



**Government of the State  
of Israel**

**Essence of Financial  
Statements  
December 31 2009**

**(Unaudited)  
April 2010**



**ACCOUNTANT GENERAL  
STATE OF ISRAEL**

April 27 2010

To,  
The Users of the Financial Statements,

Financial statements are among the most important documents in every company or entity conducting economic activities. The purpose of these statements is to provide reliable financial information about the entity, and to serve as a managerial tool to support decision making and determine economic policy. For the past few years, the Government of Israel, through the Accountant General's Division, has been introducing significant changes in its financial reporting. Similar processes are being instituted by the governments of leading nations in the Western World, which are implementing generally accepted accounting principles (GAAP) and publishing audited financial statements, so as to facilitate proper disclosure and transparency in their fiscal activities. Thus, the Account General's Division has defined the adoption of international accounting standards and the preparation of audited financial statements for the Government of Israel as key goals.

As part of these goals, various actions have been carried out in the past year, aimed at improving the quality and reliability of the Government of Israel's financial reporting. These actions include the establishment of the Israel Government Accounting Standards Board, which operates in a manner similar to that of the Israel Accounting Standards Board, which oversees the adoption of private sector accounting standards; the creation of an Accounting Department Manager position in each of the government ministries; and the inclusion of audited financial statements from 12 government ministries, as is the custom in the private sector. The appointment of independent auditors for government ministries' financial statements is expected to continue in the coming years, so as to ultimately achieve reliable and audited financial reporting for all government entities, thus "certifying" the propriety and completeness of the reporting.

The advantages offered by financial statements over other forms of financial reporting stem from the financial statements being founded on basic principles, such as reliability, understandability and comparability. These principles are achieved by preparing financial statements according to international standards adopted by many countries throughout the world. Financial statements which include a statement on balance and changes of the Government's assets and liabilities, provide readers with a complete and comprehensive picture of the manner in which the Government is using its assets and resources, and regarding the true scope of its liabilities and the manner in which those liabilities may affect future generations.

**State of Israel**  
**Ministry of Finance – Accountant General**

**Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009**

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This year, for the first time, the financial statements include proper disclosure for a broad range of issues implemented as part of the adoption of international accounting standards. This disclosure includes detailed information regarding the State's investment in government companies, GAAP-compliant updates to State assets in PPP (Public Private Partnership) projects, a detailed analysis of State guarantees, data regarding the composition of appropriations and allocations by purpose and the presentation of comparative data in all line items of the statement of financial performance.

Due to the aforesaid, the Government of Israel's financial reporting serves as an important basis for improving government processes on several levels, including the establishment of a comprehensive governmental risk management system, covering both financial and operational risks, and increasing the Government's accountability towards its citizens regarding its management of public resources. As regards accountability and government transparency, it should be noted that these principles were also given much weight in the criteria for Israel's recent admission into the OECD.

As aforesaid, quality financial reporting will assist the Government in improving significant processes on several levels. The statements herein reflect the continued progress made this year on the challenging path towards implementing the government accounting reform, ultimately resulting in financial statements for all government ministries, which would be audited as well as compliant with international accounting standards.

Sincerely,

Shouky Oren  
Accountant General

## Table of Content

<b>PREFACE TO THE FINANCIAL STATEMENTS .....</b>	<b>4</b>
<b>MAIN DIFFERENCES COMPARED TO FINANCIAL STATEMENT DATA FOR THE 2008 FISCAL YEAR .....</b>	<b>10</b>
<b>SUMMARY FINANCIAL ANALYSIS OF THE FINANCIAL STATEMENTS .....</b>	<b>12</b>
<b><u>Financial Statements as at December 31 2009</u></b>	
STATEMENT OF FINANCIAL POSITION .....	21
STATEMENT OF FINANCIAL PERFORMANCE .....	23
STATEMENT OF CHANGES IN NET ASSETS/EQUITY .....	26
STATEMENT OF BUDGET DIFICIT .....	28
<b><u>Notes to the financial statements for December 31<sup>st</sup> 2009*</u></b>	
NOTE 1 - GENERAL .....	29

\* Notes 2-40 are not included in the essence of the financial statements.

## Preface to the Financial Statements

Lately, governments of leading nations in the Western World have introduced far-reaching reforms in government accounting, intended to provide proper disclosure and transparency as to their financial activity. The Government of Israel is also in the process of instituting a similar reform in government accounting, which mainly involves a transition from cash-based reporting to accrual-based reporting. This reform aims to provide the general public, decision makers, and other users of the financial statements with reliable and comprehensive information of the financial position of the Government of Israel, through a principle that transparency is one of the cornerstones of proper and efficient administration.

On August 5, 2004, on the Accountant General's initiative, the Government passed Government Resolution Number 2375 as to the adoption and implementation of International Public Sector Accounting Standards (IPSAS) by government ministries and by non-commercial statutory corporations. The Accountant General is currently leading a reform in the administration of State assets and liabilities, and in the Government's financial reporting. As aforesaid, this reform mainly involves the transition to accrual-based reporting and application of international accounting standards. These reports serve as another aspect in the accounting reform led by the Accountant General in the past few years, aimed at the gradual adoption and implementation of IPSAS, while maintaining the principle of proper disclosure. Following the Accountant General's decision, the financial statements for 2009 are published by April 30, 2010, so that for the first time they may include audited financial statements for 12 government ministries, as well as audited financial statements for the majority of GBE's.

A significant part of the data in the financial statements is presented according to Israeli Government Accounting Standards and IPSAS. However, it should be noted that the statement of assets presented herein does not represent all the assets held by the State of Israel. Not included are numerous assets whose value or cost is very significant. These include: the majority of infrastructure assets, a significant part of the State's investment in the Defense System, all State lands, all heritage assets, some of the assets abroad, and the majority of intangible assets.

Furthermore, it should be noted that the information regarding the Government of Israel's assets and liabilities is not based on a comprehensive documentation and reporting system. The accounting systems used in some of the government ministries do not support accrual-based accounting. The financial information is mostly unaudited and is based, among other things, on auxiliary systems used alongside the main accounting system, as well as on reports received from various bodies which administer certain assets and liabilities on behalf of the Government of Israel. The Accountant General does not have full information regarding the quality of the control processes instituted in some of these bodies. As regards material sum balances, discrepancies have been found between the Accountant General's auxiliary accounts and the bodies where such balances are maintained. These discrepancies are expected to be resolved with the development of the Merkava Government ERP Project, and concurrently with the auditing of the financial statements in the government ministries.

The data base used in the preparation of data for the financial statements, mostly regarding fixed assets, does not constitute a closed accounting documentation and reporting system. Therefore, it is not possible to verify data completeness, which is essential for determining that the statements of financial position encompass all the assets and liabilities of the Government of Israel, or that the statements of financial performance properly reflect the results of the Government of Israel's operations and are prepared according to GAAP.

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

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

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

For example, expenses for liability increases due to employee rights recognized in the present for increased employee entitlement to pension, based on actuarial calculations, but which will only materialize after each employee's retirement and which will be spread in the cash flow over the years according to actual pension payments. Despite the transition to cumulative pension and affixing the population entitled to budgetary pension, reduction of the capitalization period of liabilities for this period creates a material actuarial accounting cost which will have a significant effect in the coming years and will then gradually decrease as we progress towards the date on which the State will no longer have any obligation in this regard.

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

#### **Independent auditing of financial statement data**

The Government of Israel's consolidated financial statements for 2009 are unaudited. However, the Accountant General is in the process of gradually transitioning government ministries and units to accrual-based financial reporting, among other things, through the use of Merkava (a comprehensive cross-organizational ERM system for government offices used for managing organizational resources, including financial, logistics and HR), additional ERM (Enterprise Resource Management) systems and appointment of independent auditors for auditing their financial statements. It should be noted that some of the entities included in the Government of Israel's consolidated financial statements have, for the first time, filed audited financial statements for Fiscal 2009.

**State of Israel**  
**Ministry of Finance – Accountant General**

**Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009**

The following table details the hierarchical structure for the Government of Israel's financial reporting for 2009, and includes all government units and other entities included in the Government of Israel's financial statements. The table further provides information for each of these units or entities, as regards their reporting basis and the independent auditor's opinion on their statements (if audited):

Investing / Consolidating Government Entity	Government Investee	Accrual Based Reporting	Audited Financial Statements	Auditor's Opinion
<b>1. Government Ministries</b>				
Accountant General		x		
	The Internal Government Insurance Fund	x	x	Unqualified
Ministry of Defense		x		
Ministry of Education		x		
	Administration for Rural Education	x	x	Unqualified
	Center for Independent Education	x	x	Abstained
	Shas Torah Education	x		
	Educational Television			
	Torah Institutions Division			
Ministry of Health		x	x	Abstained
	Sheba Medical Center	x	x	Unqualified
	Rambam Medical Center	x	x	Unqualified
	Assaf Harofe Medical Center	x	x	Unqualified
	Wolfson Medical Center	x	x	Unqualified
	Ziv Medical Center	x	x	Unqualified
	Poria Medical Center	x	x	Unqualified
	Hillel Yaffe Medical Center	x	x	Unqualified
	Western Galilee Medical Center	x	x	Unqualified
	Barzilai Medical Center	x	x	Unqualified
	Sourasky Medical Center (Ichilov)	x	x	Unqualified
	Bnai Zion Medical Center	x	x	Unqualified
	Abarbanel Mental Health Center			
	Tirat Hacarmel Hospital			
	Beer Ya'acov Mental Health Center – Ness Ziona			
	Mizra Mental Health Center			
	Kfar Shaul Mental Health Center - Eitanim			
	Beer Sheba Mental Health Center			
	Lev Hasharon Mental Health Center			
	Sha'ar Menashe Mental Health Center			
	Netanya Geriatric Medical Center			
	Shoham Medical Center For Geriatric Medicine, Pardes Hana			
	Shmuel Harofe Geriatric Medical Center			
	Rishon Lezion Geriatric Hospital			
	Fliman Geriatric Hospital			
Retirement Administration		x		

