



GOVERNMENT OF THE STATE OF ISRAEL

ESSENCE OF FINANCIAL STATEMENTS

AS OF DECEMBER 31 2013
(UNAUDITED)

State of Israel
Ministry of Finance – Accountant General
Government of Israel – Financial Statements as of December 31 2013



ACCOUNTANT GENERAL
MINISTRY OF FINANCE
STATE OF ISRAEL

May 29, 2014

To
The Users of the Financial Statements,

I am honored to present the consolidated financial statements of the Government of the State of Israel for the year ended December 31, 2013. The financial statements are prepared in accordance with general accepted accounting standards, as described in note 2 to the financial statement - Significant Accounting Policies.

For the first time, the financial statements include Another partial information about the government's commitments in the long term view, iabilities that do not necessarily get an expression centrally within the framework of other existing reports. This information will enable readers of the financial statements to get a broader picture about The government's future liabilities.

The introduction part was expanded this year and includes in addition to the development of the deficit compared to GDP, Information on the development of the components of expenditure and revenue budget.

The financial statements of the Government include for the first time the financial data of the Airport Authority, and include for the second year the National Insurance Institution published audited financial statements. Consolidation of these entities is the beginning of the consolidation process of the Statutory corporations controlled by the government for financial reporting purposes.

This is the second year that the financial statements include section shows the activity of the government under four areas of activity in which the government acts, composed of twelve secondary areas. This presentation provides an additional perspective in the aspect of balance and the results of government activities.

Further to significant progress that occurred in the financial report of the Government of Israel and to the substantive reform that was assimilated in the Government, that is based on the International Public Sector Accounting Standards (IPSAS), which are implemented in the Western World's leading countries, the consolidated financial statements include this year the financial statements of Government ministries and divisions on an accrual basis. In addition, the financial statements of 66 Government companies were consolidated.

I would like to take this opportunity to thank all those engaged in the important task of producing and preparing the consolidated financial statements of the Government of the State of Israel, led by the Department of Accounting and Reporting in the Accountant General Division, the chief accountants and comptrollers of the Government ministries, the Government Companies Authority and the Chief Financial Officers of government companies and to the Statutory corporations that are consolidated in the financial statements.

Sincerely,

Michal Abadi-Boiangiu

State of Israel
Ministry of Finance – Accountant General
Government of Israel – Financial Statements as of December 31 2013

Index

	PART A - Preface to the Financial Statements	4
1	General.....	5
2	The consolidated financial statements apply to.....	7
3	Main Differences as Compared with Financial Statement Data for the Fiscal Year 2012..	7
4	Governement Deficit and Funding of the Deficit 2013.....	9
5	Summary Financial Analysis of the Financial Statements.....	10
6	Governemnt Debt.....	12
7	Public Private Partnership (PPP) Projects.....	14
8	Revenue from Royalties.....	17
9	Liabilities for Budgetary Pension.....	19
10	Government Companies.....	21
11	Governemt Disbursements.....	23
	 PART B – Government of the State of Israel Financial Statements as of December 31 2013	
1	Statements of Financial Position (NIS millions).....	26
2	Statements of Financial Performance (NIS millions).....	28
3	Statements of Changes In Net Assets/ Equity (NIS millions).....	29
	NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2013	
	NOTE 1 – GENERAL:.....	30

PART A

**PREFACE TO THE FINANCIAL
STATEMENTS OF THE
GOVERNMENT OF THE STATE
OF ISRAEL**

**AS OF DECEMBER 31 2013
(UNAUDITED)**

1. GENERAL

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

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

The financial statements filed herewith constitute yet another step in the implementation of the accounting reform led by the Accountant General Department in the past few years.

Independent auditing of financial statement data

The Government of Israel's consolidated financial statements for 2013 are unaudited. However, the Accountant General Department is leading a gradual process of transitioning Government ministries and units to accrual-based financial reporting, as well as appointing independent auditors to audit their financial statements. The Government of Israel's consolidated financial statements for the 2013 fiscal year were prepared according to a hierarchical structure, which is mainly based on accounting principles regarding consolidation of financial statements, and which is being developed as part of the accounting reform under way in all Government ministries and units.

