards published by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC).

In 2006, the Israel Government Accounting Standards Board published thirteen government accounting standards, based on international public sector accounting standards and essentially constituting a translation of these standards. The standards are the following:

(1) Government Sector Accounting Standard No. 1 – Presentation of Financial Statements was published in March 2006. The standard's purpose is to establish the manner in which financial statements are to be presented. This standard will apply to annual financial statements for reporting periods beginning January 1, 2007, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(2) Government Sector Accounting Standard No. 14 – Events after the Reporting Date was published in March 2006. The standard's purpose is to establish when financial statements must be adjusted due to events which have taken place after the reporting date, as well as the disclosure required from an entity regarding the date on which the financial statements were approved for publication and regarding events after the reporting date. This standard will apply to annual financial statements for reporting periods beginning January 1, 2007, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(3) Government Sector Accounting Standard No. 12 – Inventories was published in May 2006. The standard's purpose is to provide practical instructions for the determination of the cost of inventory and for subsequent recognition of such cost as an expense, including any impairment of net realizable value. The standard also provides instructions regarding cost formulas used to allocate costs to different types of inventory. This standard will apply to annual financial statements for reporting periods beginning January 1, 2007, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(4) Government Sector Accounting Standard No. 3 – Net Surplus or Deficit for the Period, Material Errors, and Changes in Accounting Policies was published in May 2006. The standard's purpose is to set forth recommendations regarding the classification, disclosure, and accounting treatment of certain items in financial statements. Accordingly, the standard requires the classification and disclosure of special items, as well as separate disclosure of certain items in the financial statements. The standard also specifies the accounting treatment of changes in accounting estimates, changes in accounting policy, and correction of material errors. This standard will apply to annual financial statements for reporting periods beginning January 1, 2007, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

Note 1 – Reporting Rules and Accounting Policy (continued)

(5) Government Sector Accounting Standard No. 17 – Fixed Assets was published in June 2006. The standard's purpose is to establish the accounting treatment of fixed assets, with reference to the timing of recognition of such assets, the determination of their book value, and the amounts of amortization to be recognized in respect of such assets. This standard will apply to annual financial statements for reporting periods beginning January 1, 2007, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(6) Government Sector Accounting Standard No. 9 – Income from Exchange Transactions was published in July 2006. The standard's purpose is to establish the accounting treatment of income arising from exchange transactions and events, with reference to the manner of determining when such income should be recognized. The standard identifies the circumstances in which these criteria are fulfilled, so that the income is recognized, and provides practical instructions with regard to the manner of implementation of these criteria. This standard will apply to annual financial statements for reporting periods beginning January 1, 2007, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(7) Government Sector Accounting Standard No. 6 – Consolidated Financial Statements and Accounting Treatment of Controlled Entities was published in August 2006. The standard's purpose is to establish requirements with regard to the preparation and presentation of consolidated financial statements and with regard to the accounting treatment of controlled entities in the separate financial statements of the controlling entity. This standard will apply to annual financial statements for reporting periods beginning January 1, 2008, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(8) Government Sector Accounting Standard No. 7 – Accounting Treatment of Investments in Controlled Entities was published in August 2006. The standard's purpose is to establish the accounting treatment of rights in equity-basis investee entities. This standard will apply to annual financial statements for reporting periods beginning January 1, 2008, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(9) Government Sector Accounting Standard No. 2 – Statements of Cash Flows was published in September 2006. The standard's purpose is to require entities to supply information regarding changes in the entities' cash and cash equivalents via a statement of cash flows in which cash flows during the period are classified into cash flows from current activities, from investment activities, and from financing activities. This standard will apply to annual financial statements for reporting periods beginning January 1, 2007, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(10) Government Sector Accounting Standard No. 20 – Related Party Disclosures was published in October 2006. The standard's purpose is to establish disclosure requirements regarding the existence of relationships with related parties in the case of control, as well as disclosure of information regarding transactions between the entity and its related parties, under certain circumstances. This standard will apply to annual financial statements for reporting periods beginning January 1, 2008, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

Note 1 – Reporting Rules and Accounting Policy (continued)

(11) Government Sector Accounting Standard No. 4 – Effect of Changes in Foreign Exchange Rates was published in November 2006. The standard's purpose is to establish the accounting treatment of foreign currency transactions and foreign activities with regard to the exchange rate to be used and with regard to the recognition in the financial statements of the financial influence of changes in exchange rates. This standard will apply to annual financial statements for reporting periods beginning January 1, 2008, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(12) Government Sector Accounting Standard No. 5 – Costs of Credit was published in November 2006. The standard's purpose is to establish the accounting treatment of credit costs. This standard will apply to annual financial statements for reporting periods beginning January 1, 2008, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

(13) Government Sector Accounting Standard No. 11 – Construction Contracts was published in December 2006. The standard's purpose is to establish the accounting treatment of costs and income related to construction contracts. The standard identifies arrangements that should be classified as construction contracts, provides instructions regarding the types of construction contracts that are possible in the government sector, and notes the basis for recognition and disclosure of expenses in respect of such contracts and, if relevant, of income in respect of such contracts. This standard will apply to annual financial statements for reporting periods beginning January 1, 2007, or afterward. The professional committee of the Israel Government Accounting Standards Board supports the early implementation of the standard.

During 2007, the Israel Government Accounting Standards Board will adopt the eleven International Accounting Standards that have yet to be adopted, in order to complete the adoption of International Public Sector Accounting Standards. The following standards have not yet been adopted:

(1) International Public Sector Accounting Standard No. 8 – Financial Reporting of Interests in Joint Ventures.

(2) International Public Sector Accounting Standard No. 10 – Financial Reporting in Hyperinflationary Economies.

(3) International Public Sector Accounting Standard No. 13 – Leases.

(4) International Public Sector Accounting Standard No. 15 – Financial Instruments: Disclosure and Presentation.

(5) International Public Sector Accounting Standard No. 16 – Investment Property.

(6) International Public Sector Accounting Standard No. 19 – Provisions, Contingent Liabilities, and Contingent Assets.

(7) International Public Sector Accounting Standard No. 21 – Impairment of Non-Cash-Generating Assets.

(8) International Public Sector Accounting Standard No. 22 – Disclosure of Financial Information About the General Government Sector.

Note 1 – Reporting Rules and Accounting Policy (continued)

(9) International Public Sector Accounting Standard No. 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers).

(10) International Public Sector Accounting Standard No. 24 – Presentation of Budget Information in Financial Statements.

Note 2 – Balances at Banks and Funds

	December 31, 2006 NIS millions	December 31, 2005 NIS millions
Bank of Israel	1,886	4,590
Other banks	2,223	4,025
Imprest cash	582	382
	4,691	8,997

In order to prepare this Report, the Accountant General examined the cash balances deposited at the Bank of Israel and in commercial banks. The examination showed that out of the balances deposited at the banks, the total of cash and cash equivalents comes to approximately NIS 1,346 million.

The total of the balances that have been identified as deposits comes to NIS 1,883 million. These balances constitute deposits against which the government carries a liability to third parties or amounts that are restricted in use and/or designated.

The main components of the deposits are the following:

- NIS 908 million – deposits in the name of **Inbal Insurance Company Ltd.**, constituting part of the insurance amounts received from government ministries. These amounts are used to pay claims, and as reserves for the payment of claims in the context of insurance arrangements for state property. They also constitute an internal fund for the government's insurance (see note 15(4)(B) below).

- NIS 975 million – **deposits of other countries** (bi-national funds), which are conditioned on deposits in equal amounts being made by the Israeli government. These funds are restricted in terms of their use and their proceeds are earmarked for the advancement of scientific, industrial, and agricultural research.

Regarding balances in a total amount of approximately NIS 1,462 million, it was not possible to make this distinction.

Note 3 - Accounts Receivable and Debit Balances

		December 31, 2006 NIS millions (**)	December 31, 2005 NIS millions (*)
Accounts receivable – Accountant General		1,010	-
Health maintenance organizations	(1)	748	812
Insurance companies	(2)	49	37
Health care corporations	(3)	58	73
Health care basket cost supplement	(4)	410	349
Customers and income receivable	(5)	189	29
Local authorities		21	16
Others		108	21
Total		2,593	1,337

Note 3 - Accounts Receivable and Debit Balances (continued)

(*) Restated – data on hospitals were not included in accounts receivable in 2005.

(**) The increase year-on-year mainly results from additional government ministries entering the Merkava system.

(1) Health maintenance organization debts – refers to health maintenance organizations' debts to government hospitals for medical services provided to customers insured by the health maintenance organizations at the government hospitals.

(2) Insurance company debts – debts are mainly to general government hospitals for medical services provided to traffic accident victims.

(3) Health care corporations – refers to debts of health care corporations to general government hospitals for overhead payments which they must transfer to the hospitals under Foundations of the Budget Regulations (Rules for the Operation of Health Care Corporations), 5762-2001.

(4) Health care basket cost supplement – the said amounts note advance payments transferred to health maintenance organizations by the Ministry of Health, according to the estimated cost of the health care basket for 2006. The final basket cost will be determined when the average health care price index for 2006 is determined in the first half of 2007, and account settlement will then be completed.

(5) Of the said amount, a total of approximately NIS 119 million is the balance of customers and income receivable of the Ministry of Health.

Additional Accounts Receivable not yet Recognized in the Financial Statements

The data presented above are based on existing information systems, some of which:

A. Contain partial data with regard to debt age, interest and linkage differentials accrued for the debt, account status, steps already taken to collect the debt, probability of collection, updated information regarding the account, etc.

B. Contain inaccurate or out of date data.

C. Do not provide the possibility of generating queries and reports for the management of the collection mechanism, analysis, and classification of the different debts. In addition, at some government ministries the existing collection and enforcement mechanisms are insufficient to handle the volume of work and are supported by legal tools whose application requires lengthy periods of time.

Furthermore, it is important to emphasize and clarify that in light of the complexity of the data, the missing data, and the difficulty of evaluating the data:

A. It has yet to be determined whether these debts fulfill the definition of an asset and/or a contingent asset, according to government accounting standards.

B. The debts are included in full, with no distinction between the principal and linkage differentials or interest.

Note 3 - Accounts Receivable and Debit Balances (continued)

As such, the data presented above and the segmentation of the data according to accounting definitions are based on various estimates and approximations and have not yet been recognized in the financial statements.

In accordance with the examination performed by an accounting firm, as noted in Note 1(I), the following are details of the inventory of material debts, by government ministry (these debts have not yet been recognized in the financial statements):

1. Inventory of debts examined, divided into exchange transactions and non-exchange transactions:

	Exchange transactions			Non-exchange transactions	To be classified	Total
	Sale of goods	Provision of services	Interest, royalties, and dividends			
Ministry of Construction and Housing	121	303				**424**
Ministry of Communications			100	199		**299**
Water Commission				875		**875**
Ministry of Health		298				**298**
Ministry of Justice				1,276		**1,276**
Ministry of National Infrastructures					223	**223**
Israel Land Administration					850	**850**
Center for Collection of Fines, Fees, and Expenses				892		**892**
Ministry of Industry, Trade, and Labor					442	**442**
Other ministries		28	7	62	72	**169**
Total	121	629	107	3,304	1,587	**5,748**

2. Details of main debts at government ministries:

A. Ministry of Housing and Construction:

Registration of parcelization; Israel Electric Corporation – construction of transformer stations; non-payment of development expenses; Mishkanot – sale and rental of homes; repayment of aid for rent payments. Most of the debts are past debts and are currently being handled through legal proceedings.

B. Ministry of Communications:

Fees and royalties under legal dispute and in legal proceedings.

C. Water Commission:

Production levy, balance levy, special payment, and licensing fees. Some of the debts are current, while others are past debts being handled through legal proceedings.

Note 3 - Accounts Receivable and Debit Balances (continued)

D. Ministry of Health:

Debts at hospitals – from private customers, recorded on a cash basis; and current debts – debts for geriatric hospitalization services and laboratory services.

E. Ministry of National Infrastructures

Fuel administration and fuel inventory; in legal proceedings.

F. Israel Land Administration

Annual leasing fees not paid to the Israel Land Administration.

G. Other ministries included:

Ministry of Transportation, Ministry of Environmental Protection, Ministry of Agriculture, Ministry of Finance Royalties Comptrollership, Prison Service, Ministry of Public Security, Geological Institute, Ministry of Tourism, Courts Administration, Knesset Comptrollership, Office of the Prime Minister – Government Advertising Bureau, Ministry of Immigrant Absorption, Ministry of Social Affairs.

H. Ministries not included:

Pension Department, Israel Educational Television, Israel Tax Authority, National Insurance Institute, Agricultural Research Organization, Ministry of the Interior, Rabbinical Courts, and ministries whose total reported debts are lower than NIS 100,000.

Debt data do not include tax debts to the Tax Authority in highly substantial amounts, which encompass all debts to the Tax Authority.

Note 4 - Current and Non-Current Inventory

	Note	December 31, 2006 NIS millions	December 31, 2005 NIS millions (*)
Inventory in warehouses	(1)	237	76
Emergency inventory	(2)	957	902
Total		1,194	978

(*) Restated – As of 2006, no distinction was made between the inventory of homes for sale and the inventory of homes for rent. Therefore, the inventory of homes for sale, which was presented under this item in 2005, is presented within the inventory of homes for rent in Note 5.

(1) Inventory in Warehouses

This constitutes an inventory which is comprised of mostly non-commercial items and is maintained in approximately 600 warehouses under the responsibility of various government ministries.

The Accountant General possesses data from most government ministries regarding inventory in warehouses (see Note 1(F)(1) above). However, the Accountant General still does not have

Note 4 - Current and Non-Current Inventory (continued)

information regarding the cost of the inventory held by government ministries after leaving the warehouses (inventory in stockpiles). These costs may be significant.

(2) Emergency Inventory

	Note	December 31, 2006 NIS millions	December 31, 2005 NIS millions
Food	(A)	157	177
Medications		686	605
Medical assistance equipment		113	117
General items		1	3
Total emergency inventory		957	902

(A) The value of the government food inventory for emergencies was established on the basis of a list of food products owned by the government and held as inventory for emergencies. This list was submitted to the Accountant General by the Ministry of Industry, Trade and Labor. The value is in dollars, and was converted into shekels according to the dollar exchange rate on December 29, 2006.

Note 5 - Investment in Homes for Rent

The Israeli government, through the Ministry of Construction and Housing (hereinafter: "MCH"), is working to provide housing solutions for those entitled to public housing through:

- Purchasing and constructing homes designated for sale and/or rental.
- Purchasing caravans and prefabricated houses.
- Contracting with entrepreneurs to build homes, while granting the entrepreneurs the option to have the government purchase the homes. These homes are transferred in trust to housing companies for sale or rental.

	December 31, 2006 NIS millions	December 31, 2005 NIS millions
Apartments for rent	4,003	3,881

General – this refers to approximately 52,000 housing units, of which some 6,000 are housing units for the elderly (hostels). Most of the homes were built using budget funds, and there is no dispute regarding MCH ownership of the large majority of the homes. These homes were transferred in trust for management by the housing companies (mainly Amidar). Over the years, management agreements were signed with the housing companies, through which the manner of the properties' administration was arranged. The agreements stipulate the housing companies' commitment to act as the agent of MCH in carrying out activities such as the rental of the homes or of some of them, the sale of the homes or of some of them, their tenanting and maintenance - all in accordance with MCH instructions. At the end of 2003, a new management agreement was signed with Amidar for a period of 5 years. The agreements with the other companies are continual agreements without defined termination dates.

According to MCH data, the number of housing units at Amigur is higher by 835 units than the number actually registered at the company. However, in monetary terms the difference between MCH data and

Note 5 - Investment in Homes for Rent (continued)

Amigur data is immaterial. According to an examination conducted by the MCH Comptrollership, which has not yet been completed, the said discrepancy refers to years prior to 2003.

At this stage, it is not possible to separate the inventory of homes into homes for sale and homes for rent.

Note 6 - Fixed Assets

Composition of Fixed Assets (in NIS millions):

	Land	Buildings	Vehicles	Hardware	Equipment and machinery	Office furniture and equipment	Emergency medical supplies	Improvements to leased premises	Assets under construction	Total
Cost										
As of Jan. 1, 2006	1,801	4,860	521	369	89	332	1,465	110	256	9,803
Fixed assets first recognized on Jan. 1, 2006	-	-	-	19	79	19	-	-	-	117
Additions	-	43	113	78	32	39	150	18	1,912	2,385
Subtractions	(15)	(22)	(88)	(-)	(-)	(1)	(6)	(-)	(149)	(281)
As of Dec. 31, 2006	1,786	4,881	546	466	200	389	1,609	128	2,019	12,024
Accumulated depreciation:										
As of Jan. 1, 2006	(-)	(544)	(231)	(271)	(41)	(151)	(987)	(30)	(-)	(2,255)
Fixed assets first recognized on Jan. 1, 2006	(-)	(-)	(-)	(11)	(61)	(10)	(-)	(-)	(-)	(82)
Additions	(-)	(184)	(71)	(70)	(17)	(28)	(108)	(11)	(-)	(489)
Subtractions	-	2	56	1	-	1	6	-	-	66
As of Dec. 31, 2006	(-)	(726)	(246)	(351)	(119)	(188)	(1,089)	(41)	(-)	(2,760)
Depreciated balances, as of Dec. 31, 2006	**(2) 1,786**	**(2) 4,155**	**300**	**115**	**81**	**201**	**520**	**87**	**2,019**	**9,264**
Depreciated balances, as of Dec. 31, 2005	**1,800**	**4,040**	**(*) 274**	**53**	**48**	**82**	**(*) 11**	**79**	**355**	**6,742**

(*) Restated – Due to the conclusion reached regarding the control relationship between the Ministry of Health and the government hospitals, government hospitals were consolidated in this Report in 2006 (see Note 1.K).

Note 6 - Fixed Assets (continued)

Data presented in the financial statements regarding vehicles owned by the state are incomplete and inaccurate, for the following reasons:

(A) The actual inventory of vehicles found at ministries is inconsistent with the inventory registered in the Merkava system used by the Government Vehicle Administration.

(B) The values of vehicles received by the Accountant General are composed of varying measurement methods, such as: historical cost, price-list price, depreciated cost, and other financial measurement methods.

Among other things, given these findings and various financial calculations carried out at the instruction of the Accountant General, a tender has been issued for the purchase and management of government vehicles using the operating lease method. In November 2006, Elbar was selected to supply private vehicles to the government for the next two years, using the operating lease method.

(1) General

Values of fixed assets are taken from the Merkava system.

(2) Values of land and buildings managed by the Government Housing Administration

	Note	December 31, 2006		December 31, 2005	
		Land	Buildings	Land	Buildings
Cost	(A)	262	2,143	263	1,900
Fair value	(B)	1,524	2,012	1,537	2,140
Total		**1,786**	**4,155**	**1,800**	**4,040**

(A) Refers mainly to office buildings, including the land component. The projects included in this Report are new projects for which it was possible to locate the relevant cost documents. Among the listed assets are: the courthouses in Haifa, Beersheba, Nazareth, and Eilat, the Ministry of Foreign Affairs building, the Central Bureau of Statistics building, and others.

This Report does not include all office buildings owned by the government (see Note 1(G) above).

(B) The Government Housing Administration conducted an assets survey from 1998 through 2002, which covered more than 5,200 buildings in which government housing is located. These buildings are located at more than 1,000 sites throughout Israel. The survey data are currently used in a variety of government housing activities, including planning preservation – monitoring of changes in planning and examination of their effect on government housing assets, prevention of damage and protection of the state's rights in its assets, collection of usage fees, and the allocation of housing to various government ministries.

Many of the assets were acquired and/or constructed and/or obtained many years ago, some even before the establishment of the state; Historical cost data are not available for these assets. Various methods for valuation of these assets for their presentation in the financial statements have therefore been examined. Individual appraisals of the assets have been ruled out because of the high cost of using such a method; presentation of the assets at a nominal value of one shekel was also rejected, because of the distortion that would have been created in the financial statements;

Note 6 - Fixed Assets (continued)

the use of historical data was ruled out because of the high cost involved in obtaining such data as well as the impossibility of obtaining the data with regard to some of the assets.

The assets were appraised through using a "fair value model" – an accounting appraisal model used to estimate the value of an asset on the basis of a variety of its characteristics, such as its location, area, the age of the building, the type of construction, the floor on which it is located, etc. Various coefficients, such as the depreciation to size ratio, etc., were defined to address the variables that influence asset value.

The model was examined statistically and determined to be valid and accurate.

The results of the model include data on government housing assets, and do not include:

- A variety of specially designated real estate assets administered by various government ministries, such as prisons, hospitals, pollution monitoring stations, etc.

- Public housing assets managed by the Ministry of Construction and Housing.

- Assets managed by the Ministry of Defense.

- Assets located abroad.

- Undeveloped land.

The model's results include the value of land in built-up assets only, and in only some cases include a calculation of the value of surplus rights and the potential for betterment.

During 2004, the model was run again (it had first been run in December 2002), and the complete management of the assets in the Merkava system was commenced, including the accumulation of depreciation. Before the model was run again, the base data underwent a comprehensive improvement. The new run of the model also reflects all of the relevant assumptions as of the run date, including changes in market values which took place after December 31, 2002.

Note 7 - Loans and Other Investments

Composition of Loans and Other Investments

	Note	December 31, 2006 NIS millions	December 31, 2005(*) NIS millions
Investment in shares and convertible notes	(1)	**1,147**	**1,274**
Long-term loans and debit balances	(2)		
Housing	(2)(A)	42,776	44,800
Kibbutzim Arrangement	(2)(B)	3,599	4,060
Local authorities	(2)(C)	3,586	3,638
State employees	(2)(D)	2,443	2,478
Loans under international agreements		759	894
Settlement Division - World Zionist Organization	(2)(E)	600	615
Moshavim Arrangement	(2)(F)	346	594
Leumit Health Fund	(2)(G)	317	318
Loan to buyers of Discount Bank	(2)(H)	277	-
Teaching employees and students	(2)(I)	271	289
Loans to immigrants	(2)(J)	177	222
Economically distressed enterprises	(2)(K)	90	91
Loans to authorities	(2)(L)	55	88
Others		740	701
Total long-term loans and debit balances		**56,036**	**58,789**
Total		**57,183**	**60,062**
Less provision for doubtful debts (*)		(1,301)	(1,368)
Total loans and other investments, net		**55,882**	**58,694**

Standing loans/conditional grants (which do not fall within the accounting definition of an asset, because they are contingent assets, and are therefore not presented in the Report).

	Note	December 31, 2006 NIS millions	December 31, 2005(*) NIS millions
Housing	(2)(A)	10,014	11,162
Housing companies	(2)(N)	1,432	3,152
Settlement Division - World Zionist Organization	(2)(F)(4)	600	600
Teaching employees and conditional loans to students	(2)(J)	185	181
Local authorities	(2)(C)	69	68
Others		308	310
Total standing loans/conditional grants		**12,608**	**15,473**

(*) Reclassified and restated (the balance of loans granted to a third party through an investee company and presented in previous years under Note 8, Investment in Investee Companies, was reclassified and stated in this Note. See also Note 8(1) below.

Note 7 - Loans and Other Investments (continued)

(1) Investment in Shares

This item includes investments in convertible notes and shares of various companies, including Bezeq and Bank Leumi. During 2005 and 2006, the state sold part of its holdings in Bank Leumi and in Bezeq. As a consequence of this sale, the government of Israel no longer has material influence in these companies.