**State of Israel**  
**Ministry of Finance – Accountant General**

**Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009**

Investing / Consolidating Government Entity	Government Investee	Accrual Based Reporting	Audited Financial Statements	Auditor's Opinion
Ministry of Transportation		x	x	Qualified
	National Road Safety Authority	x		
	Port of Hadera	x		
Israel Police				
Ministry of Construction and Housing		x	x	Abstained
Ministry of Industry, Trade and Labor				
Ministry of Welfare				
Ministry of Interior		x		
	Population, Immigration and Border Authority	x		
Israel Land Administration				
Prime Minister's Office				
	Government Advertising Agency	x		
	Nativ Agency			
Office for Rehabilitation of Holocaust Survivors		x		
Israel Prison Service				
Israel Tax Authority				
Ministry of Justice		x	x	Qualified
Ministry of Foreign Affairs				
Ministry of Immigrant Absorption		x	x	Qualified
Administration of Courts		x	x	Abstained
Ministry of Agriculture				
Ministry of Science, Culture and Sports		x	x	Qualified
	Ministry of Science and Technology	x		
	Culture and Sport Authority	x		
Water Authority		x	x	Unqualified
Ministry of Environmental Protection		x	x	Qualified
Ministry of Tourism		x	x	Unqualified
Israeli Parliament (the Knesset)				
Ministry of Finance		x		
	Government Property Administration	x		
	Government Vehicle Administration	x		
Ministry of Religious Services		x		
Ministry of National Infrastructure		x		
	Earth and Marine Research Administration	x		
Ministry of Public Security		x		
Office of the State Comptroller				
Agricultural Research Organization				
Central Bureau of Statistics		x		
Settlement Division				

**State of Israel**  
**Ministry of Finance – Accountant General**

**Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009**

<b>Investing / Consolidating Government Entity</b>	<b>Government Investee</b>	<b>Accrual Based Reporting</b>	<b>Audited Financial Statements</b>	<b>Auditor's Opinion</b>
Enforcement and Collection Authority		x		
Coordination of Government Activities in the Territories				
Employment Service				
Central Elections Committee				
Rabbinical Courts		x		
Israel Tax Authority - Shaam		x		
Natinal Agency for Mapping				
Government Printer		x		
Ministry of Communication		x		
President's Bureau		x		
Public Utility Authority - Electricity		x		
<b>2. Corporations not Included in Government Budget</b>				
National Insurance Institute (*)		x	x	To be issued
<b>3. GBE's</b>				
List of companies - appendix A		x	x	

(\*) As at the date of signing the financial statements, the opinion has yet to be published. The information included in the financial statements and used to consolidate the financial statements of the National Insurance Institute is based on data from the National Insurance Institute's finance systems, and which is still under independent audit and examination as at the date of signing the financial statements. When made available, audited data for the National Insurance Institute may differ materially from the information used in the preparation and consolidation of these financial statements.

The Government of Israel's consolidated financial statements for 2009 were prepared based on a hierarchy, created for financial reporting purposes, of the various entities included in the Government of Israel's statements.

Due to difficulties in implementation, which pertain to both methodology and cost-efficiency considerations, the hierarchy defined for the purpose of financial reporting is not fully GAAP-compliant as regards consolidation of financial statements. In this context, it should be noted that the government companies are all included in the Government of Israel's statements using the equity method, even though it is possible that under GAAP some of these companies should be presented pursuant to the consolidation of financial statements method. Furthermore, the hierarchal structure for financial reporting purposes has yet to be determined for government companies and statutory corporations, and so at this time these entities are presented at the highest hierarchal level, even though it is possible that under GAAP, some of these entities should be presented under certain government ministries.

## Main Differences Compared to Financial Statement Data for the 2008 Fiscal Year

The Accountant General's annual work plan emphasized that steps be taken which will lead to significant improvements in reporting quality for fiscal 2009. Key changes include the following:

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

For the first time, the Government of Israel's financial statements for 2009 include audited financial data for 12 government ministries (accounting for approximately 16% of the total budgeted expenses for the government ministries) as well as audited financial data for the majority of government companies. More details in this matter can be found in the preface to the financial statements, in the section entitled Independent Audit of Financial Statement Data (not included in the Essence of Financial Statements).

**2. Expansion of financial analysis of financial statement data -**

The financial analysis is aimed at presenting readers of the financial statements with the highlights of the data, in a manner that will assist the reader in understanding their significance, while employing both numeric and graphic presentation of data. In 2009, financial analysis was significantly expanded, and includes comparative data for the previous year's financial performance.

**3. Presentation of the budgetary deficit -**

As part of the statements regarding budgetary performance, full disclosure is given regarding the manner of calculating the Government of Israel's budgetary deficit, according to principles used around the world for cash-based budgetary reporting, and pursuant to the Deficit Reduction and Budgetary Expenditure Restriction Law of 1992.

**4. Consolidation of budgetary performance data using Merkava -**

The Government of Israel's budgetary performance data were consolidated for the first time using Merkava, which serves as a platform for implementing the financial data consolidation process across all government ministries. Preparing the consolidated statements regarding budgetary performance, based on integrated data managed through the Merkava budget module, reduces the operational risks inherent in this process, while increasing internal control and reporting quality.

**5. Expansion of financial reporting for government companies -**

According to GAAP, the Government of Israel's financial statements should consolidate those government companies which meet the criteria prescribed in Government Accounting Standard No. 6 - *Consolidated Financial Statements and Accounting for Controlled Entities*. All government companies are included in the Government of Israel's statements according to the equity basis of accounting, although it is possible that under GAAP, some government companies should be presented according to the consolidation of financial statements basis. However, the note regarding investment in government companies was significantly expanded, including disclosure as regards the principal companies pertaining to changes in equity due to government investments, exercise of shares, distribution of dividends, the Government of Israel's share in the profits of these companies and other changes in capital.

**6. Expansion of financial reporting for Government guarantees -**

The Accountant General is authorized to provide guarantees on behalf of the State of Israel for a loan, for a loan guarantee, for an export business or for other financial commitments. The guarantee is given pursuant to the State Guarantees Law of 1958, following specific examination of the need for the guarantee and its contribution to attaining economic policy goals, and following approval by the Knesset Finance Committee. The financial statements

**Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009**

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include detailed information regarding the effective framework of State guarantees, the State's exposure to expected exercises of guarantees given by the State and the possible effects thereof. Furthermore, for the first time, the financial statements present the balance of advanced deposits for credit funds deposited by the State with various commercial banks.

- 7. Expansion of financial reporting for appropriations and allocations -**  
Reporting of appropriations and allocations has been expanded and now includes in-depth details and proper disclosure regarding the composition of the appropriations and allocations by purpose, sectors, and various categories according to their designation.
  
- 8. Proper disclosure regarding the economic value of royalties payable to the State for Chief Scientist grants -**  
For the first time, the financial statements include an asset which constitutes a debt owed to the State for grants given by the Ministry of Industry, Trade and Labor's Chief Scientist. These grants are aimed at promoting research and development through direct financial assistance, pursuant to the Encouragement of Industrial Research and Industrial Development Law, 1984 (the R&D Law). This asset was presented based on the fair value model, whereby the royalties asset expected to be received for grants issued by the Chief Scientist is estimated as at December 31, 2009, less grants for programs which failed and will not yield revenues, and less grants for which royalties have already been paid. The balance sheet does not include royalties whose probability of collection does not permit their presentation as an asset in the balance sheet under Government Accounting Standard No. 19, *Provisions, Contingent Liabilities and Contingent Assets*.
  
- 9. The inclusion of an appendix listing the statutory entities and corporations (not included in the Essence of Financial Statement).**

## Summary Financial Analysis of the Financial Statements

The Government of Israel's financial statements for Fiscal year 2009 provide the Government, the Knesset and the general public with a comprehensive view of the way in which the executive authority manages its overall resources. The findings of the summary financial analysis of the financial statements focus on the government level and do not go into detail, in order to clarify, in outline, the Government of Israel's financial position and the results of its operations as a single economic entity. The Government of Israel's operations are financed primarily from tax proceeds, which serve for realizing the Government of Israel's policies in a broad and complex range of activities, such as: defense, health, education, transportation, etc. Detailed information regarding the Government of Israel's revenues and expenses, its assets and liabilities, along with other important financial issues, is presented in the full financial statements and the accompanying notes. That information may contribute to a better understanding of economic Government processes which influence the State and its citizens, thus contributing to their improvement.

### Summary Financial Data for the Government of Israel (NIS billions)

	<u>Consolidated (*)</u>		<u>Government of Israel</u>	
	For the year ended December 31		For the year ended December 31	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b><u>Financial results</u></b>				
Revenues from taxes and fees	222.2	226.7	195.5	199.0
Utilized foreign aid	8.0	10.1	8.0	10.1
Other revenues	28.9	31.0	28.1	30.6
<b>Total revenues</b>	<b><u>259.1</u></b>	<b><u>267.8</u></b>	<b><u>231.6</u></b>	<b><u>239.7</u></b>
<b>Salaries</b>	86.6	102.8	85.7	101.9
Operating, appropriations and other expenses	226.2	226.7	168.9	165.3
Financing expenses, net	41.3	40.5	53.1	52.2
<b>Total expenses</b>	<b><u>354.1</u></b>	<b><u>370.0</u></b>	<b><u>307.7</u></b>	<b><u>319.4</u></b>
<b>Excess of expenses over revenues</b>	<b><u>95.0</u></b>	<b><u>102.2</u></b>	<b><u>76.1</u></b>	<b><u>79.7</u></b>
Share of the profit (loss) of investees	3.1	1.4	(15.8)	(21.1)
<b>Net accounting deficit</b>	<b><u>91.9</u></b>	<b><u>100.8</u></b>	<b><u>91.9</u></b>	<b><u>100.8</u></b>
<b><u>Financial position</u></b>				
Financial assets	176.9	165.3	171.3	161.3
Non-financial assets	174.9	168.6	174.4	168.1
<b>Total assets</b>	<b><u>351.8</u></b>	<b><u>333.9</u></b>	<b><u>345.7</u></b>	<b><u>329.4</u></b>
<b>Less liabilities as follows:</b>				
Domestic and foreign loans	602.9	550.1	748.2	685.1
Liabilities for employee rights	457.5	435.4	454.0	432.4
Reserves for insurance events	293.2	263.5	0.1	0.1
Other liabilities	139.2	135.6	284.4	262.5
<b>Total liabilities</b>	<b><u>1,492.8</u></b>	<b><u>1,384.6</u></b>	<b><u>1,486.7</u></b>	<b><u>1,380.1</u></b>
<b>Net assets/ equity</b>	<b><u>(1,141.0)</u></b>	<b><u>(1,050.7)</u></b>	<b><u>(1,141.0)</u></b>	<b><u>(1,050.7)</u></b>