A significant part of the data in the financial statements is presented according to International Public Sector Accounting Standards. However, it should be noted that the statement of assets presented herein does not represent all the assets held by the State of Israel. Not included are numerous assets with highly material value or cost, and amongst them a significant part of the State's investment in the defense sector and State land (in note 12B to the financial statements disclosure is given regarding the estimated value of the state land).

State of Israel
Ministry of Finance – Accountant General
Government of Israel – Financial Statements as of December 31 2013

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

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

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

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

An example thereof is expenses for employee benefits that are already recognized, and arising from increased employee entitlement to pension, based on actuarial calculations, but which shall only materialize following each employee's retirement and which shall be spread in the cash flow over the years according to actual pension payments. Despite the transition to cumulative pension and the maintaining of the population entitled to budgetary pension at a constant level, a shorter discount period for the liability in respect of 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 shall 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 linkage differentials and interest payable, which have been accrued but are not yet due. It should be emphasized that in the budgetary deficit these expenses are only expressed upon their actual realization, that is, at the time of payment.

2. THE CONSOLIDATED FINANCIAL STATEMENTS APPLY TO:

The consolidated financial statements of the Government of the State of Israel include the activities, Financial Position and Financial Performance of more than 150 entities, Government ministries, Government Companies and non-commercial statutory corporations.

3. MAIN DIFFERENCES AS COMPARED WITH FINANCIAL STATEMENT DATA FOR THE 2012 FISCAL YEAR

The framework of steps which will lead to significant improvements in reporting quality, include the key changes for fiscal year 2013 compared with Previous year, as following:

1. Improvement of the quality and reliability of the financial statements

As of 2013, 60 offices and units appointed external auditor (out of 86 Government ministries and divisions), whose budgets account for approximately 77% of the total budgeted expenses of Government ministries.

The independent auditing of financial statements for Government ministries was significantly enhanced, thus increasing the reliability of financial reporting, strengthening the internal control over the work of Government ministries, and increasing the overall relevancy of the financial statements as a managerial tool for making strategic decisions.

2. Additional Information

This is the first year that the financial statements of the Government include presentation of additional information regarding the Government's commitments in the long term point of view. commitments that do not necessarily get an expression centrally within the framework of other existing reports. This information will enable readers of the financial statements to get a broader picture regarding the Government's future commitments.

3. introduction

The introduction part expanded and includes in addition to the development of the deficit Compared to GDP, information about development of components of revenue and expenditure budget in perennial comparison and in relation to GDP.

4. Presentation according to areas of activity

This is the second year the consolidated financial statements of the Government of Israel , include presentation according to four major areas of operation Where the government operates, consisting of 12 secondary domains. This presentation gives another view of the balance and the results of government activity.

5. Consolidation of Statutory Bodies

This is the first year that the financial statements of the Government include financial data of the Airport Authority and include for the second year the audited financial statements of the National Insurance Institution.

Consolidation of these entities is the beginning of a process of consolidation the

The financial statements of the Government include for the first time the financial data of the non-commercial statutory corporations Controlled by the government for financial reporting purposes.

6. Consolidation of government companies

In the framework of these financial statements, 66 government companies controlled by the Government were consolidated for financial reporting purposes. The presentation of the Government's financial position and financial performance in a consolidated format provides users of financial statements economic information regarding the activity of the Government and its various branches, in accordance with international financial reporting standards. It should be noted, however, that some Government companies have yet to file audited financial statements as of December 31 2013. Therefore, the consolidated data for Government companies is based, sometimes, on unaudited draft financial statements as of December 31 2013, or on interim financial statements for the third quarter of 2013 as well as on annual reports as of December 31, 2012, and/or on drafts of such financial statements as of the above mentioned dates.