Market value of securities registered for trade

	December 31, 2006 NIS millions			December 31, 2005 NIS millions	
	Rate of holding	Balance sheet value	Market value	Rate of holding	Balance sheet value
Bezeq shares	16.38	583	2,919	16.38	583
Leumi shares	11.94	535	2,898	14.79	663

(2) Long-Term Loans and Debit Balances

The Israeli government provides loans in order to assist various sectors within the economy, such as housing, tourism, agriculture, new immigrants, etc. In most cases, the government transfers the funds through various banks to the final borrowers, all in accordance with agreements signed by the banks and the Accountant General. In some cases, the loans are transferred directly to the borrowers. (This is the case, for example, in assistance to distressed enterprises, restructuring agreements, etc.)

Loans provided through banks may be granted at the banks' responsibility or at the state's responsibility (depending on the specific contractual engagement with the bank). Loans that are the banks' responsibility are loans provided out of state funds, but the bank is responsible for their repayment to the state whether the final borrower discharges the debt or not. In contrast, with regard to loans that are the state's responsibility, the banks have no obligation to repay the state if the final borrower does not discharge the loan to the bank.

The loans are handled by the Loans and Collection Department in the Accountant General Division, with the assistance of the Inbal Insurance Company Ltd. (a company wholly owned by the state of Israel).

This Report makes a distinction between those loans that are the state's responsibility and those for which the banks are responsible.

(A) Housing

(1) Loans that the government provides through mortgage banks in order to provide housing assistance to "entitled" persons. (An "entitled" person – under the definition in the Housing Loans Law, 5752-1992 and the regulations enacted pursuant to it.)

(2) The provision of housing loans is arranged through agreements between the Accountant General and the various banks, through circulars and guidelines issued jointly by the Accountant General and the Ministry of Construction and Housing (hereinafter: "MCH") or by the Accountant General alone, and through practices and procedures formulated over the years. Housing loans are also provided to the agricultural sector (Kibbutzim), in accordance with criteria established by the Accountant General and MCH.

Note 7 - Loans and Other Investments (continued)

(3) The Head of the Housing Section at the Accountant General Division is responsible for audits conducted at the mortgage banks, by accounting firms that check compliance with the agreements and with the directives and procedures of the Accountant General and MCH.

(4) Most of the housing loans are under the state's responsibility (and are administered pursuant to the "degree of collection" method). Payment schedules regarding these loans are managed by the bank and are not input/administered at the Loans and Collection Department in the Accountant General Division; the banks are required to handle state funds in the same manner as they handle their own funds, in accordance with the agreement. It should be noted that the government pays the banks a collection fee in respect of these loans according to the "degree of collection" method, rather than a spread based on the balance of the unpaid principal. This payment method provides an incentive for the bank to collect the loan, since the bank is not entitled to any fee if it does not collect. Housing loans include loans provided by the banks to those buying homes using funds from the state's bond issues, which are under the responsibility of the bank, and include supplementary loans provided by the banks under the terms of the reform, the balance of which as of December 31, 2006 was approximately NIS 102 million (NIS 215 million as of December 31, 2005.), as well as loans granted to Kibbutzim, the balance of which, as of December 31, 2006, was approximately NIS 219 million (approximately NIS 228 million on December 31, 2005).

(5) Arrears in payments of housing loans are handled both by establishing fines for which the banks are charged with respect to the percentage of the outstanding amount in arrears, and through inter-ministerial committees (composed of representatives of the bank, the Ministry of Finance, and the Ministry of Construction and Housing) that make decisions regarding the handling of the debt (arrangements for a spread of repayments, expungement, legal proceedings, suspension, etc.)

(B) The Kibbutzim Arrangement

At the end of 1989, the first of a series of agreements and arrangements was signed (the parties to these agreements and arrangements were seven banking groups – Bank Hapoalim, Bank Leumi LeIsrael, the Israel Bank of Agriculture, the Industrial Development Bank of Israel, Bank Mizrahi, Israel Discount Bank, and the First International Bank of Israel; the government; and the kibbutz movements – the United Kibbutz Movement and the Kibbutz Artzi), concerning the debts of Israel's agricultural sector.

Since some of the kibbutzim could not meet the terms of the first agreement, a supplementary kibbutzim agreement was signed on March 20, 1996 among the government, the two kibbutz movements, and the banks that had been parties to the first agreement. The agreement constituted a supplement to the first kibbutzim agreement. The kibbutzim joined the first and supplementary agreements on a voluntary and individual basis. Joining in the agreements by the kibbutzim was completed in December 2006.

Under the supplementary agreement, the banks and the government were required to write off additional amounts and in consideration, some of the kibbutzim were required to waive their rights to certain agricultural lands. The principles of the supplementary kibbutzim agreement, including the amendment of the agreement signed in April 1999, were the following:

(1) The agreement was designed to arrange the debts of 134 kibbutzim included in the first kibbutzim agreement, which, according to their repayment ability data, were unable to pay their debts in full. Therefore, when a kibbutz joined the arrangement, this debt (hereinafter: the "Balloon Debt") would be erased. Some of the kibbutzim were defined as "Incentive Kibbutzim;" conditions were established for these kibbutzim to receive an incentive in the form of additional expungement of the kibbutz's debt beyond the write-off of the Balloon Debt (hereinafter: the "Incentive Debt"). In

Note 7 - Loans and Other Investments (continued)

addition, the agreement was also intended to arrange the debts of central corporations within the United Kibbutz Movement and those of two regional organizations.

(2) Sources for financing the agreement:

(a) Writing off of part of the Balloon Debts and/or of the Incentive Debts by the banks, and the settlement of part of these debts through fund transfers from the government, divided on the basis of a 65%/35% split between them, respectively, with regard to the group of kibbutzim defined in the agreement as periphery kibbutzim, and on the basis of a 75%/25% split with regard to the limited group of kibbutzim defined as periphery kibbutzim to be rehabilitated. The government's fund transfers for the write-offs of each kibbutz's debts, as stated above, were conditioned on the individual kibbutzim joining the agreement, and were to be carried out in five annual payments, beginning on the date each kibbutz entered the agreement. The first transfer was to be immediate, and the remainder was to be linked to the CPI, without interest.

As of today, the implications of the implementation of the Kibbutzim Arrangement for the state budget are the following:

(1) There are still amounts remaining to be written off, the volume of which is not known, for kibbutzim joining the agreement in the last four years.

(2) There are still deposits remaining with banks against kibbutzim debts, which are to be returned to the state commensurate with the progress of repayment of the debts by the kibbutzim, until 2013.

(3) The state is expected to exercise its rights in the land of kibbutzim that have joined the agreement, as well as its rights in the land of kibbutzim obligated to mutual aid.

(4) The state is expected to receive rights in Tnuva, pursuant to the agreement to bring an investor into Tnuva and change its structure, which was approved by the general assembly of Tnuva on March 6, 2007.

(b) The consideration from exercise of the rights of the kibbutzim in the lands (including mutual assistance among the kibbutzim):

When each kibbutz joined the agreement, the lands identified were returned to the Israel Land Administration; in the future, when the net consideration from the sale of the aforesaid lands is received, the share of the net consideration reflecting the kibbutzim's original rights in the lands is to be returned to the banks and to the government, in proportion to their share in the write-off of the debt, as described above. Mutual assistance contributions will be added to the consideration to be distributed.

The government's fund transfers for the purpose of writing off the debts of each kibbutz, as described above, are conditioned on the agreement of each individual kibbutz to the lands arrangement and on each such kibbutz subsequently joining the supplementary arrangement, including the return of land to the Authority. These transfers are to be carried out in five annual payments; the first as an immediate transfer, and the remainder to be linked to the CPI with the addition of annual interest at the rate of 1.5%.

Despite the change in the Israel Land Administration's decisions as a result of a petition filed with the High Court of Justice in 2002, attacking the legality of the Administration's

Note 7 - Loans and Other Investments (continued)

Decisions 717, 727, and 737 (Decision 717 dealt with a change in the designation of agricultural land in order to construct an industrial enterprise, Decision 737 dealt with a designation change for the purpose of expanding a settlement, and Decision 727 dealt with changing designations to allow for residential use, other than for the purpose of expanding an existing settlement) – with regard to the lands returned to the Israel Land Administration in the process of kibbutzim joining the supplementary arrangement, the state, as a party to the arrangement, has undertaken to recognize the value of 27% of the lands returned to the Israel Land Administration by each kibbutz as the consideration given by the kibbutz for the arrangement, even if Decision 727 were to be modified or revoked.

Since the lands in the above-mentioned arrangements were mainly designated for agriculture, and the change of their designation required processing – a procedure which could take a long time – it is not possible at this stage to estimate the amount of the consideration that will be received from their sale.

(c) The agreement provided that each kibbutz that joins the agreement as well as all of the contributing kibbutzim, as that term is defined in the agreement, were required to assign to the state and to the banks (on the basis of a 60%/40% split, respectively), 25% of their rights in the company and/or other legal entities to be established in place of the Tnuva cooperative. The state is expected to receive rights in Tnuva, pursuant to the agreement to bring an investor into Tnuva and change its structure, which was approved by the general assembly of Tnuva on March 6, 2007.

(C) Local Authorities

(1) On December 3, 1998, the Israeli government entered into an agreement with Otzar Hashilton Hamekomi (hereinafter: "OHH"), which was a continuation of an agreement dated March 31, 1968, concerning the management of the Accountant General's deposits relating to local authorities' accounts. The agreement is for a ten-year period beginning on January 1, 1999, and involves the payment of a graduated fee by OHH over the course of the contractual engagement. Under the agreement, OHH also serves as an agent for the management of budget-based loans granted to local authorities (loans granted from the state's budget and under its responsibility to the local authorities, including arrangements for deferral of income tax payments).

(2) In the context of this contractual engagement, the Accountant General transfers all government funds designated for the local authorities, if and as paid, for grants, participation in budgets, fees, and municipal property taxes, exclusively through the local authorities' clearing accounts at OHH, subject to prevention under any applicable law.

(D) Government Employees

(1) The government has contracted with Bank Yahav, which provides banking services to state employees, to provide designated loans to state employees. Each loan is granted in accordance with its own specific criteria, which are uniform with respect to all state employees in all ministries, subject to the directives of the Accountant General. The loans are provided under the state's responsibility.

(2) During 2006, the Accountant General issued a public tender, for the first time, to select a bank to provide banking services to state employees. Subsequent to an administrative petition filed by Bank Yahav, the tender was cancelled. According to the court's instructions, a hearing was held

Note 7 - Loans and Other Investments (continued)

for Bank Yahav. Following the hearing, the **c**ontractual engagement with Bank Yahav was extended until the end of 2007; concurrently, a new tender was issued, applicable starting January 1, 2008.

(3) The sources for the financing of the loans are:

- An operational budget allocated by the government every year;
- The ongoing collection of loan principal (with repayments of interest credited to the state's revenues.)
- From time to time, the Accountant General determines the interest rate on loans to state employees. As of December 31, 2006, this interest rate was 2.4% (3.19% as of December 31, 2005).

(E) Settlement Division – World Zionist Organization

(1) The Settlement Division of the World Zionist Organization (hereinafter: the "Settlement Division") has, since 1967, handled the foundation and economic and social establishment of rural settlements (agricultural and communal) within various regional councils, pursuant to government resolutions.

(2) The Ministry of Finance proposes a budget framework for carrying out the Division's work, to be approved by the Finance Committee.

(3) The Division's budget serves, in part, as a source of loans for purchasing means of production, while the other part is used as a source of loans for infrastructure, construction, and more.

(4) Infrastructure loans to individual settlers, as well as 75% of the loans for means of production (the remaining 25% are presented as loan balances), are given as standing loans and/or as conditional loans/grants.

(5) Infrastructure loans to associations are given as loans for a period of 37 years (with a grace period in the first seven years).

(6) Construction loans – repayment terms have not yet been determined.

These loans were not recorded in previous years and the manner of their registration and administration has not yet been arranged.

In this context, with regard to all of the loans, the Deputy Accountant General resolved on June 30, 1996 to establish a committee whose purpose would be the establishment of rules for the future management of the loans. The committee's conclusions were submitted on March 20, 2000. The arrangement of the management of the loans has not yet been completed, and no repayment schedules were established within the loans system during the years 1996-2002 for loans given during those years.

Over the years, the collection of loans granted through the Settlement Division was either negligible or completely nonexistent, and therefore a provision was made in this Report for the full balance of the loans as of December 31, 2006 and as of December 31, 2005.

Note 7 - Loans and Other Investments (continued)

As part of the Accountant General's treatment of all debts to the state (excluding tax debts), all debts to the Settlement Division are currently being mapped and addressed, including both debts of associations and debts of individual settlers. Concurrently, a committee has been established within the Accountant General Division to examine lateral issues arising from the mapping process.

The loan balance presented in this Report as of December 31, 2006 is based on reports received from the comptrollership of the Settlement Division. In accordance with this report, approximately NIS 600 million were presented under long-term loans and debit balances, and approximately NIS 600 million were presented under standing loans. Comparison figures for December 31, 2005 were also amended.

(F) The Moshavim Arrangement

(1) On March 4, 1992 the Arrangements Law in the Family Agricultural Sector, 5752-1992 (the "Gal Law") was enacted. The Gal Law grants relief and benefits to certain debtors who have a connection to agriculture, defined in the law, by eliminating large parts of their debts and spreading the payment of the balance of the debts of some of these debtors over a period of up to seventeen and a half years. The details of the Gal Law are complicated and include, among other things, the appointment of a "rehabilitator" whose function is to examine the situation regarding each individual debtor's debt, and to establish the size of the parties' debts and the creditors' rights.

(2) Government Resolution No. 385 dated November 27, 1992 stated that a government company would be established to serve as an administrative and organizational framework for the activity of the rehabilitators (as noted in Section 6 of the main body of the law). The government resolution further stipulated that the company would be liquidated once it had operated for a period of five years, unless the general assembly of the company approved its continued operation. In accordance with the aforesaid government resolution, the Administration of Agricultural Sector Arrangements Ltd. (hereinafter: the "Administration") was established, and its period of operation was extended from time to time.

(3) During 1993 and 1994, twelve rehabilitators were appointed in accordance with the provisions of the aforesaid law. The rehabilitators operate pursuant to the law and its regulations. At the time of their appointment, the various creditors submitted debt claims to them, as required by the law. At this stage, regulations have been enacted regarding the determination of the obligations and rights of agricultural parties and regarding the methods of determining the debtors' ability to repay debts, among other matters. However, regulations regarding the division of the proceeds among the creditors and regarding the realization of the debtors' agricultural assets have not yet been enacted.

(4) On August 15, 2004, the government resolved to cancel the Arrangements Law within the family agricultural sector, as part of its economic plan for 2005, and to determine that the cancellation would take effect as of June 30, 2006.

The government further resolved to establish transitional directives and to amend the relevant legislation accordingly. On April 6, 2006, a law memorandum was distributed which sets forth various arrangements regarding the cessation of the Administration's work. Subsequent to the distribution of the memorandum, various comments were received. It is estimated that during the next few weeks, the memorandum will be submitted for approval by the Ministerial Committee on Legislation.

Note 7 - Loans and Other Investments (continued)

On December 29, 2005, the general assembly of the Administration resolved to extend its period of operation until December 31, 2009, such that judicial proceedings under the law will conclude on December 31, 2006, and enforcement activities under the law will conclude on December 31, 2009.

(5) In 2000, the banks came to an agreement regarding the distribution of the consideration amongst themselves. One of the principles of the agreement grants a certain preference to a bank which holds senior liens. To date, this agreement has been put into effect in cases in which there are no other creditors. As of December 31, 2006, debts to all creditors have been arranged with regard to approximately 97.9% of the agricultural associations to which the directives of the law apply (94.5% as of December 31, 2005), and approximately 96.9% of the private farmers dealt with under the law (93.8% as of December 31, 2005). Most of the group still to be addressed are those with large debts and limited repayment ability, and the arrangement of their debts will require continued detailed, thorough attention. All these elements create difficulties regarding the accurate determination of the final amounts that the state will be required to write off for each debtor.

Regarding these loans, there is no agreement as to the division of responsibility between the banks and the state.

(6) An examination of the rehabilitators' rulings indicates that the implementation of these rulings will require a write-off of approximately 90% of the debt under the state's responsibility which is registered with the Accountant General and the banks. Therefore, the provision for doubtful debts as of December 31, 2006 includes an amount of NIS 250 million (NIS 361 million as of December 31, 2005).

(G) Leumit Health Fund

(1) On December 1, 2003, a new restructuring agreement was signed with Leumit Health Fund as one party and the National Workers' Organization (Histadrut HaOvodim HaLeumit) as the other party, which took effect following its approval by the Knesset Finance Committee. The restructuring agreement was the result of a financial crisis that threatened Leumit Health Fund's ongoing operation and its ability to continue to provide medical services in accordance with the requirements of the National Health Insurance Law, 5754-1994.

(2) The purpose of the agreement was to ensure the ongoing, proper, and long-term operation of the HMO, including a solution regarding its debts and its operation with a long-term budgetary balance, in accordance with the restructuring program. The restructuring agreement established the following arrangements:

(a) New provisions were established regarding the balance of loans owed by Leumit Health Fund to the government under previous agreements:

- The loan's principal and interest would be repaid to the government over a period of 11 years, in monthly payments; interest on the loan would be paid starting on January 1, 2006, while the principal would be paid, along with interest, beginning on January 1, 2007. As of January 2006, the HMO began to pay off the interest on the loan.

- The loan balance was linked to the CPI and bears linked interest at the rate of 4% per annum.

Note 7 - Loans and Other Investments (continued)

(b) During 2003-2006, grants in the amount of NIS 376 million were transferred to the HMO, constituting the government's full obligations under the agreement. Of this amount, NIS 44.481 million were transferred by the comptroller of the Ministry of Health directly to government hospitals in payment for the HMO's debts to the hospitals.

(H) Loans to the Buyers of Discount Bank

In February 2005, an agreement was signed for the sale of the controlling interest in Discount Bank to two corporations in the Bronfman-Schron group (see Note 8(7)(A) below). The consideration for the sale of 26% of the shares of Discount Bank was paid by the buyers in two installments. The first payment was performed on January 31, 2006; the buyers were granted a loan in respect of the balance of the consideration, in the amount of NIS 267 million. The loan was granted for a period of 36 months, linked to the consumer price index and bearing an interest rate of 4% per annum, to be paid on December 31 each year. Should the buyers exercise all or part of the option granted to them to acquire the remainder of the state's shares in the bank, they will be permitted to postpone settlement of the balance of the loan for a period of up to 3 additional years.

(I) Teaching Employees and Students

(1) These loans include loans granted through the Postal Bank and through the First International Bank of Israel.

(2) In accordance with the result of a tender, the government contracted with the First International Bank of Israel Ltd. (hereinafter: the "Bank") to provide loans to teaching employees (including retirees) who are state employees and whose salaries are paid by the Ministry of Education, Culture, and Sports, as well as conditional loans to students in institutions that train teaching employees. These loans are under the Bank's responsibility.

(3) The sources for the financing of the loans are:

- An operational budget allocated by the government every year.
- The ongoing collection of loan principal (with repayments of interest credited to the state's revenues.)

(4) The Accountant General establishes interest rates (fixed and floating) for these loans from time to time. As of December 31, 2006, this interest rate stands at 2.4% (3.19% as of December 31, 2005).

(5) Regarding the deposit made by the First International Bank of Israel with the Accountant General for the purpose of granting loans to teachers, see Note 10(5) below.

(6) The Accountant General intends to issue a new tender during 2007 in order to select a bank to provide loans to teaching employees.

(J) Loans to Immigrants

(1) **Absorption basket loans –** On August 8, 1996, the government contracted with Bank Leumi to provide absorption basket loans to entitled persons, according to criteria established by the Ministry of Immigrant Absorption. (The absorption basket is intended to provide assistance for immigrants during their initial period of adjustment in Israel.) As of June 2002, the provision of

Note 7 - Loans and Other Investments (continued)

new loans was terminated, and entitled persons now receive grants only. The loans are linked to the consumer price index and were given for a period of 10 years at an interest rate of 4.5%. Repayment of the loan's principal and interest started in the fourth year after the loan was given.

(2) **Loans from the Fund for the Self-Employed Immigrant –** The Ministry of Immigrant Absorption provides a fund for loans to entrepreneur immigrants who wish to open or promote a business. Upon receiving the loan, the immigrant also receives a conditional grant (which becomes a grant after 3 years if the immigrant meets the established conditions). The loan is for a period of 6 years at 2% interest, linked to the consumer price index, or at 4% interest linked to the dollar. Repayment of the loan's principal and interest commences one year after the loan is given. The annual budget for this matter is approximately NIS 10 million.

(K) Distressed Enterprises

Loans to distressed enterprises are given in accordance with a resolution of the Ministerial Committee for Distressed Enterprises (hereinafter: the "Committee"), subject to criteria which the Committee established on November 28, 2001, and as amended on January 28, 2002 and on June 3, 2003.

On August 10, 2004, a decision was made to establish a new fund to replace the Fund for Assistance of Enterprises in Difficulties: the Labor Intensive Enterprises Fund. It was further resolved to establish a committee for the fund, headed by the Director-General of the Ministry of Industry, Trade, and Labor. Each application by an enterprise meeting the criteria established would be discussed by the Committee for Labor-Intensive Enterprises; only after its approval, the state would provide a loan to the enterprise, through a bank, in accordance with the terms of the fund. Beyond the re-establishment of the conditions for entitlement to receive these loans, it was determined that the bank would provide at least 50% of the amount of the loan, and that the bank would manage the state's loan – i.e. the bank would provide and back the loan and handle it as though it had been granted from its own resources. Furthermore, the state would participate in receiving the considerations arising from the realization of all collateral placed under lien to the banks, in proportion to the total amount of the loans granted by the state and by the banks to the enterprise.

(L) Loans to Local Authorities

During the 1980s and the early 1990s, loans were given to local authorities which were designated both for assistance in the authorities' ongoing activities and for the construction and development of infrastructures.

(M) Housing Companies

In December 1999, the Israeli government initiated a "Buy Your Own Home" campaign. Within this campaign, "entitled tenants" were given the opportunity to purchase their homes at discounts of up to 95% according to the criteria (mostly consisting of seniority in the apartment) established in the Public Housing Law (Purchase Rights), 5758-1998. A campaign called "My Home is Here" started in 2005 and was extended to the end of 2006. Within this campaign, entitled tenants were given the opportunity to purchase their homes at discounts of up to 85%, according to criteria which, unlike the Buy Your Own Home campaign, were based not on seniority but on marital status, socio-economic status, and residence in National Priority Areas. This campaign was renewed in 2007, with the discount increased to a maximum of 92% in Priority Areas.

Note 7 - Loans and Other Investments (continued)

This matter was comprehensively examined in 2006. The examination resulted in the write off of some of the standing loans which should have been written off in previous years.

Note 7 - Loans and Other Investments (continued)

(3) Details of Linkage Bases and Interest Terms

December 31, 2006 (NIS millions)

	Unlinked Israeli currency				CPI-linked Israeli currency			USD-linked Israeli currency			EUR-linked Israeli currency		Total
Nominal interest rate	No interest and/or no settlement terms	0%-3%	3%-6%	Over 6%	0%-3%	3%-6%	Over 6%	0%-2%	2%-4%	4%-6%	2%-4%	4%-6%	
Long-term loans and debit balances	371	2,349	301	1,516	10,361	39,764	359	1	1	858	131	24	56,036
Total	**371**	**2,349**	**301**	**1,516**	**10,361**	**39,764**	**359**	**1**	**1**	**858**	**131**	**24**	**56,036**

December 31, 2005 (NIS millions)(*)

	Unlinked Israeli currency				CPI-linked Israeli currency			USD-linked Israeli currency			EUR-linked Israeli currency		Total
Nominal interest rate	No interest and/or no settlement terms	0%-3%	3%-6%	Over 6%	0%-3%	3%-6%	Over 6%	0%-2%	2%-4%	4%-6%	2%-4%	4%-6%	
Long-term loans and debit balances	386	2,230	441	1,389	11,865	39,769	1,568	11	1	996	110	23	58,789
Total	**386**	**2,230**	**441**	**1,389**	**11,865**	**39,769**	**1,568**	**11**	**1**	**996**	**110**	**23**	**58,789**

(*) Reclassified and restated.