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

State of Israel  
Ministry of Finance – Accountant General

**Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009**

	<b>Government of Israel</b>	
	For the year ended December 31	
<b><u>Budgetary performance</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Total revenues	339.8	300.0
Total expenses	331.4	296.4
<b>Excess of revenues over expenses</b>	<b><u>8.4</u></b>	<b><u>3.6</u></b>
<b>Budgetary deficit (as defined by law)</b>	<b><u>39.7</u></b>	<b><u>15.2</u></b>

**Net Accounting Deficit vs. Budgetary Deficit (NIS millions)**

<b><u>Government of Israel</u></b>	<b>For the year ended <u>December 31 2009</u></b>
<b>Budgetary deficit</b>	<b>39,686</b>
Employee rights - actuarial expenses less payments	21,555
Loans - net finance charge less cash payments	19,109
Losses of investees not expressed in budget	15,802
Net changes in National Insurance Institute loan	5,167
Allocations to pension funds - expenses incurred less payments	1,136
Fixed assets - depreciation expenses less cash purchases during the year	(7,156)
Government loans - net financial revenues less collection in cash	(3,999)
Other changes in assets and liabilities	642
<b>Net accounting deficit</b>	<b><u>91,942</u></b>

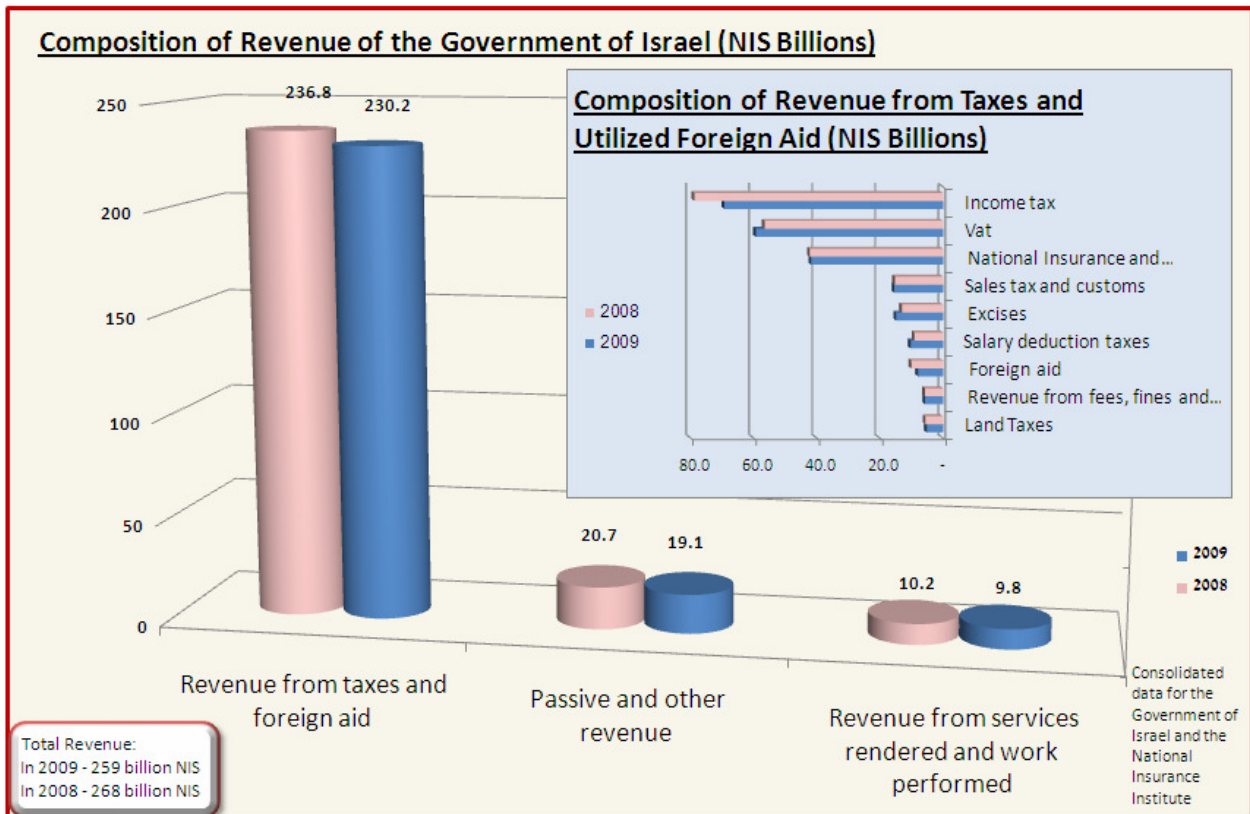
**Accrual Basis and Accounting Policies**

**Financial statements - accrual-based**

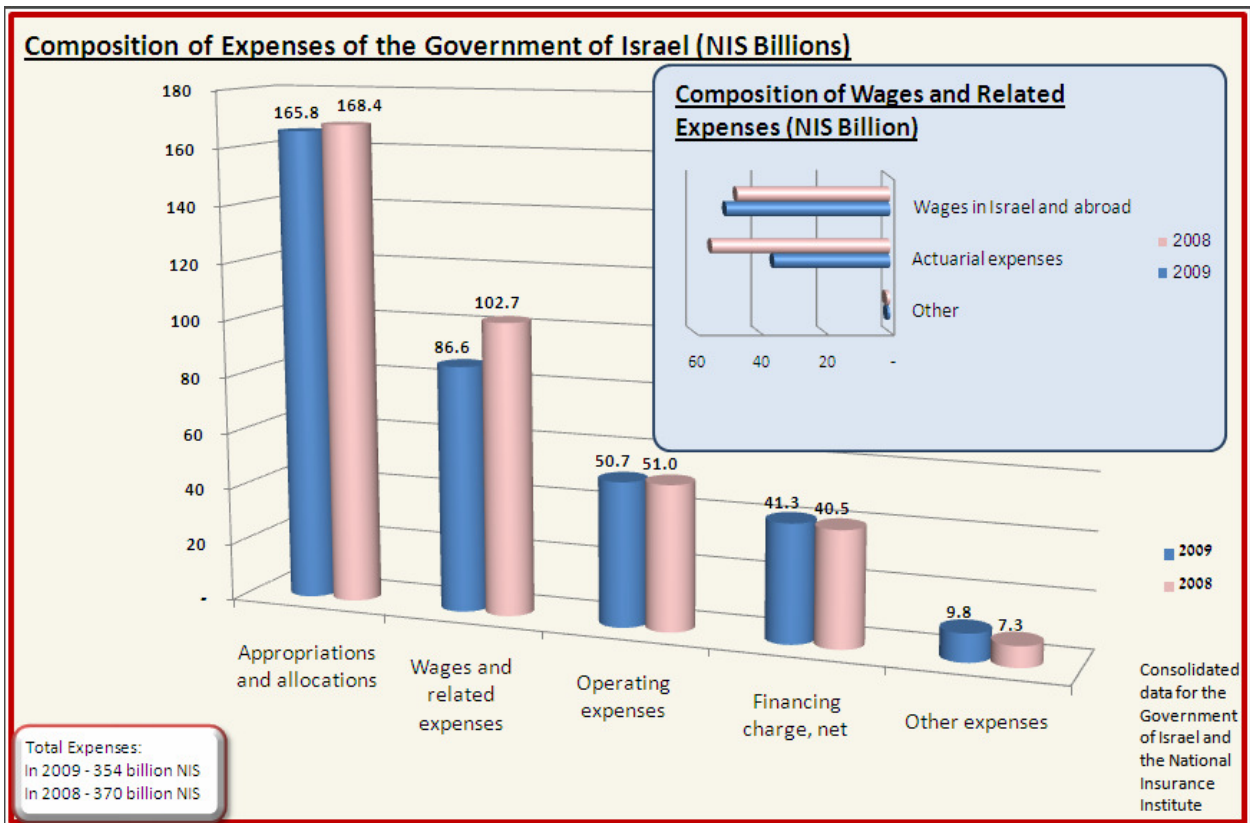
- Financial statements provide comprehensive information on the Government of Israel's financial position, which supports decision making and government accountability in the use of its resources.
- Revenues - recognized when incurred regardless of their collection date.
- Expenses - recognized when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