7. State-owned lands

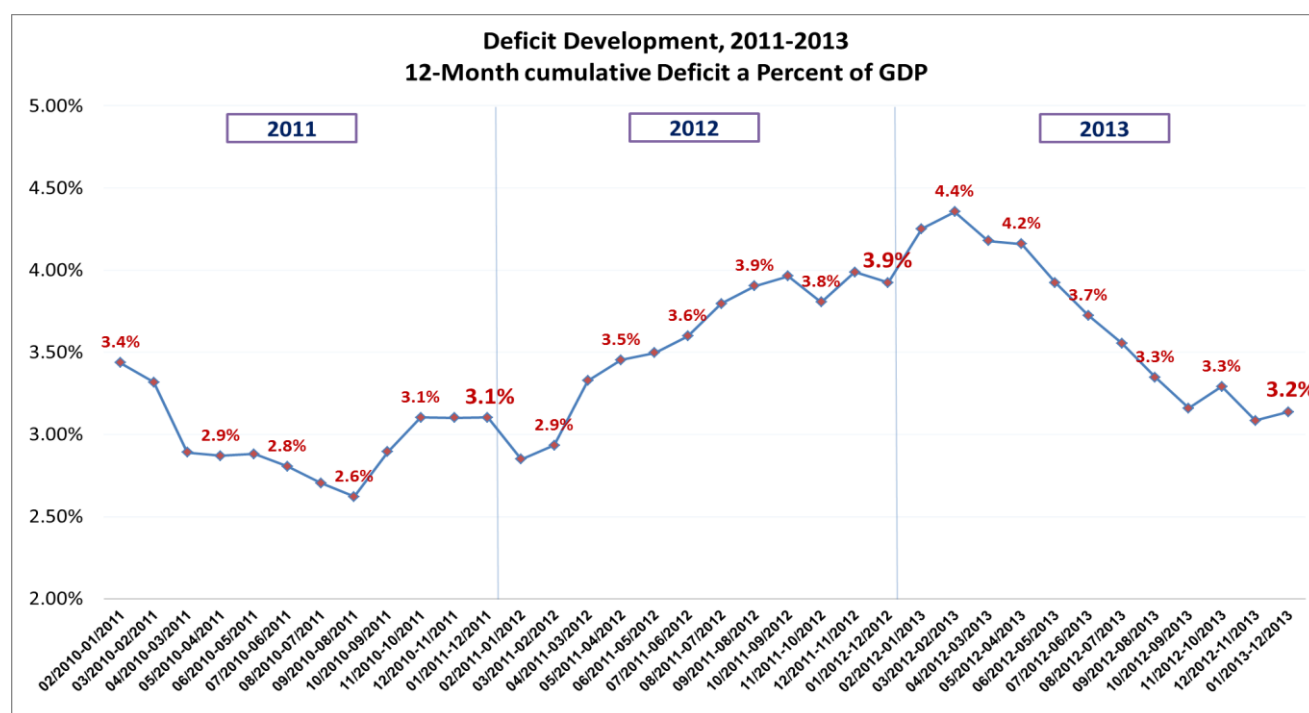
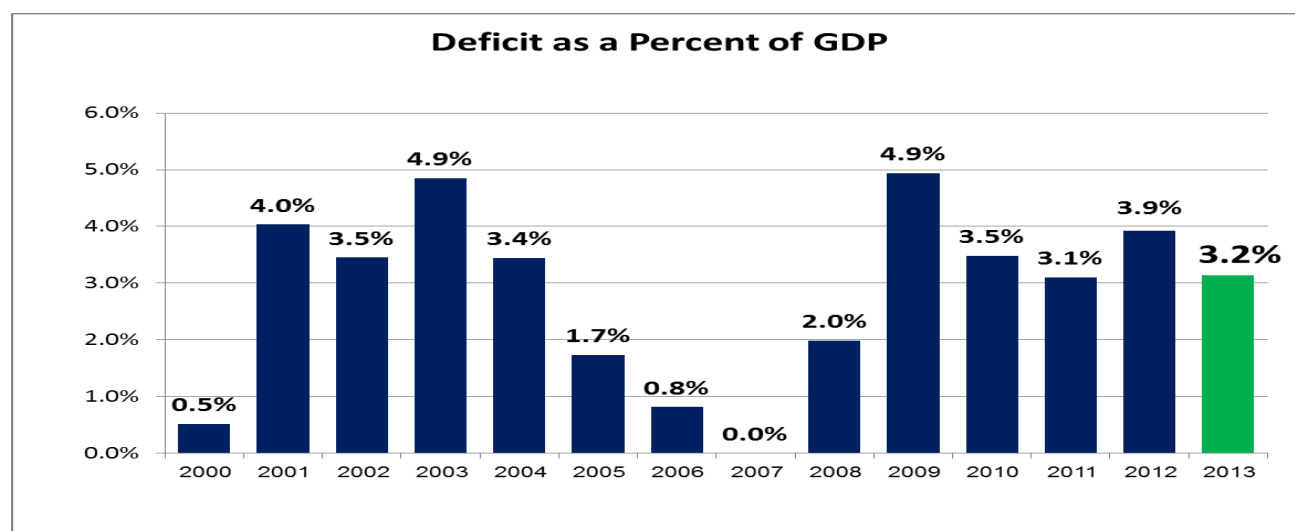
In the framework of note 12B to these financial statements- State-owned lands, include disclosure regarding the estimated value of State-owned lands. The fair value estimate was made in accordance with an economic and accounting methodology that was developed and in validation process by the Chief Accountant, with the cooperation of the Division of Land Appraisal of the Ministry of Justice and the Israel Land Authority.