Note 7 - Loans and Other Investments (continued)

(4) Breakdown of Loans, Deposits, and other Investments by Repayment Dates

	December 31, 2006 NIS millions
2007	3,914
2008	3,478
2009	3,451
2010	3,304
2011 forward	39,725
No settlement terms, including arrears	2,164
Total	**56,036**

Note 8 – Investments in Investee Companies

(1) Investment Composition (based on the most recent financial report received – see Appendix A):

	December 31, 2006 NIS millions	December 31, 2005 (*) NIS millions
Perpetual bonds and capital notes	2,977	2,908
Long term capital notes, loans, and debit balances	20,807	15,022
Less provision for doubtful debts	(1,227)	(1,103)
Long-term capital notes, loans, and debit balances, net	19,580	13,919
Total bonds, loans, and capital notes, net	22,557	16,827
Investments in shares	38,074	39,133
Total investment	60,631	55,960

(*) Reclassified (the balance of loans granted to a third party through an investee company, which was presented under this item in previous years, was reclassified and presented in Note 7, "Loans and Other Investments").

Note 8 – Investments in Investee Companies (continued)

(2) **Material Investments in 2006:** Details of the composition of investments in investee companies in which the total investment in 2006 was greater than NIS 1 billion. These investments comprise approximately 90% of all investments in investee companies (approximately 88% of total investments as of December 31, 2006):

	2006 (*)		2005 (*)	
	Percent held	Total investment	Percent held	Total investment
Israel Electric Corporation Ltd.	99.8	21,325	99.8	21,724
Israel Railways Ltd.	100	12,109	100	10,695
Oil Refineries Ltd.	100	2,715	74	3,145
Mekorot Water Company Ltd.	91.57	4,678	92.3	4,627
Israel Ports Development & Assets Company Ltd.	100	3,751	100	No data received
Israel Aerospace Industries Ltd.	100	2,087	100	1,749
Cross-Israel Highway Ltd.	100	1,977	100	1,582
Discount Bank	25	1,884	57.09	3,835
Rafael Armament Development Authority Ltd.	100	1,214	100	1,052
Petroleum and Energy Infrastructures Ltd.	100	1,040	100	918
Ashdod Port Company	100	1,029	100	No data received
Haifa Port Company	100	1,003	100	No data received
Total		54,812		49,327

(*) Based on the most recent financial report received – see Appendix A.

Change in investments in 2006:

Due to the fact that information regarding the state's investments in investee companies is primarily based on reports which refer to non-uniform accounting periods, the change in investments is not presented. The following is a list of material transactions performed during 2006:

A. Following the implementation of Accounting Standard No. 22, *Financial Instruments: Disclosure and Presentation*, amounts previously presented as part of shareholders' equity were allocated to the liabilities item. As a result, the investment in shares item decreased, while conversely investments in long-term loans and debit balances increased, by a total of approximately NIS 5.5 billion.

B. Following the realization of some holdings through sales of shares, the investment in shares decreased by a total of approximately NIS 2 billion.

C. Following the restatement of the investment in hospitals through the Ministry of Health, investments in shares decreased by a total of approximately NIS 2 billion.

D. Following the presentation of the state's investment in the Port Companies, the investment in shares increased by a total of approximately NIS 6 billion.

Note 8 – Investments in Investee Companies (continued)

(3) Securities Registered for Trading

	December 31, 2006 NIS millions			December 31, 2005 NIS millions		
	% held	Balance sheet value	Market value	% held	Balance sheet value	Market value
Discount Bank	25.00	1.88	2,300	57.09	3.87	4,815
El Al	20.97	0.22	179	21.58	0.27	326

(4) Balance of Losses of Investee Companies

	December 31, 2006 NIS millions	December 31, 2005 NIS millions (*)
For investments in shares	1,896	1,909

(*) Reclassified.

Note 8 – Investments in Investee Companies (continued)

(5) Details of Linkage Bases and Interest Terms

	December 31, 2006 (NIS millions)									
	Unlinked Israeli currency			CPI-linked Israeli currency				USD-linked Israeli currency		Total
Nominal interest rate	No interest and/or no settlement terms	1%-10%	10%-15%	No interest and/or no settlement terms	0.1%-3%	3%-6%	Over 6%	No interest and/or no settlement terms	6%-8%	
Perpetual capital notes and bonds (**)	153	2,824								2,977
Loans and debit balances	5,599	144	875	3,268	223	3,711	317	551	6,119	20,807
Total	5,752	2,968	875	3,268	223	3,711	317	551	6,119	23,784
Less provision for doubtful debts										(1,227)
										22,557

	December 31, 2005 (NIS millions) (*)									
	Unlinked Israeli currency			CPI-linked Israeli currency				USD-linked Israeli currency		Total
Nominal interest rate	No interest and/or no settlement terms	1%-10%	10%-15%	No interest and/or no settlement terms	0.1%-3%	3%-6%	Over 6%	No interest and/or no settlement terms	6%-8%	
Perpetual capital notes and bonds (**)	153	2,755								2,908
Loans and debit balances	174	4	233	2,620	139	4,421	-	538	6,893	15,022
Total	**327**	**2,759**	**233**	**2,620**	**139**	**4,421**	-	**538**	**6,893**	17,930
Less provision for doubtful debts										(1,103)
										16,827

(*) Reclassified.

(**) The state has been issued unlinked bonds at a value of approximately NIS 20 million, which until December 31, 2005, were included in the companies' shareholders' equity at adjusted values.

Note 8 – Investments in investee companies (continued)

(6) Breakdown of Long-Term Capital Notes, Loans and Balances According to Due Dates

	December 31, 2006 NIS millions
2007	1,206
2008	410
2009	422
2010	357
2011 forward	8,147
No settlement terms and/or dates	10,265
	20,807

(7) Information Regarding Privatizations and Acquisitions after the Reporting Date

(a) **Israel Discount Bank Ltd.** – In February 2005, an agreement was signed for the sale of control of Discount Bank to two corporations from the Bronfman-Schron group. The agreement provided that the purchasers would receive 26% of the bank's issued share capital and an option to purchase an additional 25% of the share capital, in consideration for NIS 1.3 billion. The agreement also provided that most of the consideration (over 80%) would be paid at the date of completion of the transaction, and the remainder would be paid three years after the completion date (linked to the CPI and bearing fixed annual interest of 4%). If the purchase options are fully exercised, an additional consideration of approximately NIS 2.35 billion is expected to be paid. At the end of January 2006, all the necessary approvals were obtained and the shares were delivered to the purchasers. As of March 10, 2007, the state holds approximately 25% of the Bank's share capital.

(b) **El-Al Israel Airlines Ltd.** – In June 2003, the government began the process of privatizing El-Al through a sale offering on the Tel Aviv Stock Exchange. The sale offering included 15% of the company's share capital, as well as two series of options for the purchase of the remaining 85% of the shares. The first series of options can be exercised during the first year, and the second series can be exercised during the period beginning 18 months after the date of the sale offering and concluding four years after that date. In addition, El-Al employees were offered the possibility of purchasing shares and options for approximately 9% of the company's share capital. By March 2007, the first series of options had been fully exercised, as had part of the second series. As a result, as of March 10, 2007, the state holds 20.78% of the company's share capital (1.09% fully diluted).

(c) **Oil Refineries Ltd.** – On February 12, 2006, Israel Corp. transferred all of its shares in the company to the state of Israel and ceased to be a shareholder of the company. As of December 31, 2006, the state holds 100% of the shares of Oil Refineries Ltd. (hereinafter: "ORL").

On September 28, 2006, the Ashdod Refinery was sold by ORL in consideration for approximately NIS 3,250 million.

On December 30, 2006, ORL paid out a dividend to the state in the amount of approximately NIS 2,700 million. On February 19, 2007, all shares of ORL were sold through a share offering on the Tel Aviv Stock Exchange. The net consideration of the offering (net of expenses for the offering and expenses for a bonus to employees, at a total cost of approximately NIS 260 million) was a total of approximately NIS 6,165 million.

Note 8 – Investments in Investee Companies (continued)

(d) **Bank Leumi –** In January 2005, options were exercised which diluted the state's holding to 34.8% (36.29% as of December 31, 2004). In March 2005, the state sold 6.5% of the bank's shares to Deutsche Bank, in consideration for a total amount of approximately USD 267 million.

In July 2005, the state carried out an additional block trade transaction, in which 3.5% of the bank's shares were transferred to Citigroup in consideration for approximately NIS 600 million. After the transaction, the state retained 24.78% of the bank's share capital. In September 2005, a procedure for the sale of 9.99% of the Bank Leumi share capital held by the state was commenced. The tender provided that immediately upon notification of the winner that it had been chosen as the preferred bidder, the winner would receive a six-month option, and an option for an additional twelve months under certain conditions, to purchase an additional 10.01% of the bank's share capital and thus to arrive at a total holding of 20% of the bank's shares (subject to obtaining a control permit from the Supervisor of Banks at the Bank of Israel). The Barnea Group (Cerberus-Gabriel) won the tender. In January 2006, 9.99% of the bank's share capital was transferred to that group, in consideration for NIS 2.5 billion (in accordance with an agreement between the parties which was signed in November 2005). The option to purchase an additional 10.01% of the bank's share capital is pending, and if it is exercised, the total consideration for the transaction will reach approximately NIS 4.6 billion.

In February 2006, agreement was reached regarding the entitlement of Bank Leumi employees to purchase 3.873% of the bank's issued and paid-up share capital. The employees will exercise their entitlement in two stages, the first of which will be completed during 2006. In that stage, shares representing 2.873% of the bank's issued and paid-up share capital will be sold to the employees.

(e) **Bezeq The Israel Telecommunications Corporation Ltd.** – In July 2004, the Ministerial Committee for Privatization decided to sell 30% of the share capital of Bezeq, along with an option to purchase an additional package of 10.67%. In addition, Bezeq employees will be entitled to purchase 4.7% of the share capital at a discount of 30% below the sale price. In August 2004, the state issued a tender for the purposes of this sale. In May 2005, the state chose a winner for the tender whose offer was in the amount of USD 972 million. In October 2005, the state received NIS 4.25 billion in consideration for the transfer of the shares. The option to purchase an additional 10.66% of the company's share capital is pending and is valued at approximately NIS 1.5 billion.

Note 9 - Other Assets

Other assets included in the Report are comprised of software used by government ministries as well as species produced by the Agricultural Research Organization.

	Software NIS millions	Species (1) NIS millions	Total
Cost			
As at January 1, 2006	213	-	213
Additions	96	-	96
Subtractions	(-)	-	(-)
As at December 31, 2006	309	40	349
Accumulated depreciation:			
As at January 1, 2006	(44)	-	(44)
Additions	(33)	-	(33)
Subtractions	-	-	-
As at December 31, 2006	(77)	(5)	(82)
Net of provision for impairment:	-	(0.2)	(0.2)
Depreciated balance as at December 31, 2006	**232**	**35**	**267**
Depreciated balance as at December 31, 2005 (*)	**170**		**170**

(*) Restated.

(1) Species at the Agricultural Research Organization

(A) General

341 species have been created by the Agricultural Research Organization. Of these, 117 species were estimated as at December 31, 2006, and presented with a single figure, without movements during the year. The remaining species were developed over twenty years ago, or no longer generate financial benefits, and therefore are not presented at any value.

(B) The following are details of the species:

Species type	Number of registered species	Depreciated cost (NIS thousands)
A	70	1,902
B	6	775
C	14	1,781
D	27	29,476
Total	117	33,934

Note 9 - Other Assets (continued)

(C) The following are details of the basic assumptions and estimates used to evaluate the aforesaid assets:

(1) In accordance with the directives of International Accounting Standard No. 38, *Intangible Assets*, the cost model was chosen for the measurement of the said assets. Therefore, the species are presented in the financial statements according to their reconstructed historical cost (see (3) below), net of accumulated depreciation (see (4) below) and net of the provision for impairment (see (5) below).

(2) For the purposes of the measurement of the value of the said assets, the Organization's management selected species (hereinafter: "species" or "projects") registered within the last 20 years with potential to generate income at high probability. With regard to the choice of period, see (4) below.

(3) For each group of species, the Organization's management built a characteristic model, in collaboration with its researchers, for the measurement of the costs invested in each species during the research and development stages, throughout the period from the beginning of the research stage until the submission of the species for registration for cultivators' rights (the end of the development stage). The following are the main principles of the model:

(a) The majority of costs invested in species research and development are salary costs for researchers and assistants (technicians and practical engineers). In the decisive majority of projects, research and development are managed by researchers ranked A. Therefore, the Organization's management based its cost calculation on the salary cost of a Rank A researcher.

(b) Due to the high variability of salary costs over the last twenty years, the model is based on a weighted average of salary costs, according to the number of species developed and registered each year.

(c) In addition to standard salary costs of researchers and assistants, the projects also include other direct expenses comprising approximately 25% of salary costs, on average, as well as an allocation of overhead in the amount of approximately 33% of the project's total direct expenses.

(d) As standard salary costs are financed by the state budget, the Organization's research units operate under the revenue-contingent expense method. I.e., in the decisive majority of projects there is external financing that covers the additional direct costs and the Organization's overhead. Thus, approximately 40% of the total calculated project costs are deducted, due to the external financing.

(e) Based on the collection of research data by the Organization's management, the research stage accounts for approximately 40% of the total costs of the project. Species are therefore presented in this Report at 60% of total invested costs, representing the cost of their development.

(4) The cost of the species is depreciated at equal annual rates throughout the species' economic lifetime. The decisive majority of species expire once 20 years have elapsed from their registration.

(5) The provision for impairment of species is calculated using a comparison of the depreciated cost of each species to the expected future revenue flow, discounted at an annual rate of 4%. Revenues from royalties are a function of the volume of sales by commercializing companies.

Note 9 - Other Assets (continued)

Estimates of expected revenue flow are therefore based on the average revenues over 6 years (2000-2005). Revenue data for 2006 had not yet been received at the reporting date.

Note: Patents

The intangible assets of the Organization include 181 registered patents, mainly in the area of technologies, agricultural equipment, and plant molecular biology (hereinafter: the "Patents"). Registration of the Patents is not a primary objective in the conduction of research by the Organization. Patent registration is generally an incidental outcome of other research, and the costs invested in the Patents' development stage are not material (as external financing is received). For this reason, such assets are not presented in this Report.

During 2007, procedures will be formulated for the registration and measurement of intellectual property assets at the Agricultural Research Organization, in accordance with generally accepted accounting standards.

Note 10 - Accounts Payable and Credit Balances

		December 31, 2006 NIS millions	December 31, 2005 NIS millions (*)
Accounts payable - Accountant General		11,635	7,467
Accounts payable and receivable – salaries	(1)	2,794	2,514
Local authorities	(2)	558	618
Suppliers and expenses payable		736	206
Advances from contractors and entrepreneurs	(3)	560	574
Provisions		136	120
Deposits with courts		348	287
Funds in transit – Execution Office		158	135
International aid and cooperation	(4)	147	171
Loans and supports	(5)	86	93
Foreclosures		57	
SELA Administration	(6)	59	134
Health maintenance organizations		-	183
Housing companies (home sale campaigns)	(7)	39	252
Capital note holders	(8)	26	42
Golf Ashkelon Ltd.	(9)	122	-
KKL – Jewish National Fund	(10)	60	-
Deposits for privatizations	(11)	197	-
The Kibbutzim Arrangement	(12)	155	289
Other accounts payable		280	647
Total		18,153	13,732
Less short-term accounts payable		(4,775)	(5,247)
Balance of long-term accounts payable		13,378	8,485

(1) Includes incidental payments and deductions from salaries of state employees for the month of December, which are paid in January of the following year.

(2) Out of the said amount, a total of NIS 511 million is the result of the government resolution dated February 8, 2004, which approved restructuring programs for approximately 130 local authorities; within these programs, the government committed to provide grants to cover the authorities' deficits in a total amount of NIS 982 million, subject to the conditions set out in the program. These grants are transferred to the local authorities over the period of the restructuring agreement, in accordance with the authorities' compliance with periodic milestones set out in the restructuring program. The balance of liabilities in this Report includes a provision of 90% of the amount of the grants, which past experience indicates will be paid out in any event, regardless of whether the local authorities meet the milestones that have been established. It is not possible at this stage to estimate the amount of the current maturities. Nevertheless, it should be noted that in light of the State Comptroller's report regarding the restructuring programs and the failure to meet the program's milestones, the Accountant General has decided, as required by law, that restructuring programs must henceforth be signed by legally authorized signatories, including the comptroller of the Ministry of the Interior. This measure will lead to restructuring programs being regarded as binding agreements for all matters and purposes, and in particular with regard to a breach of such agreements by failing to comply with milestones.

Note 10 - Accounts Payable and Credit Balances (continued)

(3) Amounts received by the Israel Land Administration from entrepreneurs and contractors for development of infrastructures for projects for which the entrepreneur pays development costs prior to execution. It is not possible at this stage to estimate the amount of the current maturities.

(4) The state of Israel provides aid to developing countries. The balance of the obligation is comprised of the following two amounts:

(A) The state of Israel provides aid to developing countries in a variety of fields, in cooperation with foreign parties. The foreign parties transfer funds to the state of Israel, which uses these funds to provide aid by transmitting new knowledge and technology to developing countries in areas such as the struggle against poverty and hunger, health, business initiatives, education, computerization, and more. The balance of the commitment as at December 31, 2006 is NIS 52 million (NIS 63 million as at December 31, 2005). It is not possible at this stage to estimate the amount of the current maturities.

(B) Since 1960, the state of Israel has been a member of the International Development Association (IDA) - the arm of the World Bank which distributes economic aid to the world's 80 poorest countries through loans and grants for projects. Until 1998, Israel paid only membership dues. In 1999, Israel undertook a commitment to contribute NIS 45 million, spread over 6 years (the final payment was transferred in 2005). In 2002, Israel undertook a commitment to contribute an additional NIS 53 million, to be spread over 9 years; in 2005, a commitment was undertaken to contribute an additional NIS 70 million spread over 9 years.

The following are details of the expected distribution of payments:

Year	NIS millions
2007	17
2008	19
2009	17
2010	15
2011 forward	27
Total	95

(5) Out of the total amount, approximately NIS 72 million represents the balance of the deposit received from the First International Bank of Israel and deposited with the Bank of Israel, for the provision of loans to teachers by FIBI (at the end of the term of the contract, the balance will be returned to FIBI). The remaining amount of approximately NIS 14 million refers to supports that have been approved and are expected to be paid during the following year.

(6) On August 1, 2005, as part of the disengagement plan, the Israeli government evacuated the Gaza region settlers from their homes. Alongside this process, the Knesset enacted the Implementation of the Disengagement Plan Law, 5765-2005 (hereinafter: the "Evacuation-Compensation Law"), which obligates the government to pay compensation to the evacuees. The government administers the treatment of the evacuees through the SELA Administration, which is responsible for the payment of compensation pursuant to the Evacuation-Compensation Law and for finding housing solutions for evacuees, including in settlements and hotels throughout the country.

As of December 31, 2006, the total remaining obligation under the Evacuation-Compensation Law and the resolutions of the Ministerial Committee on the implementation of the law was NIS 59 million. This amount was paid out over the months of January-March 2007.

Note 10 - Accounts Payable and Credit Balances (continued)

(7) The Ministry of Housing conducts home sale campaigns through the housing companies and the Jewish Agency. This amount is composed of the following: NIS 13 million stem from a sale agreement with the Jewish Agency (for further details regarding this agreement, see Note 15(XI) below); this amount is expected to be paid during the following year. The remainder, in the amount of approximately NIS 26 million, consists of advances paid by home purchasers for sale transactions to be completed during the following year.

(8) The Israeli government's obligation to settle capital notes issued by the Industrial Development Bank of Israel Ltd. in the United States. In addition, the government has undertaken a commitment to pay the exchange rate differential component included in the current interest paid to note holders.

(9) Accounts payable in respect of the acquisition of property in Ashkelon – refers to a debt to Diur B.P. Ltd. (NIS 15 million), Golf Ashkelon Ltd. (NIS 10 million), Discount Bank Ltd. (NIS 85 million), and Pri Or Ltd. (NIS 12 million) for property purchased by the state from Golf Ashkelon, as part of the implementation of the Disengagement Law, in order to allocate properties to disengagement evacuees. The agreement in question is a restitution agreement between Golf Ashkelon Ltd. and the Israel Land Administration and SELA Administration. The payments were performed in January 2007.

(10) This balance represents a debt to the KKL – Jewish National Fund for revenues received by the Israel Land Administration for the development of infrastructures in properties owned by KKL.

(11) The balance of accounts payable is composed of the following:

(A) NIS 147 million – a deposit for payment of refinery usage fees to the state for the use of its assets; provided as a liability until completion of the privatization process.

(B) NIS 50 million – mortgage subsidies by the state for entitled persons, through Discount Bank, at the date of the bank's privatization, as part of the privatization agreement.

(12) The Israeli government's share in the write-off of "balloon" debts of kibbutzim (under the supplementary kibbutzim agreement; see Note 7(B)(2) above). The following are details of the expected distribution of payments:

Year	NIS millions
2007	70
2008	41
2009	30
2010 forward	14
Total	155

Note 11 - Domestic Loans

(1) Details of Linkage Bases and Interest Terms

Balances as at December 31, 2006 (including accrued interest; in NIS millions)											
	Unlinked Israeli currency				CPI-linked Israeli currency				USD-linked Israeli currency		Total
Nominal interest rate	3%-4.8%	4.8%-6%	6%-8%	Over 8%	Up to 3%	3%-4.8%	4.8%-6%	Over 6%	No interest and/or no settlement terms	3.5%-4.5%	
Tradable loans		69,930	52,640	26,400	19	68,224	41,467			312	258,992
Pension funds						13,490	91,521				105,011
National Insurance					1,515	36,648	71,994				110,157
Compulsory loans					532				61		593
Insurance companies						5,295	22,117	4,117			31,529
Bank of Israel	498		2,168								2,666
Funds and emissions					133	2,729	5,740				8,602
	498	**69,930**	**54,808**	**26,400**	**2,199**	**126,386**	**232,839**	**4,117**	**61**	**312**	**517,550**
Less current maturities											**(47,618)**
Total											**469,932**

Note 11 - Domestic Loans (continued)

Balances as at December 31, 2005 (including accrued interest; in NIS millions)											
	Unlinked Israeli currency				CPI-linked Israeli currency				USD-linked Israeli currency		Total
Nominal interest rate	3%-4.8%	4.8%-6%	6%-8%	Over 8%	Up to 3%	3%-4.8%	4.8%-6%	Over 6%	No interest and/or no settlement terms	1.7%-2%	
Tradable loans	44,459	22,511	54,746	25,432	31	67,336	38,894			342	253,751
Pension funds						13,507	98,666				112,173
National Insurance					2,015	31,744	69,746				103,505
Compulsory loans					536				63		599
Insurance companies						5,156	22,495	3,344			30,995
Bank of Israel	611	2,836									3,447
Funds and emissions					298	2,907	6,593				9,798
	45,070	**25,347**	**54,746**	**25,432**	**2,880**	**120,650**	**236,394**	**3,344**	**63**	**342**	**514,268**
Less current maturities											**(54,898)**
Total											**459,370**

Note 11 - Domestic Loans (continued)

(2) Composition and Breakdown of Domestic Loans by Settlement Dates (in NIS millions)

Loan/Settlement Date		2007	2008	2009	2010	2011	2012 forward	Total
Tradable loans	(A)	36,519	26,837	33,887	24,707	38,760	94,532	**255,242**
Pension funds	(A)	8,257	7,479	7,629	7,960	8,449	65,413	**105,187**
National Insurance	(D)	7,643	6,641	6,815	6,940	7,380	74,738	**110,157**
Compulsory loans	(D)	593	-	-	-	-	-	**593**
Insurance companies	(D)	2,614	2,485	2,459	1,912	2,169	19,890	**31,529**
Bank of Israel	(B)	653	695	692	460	83	83	**2,666**
Funds and emissions	(C)	1,596	665	693	672	666	4,309	**8,601**
Total excl. premiums and deductions		**57,875**	**44,802**	**52,175**	**42,651**	**57,507**	**258,965**	**513,975**
Premiums and deductions								**3,575**
Total								**517,550**

(A) Pursuant to Amendment 14 to the State Loan Law enacted by the Knesset in January 2005, responsibility for the issuance and management of tradable government bonds and bonds issued to pension funds by the State Loans Administration at the Bank of Israel was transferred to the Government Debt Management Unit at the Ministry of Finance in 2006. Balances in this Report were generated by the Merkava system at the Accountant General Division.