**Budgetary performance statement - cash-based**

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



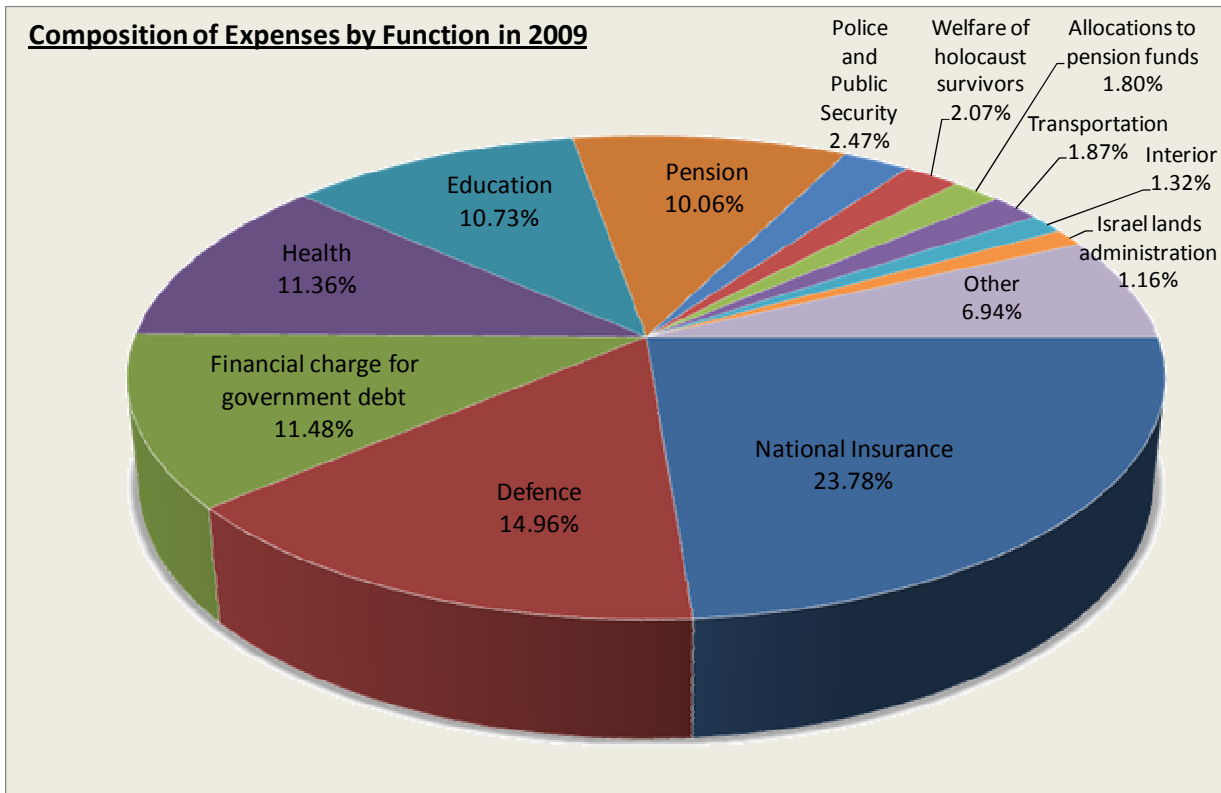
**Chart No. 1**



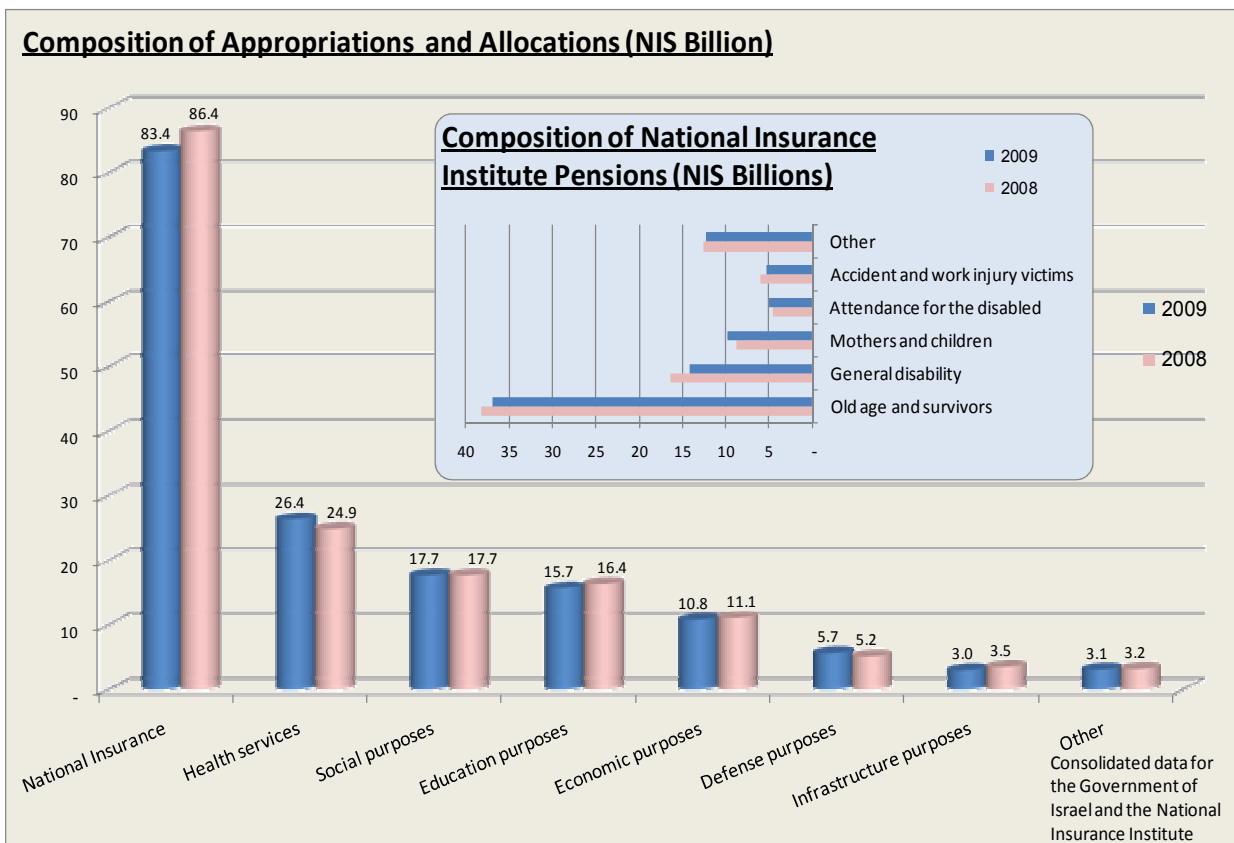
**Chart No. 2**

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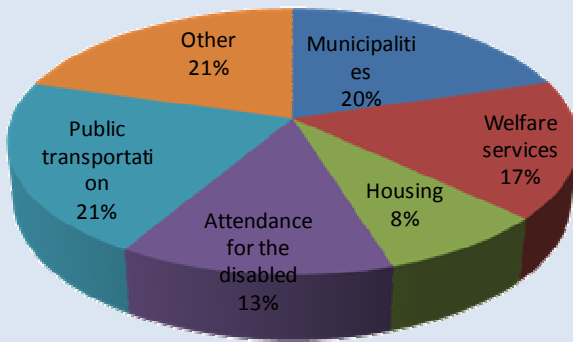
**Chart No. 3**



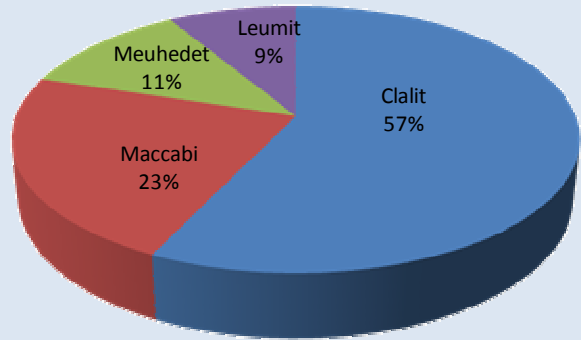
**Chart No. 4**

Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009

**Composition of Appropriations for Social Purposes in 2009**



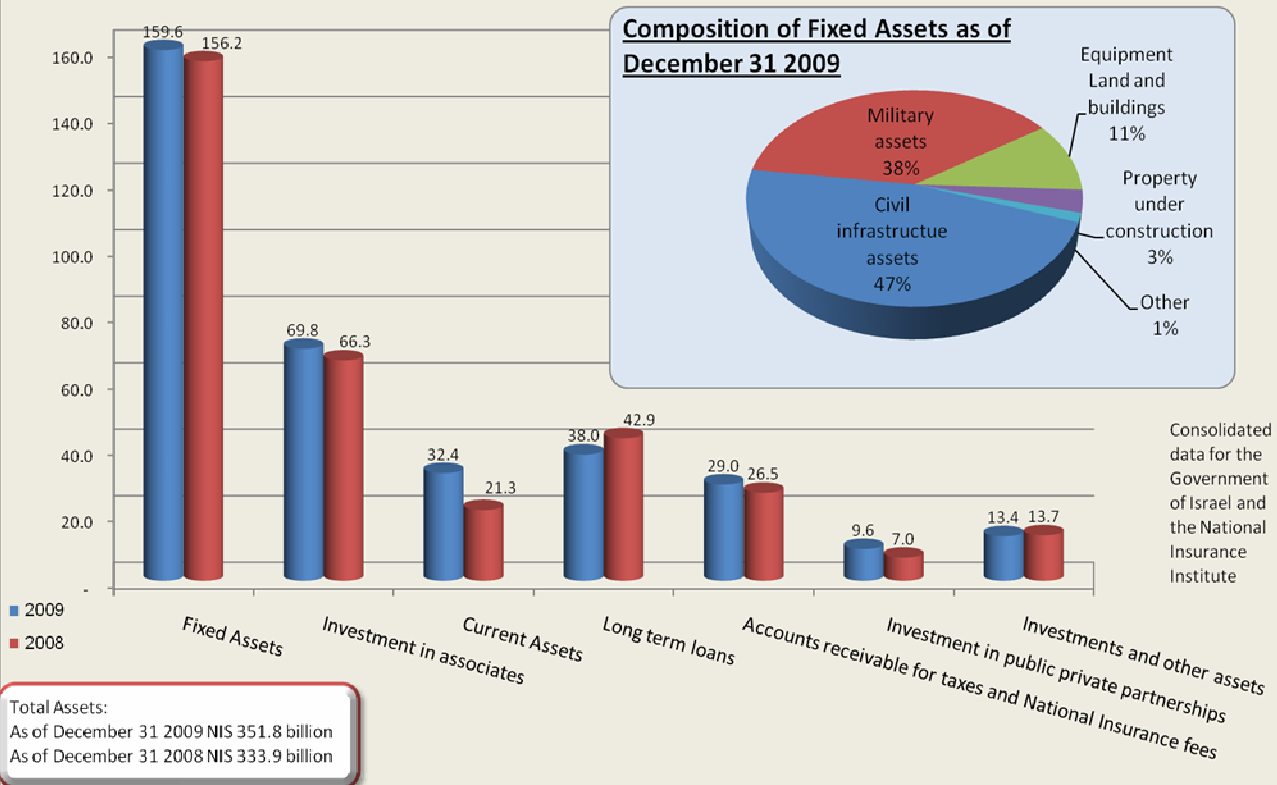
**Composition of Subsidized Health Services by Health Maintenance Organization in 2009**