8. Royalties from natural resources -

In the framework of note 9B to these financial statements- contingent asset of Royalties from natural resources, include disclosure on the estimated value of royalties payable to the Government in respect of natural resources. The estimated value of future royalties for contingent asset disclosure purposes was determined based on the current value of future royalties derived, among others, from the projected level of extraction of resources in the

4. GOVERNMENT DEFICIT BUDGET IN 2013

The government budget deficit for 2013 was NIS 33.4 billion, equivalent to 3.2% of GDP, based on an annual GDP of NIS 1,052.0 billion reported by the Central Bureau of Statistics. The original budget for 2013 was planned to include a deficit of NIS 45.7 billion, equivalent to 4.3% of GDP according to the new measurement method of the Central Bureau of Statistics (about 4.65% of the original budget planning). The main reasons for the deviation from the deficit target were the actual collection of higher tax revenues than the budget forecast and lower expenditure than the original budget planning.



State of Israel
Ministry of Finance – Accountant General
Government of Israel – Financial Statements as of December 31 2013

5. CONDENSED FINANCIAL STATEMENTS DATA

The Government of Israel's financial statements for fiscal year 2013 provide the Government, the Knesset and the general public with a comprehensive overview of the manner in which the executive authority manages its overall resources. The Government of Israel's operations are financed primarily through tax proceeds, which serve for realizing the Government of Israel's policies in a range of areas, as follows: Government and administration, society or social welfare, infrastructures, defense, and internal security. 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.

CONDENSED FINANCIAL DATA FOR THE GOVERNMENT OF ISRAEL (NIS BILLIONS)

	<u>Consolidated</u>		<u>Government of Israel</u>	
	For the year ended Dec. 31		For the year ended Dec. 31	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Financial performance				
Income from taxes and fees	297.9	271.9	263.3	239.7
Income from transfers	12.7	13.3	12.6	13.2
Income from exchange transactions	78.5	75.2	25.5	24.8
Other income	3.6	4.2	3.5	3.8
Total income	<u>392.7</u>	<u>364.6</u>	<u>304.9</u>	<u>281.5</u>
Payroll and employee benefits	123.5	102.4	106.8	84.1
Appropriations, allocations and transfers	199.4	225	138.3	134.4
Operating expenses	102.8	95.5	68.5	64.1
Administrative expenses, public relations and other costs	12.5	10.6	9.9	8.1
Financing expenses, net	32.7	36.7	41.5	44.4
Total expenses	<u>470.9</u>	<u>470.2</u>	<u>365.0</u>	<u>335.1</u>
Share of profits (losses) of investees	(0.1)	0.1	(18.1)	(51.9)
Net accounting deficit (*)	<u>(78.2)</u>	<u>(105.5)</u>	<u>(78.2)</u>	<u>(105.5)</u>
Financial position				
Current assets	99.1	93.3	51.5	46.1
Financial investments and loans	50.4	58.3	105.5	102.7
Property, plant and equipment	328.9	317.0	210.5	205.7
Other assets	8.5	3.7	2.2	1.6
Total assets	<u>486.9</u>	<u>472.3</u>	<u>369.7</u>	<u>356.1</u>
Current liabilities	159.0	156.6	118.5	112.4
Long-term domestic and foreign loans	668.3	633.2	791.6	752.5
Liabilities in respect of employee benefits	588.5	565.5	575.0	552.2
Reserves from insurance events	465.9	440.7	4.2	4.3
Other long-term liabilities	180.6	178.3	456.2	437.1
Total liabilities	<u>2,062.3</u>	<u>1,974.3</u>	<u>1,945.5</u>	<u>1,858.5</u>
Net liabilities / equity deficit (*)	<u>(1,575.4)</u>	<u>(1,502.0)</u>	<u>(1,575.8)</u>	<u>(1,502.4)</u>