The Accountant General Division has also established a lending pool allowing primary dealers in government bonds appointed by the Accountant General to borrow government bonds and trade in such bonds on the secondary market. When borrowing bonds, primary dealers provide cash collateral for the full value of the bonds, which is deposited in designated government accounts with the Bank of Israel. As a rule, the amount of the collateral is equal to the market value of the bonds lent, and is revalued on a daily basis. The amount of collateral and bonds at the reporting date is NIS 1,062 million. The aforesaid asset and liability (the bonds and the collateral) are offset against one another and presented at a net amount of zero.

(B) Until 1988, pursuant to the Budget Law, the Israeli government received loans from the Bank of Israel to cover budgetary expenses. The terms for repayment of the loans were established in an agreement between the Minister of Finance and the Governor of the Bank of Israel, with the approval of the Knesset Finance Committee. According to the Bank of Israel's Annual Report, the interest and linkage differentials on the balance of the principal for each year are to be settled on December 31 of the same year. The principal is to be settled in annual payments, the last of which is to be paid in 2012. This obligation is under discussion between the Bank of Israel and the Ministry of Finance. In 2006, the Bank of Israel debited the Accountant General in the amount of NIS 881 million, in contradiction of the Ministry of Finance's position, which is backed by a legal opinion stating that the said debt should be written off. The dispute between the Bank of Israel and the Ministry of Finance has not yet been resolved.

(C) Funds and emissions mostly include deposits with the Accountant General by financial institutions and other entities. These are amounts that were deposited for 17 years and refinanced. Some of the depositing entities are able to withdraw their funds at any time.

Note 11 - Domestic Loans (continued)

In addition, until April 1987, provident funds were permitted to invest most of their assets in an "Approved Investment." The Income Tax Regulations provided that an "Approved Investment" was an investment in state securities or an investment in securities approved by the Minister of Finance. Such approval was usually given to bonds issued by financial institutions, provided that the financial institutions deposited the funds so raised with the Accountant General. These deposits are called "emissions" and have specified settlement dates. The last settlement date of these emissions is due in April 2007.

(D) The State Loans Administration at the Bank of Israel manages non-tradable loans issued to the National Insurance Institute, insurance companies ("Chetz"), and compulsory loans, on behalf of the Accountant General. Balances presented in this Report were taken from the annual review of the State Loans Administration Department at the Bank of Israel as at December 31, 2006.

(3) Composition and Breakdown of Domestic Loans by Settlement Dates (in NIS millions) (continued)

		December 31, 2006 NIS millions	December 31, 2005 NIS millions
Bank Hapoalim	(A)	4,832	5,401
Ports and Railways Authority	(B)	3,144	3,452
Commitment to credit subsidies for entitled persons	(C)	114	281
Miscellaneous	(D)	511	664
		8,601	**9,798**

(A) In May 2001, Bank Hapoalim redeemed the bonds of approximately 120 provident funds and pension funds, which had invested in bonds issued by the Gmul Investment Company Ltd. (during the 1980s, while it was a subsidiary of the bank), and deposited the proceeds of the redemption with the Accountant General. The balance of the amount (approximately NIS 938 million) was deposited by Mitar, a company established in the 1980s by Bank Hapoalim in order to issue bonds to the public and to pension funds. Proceeds of the issue were deposited with the Accountant General.

(B) Refinanced 17-year deposits made by the Ports and Railways Authority (at the time) with the Accountant General. The said amount is designated for the payment of pensions to employees of the Ports and Railways Authority when needed. To date, no funds have been withdrawn from the deposit. In May 2005, refinancing of the deposits was terminated, and the deposits are being settled according to the existing repayment schedules.

(C) Consists primarily of the government's commitment to subsidize credit to mortgage banks in the amount of the difference between the market interest rate and the interest rate with which loans are provided to entitled persons. The said differential was spread over the lifetime of the loan to entitled persons. As of July 2004, this differential is no longer spread over the lifetime of the loan; the difference is discounted at the market interest rate with routine payments made to the mortgage banks. In December 2006, the Accountant General carried out early settlement of some of the banks' deposits, in the amount of approximately NIS 125 million. Early settlement was completed for most banks in January 2007, with an additional amount of approximately NIS 96 million. The early settlement of all deposits for all banks was performed by discounting the balance of future repayments according to the

Note 11 - Domestic Loans (continued)

original repayment schedules by 4%. Following the early settlements, the balance of deposits remaining on the Accountant General's books is NIS 7 million at the reporting date (including accrued interest).

(D) Deposits belonging to various entities (banks, pension funds) who deposited the said amounts with the Accountant General. The funds can be withdrawn in accordance with the terms agreed upon by the Accountant General and the depositing entities.

(4) Short-Term Bonds

The Short-Term Bond Law, 5744-1984 authorizes the government to issue bonds that are to be sold to the Bank of Israel only; the Bank of Israel is to sell these bonds to and purchase them from the public, in order to regulate means of payment in the economy and in order to carry out its functions. The government is required to deposit the full consideration received from the bonds with the Bank of Israel, and may not use such consideration except to repay the bond, pursuant to the said law, or to pay interest on the bond.

The balance of short-term bonds as at December 31, 2006 was NIS 92,855 million (NIS 83,732 million as at December 31, 2005). The amount reflects the redemption price of the bond, less the remaining discount.

In accordance with generally accepted accounting principles regarding the offsetting of financial instruments, the deposit for the bond is offset against the liability for the bond.

Note 12 - Foreign Loans

(1) Details of Linkage Bases and Interest Terms

Balances as at December 31, 2006 (including accumulated interest; in NIS millions)										
		GBP-linked Israeli currency	CHF-linked Israeli currency	JPY-linked Israeli currency	EUR-linked Israeli currency				GBP-linked Israeli currency, floating rate	Total transferred to next page
		6.875%	1% - 4%	1.8% - 3.5%	0% - 1.5%	1.5% - 4.5%	4.5% - 8%	Libor 1/8	Prime	
	Note	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	NIS millions	
Via Israel Bonds Organization	(1)				1	19			**41**	**61**
Backed by foreign governments	(2)									
Not backed by foreign governments	(3)	840		719		4,226	4,510			**10,295**
Loans from foreign countries	(4)					2,815				**2,815**
Others			110	7		59	1,017	**1**		**1,194**
Total transferred to next page		**840**	**110**	**726**	**1**	**7,119**	**5,527**	**1**	**41**	**14,365**

Note 12 - Foreign Loans (continued)

Balances as at December 31, 2006 (including accumulated interest; in NIS millions)

Nominal interest rate	Note	Total transferred from previous page	USD-linked Israeli currency, fixed interest				USD-linked Israeli currency, floating interest					CAD-linked Israeli currency, fixed interest		CAD-linked Israeli currency, floating interest		Total
			2%-4%	4%-6%	6%-8%	Over 8%	Libor + 0%-1%	2%-4%	4%-6%	6%-8%	Prime - 0.5%-2%	2%-4%	4%-6%	4%-5%	5%-6%	
Via Israel Bonds Organization	(1)	61	4,411	16,663	3,174		3,275	129	3,565	3,776			294	877	554	36,779
Backed by foreign governments	(2)			25,859	23,218	11,977	94									61,148
Not backed by foreign governments	(3)	10,295		9,593	3,637											23,525
Loans from foreign countries	(4)	2,815	2,542		187	1,607										7,151
Others	(5)	1,194			1,398		90									2,682
Total		**14,365**	**6,953**	**52,115**	**31,614**	**13,584**	**3,459**	**129**	**3,565**	**3,776**			**294**	**877**	**554**	**131,285**
Bonds Organization securities, not yet redeemed	(6)															1,768
Accumulated interest for Bonds Organization securities																3,284
Total																**136,337**
Less current maturities																**(19,374)**
Total																**116,963**

(1) Excluding interest accumulated on these securities.

In 2005, significant differences were discovered between the balances of some of the external loans raised by the Israel Bonds Organization, as recorded in the Accountant General's books, and the corresponding records of the fiscal agent that administers the Bonds Organization on behalf of the Accountant General (the Bank of New York). Following a directive of the Accountant General, a comprehensive review was performed in 2006 in order to determine the reasons for the formation of these differences, and these factors were corrected. In view of the differences discovered, ongoing reviews of records and gap correction will be carried out during the course of 2007.

(2) Bonds issued in the United States with the guarantee of a foreign government.

(3) Bonds issued in financial markets abroad, without guarantees from foreign governments.

(4) Loans received by the state of Israel from foreign countries (mainly the United States and Germany), not including deposits of bi-national funds.

(5) Including deposits of bi-national funds in the amount of NIS 1,950 million.

(6) Bonds and notes issued through the Bonds Organization, whose maturity dates have elapsed, but which have not yet been redeemed by holders.

Note 12 - Foreign Loans (continued)

Balances as at December 31, 2005 (including accumulated interest; in NIS millions)								
		GBP-linked Israeli currency		CHF-linked Israeli currency	JPY-linked Israeli currency	EUR-linked Israeli currency		Total transferred to next page
	Note	6.875%	Prime	1% - 4%	1.8% - 3.5%	2% - 4.5%	4.5% - 8%	Total
Backed by foreign governments	(1)							-
Not backed by foreign governments	(2)	804	42		1,580		8,649	**11,075**
Loans from foreign countries	(3)					2,953		**2,953**
Others				123	15	58	899	**1,095**
Total transferred to next page		**804**	**42**	**123**	**1,595**	**3,011**	**9,548**	**15,123**

Note 12 - Foreign Loans (continued)

Balances as at December 31, 2005 (including accumulated interest; in NIS millions)														
	Total transferred from previous page	USD-linked Israeli currency, fixed interest				USD-linked Israeli currency, floating interest					CAD-linked Israeli currency, fixed interest	CAD-linked Israeli currency, floating interest		Total
Nominal interest rate		2%-4%	4%-6%	6%-8%	Over 8%	2%-4%	4%-6%	6%-8%	Libor + 0%-1%	Prime - 0.5%-2%	4%-6%	2%-4%	4%-6%	
Backed by foreign governments (1)			24,932	27,995	5,863									58,790
Not backed by foreign governments (2)	11,075	5,077	17,323	10,586		78	9,194	2,334	4,317	349	1,198	122	475	62,128
Loans from foreign countries (3)	2,953	2,984		470	10,865				130					17,402
Others	1,095			1,616					1,051					3,762
Total	**15,123**	**8,061**	**42,255**	**40,667**	**16,728**	**78**	**9,194**	**2,334**	**5,498**	**349**	**1,198**	**122**	**475**	**142,082**
Loans whose maturity date has elapsed, including interest accumulated up to the redemption date														5,330
Total														**147,412**
Less current maturities														(20,321)
Total														**127,091**

(1) Bonds issued in the United States with the guarantee of a foreign government.

(2) Bonds issued independently by the Israeli government without the guarantee of a foreign government. The U.S. dollar balances are mainly the result of the issuance of bonds, without the guarantee of a foreign government, by the Israel Bonds Organization in the United States and Canada (approximately NIS 38,400 million). The remaining U.S. dollar balances arise from the issuance of bonds in capital markets throughout the world.

For several years, there have been significant differences between the balances of part of the external loans raised by the Israel Bonds Organization as recorded in the Accountant General's books and the corresponding records of the fiscal agent who administers the Bonds Organization for the Accountant General (the Bank of New York). The Accountant General has ordered a comprehensive review in order to determine the reasons for the formation of these differences; however, this review was found to be insufficient. The Accountant General consequently ordered an additional review, which has recently commenced.

(3) Loans received by the state of Israel from foreign countries (mainly the United States and Germany).

(2) Breakdown of Foreign Loans by Maturity Dates (including accumulated interest)

	December 31, 2006 NIS millions
2007	19,374
2008	12,603
2009	12,094
2010	10,656
2011	7,085
2012 forward	74,525
Total	136,337

Note 13 – The Government's Commitment to Support for Pension Funds

		December 31, 2006 NIS millions	December 31, 2005 NIS millions
Commitment to government aid under Section 78(N) of the Supervision Law	(1)	(*) 83,251	(**) (*) 83,117
Commitment to expand government aid under Section 78(I)(8) of the Supervision Law	(2.A)	3,748	4,685
Commitment to pay supplement according to the summary memorandum dated January 5, 2004	(3)	454	472
Total		87,453	88,274

(*) Restated.

(**) Amounts are presented according to the repayment schedule of the Supervisor of Banks – see note below.

(1) Section 78(N) of the Financial Services (Insurance) Law, 5741-1981 (hereinafter: the "Supervision Law") stipulates that the government will provide aid to the older pension funds for which a special administrator has been appointed, including to their members, through a transfer of funds from the state budget in the amount of NIS 78,300 million, as of January 1, 2003, which includes the total value of the subsidy. In this context, the "value of the subsidy" is defined as the difference between the amount of linked interest which the government pays on Meron type nontradable bonds issued to older funds for which a special administrator has been appointed and which had not yet been redeemed on April 30, 2003, and the amount of linked interest which would have been paid on these bonds had the annual interest rate applicable to the bonds been 4%.

Under Section 78(N)(b) of the Supervision Law, the transfer of the funds to each older fund, in the context of the aid, is to be performed in accordance with the directives of the Supervisor of Insurance. Accordingly, on August 17, 2005, the Supervisor of Insurance established a repayment schedule which stipulates rules with regard to the transfer of the aid funds. Also attached was a cash flow schedule, which refers to aid funds transferred in 2003-2005 as well.

The figures presented above are the balance of the state's obligations as at December 31, 2006, according to the cash flow schedule. However, a review of all of the amounts detailed in the cash flow schedule is currently underway; after completion of the review, the balance of the state's obligations as at December 31, 2006 will be updated in accordance with the findings.

Note 13 – The Government's Commitment to Support for Pension Funds (continued)

Direct aid given to the funds in 2003-2006 was in the amount of approximately NIS 4,090 million, in current values (or NIS 3,666 million, in January 2003 terms), of which NIS 1,599 million were given in 2006.

(2) Raising of the retirement age:

A. Obligation to pension funds under the arrangement

Section 78(I)(8) of the Supervision Law provides that so long as the retirement age has not been raised to 67 for men and women, the difference will be covered through an increase in government assistance beyond the amount established in Paragraph (1) above.

In a summary memorandum between the Minister of Finance and the Chairman of the New Histadrut, dated January 5, 2004, the parties agreed to the establishment of a joint committee whose objective would be to reach an agreed decision, by June 30, 2009, with regard to the sources of financing required to cover the cost arising from the postponement of raising the retirement age from 62 for women, as stipulated in the Retirement Age Law, 5764-2004 (for a two-year period).

It was further agreed that should no such decision be reached, the amount in respect of the aforesaid cost will be added to the government aid. The calculation presented in this section includes the amount in respect of the aforesaid cost, and may change in accordance with the decision of the committee and subject to amendment of the Supervision Law.

The amount presented for 2006 is based on the funds' annual financial statements for 2005, according to an actuarial estimate performed in the following manner: the current value of the said government aid is calculated based on the difference between –

1) An estimate of the total pension obligations of the fund to its female insured clients, according to the retirement allowance age stipulated in Appendix A to the uniform regulations.

2) An estimate of the total pension obligations of the fund to its female insured clients, according to the retirement age proposed in Section B of the addition to the proposed Retirement Age Law, 5764-2003.

In this context, "pension obligations" are accrued obligations and pension obligations in respect of rights expected to accrue in the fund, less future benefit payments.

The aforesaid amount will be examined by the Accountant General in 2007.

B. Obligation for financing of early retirement

In February 2004, a public committee headed by the late Judge Goldberg, President (Retired) of the National Court of Labor, was appointed to establish criteria for the allocation of government aid to assist with financial difficulties arising from the gradual raising of the retirement age under the Retirement Age Law, 5764-2004, including difficulties experienced by employers and employees due to employees who have taken early retirement under the assumption that the retirement age would not change.

The committee reached a decision, which was formulated into an agreement between the Ministry of Finance and the Federation of Israeli Economic Organizations, as an amendment to the

Note 13 – The Government's Commitment to Support for Pension Funds (continued)

"package deal" signed on December 15, 2004. According to the agreement, the government would finance the additional cost involved in converting early retirees into pension recipients in the pension fund by which they are insured upon reaching age 65 for men and age 60 for women, so that they are entitled to receive from the pension fund, upon reaching the aforesaid age and afterward, the pension accrued to their credit in that fund to which they would have been entitled at that age if the Retirement Age Law had not been enacted. In this context, "early retirees" are employees who took early retirement up to December 31, 2003, and whose employers finance the current cost of their early retirement.

The current annual amount paid in 2006 for the aforesaid aid by the Pension Administration was NIS 72 million. An actuarial examination has not yet been performed with regard to the total indebtedness under this item; therefore, the balance of obligations was not presented as required under generally accepted accounting principles.

(3) In the summary memorandum between the Minister of Finance and the Chairman of the New Histadrut dated January 5, 2004, it was agreed that members of the groups described in the summary memorandum (with regard to those retiring during the period from March 20, 1996 to September 30, 2003) would be entitled to an additional allowance, due to the difference between the allowance calculated using the relative average wage method and the allowance calculated using the "last years" method, to be calculated as stipulated in the summary memorandum.

The amount presented is based on an actuarial estimate performed after the said summary memorandum, with the deduction of amounts transferred each year.

The amounts paid to the pension funds under the aforesaid agreement in the fiscal year 2006 were a total of NIS 37 million (up to December 31, 2005 – NIS 86 million).

In the coalition agreement between the Kadima and Gil factions, it was agreed that an additional amount of NIS 80 million would be budgeted, beyond the aforesaid amount, to finance retirements occurring during the period from January 1, 1987 to March 19, 1996. No provision was recorded in the financial statements in respect of this amount, due to the fact that this obligation was formulated after the reporting date.

Note 14 – The Government's Obligations for Government Employee Benefits

	December 31, 2006 NIS millions	December 31, 2005 NIS millions
Pension recipient employees	28,720	28,228
State employees	36,330	33,021
Teaching employees	23,185	22,436
Police and Prison Service	104,041	93,735
Defense system	5,172	7,423
Other obligations	**197,448**	**184,843**
Active employees	21,805	17,459
State employees	58,377	52,126
Teaching employees	30,203	25,654
Police and Prison Service	56,692	51,715
Defense system	2,476	5,480
Other obligations	**169,553**	**152,434**
Total	**367,001**	**337,277**

1. Scope of Government Obligations

1.1 The government's obligations include the following:

1.1.1 Obligations pursuant to the Civil Service (Pensions) Law [Consolidated Version], 5730-1970 (hereinafter: the "Pensions Law"), calculated based on the data, method, and assumptions described in section 2 below. Obligations were calculated for the following groups:

1.1.1.1 Obligations for future pensions for active employees, and obligations for survivors' pensions for such employees;

1.1.1.2 Obligations for pensions for retirees entitled to a retirement pension under the Pensions Law who have retired up to December 31, 2006, and obligations for survivors' pensions for such employees;

1.1.1.3 Obligations for survivors' pensions for employees or retirees deceased up to December 31, 2006;

1.1.1.4 With regard to state employees who transfer to insurance by an older pension fund or through an employer's budgetary pension, to whom a continuity agreement applies, and who have retired (hereinafter: "Retirees with Continuity Rights") – obligations for participation in the payment of pensions of such retirees.

1.1.2 Obligations pursuant to the Career Military Service (Retirement) Law [Consolidated Version], 5745-1985 (hereinafter: the "Career Military Service Law") with respect to soldiers in the career army are calculated based on the data, methods, and assumptions

Note 14 – The Government's Obligations for Government Employee Benefits (continued)

described in section 1 below, according to the groups listed in Paragraph A above, as appropriately modified.

1.1.3 Obligations pursuant to the Government Agency Officers Pension Law, 5729-1969 (hereinafter: the "Officers Law"), with respect to government officers, are calculated based on the data, methods, and assumptions described in section 1 below, according to the groups listed in Paragraph A above, as appropriately modified.

1.1.4 Obligations to pay pensions to employees insured under an established accrual pension during the early retirement period for teaching employees (the "Teachers' Pension Fund [KPM] Arrangement"), and to civilian IDF employees (who have a structured program included in the obligations of the defense system).

1.1.5 Obligations for supplementary payments of severance pay to state or defense system employees who are covered by a pension arrangement other than the budgetary pension arrangement.

1.2 It is emphasized that the aforesaid indebtedness does not include the following:

1.2.1 Obligations for the right to redeem unused vacation days at retirement;

1.2.2 Obligations for sick days;

1.2.3 Certain grants pursuant to the Pensions Law, the Career Military Service Law, or the Officers Law;

1.2.4 Any other right concomitant to early retirement.

2. Basis for calculation

2.1 Data

2.1.1 Salary and pensions data

Salary and pensions data used in the balance sheet consist primarily of salaries and pensions for the month of October 2006, with the addition of the proportionate share of annual payments.

The data retrieval system for state employees was upgraded in 2006, leading to a significant improvement in the accuracy of data regarding this population.

2.1.2 Employees not covered by budgetary pensions

The obligation for supplemental severance pay was calculated at the rate of 2.33% of annual salary per year of service, for all employees who are not covered by budgetary pensions, throughout their entire period of employment.

2.1.3 Employees on unpaid leave of absence

Employees listed as on unpaid leave of absence in the report for October 31 are included in the active employees file and were treated as ordinary active employees, taking into

Note 14 – The Government's Obligations for Government Employee Benefits (continued)

account periods that do not entitle such employees to pension benefits as well as entitlement periods resulting from the purchase of pension benefits.

2.1.4 Benefit freezes[1] and continuity agreements[2]

The estimated obligation for benefit freezes in 2006 is based on an aggregate list of employees with benefit freezes provided by the Civil Service Commission. This list is incomplete, due to unavailability of data, and therefore the estimate of the government's obligation for pensions may not accurately reflect the benefit freezes.

The obligation for benefit continuity in 2006 was estimated based on a list of retirees provided by the Ministry of Finance Pensions Administration.