**Chart No. 4.2**

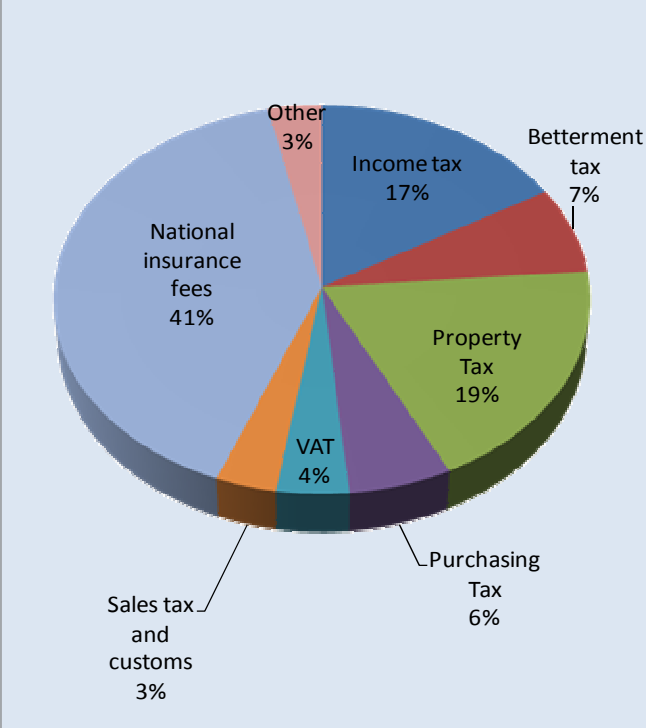
**Chart No. 4.1**

**Composition of Assets of the Government of Israel (NIS billions)**



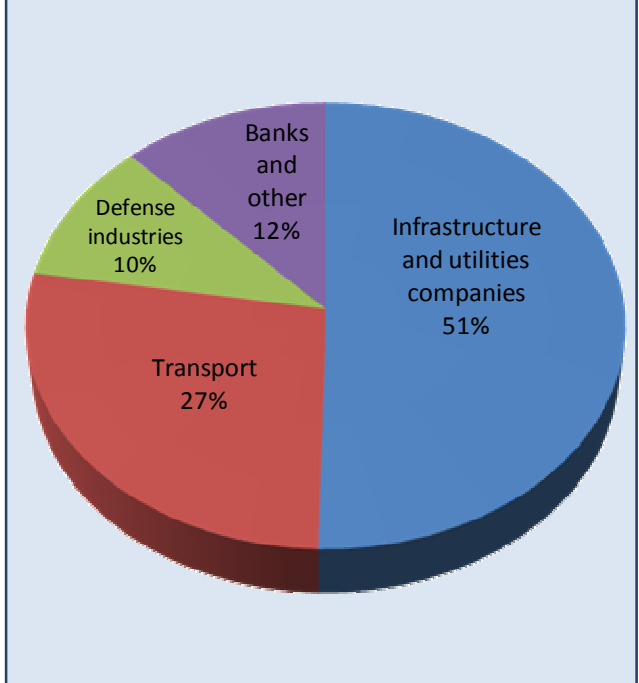
**Chart No. 5**

**Composition of Taxes Payable as of December 31 2009**



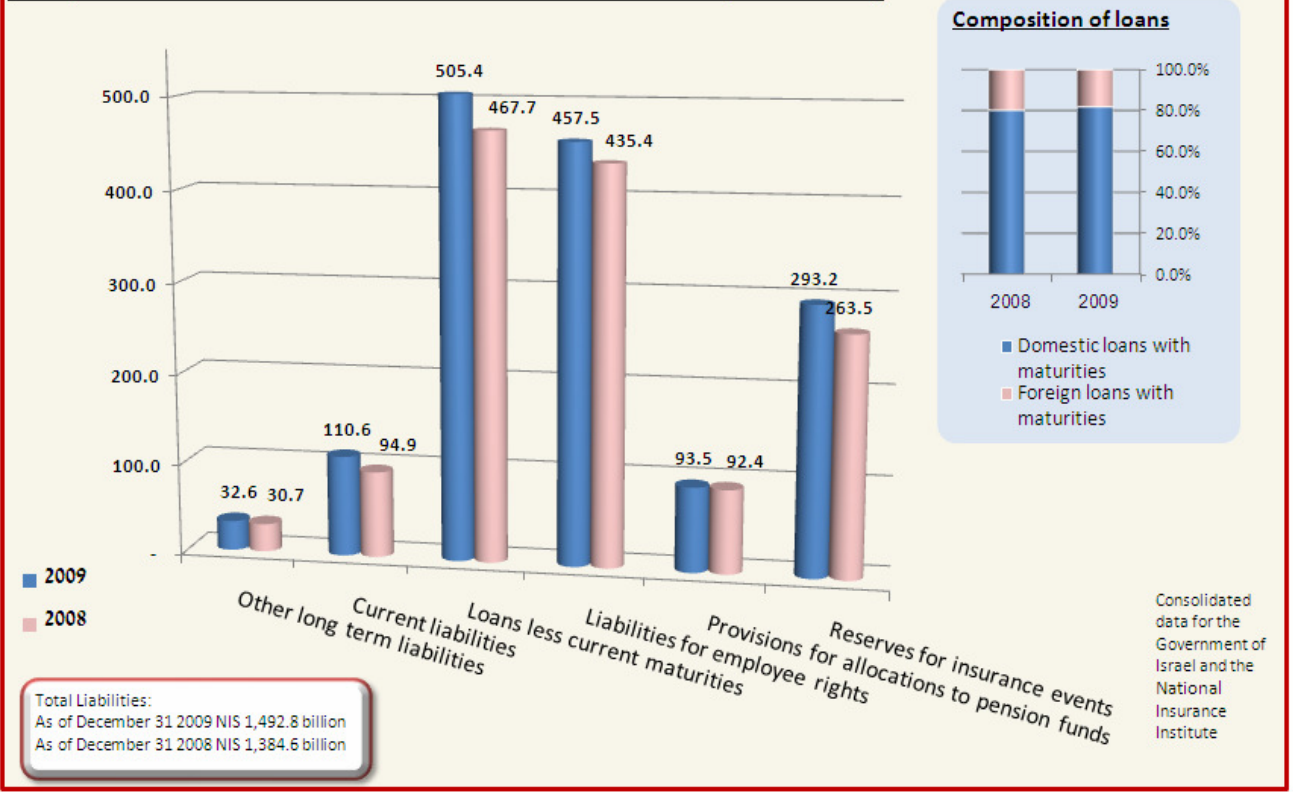
**Chart No. 5.2**

**Composition of Government Investment in Government Companies as of December 31 2009**

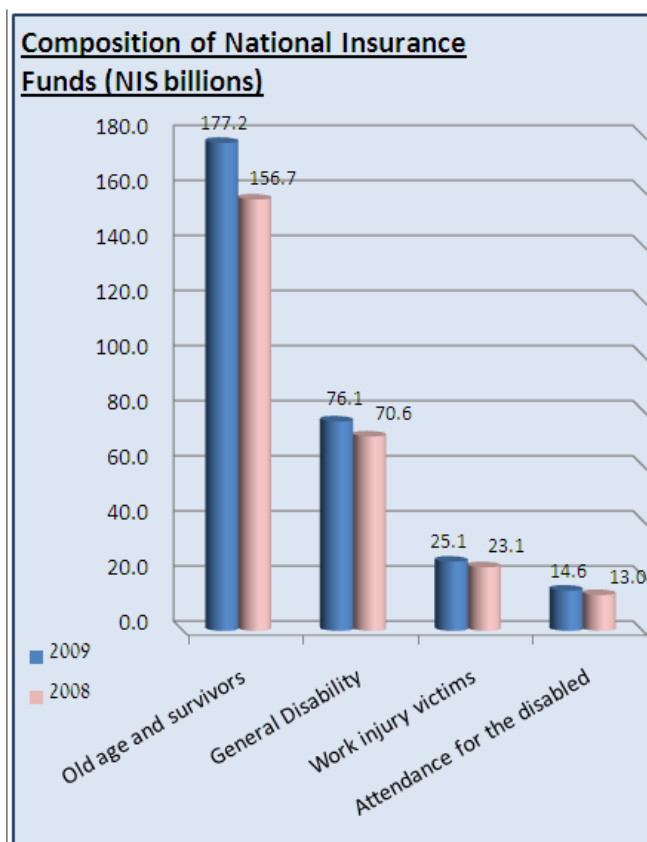


**Chart No. 5.1**

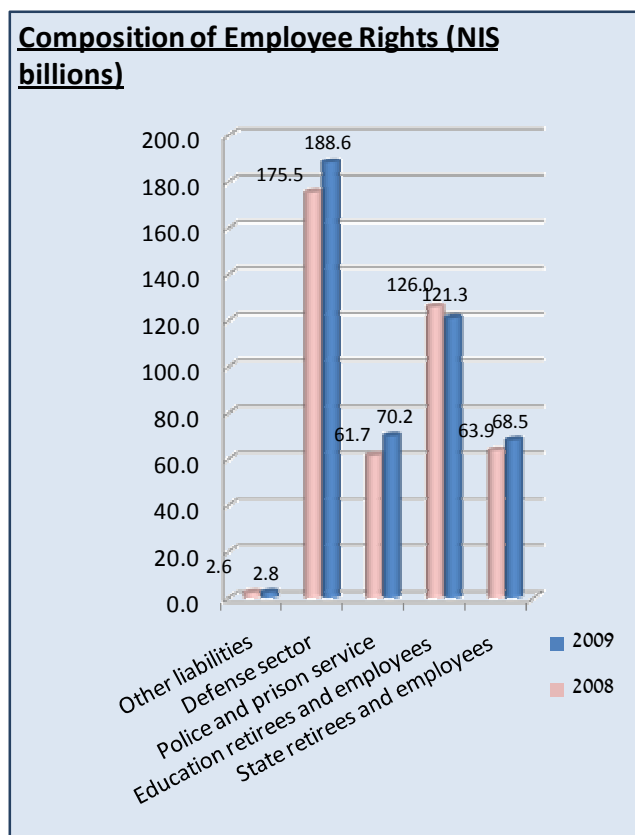
**Composition of Liabilities of the Government of Israel (NIS billions)**



**Chart No. 6**



**Chart No. 6.2**



**Chart No. 6.1**

**Sensitivity Analysis - Government Loans**

**Sensitivity to changes in the Consumer Price Index (NIS millions)**

	Consolidated		Consolidated		Government of Israel	
	Profit (loss) from changes		Profit (loss) from changes		Profit (loss) from changes	
	+1%	Fair value	-1%	+1%	Fair value	-1%
Tradable domestic loans	(1,468)	146,791	1,468	(1,468)	146,791	1,468
Nontradable domestic loans	(1,440)	144,037	1,440	(1,440)	144,037	1,440
National Insurance loans	-	-	-	(1,453)	145,343	1,453
<b>Total</b>	<b>(2,908)</b>	<b>290,828</b>	<b>2,908</b>	<b>(4,361)</b>	<b>436,171</b>	<b>4,361</b>