(*) The net accounting deficit and the net liabilities deficit/ equity deficit in the consolidated financial statements include the minority interests and holders of minority interests.

(**) Restated

State of Israel
 Ministry of Finance – Accountant General
 Government of Israel – Financial Statements as of December 31 2013

NET ACCOUNTING DEFICIT VS. BUDGET DEFICIT (NIS MILLIONS)

<u>Government of Israel</u>	<u>For the year ended December 31, 2013</u>
Budget deficit (*)	33,421
Employee benefits – actuarial expenses and increase in other provisions less payments	22,804
Losses of investees not expressed in the budget	16,392
Government loans – net financing expenses less cash payments	3,094
Net changes in the National Insurance Institute loan	4,292
+ Support of pension funds – expenses incurred less payments	1,353
Property plant and equipment – depreciation expenses less cash purchases during the year	(4,159)
Government loans – net financing income less cash proceeds	459
Other long-term liabilities	(2,420)
Debtors of exchange and non-exchange transactions, net	1,206
Short-term provisions and eligible balances	3,208
Inventory – purchases this year	(584)
Other changes in assets and liabilities	(845)
Net accounting deficit	<u>78,221</u>

(*) See Part D – Budget Implementation Reports for 2013.

Financial statements – accrual-based

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

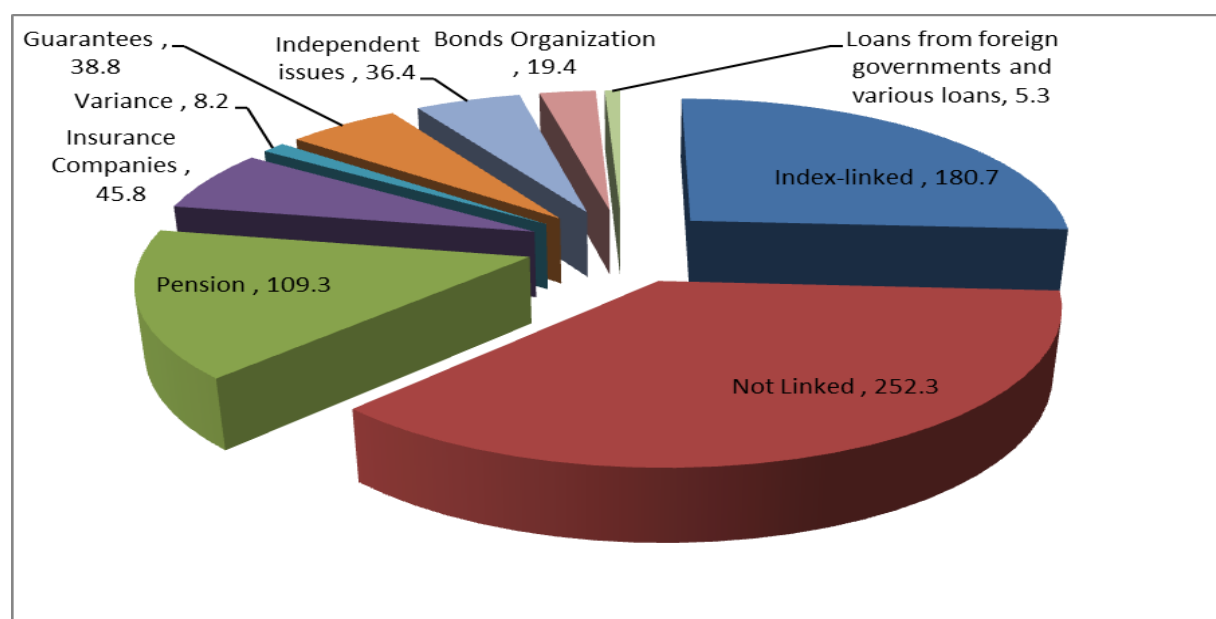
Budget implementation report – cash-based