2.1.5 Legislation regarding pension payments and retirement age

Chapter 16 of the Israel Economic Recovery Plan Law (Legislative Amendments to Achieve Budgetary and Economic Policy Goals for the Fiscal Years 2003 and 2004), 5763-2003 requires that an employer (including the state) in which the pension arrangement applicable to employees, or some employees, refers to an allowance payable from the state treasury must deduct payments from the pensionable salary paid to such employees or officers, at a rate of 2% of their pensionable salary.

The Retirement Age Law, 5764-2004 provides that the compulsory retirement age will rise gradually from 65 to 67 for both men and women. The Pensions Law has been amended accordingly, so that the compulsory retirement age for state employees has been changed in the aforesaid manner. In addition, the age for entitlement to retirement pensions for employees terminated after ten years of service (as provided in section 15(4) of the Pensions Law) will rise gradually from 40 to 42. The retirement ages for police officers and prison wardens will also rise gradually, from 55 to 57, and the retirement age for preschool teachers will rise from 57 to 59. Ages established in the Career Military Service Law were also changed, so that the retirement age will rise gradually from 55 to 57, and the age for eligibility to receive a pension after at least eight years of service in the career army will rise from 40 to 42.

2.2 Method

2.2.1 For each active employee, individually:

2.2.1.1 A determination is made of the pension or other benefits expected to accrue by each possible future date of the employee's leaving the service, death, disability, or

[1] **Benefit freezes** - In general, employees who are covered by budgetary pensions, who work for the state for more than ten years, and who leave the state service after the age of 42, are usually entitled to a budgetary pension upon reaching retirement age, based on their number of years of service and on their pensionable salary at the time of termination of employment. This does not apply to employees who receive severance benefits or to employees to whom continuity agreements apply.

[2] **Continuity agreements -** Employees who transfer from state service to entities with which the state has a continuity agreement (municipalities, established pension funds, etc.) and who request that the said agreement be applied to them will receive a pension based on their pensionable salary in the entity to which they transferred and on the length of their state service (provided that the pensionable salary does not exceed the pensionable salary corresponding to the employee's maximum rank in state service).

retirement, based on the employee's data and on the basic assumptions noted below as at October 31, 2006.

2.2.1.2 The expected cash flow is calculated, for every future year, until the death of the employee and his/her survivors, based on the aforesaid pension and other benefits and the assumptions noted below.

2.2.1.3 The projected cash flows are discounted at compound interest to October 31, 2006, according to the discount interest rate assumption described below.

2.2.1.4 The said discounted value is multiplied by the ratio of pensionable service accrued by October 31, 2006 to the projected total pensionable service to be accrued by the expected retirement date, in order to determine the current accrued value of the expected cash flows.

2.2.1.5 The relative discounted value is brought forward to December 31, 2006, taking into consideration the expected effect of the following factors during the period from October 31 to December 31, 2006:

A. Accrual of pensionable service;

B. Termination of service, death, and disability of active employees;

C. Aging of the active employee population.

2.2.2 For each retiree, individually:

2.2.2.1 A calculation is made of the expected pension payment in each future year until the death of the retiree and his/her survivors, based on the retiree's data and on the basic assumptions noted below, as at October 31, 2006.

2.2.2.2 The aforesaid pension payment flows are discounted at compound interest according to the discount interest rate assumption described below.

2.2.2.3 The aforesaid discounted value is brought forward to December 31, 2006, taking into consideration the expected effect of the following factors during the period from October 31 to December 31, 2006:

A. Pension payments;

B. Aging of the retiree population;

C. Death of retirees.

2.3 Basic assumptions

2.3.1 The need for assumptions

The government's precise pension obligations will be known only upon the death of the last insured employee or retiree. Until then, these obligations can only be estimated, through the use of basic assumptions with regard to uncertain future events that influence the level of

Note 14 – The Government's Obligations for Government Employee Benefits (continued)

pensions to be paid, the date of the commencement of payment of each future pension, and the duration of the period of payment of each pension. These basic assumptions should be reexamined and updated from time to time, based on up-to-date data.

2.3.2 Discount interest rate

2.3.2.1 The interest rates for discounting the government's pension obligations are based on the yields to maturity of CPI-linked government bonds during December 2006. With regard to long-term reference points for which there were no bonds, an extrapolation of these yields to maturity was used. These discount interest rates are presented in the following table:

Term to maturity in years	Average annual yield to maturity
1	4.05%
2	3.92%
3	3.83%
4	3.76%
5	3.72%
6	3.69%
7	3.67%
8	3.65%
9	3.64%
10	3.63%
11	3.63%
12	3.63%
13	3.63%
14	3.62%
15	3.63%
16	3.63%
17	3.63%
18	3.63%
19	3.63%
20	3.63%
21	3.63%
22	3.64%
23	3.64%
24	3.64%
25 or more	3.64%

Note that a 1% decrease in the assumed discount interest rates would increase the government’s pension obligations by approximately 20%.

2.3.3 Growth rates of personal salaries

Note 14 – The Government's Obligations for Government Employee Benefits (continued)

The annual real growth rates of personal salaries are based on research which examined salary data from the following years:

- 1996-2005, for state employees and teachers (including adjustments for teachers, unlike in previous reports).
- 2003-2005, for police officers (including adjustments, unlike in previous reports).
- 2001-2004, for career military personnel.

These rates vary according to sex and age.

2.3.4 Growth rate of general salaries

Unlike in previous reports, the real annual growth rate of salaries stands at 1.95%.

2.3.5 Post-retirement pension growth rate

Unlike in previous reports, the real annual growth rate of pensions stands at 1.45%.

2.3.6 Mortality

2.3.6.1 Base mortality rates as at December 31, 2001

A. Mortality rates for active employees are based on the mortality rate in 1999-2004 among active employees insured by the following older pension funds: Makefet Pension and Payments Fund A.S. Ltd. (hereinafter: "Makefet"), the Central Pension Fund of the Histadrut Workers Ltd. (hereinafter: "CPF"), Nativ Pension Fund of the Histadrut Industries Workers and Employees Ltd. (hereinafter: "Nativ"), Mivtachim Workers' Social Insurance Institution Ltd. (hereinafter: "Mivtachim"), Insurance and Pension Fund for Agricultural and Unskilled Workers in Israel A.S. Ltd., and the Insurance and Pension Fund of Building and Public Works Employees A.S. Ltd.

B. Unlike previous reports, mortality rates of retirees who did not retire for health reasons are based on mortality rates over the period 1999-2004:

   1) For active employees, as specified in Paragraph A above, at ages up to 59;

   2) For retirees (both healthy and disabled) insured by the older pension funds, as specified below, at ages 60 and over:

      a. 75% of the mortality rate of retirees in the pension funds Makefet, CPF, and Nativ;

      b. 25% of the mortality rate of retirees in the Mivtachim pension fund.

C. Unlike previous reports, the following rates were determined with regard to retirees retiring for health reasons:

Note 14 – The Government's Obligations for Government Employee Benefits (continued)

1) A mortality rate of 2% per year for ages up to 59;

2) The mortality rate of retirees in the older pension funds, as noted in Paragraph B above, for ages 60 and over.

2.3.6.2 Forecast changes in mortality rates

Decreases in the base mortality rates noted above are expected each year after 2001, based on a position paper published by the Capital Markets, Insurance, and Savings Division of the Ministry of Finance.

2.3.7 Early retirement

2.3.7.1 Early retirement rates are based on data from the period 2000-2002. Rates vary by population type, sex, and age.

2.3.7.2 With regard to career military personnel, retirements to old age pensions are assumed to take place at age 46.5, in accordance with a study performed by the Ministry of Defense.

2.3.8 Leaving rates

"Leaving rates" refer to employees leaving the system before satisfying the eligibility requirements for a deferred pension or after foregoing pension benefits in exchange for a one-time compensation sum.

2.3.8.1 Leaving rates for active employees are based on a study conducted with regard to the various types of government employees.

2.3.8.2 For career military personnel, leaving rates for active employees are based on a study conducted by the Ministry of Defense.

2.3.9 Employees with insufficient seniority for pension eligibility

The obligation for employees with insufficient seniority to be eligible for pension payments was calculated under the assumption that such employees will accumulate the requisite seniority, subject to the leaving rates noted above.

3. Notes

The volume of government obligations for pensions and other benefits for all government employees and retirees, as presented in this Note, reflects a reasonable estimate of these obligations, taking into consideration, among other things, limitations regarding the quality of data available at the time of calculation and limitations regarding the examination of some of the assumptions on which the calculation is based.

Note 15 – Contingent Liabilities and Contractual Engagements

(1) State Guarantees

The following are details of the balances as at December 31, 2006 and December 31, 2005 of guarantees given by the state, with the approval of the Knesset Finance Committee.

		December 31, 2006 NIS millions	December 31, 2005 NIS millions
State Guarantees Law, 5718-1958	(A)	11,421	11,842
Amendment 39 to the Encouragement of Capital Investment Law, 5751-1990	(B)	10	15
Total		**11,431**	**11,857**

(A) State Guarantees Law, 5718-1958

		December 31, 2006 NIS millions	December 31, 2005 NIS millions
Guarantees for employee pension plans	(1)	450	701
Residential construction	(2)	21	21
Israel Electric Corporation, Ltd.	(3)	7,720	7,884
Israel Military Industries Ltd.	(4)	85	120
El Al Israel Airlines Ltd.	(5)	-	53
Hotels	(6)	97	138
Small Businesses Fund	(7)	33	4
Foreign trade guarantees	(8)	3,009	2,905
Miscellaneous		7	18
Total		**11,422**	**11,844**

(1) Guarantees for early retirement agreements signed through Mivtachim with the retiring employees of the following companies:

	December 31, 2006 NIS millions	December 31, 2005 NIS millions
El-Al Israel Airlines Ltd.	196	192
Israel Aerospace Industries Ltd.	142	210
Israel Military Industries Ltd.	112	299
Total	**450**	**701**

(2) Guarantees given to construction companies for loans provided to them by banks for financing construction projects.

(3) Guarantees given to the Israel Electric Corporation Ltd. Most of these loans were given to the banking system in respect of credit granted for the execution of projects.

(4) Loan guarantees given to Israel Military Industries Ltd.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

(5) Loan guarantees given to El Al Israel Airlines Ltd.

(6) The Israeli government provided loans to hotels that suffered from a drop in the number of visitors and in their income from incoming tourism due to security-related events. These loans were given to the hotels by the Israeli banking system, with 70% state guarantees.

(7) The Israeli government provided loans for working capital to small businesses suffering from temporary cash flow problems resulting from the ongoing economic recession and from the difficult security situation. These guarantees apply to loans given by banks to small businesses in the amount of NIS 250,000 or 10% of the business's annual turnover, whichever was lower. The state of Israel guaranteed 70% of the amount of each loan. In September 2003, a budgeted fund was established for assistance to small businesses. This fund replaced the state-guaranteed fund, which no longer allows the granting of state-guaranteed loans as of October 31, 2003.

(8) On December 13, 2005, the Knesset passed the State Guarantees Law (Amendment), 5766-2005 (hereinafter: the "Law"), which, among other things, expanded the application of the State Guarantees Law to foreign trade and revoked the Foreign Trade Guarantees Law, 5719-1959. Following the aforesaid amendment of the Law, as of 2005, the state's guarantees to ASHRA – The Israel Export Insurance Corp. Ltd. for long-term bank credit insurance policies given to foreign purchasers of Israeli exports are presented as a separate item, as required by the Law.

(B) Amendment 39 to the Encouragement of Capital Investments Law, 5751-1990

Guarantees for loans given by banks to Approved Enterprises under Amendment 39 to the Encouragement of Capital Investments Law, 5751-1990.

(2) Contractual Engagements

(I) Contractual Engagement for the New Wing of the Knesset Building

The Knesset has a contractual engagement under the BOT method with Shapir Civil and Marine Engineering Ltd., signed in 2001, in the amount of NIS 406 million, as follows:

- A contractual commitment to the construction of the new wing of the Knesset in the amount of NIS 371 million. Payments for the construction will be performed only after the new wing is transferred to the Knesset's ownership, and will be spread over 25 years.

- A contractual commitment for maintenance of the new wing, started on the date of transfer of the wing to the Knesset's ownership. The Knesset is committed to pay an amount of NIS 7 million each year for maintenance of the wing. This contractual engagement was signed for a period of 25 years, with a point of exit from the contract every 5 years. Therefore, the contractual engagement for 5 years is in the amount of NIS 35 million.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

(II) Contractual Engagements with Management Companies, Planners, and Contractors

The Israel Land Administration has a balance of contractual engagements in the amount of approximately NIS 357 million as at December 31, 2006. The Israel Land Administration engages in planning and development in order to create land reserves available for development, marketing, and efficient use of the properties under its management. Most of the planning work is carried out by planning companies; contractual engagements with these companies are based on tenders. There are more than 500 projects currently in various stages of planning. The nature of the contractual engagement is derived from the planning stage reached by the project, as follows:

(1) Contractual engagements with companies conducting feasibility studies aimed at identifying obstacles and sources of delay.

(2) Direct contractual engagements with planners for detailed planning (statutory plans).

(3) Contractual engagements with planning companies for the preparation of planning projects, based on tenders.

In addition, there are management companies that carry out planning of infrastructure systems, development work, and marketing of the Administration's land.

(III) Contractual Engagement to Acquire Rights in Land at Nitzanim

The Israel Land Administration has a balance of contractual engagements with a third party in respect of the acquisition of rights in land at Nitzanim, for the settlement of disengagement plan evacuees. The contract was signed in December 2005, in a total amount of NIS 67 million. The balance of this contractual engagement as at the end of 2006 is NIS 60 million.

(IV) Local Authorities – Non-Designated Balancing Grant

Current grants transferred by the Ministry of the Interior to the local authorities as an incentive for potential municipal tax collection. In accordance with a government resolution, it was determined that starting in 2005, local authorities that meet established collection targets will be entitled to a grant. Payment of the grant is contingent on publication of financial statements that indicate increased collection, among other things. According to estimates by the administration of the Ministry of the Interior, the amount of the commitment as at December 31, 2006 is NIS 55 million.

(V) Local Authorities – Balancing Grants for Development

Contractual engagements in a total amount of NIS 203 million with local authorities in respect of projects related to development at local authorities, such as environmental development, road repair, etc. These contractual engagements were signed at the end of 2006. The Ministry of the Interior has approved various development projects for local authorities. As at the end of 2006, these projects have not yet commenced. The breakdown of payments to the local authorities will match the rate of progress of the projects.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

(VI) Israel Natural Gas Lines

The Ministry of National Infrastructures has a number of contractual engagements, in the amount of NIS 245 million, with Israel Natural Gas Lines (hereinafter: the "Company"), which is a government company under full state ownership. The Company is responsible for the construction and operation of the natural gas transport system. The following is the substance of the contractual engagements:

(1) A contractual engagement with a balance of NIS 35 million for tasks related to the construction and operation of the natural gas system. The Company will carry out the engineering planning for the various sections of the natural gas transport system, through sub-contractors, and will deal with the issuance of construction permits in those sections. It will also provide additional services related to the planning and construction of the system. The original contractual engagement is in the amount of NIS 89 million. Dates of payment are determined according to the rate of execution.

(2) A contractual engagement with a balance of NIS 156 million for the construction of the land portion of the Ashdod-Gezer-Ashkelon natural gas transport system, including the purchase of the pipes and the construction of the system. The contractual engagement was formed and the contract was signed in November 2004. The original contractual engagement was in the amount of NIS 360 million. The balance of the contractual engagement is due to be settled in 2007.

(3) A contractual engagement with a balance of NIS 54 million for the construction of the southern segment of the land gas transport system in the Kiryat Gat-Beersheva-Ramat Chovav-Dimona-Mishor Rotem-Sodom section. The contractual engagement was formed in December 2005. The original contractual engagement was in the amount of NIS 90 million.

(VII) Contractual Engagements with Local Authorities for the Construction of Classrooms

The Ministry of Education has contractual engagements with several local authorities with a balance in the amount of NIS 521 million for the construction of classrooms. Funds for classroom construction will be transferred to the local authorities according to the rate of progress of the construction.

(VIII) Contractual Engagements with the Rashi Foundation for Student Meals

The Ministry of Education (together with other parties) has a contractual engagement with the Rashi Foundation, which operates a nutrition project (meal supply) for students within the education system. The contractual engagement is in the amount of NIS 180 million; the ministry's share of this contract is NIS 45 million, the Rashi Foundation's share is NIS 45 million, and the local authorities' share is NIS 90 million.

(IX) Contractual Engagements with Local Authorities for Renovations

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

The Ministry of Education has contractual engagements with local authorities in the amount of NIS 51 million for the renovation of various educational buildings. The Ministry of Education transfers funds to the local authorities for the purpose of various renovations. Payment is performed after completion of the renovation by the local authority.

(X) Contractual Engagements with Persons Entitled to Mortgage Benefits

The Ministry of Construction and Housing has contractual engagements in the amount of NIS 99 million with persons entitled to mortgage benefits, for the payment of aid granted to the entitled persons (credit subsidies and grants). The breakdown of payments is commensurate with the rate of repayment of the mortgage loan by the entitled persons.

(XI) Home Sale Campaign

On January 31, 1999, the state signed a five-year agreement with the Jewish Agency (the "Amigur Agreement") for the purchase of 11,220 homes from the Jewish Agency. The agreement provides that Amigur will sell the inventory of homes from the Jewish Agency at a discount, in accordance with the government resolution, and the government will compensate Amigur for the discount to the purchasers, in the amount of the difference between the sale price after the discount and a total of USD 39,500 per home.

In addition, the agreement provides that if, during the term of the agreement (five years), the company sells 5,000 or more homes, the state will purchase the remaining unsold homes at a price of USD 39,500, in equal payments over a period of 10 years. Purchases of the homes started in March 2005, with approximately NIS 235 million paid under the agreement to date. The balance of the obligation is in the amount of NIS 1.7 billion, and will be paid commensurate with the pace of home purchases.

(XII) Contractual Engagement with Amidar

The Ministry of Construction and Housing has a contractual engagement with Amidar for the management of public housing homes. The contractual engagement was formed in early 2004, in the total amount of NIS 831 million, for a five-year period. The aim of the agreement was to replace prior arrangements between the Housing Ministry and Amidar and to regulate the management of public housing by Amidar. Under the agreement, Amidar is responsible for transferring all rent income from homes under its management to the ministry, while the ministry is responsible for paying all expenses, with the exception of retenanting expenses and administrative expenses. The balance of the contractual engagement is in the amount of NIS 329 million, and will be paid according to the number of homes managed over the years of the agreement.

(XIII) Contractual Engagement with Lev Hadar Gil Hazahav

The Ministry of Construction and Housing has a contractual engagement with Lev Hadar Gil Hazahav for the long-term rental of 200 housing units to elderly persons. The contractual

engagement was formed in March 2003, in the total amount of NIS 106 million, for a period of 15 years, with an option for an extension of an additional five years. The balance of the contractual engagement as at December 31, 2006 is NIS 100 million (not including the extension option), to be paid quarterly over the term of the contract.

(XIV) Contractual Engagements for Infrastructure and Construction Work at the Ministry of Construction and Housing

The total balance of contractual engagements at the ministry is NIS 2,481 million. This balance is composed of the following:

(1) A contractual engagement in the amount of NIS 981 million with planners, project managers, surveyors, and local authorities for planning, supervision of surveying, and preparation of outline plans at all Housing Ministry sites throughout Israel. These are multi-year contracts with execution periods ranging from 1 to 10 years.

(2) A contractual engagement in the amount of NIS 135 million with planners and project managers for the formulation of plans for urban evacuation, construction, and renewal and for public relations activity with residents.

(3) Long-term contractual engagements with management companies such as Amidar, Amigur, Prazot, Shikmona, etc. for the construction, management, and operation of senior citizen housing throughout the country, in a total amount of NIS 321 million. These are multi-year contracts with execution periods ranging from 1 to 6 years.

(4) A contractual engagement in the amount of NIS 147 million with contractors and local authorities for work within the Neighborhood Rehabilitation project and the completion of development in older neighborhoods.

(5) Contractual engagements in the amount of NIS 144 million with contractors, planners, supervisors, surveyors, and local authorities for the planning, management, and construction of public institutions and for development work in settlements that are part of the disengagement plan. This contractual engagement is in the form of two-year tenders.

(6) Contractual engagements in the amount of NIS 342 million with planners, surveyors, contractors, and local authorities for planning, supervision, and construction work on projects managed using the "closed economy" format (Modi'in, Ma'ale Edumim, Homat Shmuel, and El'ad).

(7) Contractual engagements in the amount of NIS 107 million with tenanting companies (Amidar, Amigur, Shikmona, etc.) for renovation and maintenance work in public housing.

(8) Contractual engagements in the amount of NIS 177 million with contractors and local authorities for the construction of public institutions in communities that meet the standard for public institutions, throughout Israel. These contracts are for a period of 2-5 years.

(9) Contractual engagements in the amount of NIS 76 million for participation in the construction of public institutions and religious buildings throughout Israel, financed by

the ministry and by other parties, such as local authorities, donors, Mifal Hapayis (National Lottery), etc. These contracts are for a period of 2-5 years.

(10) Contractual engagements in the amount of NIS 51 million with tenanting companies (Amidar, Amigur, Shikmona, etc.) for the purchase of apartments for immigrants in need and for long-term residents in need (disabled and ill persons), in situations in which the tenanting companies do not possess suitable homes in public housing. The homes are provided to the entitled persons at a monthly rent.

(XV) Contractual Engagements with IT Companies

The Housing Ministry has contracted with several IT companies for the development and operation of the computerized systems that serve the ministry's departments in the planning, management, and control of ministry activity. The balance of these contractual engagements as at December 31, 2006 is NIS 80 million.

(XVI) Encouragement of Capital Investment in Agriculture Law

Within the framework of the Law for the Encouragement of Capital Investments, the government has undertaken a commitment to transfer grants to entitled parties, contingent upon the execution of programs approved by the Investment Administration at the Ministry of Agriculture. The balance of this contractual engagement is in the amount of NIS 562 million, and is limited to a period of up to three years from the program's approval.

(XVII) Contractual Engagements with Wheat and Animal Feed Contractors

The Ministry of Agriculture has contractual engagements in a total amount of NIS 96 million with wheat and animal feed contractors who maintain an emergency supply of wheat for human consumption and animal feed for animal consumption for the state of Israel. These contractual engagements are intended to cover supply storage costs, as follows:

- A contractual engagement for a period of three years in the amount of NIS 54 million with the contractor Tvuot L.D. (1999) Ltd. for the maintenance of an emergency supply of wheat for human consumption.

- A contractual engagement for a period of three years in the amount of NIS 42 million with various contractors, such as Miloubar, Dizengoff, Asam Hagalil – Feed Mill Agricultural Cooperative Union Ltd., Rodemco, and others for the maintenance of animal feed.

(XVIII) Contractual Engagement for Water Agreement

The Ministry of Agriculture has an agreement in the amount of NIS 420 million, signed on November 16, 2006, between the Ministry of Finance, the Water Commission, the Ministry of Agriculture, and the Israeli Farmers' Federation, concerning support aimed at assisting

agricultural farms in achieving more efficient use of water, following the increase in water prices.

The contractual engagement is for a period of five years, with payment dates based on the rate of assistance required.

(XIX) Encouragement of Capital Investment Law

The Investment Center works to encourage economic initiatives for the investment of physical capital in Israeli industries, and in the construction and expansion of industrial enterprises and structures, hotels, and tourism enterprises.