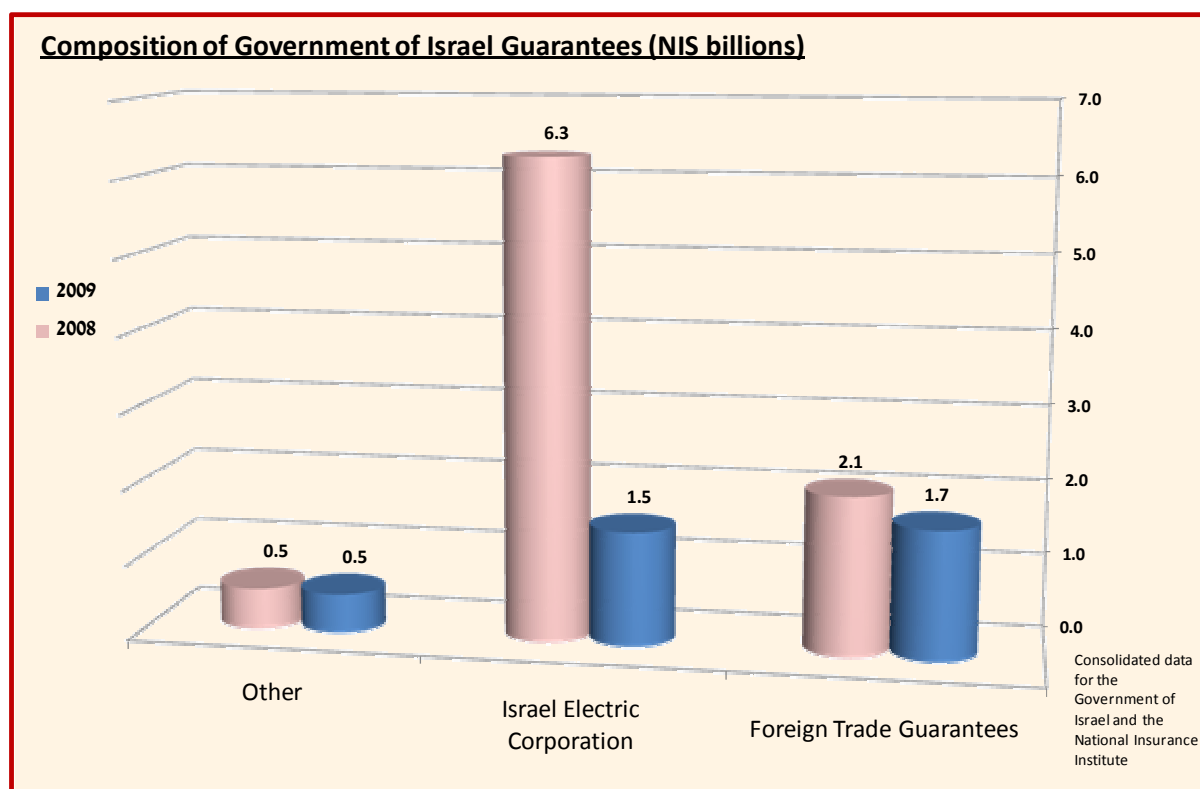
**Sensitivity to changes in the USD exchange rate (NIS Millions)**

	Consolidated/ Government of Israel	
	Profit (loss) from changes	
	+1%	-1%
Tradable domestic loans	(3)	3
Foreign loans	(1,001)	1,001
<b>Total</b>	<b>(1,004)</b>	<b>1,004</b>

Sensitivity to changes in the EUR exchange rate (NIS Millions)

	Consolidated/ Government of Israel	
	Profit (loss) from <u>changes</u> +1%	Fair value
		Profit (loss) from <u>changes</u> -1%
<b>Foreign loans</b>	<b><u>(79)</u></b>	<b><u>7,936</u></b>

(\*) Calculated based on the book balances as at December 31, 2009.



**Chart No. 7**

(\*) In December 2009 an agreement was signed for the sale of the Industrial Development Bank of Israel. Under this agreement, the outstanding State-guaranteed loan extended by the Industrial Development Bank to the Israel Electric Corporation was converted into a direct loan granted by the State to the Israel Electric Corporation.

**The Government of  
The State of Israel**

**Main Financial Statements as at  
December <sup>31</sup> 2009**

**(Unaudited)**

State of Israel  
Ministry of Finance – Accountant General

Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009

**Statement of Financial Position (NIS millions)**

	Consolidated (*)		Government of Israel	
	December 31		December 31	
	2009	2008 (**)	2009	2008 (**)
<b>Current Assets:</b>				
Cash and cash equivalents	20,944	10,199	20,645	10,177
Deposits and short term investments	1,016	1,142	922	1,141
Current maturities of long term loans	5,970	6,555	5,970	6,555
Accounts receivable	32,736	29,358	27,592	25,289
Current inventory	732	563	732	563
	<b>61,398</b>	<b>47,817</b>	<b>55,861</b>	<b>43,725</b>
<b>Long Term Investments, Loans and Accounts Payable:</b>				
Long term loans	37,989	42,898	37,989	42,898
Investment in investee companies and entities	69,776	66,372	69,776	66,372
Investment in administrative property	3,865	3,669	3,865	3,669
Other investments	8,461	8,793	8,461	8,793
Non-current inventory	893	958	893	958
	<b>120,984</b>	<b>122,690</b>	<b>120,984</b>	<b>122,690</b>
<b>Investment in Public Private Partnerships (PPP)</b>	<b>9,605</b>	<b>7,015</b>	<b>9,605</b>	<b>7,015</b>
<b>Fixed Assets</b>	<b>159,634</b>	<b>156,209</b>	<b>159,056</b>	<b>155,724</b>
<b>Other Assets</b>	<b>217</b>	<b>210</b>	<b>217</b>	<b>210</b>
	<b>351,838</b>	<b>333,941</b>	<b>345,723</b>	<b>329,364</b>

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

(\*\*) Restated.

The assets presented in this statement do not represent the overall assets of the State of Israel, but rather only some of its assets.

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

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

State of Israel  
Ministry of Finance – Accountant General

Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009

**Statement of Financial Position (NIS millions)**

	Consolidated (*)		Government of Israel	
	December 31		December 31	
	2009	2008 (**)	2009	2008 (**)
<b>Current Liabilities:</b>				
Short term credit	384	421	362	395
Domestic loans - current maturities	59,605	47,757	68,680	56,351
Foreign loans - current maturities	37,869	34,605	37,869	34,605
Accounts payable	12,715	12,070	12,519	12,231
	<b>110,573</b>	<b>94,853</b>	<b>119,430</b>	<b>103,582</b>
<b>Long Term Liabilities:</b>				
Domestic loans - less current maturities	432,766	392,763	569,034	519,169
Foreign loans - less current maturities	72,620	74,947	72,620	74,947
Provision for losses of investees	4,032	3,875	149,371	130,624
Provision for allocations to pension funds	93,511	92,375	93,511	92,375
Provision for employee rights	457,496	435,429	453,974	432,373
Reserves for insurance events	293,190	263,519	146	127
Provision for legal proceedings	3,906	4,190	3,893	4,177
Other long term liabilities	15,657	15,614	15,657	15,614
	<b>1,373,178</b>	<b>1,282,712</b>	<b>1,358,206</b>	<b>1,269,406</b>
<b>Liabilities for Public Private Partnerships</b>	<b>9,063</b>	<b>7,082</b>	<b>9,063</b>	<b>7,082</b>
<b>State Guarantees</b>	-	-	-	-
<b>Contingent Liabilities</b>	-	-	-	-
<b>Net Assets / Equity</b>	<b>(1,140,976)</b>	<b>(1,050,706)</b>	<b>(1,140,976)</b>	<b>(1,050,706)</b>
	<b>351,838</b>	<b>333,941</b>	<b>345,723</b>	<b>329,364</b>

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

(\*\*) Restated.

The deficit in equity is a residual number which does not represent the cumulative Government deficit as assets are not presented in full in the financial statements. In this regard, we would like to refer the reader to the contents of the preface and notes to the financial statements.

Tuesday, April 27 2010

Date of approval  
of the financial statements

Shouky Oren  
Accountant General

Joseph Itzkovich, CPA  
Chief Accountant

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

State of Israel  
Ministry of Finance – Accountant General

Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009

**Statement of Financial Performance (NIS millions)**

	Consolidated (*)		Government of Israel	
	For the year ended December 31		For the year ended December 31	
	2009	2008 (**)	2009	2008 (**)
<b>Revenues:</b>				
<b>Revenues from non-exchange transactions:</b>				
Revenues from taxes and fees	222,220	226,690	195,459	198,974
Transfers	8,680	10,308	8,680	10,308
<b>Total revenues from non-exchange transactions</b>	<b>230,900</b>	<b>236,998</b>	<b>204,139</b>	<b>209,282</b>
<b>Revenues from exchange transactions:</b>				
Revenues from services rendered and work performed	9,842	10,248	9,842	10,248
Passive revenues	11,289	12,445	11,289	12,445
<b>Total revenues from exchange transactions</b>	<b>21,131</b>	<b>22,693</b>	<b>21,131</b>	<b>22,693</b>
Other revenues	7,116	8,084	6,360	7,707
<b>Total revenues</b>	<b>259,147</b>	<b>267,775</b>	<b>231,630</b>	<b>239,682</b>
<b>Expenses:</b>				
Wages and related expenses	86,598	102,784	85,731	101,899
Operating expenses	50,717	51,044	50,527	50,890
Appropriations and allocations	165,740	168,391	108,714	107,241
Marketing and public relations	999	1,090	999	1,090
Research and development	2,628	1,471	2,628	1,471
General and administrative expenses	5,358	4,688	5,207	4,587
Finance charge, net	41,278	40,492	53,051	52,203
Other expenses	913	-	913	-
<b>Total expenses</b>	<b>354,231</b>	<b>369,960</b>	<b>307,770</b>	<b>319,381</b>
Share of surplus (deficit) of associates and controlled entities	3,142	1,365	(15,802)	(21,121)
<b>Net deficit</b>	<b>91,942</b>	<b>100,820</b>	<b>91,942</b>	<b>100,820</b>

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

(\*\*) Restated.

The statement of financial performance is not prepared in full according to the accrual basis of accounting as some of the Government ministries still report according to cash basis, and some do not manage their financial data through a comprehensive accounting documentation and reporting system. In this regard, the statements on financial performance are based, inter alia, on an auxiliary system used alongside the main accounting system, as well as on use of assessments and estimates.

The net accounting deficit does not reflect the Government of Israel's budgetary deficit, as it is calculated using entirely different measurement methods based on accrual-based GAAP. These principles express changes in assets and liabilities which are not necessarily related to cash flow and are not fully reflected in the State budget, according to the Budget Foundations Law and according to the internationally accepted measurement of budgetary deficit. The net accounting deficit includes expenses that are currently accounted for but which will only materialize as a cash expenses and budgetary charge in the future. In this regard, the reader is referred to the contents of the preface and notes to the financial statements.

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

State of Israel  
Ministry of Finance – Accountant General

Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009

**Statement of Financial Performance - Expenses by Function (NIS millions)**

	Consolidated (*)		Government of Israel	
	For the year ended		For the year ended	
	December 31		December 31	
	2009	2008 (**)	2009	2008 (**)
<b>Expenses by function:</b>				
National Insurance	84,267	86,907	26,355	25,206
Defense (***)	53,019	53,582	53,019	53,582
Finance charge for government debt	40,661	38,583	52,466	50,316
Health	40,259	38,219	40,259	38,219
Education	38,025	35,843	38,025	35,843
Defined Benefit Plan (Pensian)	35,631	54,707	35,277	54,095
Police and public security	8,745	8,176	8,745	8,176
Welfare and Holocaust survivors	7,324	7,072	7,324	7,072
Allocations to pension funds	6,383	7,305	6,383	7,305
Transportation	6,618	6,603	6,618	6,603
Interior	4,689	5,103	4,689	5,103
Israel Land Administration	4,101	3,125	4,101	3,125
Industry, Trade and Labor	3,424	4,345	3,424	4,345
Construction and Housing	3,069	3,188	3,069	3,188
Justice	2,455	2,445	2,455	2,445
Tax Authority	2,383	2,394	2,383	2,394
Prime Minister	1,651	1,971	1,651	1,971
Immigrant Absorption and Settlement	1,307	1,376	1,307	1,376
Agriculture	1,156	1,246	1,156	1,246
Foreign Affairs	1,132	1,361	1,132	1,361
Science, Culture and Sports	907	883	907	883
Government housing and vehicles	845	801	845	801
Knesset and elections	800	570	800	570
Water Authority	542	602	542	602
Environmental Protection	363	375	363	375
Tourism	346	403	346	403
Religion	310	291	310	291
Infrastructure and Communications	303	318	303	318
State Comptroller	228	209	228	209
Other	3,288	1,957	3,288	1,958
<b>Total expenses</b>	<b>354,231</b>	<b>369,960</b>	<b>307,770</b>	<b>319,381</b>

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

(\*\*) Restated.

(\*\*\*) 2008 data for the Ministry of Defense is not fully consistent with 2009 data, due to the integration of a new ERM system in 2008, and following changes in the recognition and measurement of assets and liabilities.

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

State of Israel  
Ministry of Finance – Accountant General

Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009

**Statement of Changes in Net Assets/ Equity (NIS millions)**

**Consolidated (\*)**

	Balance as at December 31 <u>2008</u>	Changes in net assets (**)	Net deficit for the period	Balance as at December 31 <u>2009</u>
<b>Accrued deficits</b>	<b>(1,054,008)</b>	<b>1,636</b>	<b>(91,942)</b>	<b>(1,144,314)</b>
<u>Non-budgetary capital reserves</u>				
State guarantees fund	987	18	-	1,005
Compensation fund (property tax)	571	150	-	721
Internal fund for government insurance	1,036	(142)	-	894
Equipment renewal fund	8	7	-	15
<b>Total non-budgetary capital reserves</b>	<b><u>2,602</u></b>	<b><u>33</u></b>	<b>-</b>	<b><u>2,635</u></b>
<b>National Insurance Institute capital reserve</b>	<b><u>700</u></b>	<b><u>3</u></b>	<b>-</b>	<b><u>703</u></b>
<b>Total net assets</b>	<b><u>(1,050,706)</u></b>	<b><u>1,672</u></b>	<b><u>(91,942)</u></b>	<b><u>(1,140,976)</u></b>

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

(\*\*) Including from designated surplus, from cumulative effect for the beginning of the year resulting from asset recognition, change in accounting methods and reassessment of assets and liabilities.

The deficit in equity is a residual number which does not represent the cumulative Government deficit as assets are not presented in full in the financial statements. In this regard, we would like to refer the reader to the contents of the preface and notes to the financial statements.

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

State of Israel  
Ministry of Finance – Accountant General

Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009

**Statement of Changes in Net Assets/ Equity (NIS Millions)**

**Government of Israel**

	Balance as at December 31 <u>2008</u>	Changes in <u>net assets (*)</u>	Net deficit for the <u>period</u>	Balance as at December 31 <u>2009</u>
<b>Accrued deficits</b>	<b>(1,053,308)</b>	1,639	(91,942)	<b>(1,143,611)</b>
<u>Non-budgetary capital reserves</u>				
State guarantee fund	987	18	-	1,005
Compensation fund (property tax)	571	150	-	721
Internal fund for government insurance	1,036	(142)	-	894
Equipment renewal fund	8	7	-	15
<b>Total non-budgetary capital reserves</b>	<b><u>2,602</u></b>	<b><u>33</u></b>	<b><u>-</u></b>	<b><u>2,635</u></b>
<b>Total net assets</b>	<b><u>(1,050,706)</u></b>	<b><u>1,672</u></b>	<b><u>(91,942)</u></b>	<b><u>(1,140,976)</u></b>

(\*) Including from designated surplus, from cumulative effect for the beginning of the year resulting from asset recognition, change in accounting methods and reassessment of assets and liabilities.

**The deficit in equity is a residual number which does not represent the cumulative Government deficit as assets are not presented in full in the financial statements. In this regard, we would like to refer the reader to the contents of the preface and notes to the financial statements.**

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

State of Israel  
Ministry of Finance – Accountant General

Government of Israel – Essence of Financial Statements as at December 31<sup>st</sup> 2009

**Statement of Budget Performance for the year 2009**  
**Budgetary Deficit (NIS millions)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Performance</u>	<u>Original Budget Differences</u>	<u>Performance Rate</u>	<u>Final Budget Differences</u>	<u>Performance Rate</u>	
<b>Revenue</b>								
State Revenue	316,553.3	316,553.3	316,038.2	515.1	100%	515.1	100%	
Designated Revenue in State Departments	14,311.6	14,474.6	11,687.1	2,624.5	81%	2,787.5	81%	
Revenue from Business Enterprises	10,747.8	11,070.2	12,110.8	(1,363.0)	109%	(1,040.6)	109%	
<b>Total Revenue</b>	<b>341,612.7</b>	<b>342,098.1</b>	<b>339,836.1</b>	<b>1,776.6</b>	<b>99%</b>	<b>2,262.0</b>	<b>99%</b>	
<b>Expenses</b>								
Regular Budget	201,022.8	218,799.1	202,192.0	(1,169.2)	92%	16,607.0	92%	
Development Budget	18,426.1	21,121.7	14,790.6	3,635.5	70%	6,331.1	70%	
Business Enterprises Budget	10,747.8	11,070.2	12,107.2	(1,359.4)	109%	(1,037.0)	109%	
Loans Settlement	75,766.0	75,709.0	68,384.1	7,381.9	91%	7,324.9	90%	
Interest and Commissions	35,650.0	34,539.0	33,942.3	1,707.7	95%	596.7	98%	
<b>Total Expenses</b>	<b>341,612.7</b>	<b>361,239.0</b>	<b>331,416.3</b>	<b>10,196.5</b>	<b>97%</b>	<b>29,822.7</b>	<b>92%</b>	
<b>Revenue Surplus</b>	<b>-</b>	<b>(19,140.8)</b>	<b>8,419.8</b>	<b>(8,419.8)</b>		<b>(27,560.7)</b>		
<b>Subtraction of</b>								
Receipts from Loans and Capital Accounts	1	114,838.8	114,838.8	111,292.8	3,545.9	97%	3,545.9	97%
Foreign and Domestic Loans Settlement	2	(68,343.0)	(68,343.0)	(61,001.6)	(7,341.4)	89%	(7,341.4)	89%
Funds Allocations from Development Budgets		(2,087.5)	(2,638.6)	(690.9)	(1,396.6)	33%	(1,947.7)	26%
Interest Settlement for Bank of Israel Loan		(93.3)	(93.3)	(93.3)	-	100%	-	100%
Cash Base Adjustments	3	-	-	(1,401.5)	1,401.5	***	1,401.5	***
<b>Budget Deficit Net of Funding</b>	<b>(44,462.0)</b>	<b>(63,051.7)</b>	<b>(39,685.8)</b>	<b>(4,629.2)</b>		<b>(23,219.0)</b>		

- (1) Not including current revenue from Israel Land Administration in total of 185 millions NIS, receipts from pensions and severance pay provisions, loan from the National Insurance Institute and grants from abroad.
- (2) Not including National Insurance Institute.
- (3) Different adjustments needed for presenting the Government deficit on a cash basis according to the differences in cash balance and the Bank of Israel.

**Note to the Financial Statements as at December 31, 2009**

**Note 1 – General:**

- a. The financial statements of the Israeli Government as at December 31, 2009 are submitted in accordance with Section 12 of the State Comptroller Law of 1958 [Consolidated Version] and in accordance with Section 49a of the Budget Foundations Law of 1985.
- b. **The Government of Israel** – Israel's government is the executive authority of the State of Israel. Heading the Government is the Prime Minister, and its members are ministers who are in charge of the various ministries. The Government retains authority in most national and public aspects, and represents the State of Israel internationally. The following is a general description of the Government's main ministries and divisions (the scope of their activity totaling NIS 350 million) through which the Government operates (in descending order, according to the scope of financial activity):



**Ministry of Finance**

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

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

- Implementation of the state budget, managing state assets including Government housing and vehicles, signing contracts and agreements undertaken by the State, financing Government activities and managing the national debt, initiating and promoting public-private partnerships (PPP) in the fields of transportation, water, energy and other infrastructure ventures, conducting internal governmental audits of funds, assets and agreements, operating inter-ministerial tender committees in various areas, issuing the financial statements of the Government of Israel and handling the Government's accounting, implementing centralized government procurement and setting policy on this issue, managing the Government ministries' IT systems and more.