In the context of the Encouragement of Capital Investment Law, the government has a commitment in the amount of NIS 2,901 million to industry and tourism enterprises for which such grants have been approved. The transfer of the grants is conditioned on the execution of the programs approved by the Investment Center, on the basis of milestones, after the actual execution of the investments. The period for execution of the program is limited to within five years from the date of its approval.

The following are the main enterprises:

- Intel Electronics – The Investment Center approved the expansion of the factory in Kiryat Gat for the manufacture of micro-electronic components on silicon wafers, with an investment of NIS 20,907 million. Execution of the investment in accordance with the approved program will entitle the company to a grant at a rate of 15% of the investment, but no more than USD 525 million.

  The investment in the approved program will be carried out within five years. The grants will be paid until the conclusion of settlement of the credit payments. The transfer of the grants to the company will be carried out in accordance with the pace of the investment and the reporting of the investments to the Investment Center. The balance of this contractual engagement is NIS 2,260 million as at the end of 2006.

- Tower Semiconductors – The Investment Center approved an investment in the amount of NIS 5,125 million for expansion of the Migdal HaEmek factory for the manufacture of integrated circuits. Execution of the investment in accordance with the approved program will entitle the company to a grant at a rate of 20% of the investment. The company completed execution of the investment in accordance with the approved program on December 31, 2005. Grants will be approved until completion of the settlement of payments in cash and credit. The company has received grants with regard to approximately 71% of the approved investment, and the balance of the grants will be paid in accordance with the pace of the company's payments and reporting to the Investment Center. The balance of this contractual engagement is NIS 289 million as at the end of 2006.

- Dale Israel Electronic Industries Ltd. – The Investment Center approved an investment in the amount of NIS 1,255 million for the purpose of expanding the Dimona and Beersheva factories for the manufacture of resistors and cables. Execution of the investment in accordance with the approved program will entitle the company to a grant at a rate of 20% of the investment. The company has executed approximately 29% of the investment. In January 2006, the company addressed a request to the Investment Center to reduce the

investments in the approved program; this request is being processed. The balance of this contractual engagement is NIS 185 million as at the end of 2006.

- Central Bottling Company Ltd. – The Investment Center approved the construction of a factory for the manufacture of soft beverages in Ashkelon, at a total investment of NIS 495 million. Following the company's failure to comply with the terms of the approval and the failure to transfer the factory to Ashkelon, the Investment Center revoked its approval. The company did not receive grants within the context of the approval. This commitment was terminated in February 2007.

(XX) Chief Scientist

The Office of the Chief Scientist operates in accordance with the Encouragement of Industrial Research and Development Law, 5744-1984, to support industrial research and development by providing direct financial assistance in accordance with the Law's provisions. The Office also supports research and development in programs that do not fall within the framework of this law and which are carried out pursuant to the instructions of the ministry's Director-General and subject to the provisions of the Research and Development Law.

The balance of contractual engagements in the context of projects approved by the Chief Scientist is in the amount of NIS 753 million, primarily consisting of support for research and development at enterprises via direct financial assistance in accordance with the Capital Investment Encouragement Law, research and development in industry, and research and development on subjects not covered by the law and carried out pursuant to the instructions of the ministry's Director-General and subject to the provisions of the Research and Development Law.

(XXI) Employment Centers

The Ministry of Industry, Trade, and Labor has contractual engagements with a balance of NIS 124 million with employment centers, including:

- Call centers – Support centers of various companies for the provision of service via telephone. The Ministry of Industry, Trade, and Labor has made a commitment to grant financial assistance for the salaries of call center employees if such centers are opened in Development Areas.

- Technological "anchor" enterprise – A development plant for technicians and software engineers in Sderot. The Ministry of Industry, Trade, and Labor has committed to grant financial assistance to the enterprise for its employees' salaries.

These contractual engagements are for a period of five years.

(XXII) Development of Industrial Zones

The Ministry of Industry, Trade, and Labor has contractual engagements with a balance of NIS 65 million with management companies responsible for the management and execution

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

of projects. The Ministry of Industry, Trade, and Labor has commitments towards entrepreneurs who purchased land in an industrial zone in order to construct factories and who have paid their share of development costs to the ministry. The Development Areas Administration finances the infrastructure work.

(XXIII) Contractual Engagement with Amdocs

The Ministry of Industry, Trade, and Labor has a contractual engagement with Amdocs, signed in 2002 for a period of ten years, with respect to a tender for a technological "anchor" enterprise in Sderot in which 550 employees are to be employed at a development center. The balance of the contractual engagement is NIS 48 million as at December 31, 2006.

(XXIV) Contractual Engagement for the Protection of the Dead Sea Shore

The Ministry of Tourism has contractual engagements with Dead Sea Works and with the Tamar Regional Council for the protection of hotels and infrastructures in the southern Dead Sea area, due to the rising level of Pool No. 5 at Ein Bokek, which creates a threat of flooding of hotels and infrastructures in that area. In this interim stage, the financing of the work is set forth in the Economic Arrangements Law, 2002.

(XXV) Encouragement of Capital Investment Law – Tourism

The Investment Center works to encourage economic initiatives for physical capital investments in Israeli industry, construction and expansion of industrial enterprises, industrial buildings, hotels, and tourism enterprises.

In the context of the Encouragement of Capital Investment Law, the Ministry of Tourism has contracted for the construction of hotels and tourist attractions so that they can be internationally competitive and contribute to the Israeli economy. The balance of these contractual engagements as at December 31, 2006 is NIS 159 million.

(XXVI) Contractual Engagement for Providing a Subsidy to Public Transportation Operators

The Ministry of Transportation has contractual engagements in the amount of NIS 5,658 million for subsidies for public transportation operators, as follows:

1. A subsidy agreement with Egged, signed on December 29, 2005, in effect through 2015, for a total amount of NIS 3,400 million.

2. Various contractual engagements, including an improvements fund for Egged, subsidies for additional operators, and contractual engagements for security and fortification of public bus-stops in a total amount of NIS 400 million.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

3. A total of NIS 1,858 million for a subsidy for the purchase of buses. Pursuant to the subsidy agreements, the government finances the purchase of buses for a number of public transportation operators, mainly Egged and Dan.

(XXVII) Carmel Tunnels

In 1996, the state of Israel issued a tender for the execution of the Carmel Tunnels Project using the BOT (Build, Operate, and Transfer) method. The winner of the tender was to construct four tunnels in Mt. Carmel, maintain them, operate them, collect a toll, and after 35 years, transfer them to the state of Israel. In 1997, the Carmelton group, comprised of the Ashtrom Group, Dragados, Property and Building, and FIBI, won the tender. As the winners of the tender, the group undertook to pay NIS 329 million in royalties to the state, in a single payment, at the end of construction.

In 1999, the group had secured financing from Bank Discount and was scheduled to begin construction of the project. The project was delayed until 2005 due to a number of reasons, including opposition to the statutory plan from the residents under whose homes the tunnels were to be built.

During 2002, as the approval of the statutory plan approached, Discount Bank gave notice that it intended to withdraw from its commitment to finance the project and the case went to court; the court held that the bank was required to carry out the agreement. In 2005, the state negotiated with the franchisee regarding changes in the agreement's terms. The changes agreed upon were the addition of a mechanism for guaranteeing income, including a guarantee of 90% of the difference between the "redemption line" and the actual income (if lower than the line), and the spreading of the royalty payment as a subordinated debt, bearing interest at a rate higher than the cost of funding by the government. In exchange for the changes, the franchisee agreed to significantly lower the tolls that the public would pay (from NIS 12.5 in the original agreement to NIS 5 during initial operation, according to the new agreement, with the possibility of increasing the price to NIS 8), and to the addition of a mechanism for dividing the income, according to which the state would receive a rising share of the income (from 15% to 70%), beginning with actual income that exceeds 75% of the expected income.

(XXVIII) Contract with Israel Railways Ltd.

On April 29, 2004, the Israeli government signed an agreement with Israel Railways Ltd. (hereinafter: the "Company") regarding a program for investments in the development of the track infrastructure. The agreement includes 33 projects with a total cost of approximately NIS 20,000 million (in 2003 terms). Pursuant to the contract, the government undertook to transfer the following amounts for the financing of the investment program:

(1) NIS 13,500 million of direct financing by the state, through an investment in the Company's share capital.

(2) NIS 2,400 million as an owner's loan from the state to the Company.

(3) NIS 10,500 million (including interest) to be raised by the Company through a bond issue, which the government has undertaken to settle.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

Of the amounts described above, the balance of the government's contractual engagement with the Company as at December 31, 2006 is as follows:

Financing	NIS millions
Investment in share capital	6,461
Owner's loan	724
Capital subsidy	11,299
Total	**18,484**

It should be noted, in this context, that an international control firm hired by the Accountant General to inspect the Company's compliance with the agreement discovered significantly large deviations. Investigations carried out by the Ministry of Finance found that the part of the agreement relating to the Company's capital raising effort could not be implemented. In light of the above, negotiations were begun with the Company regarding a modification and updating of the agreement.

(XXIX) Development of Urban and Inter-City Roads

As part of the development of the road system in Israel, the Ministry of Transport supports and finances the development of urban and inter-city roads.

The inter-city road system is primarily constructed by the Israel National Roads Company (the new Public Works Department [Ma'atz]), as well as by the Cross-Israel Highway company.

The New Public Works Department – A development agreement was signed in 2005 between the government and the new Public Works Department for the execution of projects and maintenance of inter-city roads (a framework agreement under which the ministry issues commitments for the execution of projects from time to time). As of 2005, the Ministry of Transport undertook to carry out a large number of projects for the development and maintenance of inter-city roads, the volumes of which are detailed below.

Cross-Israel Highway company – In February 1998, the Israeli government signed a franchise agreement with Derech Eretz Highways (1997) Ltd. (hereinafter: the "Franchisee") for the financing, construction, and operation of the Cross-Israel Highway, at a length of approximately 86 kilometers, using the BOT method. The franchise is for thirty years and is expected to end in July 2029.

During the tender process, a revenue target was established for each year of the highway's operation. The annual settlement of accounts is carried out such that if the actual revenue amount is less than the target amount, the state pays the Franchisee 72% of the revenue differential. If the actual revenue amount is higher than the target amount, the Franchisee pays the state 51% of the revenue differential. Pursuant to this mechanism, to date, the state has transferred approximately NIS 50 million to the Franchisee, in 2005. It is not possible at this stage to quantify the state's obligation to the Franchisee, if any, in respect of the target revenue guarantee mechanism.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

In the context of the franchise agreement, an agreement was signed by the state, the Franchisee, and the Franchisee's shareholders, according to which the Franchisee issued to the state, for no consideration, 49 option notes for profit sharing certificates (the "Option Notes") which grant their owners the right to purchase certificates for participation in 49% of any dividend distribution by the Franchisee and certificates for participation in 49% of any repayments of principal and interest for the subordinated debt that constitutes owners' loans. The subordinated debt amount as at December 31, 2005 was NIS 646 million. The Option Notes can be exercised starting one year after the end of construction (April 2005) through the end of the franchise period.

In addition, there are contractual engagements with the Cross-Israel Highway company for infrastructure work in the construction of the highway's segment 18 (Iron Interchange to Elyakim Interchange), and for segments 19-20 (Sorek Interchange to Moshav Ahuzam).

The Ministry of Transport participates in the financing of the urban road system, which is primarily implemented by local authorities, urban companies (Moriah, Yefe Nof), government companies (Ayalon Highways, NTA), and management companies (at local authorities in which the Ministry of Transport participates in 100% of the project's cost).

This financing is performed through the issuance of commitments by the Ministry of Transport to the local authority or to the executing entity (government/management companies).

The total balance of the contractual engagement for the execution of these projects is listed below, according to the type of project, for each project type in which the ministry participates in financing:

The Ministry of Transport participates in the financing of construction of roads, safety elements, and planning elements related to the network of roads in the state of Israel. The total obligation as at the end of 2006 is NIS 15,234 million, as follows:

(1) Master plans: Contractual engagements for assistance in financing the formulation of transportation master plans. The balance of the obligation as at the end of 2006 is approximately NIS 14 million.

(2) Planning: Contractual engagements for assistance in financing the planning of urban and inter-city roads. The balance of the obligation as at the end of 2006 is NIS 100 million.

(3) Arrangements for junctions and road segments: Contractual engagements for assistance in financing improvements to junctions and short road segments (safety improvements) at local authorities. The balance of the obligation as at the end of 2006 is NIS 100 million.

(4) Safety projects: Contractual engagements for assistance in financing the execution of safety projects, including traffic circles, construction of guardrails, road markings, etc. The balance of the obligation as at the end of 2006 is NIS 1,380 million.

(5) Improvements and priority to public transportation: Contractual engagements for assistance in financing the execution of projects aimed at improving the level of service provided by public transportation, such as the construction of public transportation lanes and routes, arrangements granting priority to public transportation at traffic lights, infrastructure for rail-based public transportation (light railways), etc. The balance of the obligation as at the end of 2006 is NIS 2,200 million.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

(6) Main roads: Contractual engagements for assistance in financing the construction of main roads, in order to relieve traffic congestion and improve driving safety. The balance of the obligation as at the end of 2006 is NIS 11,300 million.

(7) Land transportation projects: Contractual engagements for the financing of various land transportation projects, including the development of smart traffic management systems, research and development, etc. The balance of the obligation as at the end of 2006 is NIS 60 million.

(8) Traffic management: Contractual engagements for the improvement and construction of traffic management systems – NIS 80 million.

(XXX) Red Line Tender

A BOT-method tender for the financing, construction, operation, and maintenance of a mass transport system in the Tel Aviv metropolitan area under a 32-year franchise. The line covers a distance of approximately 22 km., of which 10 km. are underground, starting in Petach Tikva, through Bnei Brak, Ramat Gan, Tel Aviv, and Bat Yam. On December 31, 2006, the MTS Group was chosen as winner of the tender; a franchise agreement is due to be signed with the group by the end of March 2007. The state will pay the company a grant in the amount of approximately NIS 7.13 billion over the course of the construction period, based on milestones. At the date of publication of this Report, an administrative petition is pending against the state, filed by the MTR Group, a contender in the tender, with a request to disqualify the MTS bid and declare the petitioner as the winner.

(XXXI) Contractual Engagements with Israel Aerospace Industries Ltd. for the Leasing of Transponders

A contractual engagement with a balance of NIS 493 million to Israel Aerospace Industries Ltd. (IAI) is recorded in the Ministry of Communications' books regarding the leasing of transponders on the Amos I satellite. The contractual engagement derives from a lease agreement signed by the state of Israel for three transponders on the Amos I satellite. Pursuant to the agreement, the state undertook to pay USD 5 million per transponder per year for 10 years. IAI, on its part, undertook to market the transponders for the benefit of the state of Israel. Beginning in 2000, IAI leased the full capacity of the transponders on the Amos I satellite. Accordingly, the payments which the state was to transfer to the IAI were set off against the income received from the companies that leased the transponders. The contractual engagement towards IAI ended at the conclusion of the contract period (July 2006) and final settlement of accounts with IAI is currently underway. If the transponders' capacity was leased in full during the period 2005-2006 as well, the contractual engagement will be closed with no payment by the state.

(XXXII) Obligations for Assets of Holocaust Victims

In February 2000, a parliamentary investigative committee was established to deal with the subject of locating and returning assets of Holocaust victims in Israel. The committee was established after a number of articles and studies were published concerning a large amount of

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

property located in Israel which belongs to Holocaust victims, and has not, as yet, been returned to its legal owners.

The report's findings indicate that most of the accounts of Holocaust victims had been transferred to the Custodian General Division at the Ministry of Justice, and have been held there since then. Thus the responsibility for these funds is divided between the banks and the state; the state's responsibility is particularly great (the banks are responsible for funds held by them which were not transferred to the Custodian General).

According to the committee's findings and its calculations, which were published in December 2004, the state's indebtedness according to the maximum revaluation method comes to a total of approximately NIS 587 million as at December 2004. Data for the end of 2006 have not been received.

The Holocaust Victims' Property Law (Restitution to Heirs and Dedication for Assistance and Commemoration), 5766-2006 was published on January 3, 2006. In accordance with the provisions of the law, the Company for Locating and Restitution of Holocaust Victims' Assets Ltd. was established on August 31, 2006.

In addition, pursuant to Section 16 of the law, a committee on linkage and interest differentials was established at the Ministry of Justice. The committee will determine the linkage and interest with regard to Holocaust victims' assets in the form of money or securities and will determine the periods for which such linkage and interest rates are to be calculated. As of December 31, 2006, the committee had not yet completed its deliberations; thus it is not possible to estimate the state's indebtedness with regard to this matter at this time.

(XXXIII) Contractual Engagements of the Ministry of Justice for Computerization

	As at December 31 NIS millions	
	2006	2005
Contractual engagement for setup and operation of IT systems for the Israel Money Laundering Prohibition Authority (1)	22	31
Contractual engagement for the setup and operation of a file management system for the State Attorney (2)	21	21
Contractual engagement for the provision of document scanning services	22	-
Total	**65**	**52**

1. During 2003, the ministry contracted with a supplier for the development, construction, and operation of an information system for the Israel Money Laundering Prohibition Authority.

   This contractual engagement is in the amount of approximately NIS 37 million. Of that amount, approximately NIS 26 million is earmarked for the development and construction of the information system, and the remainder is for its operation during the construction phase and for its routine operation during the three years following the system's construction.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

As at December 31, 2006, an accumulated amount of NIS 15 million has been paid for development and construction.

Due to a delay in the timeline for execution of the project, the ministry is currently scheduled to receive the first version of the system.

The ministry holds execution guarantees in the amount of approximately NIS 9 million, in order to ensure the continued execution of the project. The ministry is considering whether to continue the project's execution within the current contractual engagement (subject to the recommendations of a professional examiner).

2. At the end of 2005, the ministry contracted with a supplier for the development and construction of a file management system for the State Attorney. The contractual engagement is in the amount of approximately NIS 42 million. Of that amount, approximately NIS 37 million is for the development and construction of an information system, and the remainder is for its operation during the construction stage (NIS 5 million). As at the end of 2006, a cumulative amount of NIS 21 million has been paid.

   The balance of the amount for development, construction, and operation during the construction stage, in the amount of NIS 21 million, will be paid according to the progress of the system's construction, until its completion in 2008.

3. The ministry has contracted with a supplier for the provision of document scanning services to units within the Ministry of Justice, in accordance with a decision by the ministry's administration to promote scanning initiatives and enable the ministry's units to support electronic files. The scanning project is designed to achieve several objectives, including computerized saving of information existing in paper form, reduced storage space, more efficient work processes, and increased potential for new services to be offered to the public. The balance of the contractual engagement as at December 31, 2006 is NIS 22 million.

(XXXIV) Contractual Engagements with the Health Maintenance Organizations

General

The government, through the Ministry of Health, has a system of agreements with the health maintenance organizations which is intended to lead to their financial stabilization (hereinafter: the "Stabilization Agreements"). Among other things, the Stabilization Agreements establish mechanisms and dates for the allotment of the support amounts to the HMOs, according to criteria for the distribution of the government's support funds to HMOs as approved by the Attorney General, in accordance with the Budget Foundations Law, 5745-1985, published on December 30, 2005.

The following are the Stabilization Agreements for 2005-2007, in effect as at December 31, 2006:

(1) On December 30, 2005, a Stabilization Agreement was signed between the government of Israel and Maccabi Healthcare Services for the years 2005-2007.

(2) On May 3, 2005, a Stabilization Agreement was signed between the government of Israel and Meuhedet Health Fund for the years 2005-2007.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

(3) On April 26, 2006, a Stabilization Agreement was signed between the government of Israel and Clalit Health Services for the years 2005-2007.

In addition, a restructuring agreement between the government of Israel and Leumit Health Fund signed on December 31, 2003 regulates the relationship between the HMO and the government for the years 2004-2006.

Total contractual engagements, according to principal types:

		December 31, 2006
	Details	(NIS millions)
Financing advances for health maintenance organizations		
Financing advance for the Meuhedet Health Fund for 2007	1.1	110
Financing advance for Maccabi Healthcare Services for 2007	1.2	30
Total		**140**
Supports		
Support for Clalit Health Services, Maccabi Healthcare Services, and Meuhedet Health Fund for 2007, based on the Stabilization Agreements	2.1	24
Support for the 4 HMOs for 2007 and half of 2006 for attainment of personal preventive medicine objectives	2.2	79
Support for Clalit Health Services, Maccabi Healthcare Services, and Meuhedet Health Fund for 2006-2007, for the encouragement of reduction of accumulated deficits	2.3	200
Support for Clalit Health Services for improvement of infrastructures at the HMO's hospitals, for 2007	3	86
Support for Clalit Health Services for Yoseftal Hospital, for 2007	4	17
Support for the operation of nursing schools at Clalit Health Services hospitals, for 2005-2007	5	21
Total		**427**

1. Financing advances from the government to the health maintenance organizations

Subject to the health maintenance organizations' attainment of the targets established in the Stabilization Agreements, the government will transfer financing advances to the health maintenance organizations against the monies owed to them pursuant to the National Health Insurance Law, in the amounts and at the times set out below:

1.1 By January 5, 2007, a financing advance for 2007 will be transferred to Meuhedet Health Fund, in the amount of NIS 110 million, to be repaid in full by the HMO during December 2007.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

1.2 By January 5, 2007, a financing advance for 2007 will be transferred to Maccabi Healthcare Services, in the amount of NIS 30 million, to be repaid in full by the HMO during December 2007.

2. Transfer of support

As noted, tests for the distribution of government support funds to the HMOs for 2005-2007 were published on December 30, 2005 (hereinafter: the "Tests"). The following are the support items that are subject to the Tests:

2.1 Support in the amount of NIS 24 million for each year from 2005 through 2007:

Section 2 of the Tests, section 4.1 of the Meuhedet Health Fund Stabilization Agreement, section 4.1 of the Maccabi Healthcare Services Stabilization Agreement, and section 4.1 of the Clalit Health Services Stabilization Agreement all provide as follows:

A. For each budget year from 2005 through 2007, the amount of NIS 150 million, at 2003 prices, will be made available for distribution among all the health maintenance organizations, in proportion to each HMO's share in the number of insured clients, weighted to July 1 of each year.

B. In each budget year, NIS 124 million will be deducted from the amount noted in sub-section (A), which will be transferred to the Ministry of Health's psychiatric hospitalization budget.

C. No health maintenance organization will be entitled to the allocation of support pursuant to this section until a stabilization agreement between the HMO and the government has been implemented.

The following amounts were stipulated in the Stabilization Agreements for each year, and are the deciding amounts for this matter: Clalit Health Services – approximately NIS 15.3 million; Maccabi Healthcare Services – approximately NIS 5.7 million; Meuhedet Health Fund – approximately NIS 2.6 million. It should be noted that a Stabilization Agreement has not yet been signed with Leumit Health Fund to replace its restructuring agreement, and it is therefore not entitled to this form of support, as of December 31, 2006.

The support sums for the years 2005-2006 were transferred to the health maintenance organizations during the course of 2006. Support amounts for the year 2007 have not yet been transferred to the HMOs. These amounts will be transferred during January 2007, according to the terms of the Stabilization Agreements, and subject to approval by the Support Committee at the Ministry of Health.