- Direct responsibility for the implementation of several laws and provisions, such as: the Law of State Assets, the Budget Foundations Law, the Law of State Loans, the Law of State Guarantees and the Law of Foreign Trade Guarantees, the Mandatory Tenders Law, the Law of Civil Service (Retirement), the Law of Internal Audit (Section 2c), and the State administrative directives on regulation, finance and economy (TAKAM Directives).

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



### **Ministry of Defense**

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

- State level – the Minister of Defense heads the defense system and all of its units.
- Military system – the Israel Defense Forces. The IDF is headed by the General Staff (Matkal), which is headed by the Chief of Staff, who holds the highest rank in the army.
- Civilian system – Ministry of Defense, support units and corporations (government corporations supervised by the Minister of Defense, such as Israel Aerospace Industries and Israel Military Industries).



### **Ministry of Education**

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

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



### **Ministry of Health**

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

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



### **Ministry of Transportation**

The Ministry of Transportation is responsible for setting transportation policy and for air, sea and land transportation services. In addition, the Ministry handles legislation that regulates transportation issues, sets pricing for transportation, monitors and enforces traffic laws and provides meteorological services. The Ministry's primary responsibilities include the following:

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



### **Israel Police**

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

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



### **Ministry of Construction and Housing**

The Ministry of Construction and Housing is responsible for planning and implementing government policy regarding housing solutions for the entire population of Israel. The Ministry effects the creation of infrastructure and construction as well as the provision of public housing solutions and subsidizing mortgages for the acquisition of apartments, including supervision and monitoring of the mortgage banks and attending to the needs of special groups and those who appeal eligibility decisions. In addition, the Ministry encourages residential housing construction, the enforcement of construction standards, the restoration of older neighborhoods and urban renewal.



### **Ministry of Industry, Trade and Employment**

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



### **Ministry of Social Services**

The Ministry of Social Services operates to protect, rehabilitate, and assist any person, family and community who are in temporary or long-term crisis, due to disability, poverty, social anomalies, functioning difficulties, unemployment, discrimination or exploitation. The Ministry provides its services to the public through its divisions and local authorities, non-profit associations and other organizations. Services include: diagnosis and treatment, prevention and publicity, training and registration of professionals, the construction and maintenance of boarding schools and residences for victims of violence and for people with disabilities.



### **Ministry of the Interior**

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



### **Israel Land Administration (ILA)**

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



### **Prime Minister's Office**

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

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



### **Office for the Rehabilitation of Holocaust Survivors**

The Office for the Rehabilitation of Holocaust Survivors is responsible for implementing the Persons Disabled by Nazi Persecution Law and Persons Disabled in War against the Nazis Law. The Office provides monthly remuneration payments, medical care, and rehabilitation and welfare services to Holocaust survivors, those disabled pursuant to Nazi persecution and those disabled pursuant to the war against the Nazis, with the goal of increasing their well-being. The Office is also responsible for implementing the Holocaust Survivors Benefits Law of 2007, which entitles Holocaust Survivors to financial aid and other benefits.



### **Israel Prison Service**

The Israel Prison Service (IPS) is a security office and an executive arm of the Government of Israel. The Service's primary areas of operations include incarcerating prisoners and detainees safely and properly, while providing for their basic needs and safeguarding their dignity. The Service provides corrective tools to prisoners with the aim of increasing their ability to integrate into society upon their release.



### **Israel Tax Authority**

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

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

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



### **Ministry of Justice**

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



### **Ministry of Foreign Affairs**

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



### **Ministry of Immigrant Absorption**

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



### **Courts Administration**

The Courts Administration is an independent division of the Ministry of Justice. It is responsible for managing several units of the judicial branch, including: the Supreme Court in Jerusalem (which also serves as the High Court of Justice), District Courts, Magistrate Courts, Labor Courts, etc. Up until December 31, 2008 the Ministry was also responsible for operating the Fine, Fee and Judgment Collection Center, which collected fines and debts for the Government Ministries and the Antitrust Authority. As of January 1, 2009, the Authority for Enforcement and Collection was established (per a Government decision), which operates as an independent unit that is separate from the Courts Administration and includes the Judgment Collection System and the Fine, Fee and Judgment Collection Center. The Authority for Enforcement and Collection is comprised of two main units:

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



### **Ministry of Agriculture**

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



### **Ministry of Science, Culture and Sport**

The Ministry of Science, Culture and Sport is responsible for setting policy for scientific research, creating an infrastructure for foreign relations in the field of science, the propagation of science within the community, development of science in the rural areas (regional research and development) and the Israel Space Agency.

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



### **The Water and Sewerage Authority**

The Water and Sewerage Authority (hereinafter “The Water Authority”) was established on January 1, 2007, in order to create an entity with a comprehensive view of the water system’s needs and to centralize the authority in the hands of a professional-government body that has the tools and ability to manage and monitor Israel’s water system properly and effectively. The Water Authority is headed by the Water Authority Director, who holds the powers previously held by the Water Commissioner (a position that existed prior to the establishment of the Water Authority) in addition to other powers. The Water Authority Director is responsible for managing the water system according to government policy and principles set by the Authority's Council regarding water and sewerage, regulation of the water system, the setting of rules, rates and standards.



### **The Ministry of the Environment**

The Ministry of the Environment is responsible for the initiation and implementation of government policy on environmental quality issues. The Ministry's main activities include the formulation of an integrated and comprehensive national policy, strategic development, the formulation of standards and priorities for environmental protection and the encouragement of the wise use of environmental resources. The Ministry is also responsible for the implementation of the national environmental policy, involvement in the physical planning processes, guidance of local authorities regarding their environmental responsibility, supervision and enforcement of the environmental laws within local authorities, the development of environmental requirements and conditions for business licenses, assistance and direction of environmental units and more.



### **Ministry of Tourism**

The Ministry of Tourism is an economic ministry, one of its main objectives being to increase the scope of economic activity in the market. The Ministry works to develop public tourism infrastructures both through a nationwide development company and through regional development companies. In addition, the Ministry facilitates the protection of the Dead Sea as well as of holy sites via the Holy Sites Authority. The Ministry provides assistance for the establishment of business tourist entrepreneurs (attractions, hotels, etc.) throughout the country by providing grants under the Encouragement for Capital Investment Law of 1990.



### **Ministry of Religious Services**

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



### **Ministry of National Infrastructures**

The Ministry of National Infrastructures is responsible, *inter alia*, for the planning and implementation of national policy in the field of energy and infrastructure for natural resources in the State of Israel. The governmental activity is manifested in planning the development of the energy market, setting policy and its implementation in the Israeli economy, determining the structure of various sectors within the Israeli energy industry, supervision of the fuel and electricity industries, regulating oil and natural gas exploration, optimizing the use of energy, developing alternative energy sources and organizing the energy industry for emergencies. There are also comprehensive studies conducted through the Ministry in the field of earth studies, by developing infrastructures for technological, scientific and economic information for use by all sectors of the economy.



### **Ministry of Public Security**

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

The Ministry's goal is to be the Government's central arm for law enforcement, handling crime, keeping the peace and protecting the public from terrorism, incarcerating and rehabilitating prisoners, guarding and monitoring detainees, protecting witnesses as part of the Witness Protection Program, preventing crime and violence in society as well as for the prevention and treatment in the fields of drugs and alcohol.

- c. The Israeli Parliament (the Knesset)** - The Knesset is the parliament of the State of Israel. It is the State's legislative branch. The Knesset has three additional key roles: supervising the government, electing the President of Israel and the State Comptroller, and consideration of state matters through the Knesset Committees and plenum work. There are 12 permanent committees in the Knesset that address matters such as finance, foreign relations and security, constitution, law and justice, among others. These committees discuss legislative proposals, regulations set by the Government, proposals for the daily agenda and requests submitted to the Knesset and Government by residents.
- d. Office of the State Comptroller** – The Office of the State Comptroller is responsible for the external audit of the various activities of the State Administration and other public entities, to ensure supervision of public funds and accountability. The State Comptroller examines legality and regularity, savings, efficiency, moral integrity. The audit applies to all government ministries, state institutions, all branches of the security system, local authorities and government companies. In addition, the Office has a separate unit headed by the Ombudsman, which is responsible for the protection of citizens from injury by government authorities.
- e. National Insurance Institute** –The National Insurance Institute was established in 1954, and operates under the National Insurance Institute Law (Consolidated version) of 1995. Its goal is to provide social benefits and social security for the residents of the State of Israel. The activities of the National Insurance Institute include, *inter alia*: insurance programs for pensioners and surviving relatives, mothers, children, work-related injuries, general disability, attendance, unemployment, bankruptcy, corporate liquidation and more. Aside from pensions, the National Insurance Institute provides rehabilitation services and professional training for disabled persons, widows and victims of terrorist attacks, nursing services and counseling services for the elderly. The National Insurance Institute is also responsible for the implementation of other laws and agreements in the field of social security, such as the Income Support Law of 1980. In addition, the Institute collects health insurance payments and distributes the funds among the HMOs, and is responsible for the ongoing management of the files of people insured by health insurance. The Institute's primary funding sources are: national insurance fees collected from citizens, allocation by the Ministry of Finance pursuant to the National Insurance Law, the financing of laws and agreements by the Ministry of Finance, and interest earned on various investments.

- f. **Government companies** – The Government companies are supervised by the Government Companies Authority, which is the headquarters for the monitoring and supervision of these companies, as well as for their privatization and re-structuring. Privatization of government companies is implemented to promote state goals such as creating competition among otherwise monopolistic entities, while executing structural changes and decreasing government involvement in areas that are not among the core activities of the central government, and to enable the improvement and more efficient use of public resources. In addition, privatization creates a potential for implementing processes of specialization and efficiency within the privatized companies, leading to an increased ability to compete and to higher profitability levels. The above-mentioned developments are beneficial for the companies as well as for the entire economy.

In November, 2009, the privatization of the Industrial Development Bank of Israel Ltd was completed, via the sale of all of the State's and public's holdings to BGI Investments Ltd., for consideration of NIS 572 million. For more information, see Note 8 – Investments in companies and investees.

As part of maintaining the relevance of data principle, the Government of Israel's financial statements for 2009 include State holdings in government companies based on the financial statements of government companies supervised by the Government Companies Authority. Within this framework, data for the government companies are based on the government companies' audited financial statements as at December 31, 2009, as received from the Government Companies Authority. Where statements were not received as aforesaid, data was based on quarterly financial statements for 2009 or on audited statements as at December 31, 2008, or rather on other relevant draft financial statements as published.