2.2 Support in the amount of NIS 50 million for each of the years from 2005 through 2007:

A. Section 6 of the Tests, section 4.3 of the Meuhedet Health Fund Stabilization Agreement, section 4.4 of the Maccabi Healthcare Services Stabilization

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

Agreement, and section 4.1.3 of the Clalit Health Services Stabilization Agreement provide that in each of the budget years 2005-2007, an amount of NIS 50 million, in 2003 prices, will be made available for distribution among the health maintenance organizations for attainment of personal preventive medicine objectives; each HMO that undertakes, under an agreement with the government, to expand the personal preventive medical services it provides in communities appearing on a uniform list to be formulated by the ministries of Health and Finance for all HMOs, and that meets the increase in the number of infants treated set forth within the aforesaid agreement, will be entitled to a share of this support, equal to the rate of infants in the said communities under the age of one year who are treated by the HMO under the agreement out of all such infants in those communities; for 2005, the rate will be based on each HMO's share of the number of insured clients weighted to July 1, 2005. The aforesaid agreement will be formulated based on equal standards for all HMOs.

B. In accordance with the Tests, Leumit Health Fund is also entitled to this support, after signing an agreement with the government.

During the course of 2006, support sums for 2005 were transferred to the health maintenance organizations, as well as half of the sum for 2006. The Ministry of Health Support Committee has not yet decided on the HMOs' entitlement to the second half of the amount for 2006.

2.3 Support in the amount of NIS 100 million for each year from 2005 through 2007:

Section 7 of the Tests provides as follows:

A. In each budget year from 2005 to 2007, NIS 100 million will be made available for distribution among the health maintenance organizations, at 2003 prices, in order to encourage the reduction of the accumulated deficit, subject to the following:

1. A health maintenance organization which, in any of the budget years 2005 and 2006, achieved a current surplus which exceeds 10% of its accumulated deficit for 2004 (hereinafter: the "Reduction Target"), will receive for that year a proportional share of the said amount which is equal to the HMO's share in the number of insured clients, weighted to July 1 of that year. If an HMO does not meet the said Reduction Target in a given year, this amount will be held for it in reserve, and the HMO will receive it during the following budget year if it achieves a current surplus which exceeds its accumulated deficit for 2004, beyond the current surplus which it was required to achieve in order to merit the support for the given year;

2. A health maintenance organization which meets the Reduction Target in the 2007 budget year will receive, for that year, a proportionate share of the said amount, equal to its share of the number of insured clients weighted to July 1, 2007.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

B. The health maintenance organizations will not be entitled to allocation of support amounts pursuant to this section until a Stabilization Agreement between the health maintenance organization and the government has been implemented.

Support amounts pursuant to this section for 2006 have not yet been transferred to any of the health maintenance organizations, due to the fact that their financial statements have yet to be released. For 2007, support amounts will be transferred according to the dates stipulated in the agreements with the HMOs, subject to approval by the Ministry of Health Support Committee.

3. Support for Clalit Health Services for improvement of infrastructures at its hospitals for 2005-2007:

The stabilization agreement with Clalit Health Services provides that the government will transfer the amount of NIS 86 million to the HMO for each year of the agreement, 2005 through 2007, for infrastructures at the hospitals under its ownership, subject to support tests approved by the Attorney General in accordance with the Foundations of the Budget Law, 5745-1985, and published on December 11, 2005, and subject to approval by the Support Committee at the Ministry of Health. The support amounts are to be transferred to the HMO according to the following breakdown:

1. For improvement of infrastructures and renewal of equipment at its hospitals – NIS 50 million.

2. For development of computer systems at its hospitals – NIS 36 million.

Support amounts pursuant to this item for 2007 have not yet been transferred. These amounts will be paid according to the terms of the agreement, subject to approval by the Ministry of Health Support Committee in 2007.

4. Support for Clalit Health Services for Yoseftal Hospital:

The Stabilization Agreement with Clalit Health Services provides that the government will participate in financing the activity of Yoseftal Hospital in Eilat with the amount of NIS 16 million, in 2004 prices, for each of the years of the agreement, from 2005 through 2007, in accordance with support tests approved by the Attorney General in accordance with the Foundations of the Budget Law, 5745-1985, and published on December 11, 2005, and subject to approval by the Support Committee at the Ministry of Health. The aforesaid amount will be adjusted according to the advancement of the index obtained by a weighted calculation of the following components:

1. 65% to be determined according to the change in the average rate of the index of health care salaries published by the Central Bureau of Statistics;

2. 35% to be determined according to the change in the average rate of the consumer price index published by the Central Bureau of Statistics.

Support amounts pursuant to this item for 2007 have not yet been transferred. These amounts will be paid according to the terms of the agreement, subject to approval by the Ministry of Health Support Committee in 2007.

5. Support for the operation of nursing schools at Clalit Health Services hospitals for 2005-2007:

The Stabilization Agreement with Clalit Health Services provides that the government will transfer the amount of NIS 7 million to the HMO, or an amount equal to 80% of the volume of its total annual expenditure, whichever is lower, for the operation of nursing schools at its hospitals, for each year of the agreement, from 2005 through 2007, subject to the establishment and publication of support tests, and subject to approval by the Ministry of Health Support Committee. Tests for the distribution of these support sums have not yet been published.

(XXXV) Contractual Engagement with SAREL

SAREL was established pursuant to the Israeli government's Resolution No. 2718 dated April 12, 1992, for the purpose of providing pharmaceuticals, chemicals, medical equipment, functional equipment, and key products and services needed by hospitals, government medical entities, and other entities, in order to maintain inventories and refresh the Ministry of Health's emergency inventory. In addition, the company holds in trust a storage facility for the ministry's vaccination inventory.

Pursuant to the government's Resolution No. 1716 of August 8, 1993, the critical majority (99.9%) of the company's shares are held by the Society of Public Hospitals for the Public (hereinafter: the "Society."). The Society's purpose, according to its charter, is the strengthening of the connection between public hospitals and community elements, and its activity in promotion of public well-being with regard to the service provided by public hospitals.

Pursuant to the agreement signed with the company on December 27, 1994, and according to the terms of a tender exemption approved by the Exemptions Committee in the Accountant General Division, hospitals may (but are not required to) acquire products and services from SAREL without issuing a tender. The agreement provides, in section 12(A), that the "prices and terms of payment to be established by the company for government medical institutions and hospital corporations shall be based on market prices." In practice, the SAREL purchasing mechanism is based on tenders which it carries out, with the products' prices for the medical institutions based on the cost of such products with the addition of a fee. The original contractual engagement with the company has been extended several times. The volume of purchases from the company by the Ministry of Health and its units reached NIS 685 million in 2006.

In view of the lack of transparency in the company's activity and the lack of supervision of the company by the Ministry of Health, the Accountant General appointed an inter-ministerial committee on November 29, 2005, to examine the manner in which competitiveness may be increased in government hospitals' purchasing of medications and medical equipment, and to examine the continuation of the engagement with the company. The committee has submitted a draft of its recommendations, which is currently under discussion.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

On July 3, 2006, the Exemptions Committee at the Accountant General Division decided to gradually reduce, each quarter, the volume of purchasing from the company by the four major general hospitals (Sheba, Ichilov, Rambam, and Assaf Harofeh) that would be exempt from tenders, during the period from July 1, 2006 to June 30, 2007. In addition, an exemption from tenders was approved for the headquarters of the Ministry of Health, for other government hospitals, and for health bureaus through December 31, 2006.

As at December 31, 2006, contractual engagements with the following balances are in effect:

1. NIS 76 million for vaccines ordered by the Public Health Administration at the Ministry of Health.

2. NIS 67 million for avian influenza vaccines.

(XXXVI) Contractual Engagement for the Construction of a Hospitalization Building – Hillel Yaffe Hospital

Within the Ministry of Health's Hospitalization 2000 Program, contractual engagements were made with construction suppliers in the amount of NIS 50 million for the completion of a multi-purpose hospitalization building with 250 beds at Hillel Yaffe Hospital. This contractual engagement is expected to terminate at the end of 2007.

(XXXVII) Restructuring Agreement – Laniado Hospital

On December 18, 2006, a restructuring agreement was signed between the Sanz Medical Center Laniado Hospital (hereinafter: the "Hospital") and the government (hereinafter: the "Agreement"). The Agreement was signed due to the Hospital's financial distress, which may prevent it from continuing to provide hospitalization services in its region. The Agreement is based on a plan submitted to the government; within the plan, the Hospital undertook a commitment to raise funds to finance the restructuring plan, in an amount no lower than the government's participation in the plan, in accordance with support tests for the distribution of support funds to general public hospitals in distress, as approved by the Attorney General, according to the Foundations of the Budget Law, 5745-1985, and published on December 12, 2006, and subject to approval by the Support Committee at the Ministry of Health.

The objective of the Agreement is to ensure the routine, proper, long-term operation of the Hospital; this includes resolving the Hospital's debt problem, attaining budgetary balance, and maintaining this balance over time, in a manner that will enable the Hospital to provide services at the required level.

- Amounts transferred to the Hospital

  On December 28, 2006, after the Hospital raised an identical amount, pursuant to the provisions of the Agreement, and in accordance with the approval of the Ministry of Health Support Committee, the government transferred the amount of NIS 20 million to the debt fund established for the purpose of implementing the agreement, which is administered by a trustee.

- The state's obligations towards the Hospital

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

Subject to the Hospital's compliance with the targets and terms stipulated in the Agreement, and in accordance with the approval of the Ministry of Health Support Committee, the government will transfer support sums to the debt fund according to the following breakdown:

1. NIS 20 million to be transferred to the Hospital by December 31, 2007.

2. NIS 14 million to be transferred to the Hospital by December 31, 2008.

(XXXVIII) Contractual Engagement to Finance the Agreement to Convert Rafael into a Company

In December 2001, an agreement was signed to convert Rafael into a company. The government's obligations pursuant to the agreement include the costs of the early retirement of approximately 3,600 employees. The costs for the employees' retirement agreements and for participation in the salaries of Rafael employees from 2001 through 2006 amounted to approximately NIS 4.4 billion. The projected obligation for the years 2007-2010 is in the amount of NIS 3.1 billion (approximately NIS 780 million per year).

(XXXIX) Contractual Engagement for Housing Solutions for Elderly Immigrants

The Ministry of Immigrant Absorption has a contractual engagement with Amidar for housing units for immigrants with a balance of approximately NIS 1,657 million. This contractual engagement refers to housing solutions for elderly immigrants from the former USSR. In 1994, the Minister of Finance instructed the Ministry of Immigrant Absorption to rent residential units for immigrants as a substitute for the construction of hostels, which was performed using state budget funds. Pursuant to a government resolution, Amidar has acted as the Ministry of Immigrant Absorption's agent and rented residential units in its name since 1996. The rentals are for periods of ten years, with an option for the Ministry of Immigrant Absorption to extend the term for an additional five years. The following is a breakdown of the expected payments according to settlement dates (including the option):

Year	NIS millions
2007	294
2008	263
2010-2016	1,100
Total	**1,657**

(XL) Higher Learning Institution – Immigrant Scientist Absorption Project

The Ministry of Immigrant Absorption has a contractual balance with an institution of higher learning for a project involving the absorption of immigrant scientists, in the amount of NIS 93 million. The objective of this contractual engagement is the employment of senior scientists in the public sector as independent researchers or as part of research teams, at ranks parallel to academic ranks. Scientists are chosen for the program after passing a full academic

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

appointment process. The program finances 60% of the scientist's cost until retirement age, and the employer finances the remaining 40%.

The following is a breakdown of the expected payments according to settlement dates:

Year	NIS millions
2007	54
2008	30
2009	9
Total	93

(XLI) Jewish Agency – Absorption Centers

The Ministry of Immigrant Absorption has a contractual engagement with the Jewish Agency for the use of buildings serving as temporary housing solutions for immigrants from Ethiopia, as well as for the operation of existing and new absorption centers and for the provision of initial supplies for immigrants, according to the Ministry of Immigrant Absorption's requests and instructions.

The agreement for the rental, operation, and provision of supplies was signed in 2000 for a period of five years (ended in 2005). In 2006, the rental agreement alone was extended for an additional five years, with an option for a further five-year extension, subject to the Budget Law. The balance of this contractual engagement as at the end of 2006 is NIS 1,997 million (not including the option).

(XLII) Contractual Engagement for the Computerization of the Court System

The court system has agreements for contractual engagements with several IT companies for the construction of the Next Generation Courts (NGC) project. The NGC project is an application composed of a number of software programs, the substance of which is a transition to paper-free courts, based on the use of an electronic file which allows remote access through smart identification cards and digital signatures. The agreement covers 38 one-month periods, from January 2003 through February 2006. The nominal amount of the contractual engagement for the entire aforesaid period is approximately NIS 175 million. Near the reporting date, due to a delay in delivery of the software to the court system, an extension contract has been signed through December 2007, at a total amount of NIS 66 million (the original agreement was in the amount of NIS 70 million, but NIS 4 million were deducted due to the failure to deliver the system on schedule). The extension agreement mainly refers to the routine operation and maintenance of computer facilities for secretariats, the Execution Office, and NGC.

The balance of the contractual engagement as at the end of 2006 is NIS 53 million.

(XLIII) Via Maris Desalination Ltd. Project (Palmachim – B.O.O.)

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

In October 2002, an agreement was signed with Via Maris Desalination Ltd. (Derech Hayam) for the financing, planning, construction, operation, and maintenance of a seawater desalination facility at Kibbutz Palmachim, using the BOO (Build, Operate, and Own) method, with an output of 30 million cubic meters per year. Financing agreements for the project were signed in February 2005. The provisions of the BOO agreement include a regime for the operation of the facility which, on the one hand, grants the state availability of desalinated water and, on the other hand, allows for flexibility regarding the amount of water received, at the state's discretion. The price for the water is composed of a fixed price and a variable price. The fixed price is to be paid to the operator subject to its meeting the agreement's availability requirements, and the variable price is to be paid to the operator for each cubic meter of desalinated water received by the state. The provisions of the BOO agreement also include requirements regarding the quality of the water. The operator was granted preliminary approval for the beginning of the construction work in February 2005. No water was received in 2006. In 2007, 20 million cubic meters are expected to be received, starting in May; starting in 2008, 30 million cubic meters are expected to be received each year, at a price of NIS 3.431 per cubic meter. Of that amount, the fixed price is NIS 1.614 per cubic meter. (All of the prices noted above include VAT and are correct as of September 2005). The total minimal contractual engagement is NIS 1,222 million for purchasing desalinated water from the facility. The following are details of the balance of the contractual engagement:

Year	NIS millions
2007	8
2008	51
2009	51
2010	51
2011 forward	961
Total	**1,122**

(XLIV) VID Desalination Company Ltd. Project – Ashkelon (BOT)

In November 2001, an agreement was signed with the VID Desalination Company Ltd. for the financing, planning, construction, operation, and maintenance of a seawater desalination facility in Ashkelon using the BOT (Build, Operate, and Transfer) method, with an output of 50 million cubic meters per year. In April 2002, an agreement was signed regarding the expansion of the annual water output to 100 million cubic meters per year. Financing agreements for the project were signed in January 2003. The provisions of the BOT agreement include a regime for the operation of the facility which, on the one hand, grants the state availability of desalinated water and, on the other hand, allows for flexibility regarding the amount of water received, at the state's discretion. The price for the water is composed of a fixed price and a variable price. The fixed price is to be paid to the operator subject to its meeting the agreement's availability requirements, and the variable price is to be paid to the operator for each cubic meter of desalinated water received by the state. The provisions of the BOT agreement also include requirements regarding the quality of the water. At the end of the agreement's duration, the facility will be transferred to the state.

The operator was granted approval to begin construction work in April 2003, and the facility began to produce water in August 2005. A total of 25 million cubic meters of water were received during 2005.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

In December 2005, a supplement to the agreement was signed with the entrepreneur, pursuant to which the state purchased an option for an additional 80 million cubic meters of water throughout the project's duration. The state paid a total of NIS 117 million, for fixed costs only, for the additional period.

The amount of the water received in 2006 was 100 million cubic meters, and from 2007 forward it is expected that up to 108 million cubic meters will be received each year, depending on the country's water needs in the particular year. The price of the water is NIS 3.145 per cubic meter, out of which the fixed price is NIS 1.78 per cubic meter. (All of the prices noted above include VAT and are correct as of September 2005). The total minimal contractual engagement is NIS 3,909 million for purchasing desalinated water from the facility. The following are details of the balance of the contractual engagement:

Year	NIS millions
2007	178
2008	178
2009	178
2010	178
2011 forward	3,197
Total	**3,909**

(XLV) Hadera Project – H2ID Group (BOT)

In November 2006, an agreement was signed between the state and the H2ID group for the financing, planning, construction, operation, and maintenance of a seawater desalination facility adjacent to the southern fence of the Hadera power station. The agreement signed is based on the BOT (Build, Operate, and Transfer) method, for a period of 25 years from the signing date, with an output of 100 million cubic meters of desalinated water per year. The provisions of the BOT agreement include a regime for the operation of the facility which, on the one hand, grants the state availability of desalinated water and, on the other hand, allows for flexibility regarding the amount of water received, at the state's discretion. The price for the water is composed of a fixed price and a variable price. The fixed price is to be paid to the operator subject to its meeting the agreement's availability requirements, and the variable price is to be paid to the operator for each cubic meter of desalinated water received by the state. The provisions of the BOT agreement also include requirements regarding the quality of the water. At the end of the agreement's duration, the facility will be transferred to the state.

Construction is scheduled to start in late 2007, with the facility to begin producing water in early 2010.

Approximately 100 million cubic meters of water are expected to be received each year starting in 2010, according to national water needs for that year, at a price of NIS 2.9625 per cubic meter. Of that amount, the fixed price is NIS 0.9818 per cubic meter. (All of the prices noted above include VAT and are correct as of November 2006).

The following are details of the balance of the contractual engagement:

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

Year	NIS millions
2011 forward	2,258
Total	**2,258**

(XLVI) Costs Agreement with Mekorot

Mekorot operates as a water producer and supplier pursuant to the provisions of the Water Law. The state has signed an agreement with Mekorot, the duration of which is from January 1, 1999 through December 31, 2006, as a continuation of a previous agreement dated January 1, 1994. As of the reporting date, the agreement with Mekorot has not yet been renewed. The renewal is expected to be signed in the near future, and to take effect retroactively from January 2007.

The agreement provides for a structural change at Mekorot and includes rules for approval of investments and settling of accounts pursuant to agreements, as well as the filing of monthly reports and an annual report.

The agreement provides for a settling of accounts regarding desalination of water (seawater and brackish water) or the purchase of desalinated water, the purchase of water from other water corporations, and more.

The amount of the support is calculated according to the difference between recognized expenses and recognized income, in accordance with various rates based on categories – household, industrial, and agricultural – and in accordance with actual consumption. (Details of the recognized expenses follow).

The following are details of the expenses recognized for the purpose of calculating the level of support:

(1) Fixed recognized expenses (salaries, transportation, headquarters, maintenance, regional offices, taxes, insurance, etc.).

(2) Variable recognized expenses (energy only), are calculated according to two models (a normative model that refers to all units except for the National Water Enterprise, and an optimization model referring to the National Water Enterprise):

   (a) Normative model – based on average energy expenses in the entire system (excluding the National Water Enterprise) for primary and secondary pumping, not in accordance with actual expenses.

   (b) Optimization model in the National Water Enterprise – based on a calculation according to actual expenses of rate, load, and time, and according to the utilization of pumps.

   (c) Capital expenses (investments) are recognized according to a schematic division of the company's assets into 35% equity capital and 65% liabilities. Capital expenses include:

(3) Interest on liabilities.

(4) A 6.5% return on equity capital.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

(5) An increased efficiency coefficient of a cumulative annual 1.5% to 2.5% is calculated for all fixed and variable expenses, according to each of the models described in sub-section (2), excluding capital expenses. The increased efficiency coefficient is deducted once each year from the annual recognized expenses for that year, excluding the expense for the purchase of water from other providers and the water company's tax payments, and thus reduces the amount of the support.

The settling of accounts between the state and Mekorot for 1999 and onward has not yet been completed; however, an agreement has been established for completed settling of accounts through April 30, 2002, in the amount of NIS 709 million, which is subject to examination by each of the parties. The state transferred this nominal amount to Mekorot in 2004.

The state intends to complete the examination of the account settlement for 1999 through 2000 in the first half of 2007. Account settlement for 2001 through 2006 will take place during 2007.

The state also recognized expenses, as provided in the accounts settlement agreement, for production levies at a total of NIS 2,847.6 million for the years 1999-2005, in nominal amounts (including interest and linkage). This amount was paid during 2004-2005.

The support amount for water subsidies from January 1, 2005 through December 31, 2005 is estimated at NIS 35 million owed by Mekorot to the state, due to an increase in water prices in 2005. From 2006 forward, the subsidy is estimated at NIS 650 million per year, which also incorporates a production levy component as recognized expenses for the purpose of account settlement.

(XLVII) Treated Wastewater Reclamation Facilities

Contractual engagements in the amount of NIS 664 million with various entrepreneurs for the construction of treated wastewater reclamation facilities, in order to substitute reclaimed water for fresh water in agriculture. The duration of these projects ranges from 2 to 3 years. The entrepreneurs receive a grant from the ministry in the amount of up to 60% of the project's cost, with the exception of special cases of inter-enterprise projects with 100% financing.

(XLVIII) National Sewage

Long-term contractual engagements in the amount of NIS 1,038 million for the development of national sewage infrastructures. These agreements are signed between the contractors and the local authorities. Payment is made by the ministry directly to the contractors, following approval by the local authority and by the National Sewage Administration.

(XLIX) Construction of a Privately Managed Prison

On January 2, 2006, an agreement was signed between the Ministry of Public Security and ALA Management and Operations (2005) Ltd. for the financing, construction, and operation of a prison under private management near Beer Sheba, using the PFI (Private Finance Initiative) method. The contractual engagement is for a period of 24 years and 11 months,

during which payment will be provided to the franchisee for appropriate imprisonment spaces (approximately 800 spaces). The franchisee is scheduled to complete construction of the prison by June 15, 2009, and accordingly will be entitled to a grant of NIS 55 million. However, should construction be completed at an earlier date, an additional grant of NIS 1 million will be received for each month of advancement of the completion date. Should construction be completed at a later date, a fine of NIS 1 million will be imposed for each month of delay. In any case, the grant will not exceed NIS 60 million, and any reduction of the grant will not cause it to fall below NIS 50 million.

(L) Contractual Engagement with Israel Aerospace Industries

The Ministry of Science, in cooperation with the Ministry of Industry, Trade, and Labor, has a contractual engagement with Israel Aerospace Industries and with Rafael for the joint planning of the Venus satellite with the French company CNES. The satellite is designed for agricultural and environmental photography, with most of the manufacturing to take place in Israel. The scope of the project is approximately USD 40 million. The share of the Ministry of Science, in cooperation with the Ministry of Industry, Trade, and Labor, is USD 14 million; the share of Israel Aerospace Industries and Rafael is USD 14 million; and the share of the French company is USD 12 million. The contract was signed at the end of 2005. As at December 31, 2006, approximately NIS 20 million has been paid; the balance of the contractual engagement is approximately NIS 40 million.

(LI) Contractual Engagement with Environmental Services Company Ltd.

On August 31, 2006, the Ministry of Environmental Protection entered into three agreements with Environmental Services Company Ltd., at a total of NIS 228 million, for a period of 5 to 7 years.

The company is a wholly owned government company, reporting professionally to the Minister of Environmental Protection. The agreements were signed pursuant to a government resolution dated November 28, 2004, which stated that the Ministry of Environmental Protection would complete the rehabilitation of the toxic waste site at Ramat Hovav by the end of 2010. The following are the main points of the three agreements:

1) A capital enlargement agreement aimed at allowing an increase in the capacity of the hazardous waste treatment facility to 60,000 tons per year. The agreement regulates the state's obligations, through the Ministry of Environmental Protection, as well as the obligations of the company. The key point of the agreement is the ministry's commitment to invest up to NIS 10 million in the share capital of the company; in return, the company will allocate to the state up to 10,125,000 ordinary shares of NIS 1 par value each. The invested funds will serve the company exclusively for the expansion of the facility's capacity to 60,000 tons per year.

2) An agreement for the rehabilitation of acidic pools – in this agreement between the Ministry of Environmental Protection and the Environmental Services Company, the company committed to work through a subcontractor with the appropriate knowledge and experience to rehabilitate the two acidic sludge pools at the site, at an estimated monetary scope of NIS 40 million to be paid according to the attainment of milestones specified in the agreement.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

3) An agreement for receiving hazardous waste treatment services – this agreement between the Ministry of Environmental Protection and the Environmental Services Company is aimed at the rehabilitation of Lot 181 using stabilization-solidification technologies, via the expanded-capacity facility which is to be established, or using other technologies such as burning, biological treatment, direct burial, etc. The monetary estimate for completion of basic rehabilitation stands at approximately NIS 180 million.

(LII) Contractual Engagements with Local Authorities

The Ministry of Environmental Protection supports projects initiated by local authorities, in order to promote various environmental issues, such as the construction of solid waste infrastructures, construction waste treatment, education, cleaning campaigns, etc. This support is performed through a call for proposals addressed to all local authorities. The budget is distributed according to professional, egalitarian criteria. The rate of support for the projects ranges from 50% to 90% of the projects' total cost, according to criteria established by the ministry. The total balance of open contractual engagements with local authorities stands at approximately NIS 75 million. The balance of the contractual engagements will be settled during the course of 2007.

(LIII) Contractual Engagements with Drainage Authorities

The Ministry of Environmental Protection rehabilitates streams throughout Israel through drainage authorities, in whose territory the streams pass. In 2006, the ministry contracted with 11 drainage authorities, at a total of approximately NIS 40 million. The essence of these contractual engagements is the rehabilitation of the streams by the drainage authorities, including the regulation of the streams' flow, rehabilitation of stream banks, creation of footpaths, construction of tourist facilities and signage along the streams, and the maintenance of rehabilitated streams.

(LIV) Contractual Engagement for Jewish Education in the Diaspora

The Office of the Prime Minister has a contractual engagement with MASA (a subsidiary of the Jewish Agency), in accordance with a government resolution, for a Jewish education project in the Diaspora, aimed at bringing Jewish youth from abroad to study in Israel for long periods of six months to one year. Half of this contractual engagement is financed by the Jewish Agency, while half is financed by the ministry. The contract was signed in 2004. The balance of the contractual engagement as at the end of 2006 is NIS 90 million. The breakdown of payments is based on the rate of participation by candidates for the project who arrive in Israel each year.

(LV) Contractual Engagement for the Development of Jerusalem

The Office of the Prime Minister has a contractual engagement with the Jerusalem Development Authority at a total amount of NIS 100 million, as follows:

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

1) A contractual engagement signed in September 2005 with respect to projects for the development of the Jerusalem city center, in the areas of employment, residences, and revival of the city center, including scholarships for students and grants for construction and enterprises. The balance of this contractual engagement as at the end of 2006 is NIS 58 million.

2) A contractual engagement signed in June 2006 with respect to the development of the Old City basin and the Mount of Olives area. The balance of this contractual engagement as at the end of 2006 is NIS 42 million.

(3) Deficit of the National Insurance Institute

In accordance with Public Sector Accounting Standard No. 6, *Consolidated Financial Statements and Accounting for Controlled Entities*, in order to determine whether an entity controls another entity for the purposes of financial reporting, judgment must be used, based on the definition of control in the standard and based on the unique circumstances in each case. Thus, the essence of the relationship between the two entities must be taken into consideration. Specifically, the two components of the definition of control should be considered: the power component (the power to determine another entity's financial and operating policy) and the benefit component (representing the controlling entity's ability to benefit from the activities of the other entity).

National Insurance Institute

The National Insurance Institute was founded in 1954, with the aim of providing benefits and social insurance to residents of Israel pursuant to the National Insurance Law.

In 2006, the Israeli government's control of the National Insurance Institute has **not yet** been examined in accordance with the components of the definition of control, as specified in Government Accounting Standard No. 6. An examination of these control tests is planned during 2007, and the activity of the National Insurance Institute will then be presented in accordance with the conclusions reached.

National Insurance Data

According to the audited financial statements of the National Insurance Institute as at December 31, 2005, the deficit as at December 31, 2005 and December 31, 2004 reached a total of NIS 102,070 million and 105,288 million, respectively. Data regarding the deficit balance as at December 31, 2006 have not yet been received; therefore, the data detailed below are taken from the National Insurance Institute's financial statements as at December 31, 2005.

The National Insurance Institute's deficit arises from insurance funds. The insurance funds are the estimated obligations of the insurance segments at the reporting date towards insured or dependent persons for whom cause for eligibility has arisen by the reporting date, whether their eligibility has already been approved or has not yet been approved, and even if an application for an allowance has not yet been filed.

The insurance funds are the Institute's actuarial obligations with regard to the following sectors: old age and survivors, nursing care, general disability, and work injuries – which are defined by the

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

National Insurance Institute as long-term sectors. The insurance funds include added administrative expenses related to future pension payments. These additions are estimated each year, based on the distribution of administrative expenses among the insurance sectors. The insurance funds were established based on an actuarial estimate performed by the Institute's actuary.

The funds do not include the Institute's obligations arising from the projected pensions of insured persons currently in "acquisition process" – in other words, the funds do not include the obligation to insured persons whose eligibility date has not yet arrived. Conversely, the balance sheet does not include, on the asset side, the Institute's projected revenues from insurance fees which these insured persons will owe in the future, for the years following the year of this Report.

The following is the composition of insurance fund balances as at December 31, 2005 and December 31, 2004:

	December 31, 2005	December 31, 2004
Old age and survivors	121,231	120,517
General disability	57,697	53,844
Work injuries	19,225	18,577
Nursing care	9,569	9,215
Total	**207,722**	**202,153**

The following are details of each sector's funds, reserves, and deficits as at December 31, 2005 (in NIS millions, in nominal amounts):

Sector	Provision for employee benefits (1)	Insurance fund (2)	Reserve/deficit at Dec. 31, 2005	Sector asset balance at Dec. 12, 2005 (3)
Old age and survivors	433	121,231	(78,370)	43,294
General disability	480	57,697	(48,465)	9,712
Nursing care	109	7,340	(6,066)	1,383
Work injuries	336	19,225	(15,246)	4,315
Accident injuries	12	-	1,563	1,575
Mothers	113	-	(215)	(102)
Children	418	-	43,810	44,228
Unemployment	-	-	-	-
Bankruptcy and liquidation	11	-	656	667
Grants for reasons of justice	1	-	4	5
Total	**1,913**	**205,493**	**(102,329)**	**105,077**

(1) Provision for pensions and illness, deducting the share of the Ministry of Finance.

(2) Actuarial provision for insured persons' rights.

(3) Insurance fund and provision for employee benefits, plus reserve or deficit.

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

Sectors under the responsibility of the Israeli government

The National Insurance Institute serves as an executing arm of the Israeli government in several sectors, as described below. Accordingly, the amount of NIS 21,236 million paid in 2005 does not appear in the financial statements of the National Insurance Institute, but is included within government expenditures.

The actuarial obligation arising from the aforesaid amount was also not recorded within the Israeli government's obligations. This matter has **not yet** been examined, and will be examined during the course of 2007. The following are the main subjects which are not recorded within the Israeli government's obligations:

A. Agreements pursuant to Section 9 of the National Insurance Law – this includes, among other things, extraordinary allowances – old age and survivors, mobility allowances, allowances for Prisoners of Zion, and nursing care allowances for immigrants.

B. Various laws – this includes, among other matters, the Alimony Law, the Compensation for Victims of Hostilities Law, income maintenance allowances, income supplements for recipients of allowances, and compensation for military reserve service from the National Insurance Institute.

(4) Claims against the State of Israel

In accordance with generally accepted accounting principles, the status of legal claims and pending claims against the state is to be reported.

(A) Data regarding claims administered by the State Attorney's office

Data regarding the claims have not been collected by the State Attorney's office in the manner required under generally accepted accounting principles, and it is not possible, using the State Attorney's office's existing computer system, to collect such data. According to the State Attorney's office, all that can be obtained is a rough estimate of the figures, which constitutes a very general approximation. However, despite the Accountant General's request, even this general approximation had not been received as of the date of this Report's publication.

In light of the above, this Report does not provide disclosure of information regarding pending claims against the state as at December 31, 2006. However, the Accountant General has reached an agreement with the State Attorney's office regarding the type of module required for the new information systems which the State Attorney's office intends to purchase in the near future.

Nevertheless, note that on February 21, 2007, a ruling was made (marking the end of the discussion of the legal question regarding indebtedness) by the District Court in the matter of claims filed by a large number (over 200) of local authorities. The claims refer to various types of transactions and revenues, for which the authorities allege that the Israel Land Administration (hereinafter: the "Administration") should have paid a "betterment levy substitute," but failed to do so.

The Israel Land Administration is not charged with betterment levies in respect of improvements of Israeli lands under its management. Instead, the Administration pays the local authorities a

Note 15 – Contingent Liabilities and Contractual Engagements (continued)

fixed amount of 10% on transactions executed in the Administration's lands (this amount is known as the "betterment levy substitute").

The dispute between the parties in the current claim refers to the scope of the Administration's obligation to pay the "betterment levy substitute." The estimate is that the amount of the indebtedness to the state as a result of this interim ruling is approximately NIS 2 billion. The Israel Land Administration intends to appeal the ruling at the Supreme Court.

(B) Data regarding claims administered by Inbal Insurance Company

Inbal Insurance Company (hereinafter: "Inbal") administers the government's internal insurance fund (see Note 2 above). Tort claims brought against the state are handled by the internal fund when insurance coverage for the claim is provided by that fund through the fund's insurance reserves, or when the fund administers, for certain government ministries, claims in which costs are financed by the ministry against which the claim is brought. The total balance for claims administered for government ministries which are not covered by the internal fund is estimated at approximately NIS 2.275 billion.

Appendix A - List of Investee Companies of the State of Israel (sorted by economic sector)

Company Name	Economic Sector	December 31, 2006		December 31, 2005	
		Data based on:	% held	Data based on:	% held
Israel Electric Corporation Ltd.	Electricity and water enterprises	Reviewed interim balance sheet, September 2006	99.80	Audited balance sheet	99.80
Mekorot Water Company Ltd.	Electricity and water enterprises	Audited balance sheet, December 2005	91.57	Government Companies Authority data, 2004	92.3
Israel Oceanographic and Limnological Research Ltd.	Electricity and water enterprises	Audited balance sheet, December 2005	97.50	Draft 2004	97.50
Isorad Ltd.	Electricity and water enterprises	Draft balance sheet, December 2006	100.00	Draft	100.00
ASHRA – The Israel Export Insurance Co. Ltd.	Industry and trade	Draft balance sheet, December 2006 (dollars)	100.00	Reviewed balance sheet, September 2005 (dollars)	100.00
Israel Wine Institute	Industry and trade	Audited balance sheet, December 2005	50.00	Government Companies Authority data, 2004	50.00
Israel Consumer Council	Industry and trade	Draft balance sheet, December 2006	75.00	Audited balance sheet, 2004	75.00
Life Science Research Israel Ltd.	Industry and trade	Audited balance sheet, December 2005	100.00	Audited balance sheet	100.00
Rotem Industries Ltd.	Industry and trade	Reviewed interim balance sheet, September 2006	100.00	Audited balance sheet, 2004	100.00
Industrial Development Bank of Israel Ltd.	Industry and trade	Reviewed interim balance sheet, September 2006	52.90	Audited balance sheet	52.87
The Israeli Diamond Industry Ltd.	Industry and trade	Audited balance sheet, December 2005	23.81	Audited balance sheet, 2004	23.81
El-Al Israel Airlines Ltd.	Industry and trade	Reviewed interim balance sheet, September 2006	20.97	Audited balance sheet	21.58
A. T. Communication Channels Ltd.	Transportation and communications	Draft balance sheet, December 2006	99.00	Draft	99.00
Ayalon Highways Company Ltd.	Transportation and communications	Draft balance sheet, December 2006	50.00	Draft 2004	50.00
Cross Israel Highway Ltd.	Transportation and communications	Draft balance sheet, December 2006	100.00	Audited balance sheet, 2004	100.00
NTA - Metropolitan Mass Transit System Ltd.	Transportation and communications	Draft balance sheet, December 2006	100.00	Reviewed balance sheet, June 2005	100.00
The Marine Education Company (marine schools)	Transportation and communications	Audited balance sheet, August 2005	100.00	Audited balance Sheet, August 2004	100.00
The Marine Education and Training Authority	Transportation and communications	Draft balance sheet, December 2006	50.00	Government Companies Authority data, 2004	50.00
Israel Railways Ltd.	Transportation and communications	Draft balance sheet, December 2006	100.00	Draft 2004	100.00
Ma'atz – The Israel National Road Company Ltd.	Transportation and communications	Draft balance sheet, December 2006	100.00	Not received	100.00

Appendix A - List of Investee Companies of the State of Israel (continued)

Company Name	Economic Sector	December 31, 2006		December 31, 2005	
		Data based on:	% held	Data based on:	% held
Israel Ports Development and Assets Ltd.	Transportation and communications	Audited balance sheet, December 2005	100.00	Not received	100.00
Haifa Port Company Ltd.	Transportation and communications	Audited balance sheet, December 2005	100.00	Not received	100.00
Ashdod Port Company Ltd.	Transportation and communications	Draft balance sheet, December 2005	100.00	Not received	100.00
Eilat Port Company Ltd.	Transportation and communications	Draft balance sheet, December 2006	100.00	Not received	100.00
Israel Post Ltd.	Transportation and communications	Draft balance sheet, December 2006	100.00	Not received	100.00
Natural Gas Pipelines Ltd.	Energy and oil exploration	Draft balance sheet, December 2006	100.00	Not received	100.00
Oil Refineries Ltd.	Energy and oil exploration	Audited balance sheet	100.00	Audited balance sheet	74.00
The Geophysical Institute of Israel	Energy and oil exploration	Draft balance sheet, December 2006	100.00	Audited balance sheet 2004	100.00
Petroleum & Energy Infrastructures Ltd	Energy and oil exploration	Draft balance sheet, December 2006	100.00	Not received	100.00
Pi Gliloth Ltd.	Energy and oil exploration	Draft balance sheet, December 2006	50.00	Not received	50.00
Israel Aerospace Industries Ltd.	Defense	Draft balance sheet, December 2006	100.00	Not received	100.00
Israel Military Industries Ltd.	Defense	Draft reviewed interim balance sheet, September 2006	100.00	Not received	100.00
Gapim Ltd.	Defense	Not received	100.00	Not received	100.00
Rafael - Armament Development Authority Ltd.	Defense	Draft balance sheet, December 2006	100.00	Audited balance sheet 2004	100.00
"Noach" Neechsey Hail Ltd.	Defense	Audited balance sheet, December 2005	48.8	Draft	48.8
Israel Bank of Agriculture Ltd.	Agriculture	Draft balance sheet, December 2006	99.55	Audited balance sheet	99.55
Levi Eshkol Hakfar Hayarok Youth Village Ltd.	Agriculture	Draft balance sheet, August 2006	100.00	Audited balance sheet 2004	100.00
Meir Shfeyah Youth Village	Agriculture	Audited balance sheet, August 2005	50.00	Audited balance sheet 2004	50.00
Mikve Israel - Agricultural School	Agriculture	Draft balance sheet, December 2006	50.00	Audited balance sheet 2004	50.00
Insurance Fund for Natural Risks in Agriculture Ltd.	Agriculture	Draft balance sheet, December 2006	36.37	Audited balance sheet	36.37
The Administration of Agricultural Sector Arrangements	Agriculture	Draft balance sheet, December 2006	99.9	Draft 2004	99.9
Agrexco Agricultural Export Co. Ltd.	Agriculture	Audited balance sheet, December 2005	50.00	Government Companies Authority data, 2004	50.00

Appendix A - List of Investee Companies of the State of Israel (continued)

Company Name	Economic Sector	December 31, 2006		December 31, 2005	
		Data based on:	% held	Data based on:	% held
Amidar Israel National Housing Ltd.	Construction, housing, and development	Draft balance sheet, December 2006	100.00	Government Companies Authority data, 2004	100.00
Halamish Government Municipal Company for Housing Renewal in Tel-Aviv	Construction, housing, and development	Reviewed interim balance sheet, September 2006	50.00	Draft 2004	50.00
Prazot The Jerusalem Municipal Housing Company Ltd.	Construction, housing, and development	Audited balance sheet, December 2005	71.43	Draft 2004	71.43
Shikmona Government Municipal Company for Housing Renewal in Haifa Ltd.	Construction, housing, and development	Draft balance sheet, December 2006	66.67	Audited balance sheet	66.67
Heled Government Municipal Company for Housing Renewal in Petach Tikva Ltd.	Construction, housing, and development	Draft balance sheet, December 2006	66.68	Draft	66.68
Karta Central Jerusalem Development Company Ltd.	Construction, housing, and development	Not received	74.00	Not received	74.00
Arim Urban Development Ltd.	Construction, housing, and development	Draft balance sheet, December 2006		Audited balance sheet	99.95
The Company for the Reconstruction and Development of the Jewish Quarter, Ltd.	Construction, housing, and development	Draft balance sheet, December 2006	100.00	Audited balance sheet 2004	100.00
The Marine Trust Ltd.	Construction, housing, and development	Draft balance sheet, December 2006	82.20	Draft	82.20
Israel Government Tourist Corp. Ltd.	Tourism	Draft balance sheet, December 2006	100.00	Audited balance sheet 2004	100.00
"Tadmor" Central Hospitality Training School Ltd.	Tourism	Reviewed interim balance sheet, September 2006	34.21	Draft	34.21
East Jerusalem Development Ltd.	Tourism	Audited balance sheet, December 2005	66.63	Audited balance sheet	66.63
Atarim Tourist Project Development Corp. Tel-Aviv Jaffa Ltd.	Tourism	Draft balance sheet, December 2006	50.00	Draft	50.00
Eilat Foreshore Development Company Ltd.	Tourism	Draft balance sheet, December 2006	95.00	Draft	95.00
Arad & Dead Sea Region Development Co. Ltd.	Tourism	Draft balance sheet, December 2006	98.76	Draft	98.76
Old Acre Development Company Ltd.	Tourism	Draft balance sheet, December 2006	100.00	Draft 2004	100.00
Old Jaffa Development Co. Ltd.	Tourism	Audited balance sheet, December 2005	50.00	Not received	50.00
Israel Government Coins and Medals Corp. Ltd.	Other services	Draft balance sheet, December 2006	100.00	Draft	100.00

Appendix A - List of Investee Companies of the State of Israel (continued)

Company Name	Economic Sector	December 31, 2006		December 31, 2005	
		Data based on:	% held	Data based on:	% held
Environmental Services Company Ltd.	Other services	Audited balance sheet, December 2005	100.00	Government Companies Authority data, 2004	100.00
Inbal Insurance Co. Ltd.	Other services	Draft balance sheet, December 2006	100.00	Draft	100.00
M.I. Holdings Ltd.	Other services	Draft balance sheet, December 2006	100.00	Draft	100.00
Haigud - Society for Transfer of Technology	Other services	Draft balance sheet, December 2006	50.00	Draft 2004	50.00
Midreshet Sde Boker	Other services	Draft balance sheet, December 2006	60.00	Government Companies Authority data, 2004	60.00
Nachmani Ltd.	Other services	Not received (inactive company)	50.00	Not received	50.00
Habima Building Company Ltd.	Other services	Draft balance sheet, December 2006	50.00	Not received	50.00
Israel Local Authorities Data Processing Center Ltd.	Other services	Audited balance sheet, December 2005	40.00	Not received	40.00
Hameshakem for the Employment of the Elderly and Handicapped Ltd.	Other services	Draft balance sheet, December 2006	40.00	Not received	40.00
"Matash" Rehabilitation Employment Centers Ltd.	Other services	Draft balance sheet, December 2006	33.33	Draft 2004	33.33
Culture and Economic Projects for State's Workers Ltd.	Other services	Not received	50.00	Not received	50.00
The Central Archives for the History Of The Jewish People	Other services	Audited balance sheet, December 2005	28.57	Government Companies Authority data, 2004	28.57
Jerusalem House of Quality Ltd.	Other services	Audited balance sheet, December 2005	40.00	Audited balance sheet 2004	40.00
The Caesarea Edmond Benjamin De Rothschild Foundation	Other services	Draft balance sheet, December 2006	50.00	Government Companies Authority data, 2004	50.00
Eilat Corporation	Other services	Audited balance sheet, December 2005	100.00	Not received	100.00
Fund for Postgraduate Studies in Social Sciences and Humanities	Advanced study funds	Draft balance sheet, December 2006	50.00	Not received	50.00
K.S.M - The Israel Biochemical & Microbiological Study Fund Ltd.	Advanced study funds	Draft balance sheet, December 2006	50.00	Not received	50.00
Israel Technical Engineers and Technicians Professional Study Fund Ltd.*	Advanced study funds	Draft balance sheet, December 2006	50.00	Not received	50.00
Habima Building Company Ltd.	Other services	Draft balance sheet, December 2005	50.00	Not received	50.00
Israel Jurist Study Fund Ltd.*	Advanced study funds	Draft balance sheet, December 2006	50.00	Audited balance sheet 2004	50.00
Study Fund for State Employees on the Standard Scale Ltd.*	Advanced study funds	Draft balance sheet, December 2006	50.00	Not received	50.00

Appendix A - List of Investee Companies of the State of Israel (continued)

Company Name	Economic Sector	December 31, 2006		December 31, 2005	
		Data based on:	% held	Data based on:	% held
Kela Social Workers Study Fund Ltd.*	Advanced study funds	Draft balance sheet, December 2006	50.00	Not received	50.00
Pharmacists Study Fund Ltd.*	Advanced study funds	Draft balance sheet, December 2006	50.00	Audited balance sheet 2004	50.00
Judges Study Fund Ltd.*	Advanced study funds	Audited balance sheet, August 2006	50.00	Not received	50.00
Study Fund for Teachers and Kindergarten Teachers*	Advanced study funds	Audited balance sheet, August 2006	50.00	Draft 2004	50.00
Study Fund for Post-Elementary School Teachers*	Advanced study funds	Audited balance sheet, August 2006	37.50	Audited balance sheet 2004	37.50
Study Fund for High School and Seminary Teachers and Supervisors*	Advanced study funds	Draft balance sheet, December 2006	37.50	Draft	37.50
Association of Better Housing	Non-profit organizations	Draft balance sheet, December 2006	100.00	Draft 2004	100.00
Center for the Development of the Holy Places	Non-profit organizations	Audited balance sheet, December 2005	100.00	Draft 2004	100.00
Israel Discount Bank Ltd.	Banks	Reviewed interim balance sheet, September 2006	25.00	Audited balance sheet	57.09
Walden Venture Capital Fund Ltd.	Venture capital funds	Audited balance sheet, December 2005	37.02	Audited balance sheet	37.02
Medica Venture Capital Fund Ltd.	Venture capital funds	Audited balance sheet, 2004	40.00	Audited balance sheet 2004	40.00

* The government controls these advanced study funds; this control grants it no rights to the funds' profits and/or shareholders' equity.

Note: Comparison figures presented in this Report are data as they appeared in the financial report for 2005.