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

6. GOVERNMENT DEBT

Government debt increased in 2013 by 4.4% to NIS 668.8 billion as of December 31, 2013, compared to NIS 666.8 billion as of December 31, 2012. The bulk of the nominal increase in Government debt was due to positive net funding as well as a slight increase of 1.8% in the consumer price index. As against this, the strengthening (appreciation) of the shekel against the dollar and the euro as well as a decrease in accrued interest, due to, among other things, low funding costs, contributed to lower government debt.

Structure of the Government debt at the end of 2013 (Billion NIS):

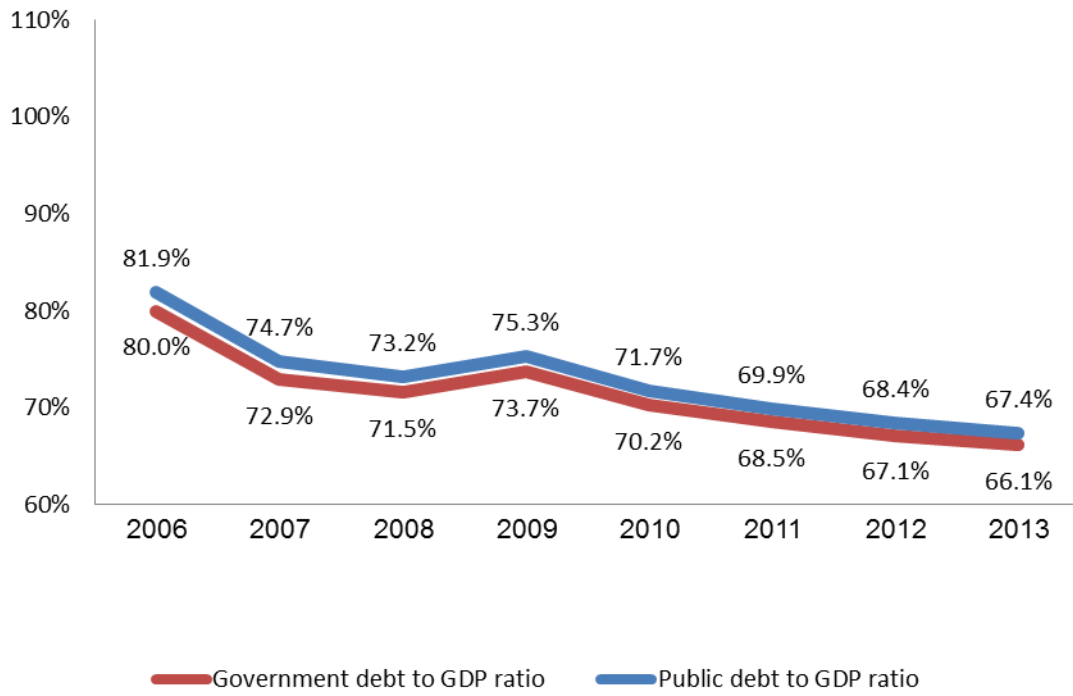


The balance of domestic debt (tradable and non-tradable) stood at NIS 596.4 billion as of December 31, 2013. Tradable debt stood at NIS 433.1 billion accounted for 73% of total domestic debt. The non-tradable debt increased for 26% of total domestic debt.

The Government's external debt stood at the end of 2013 at NIS 99.9 billion, distributed according to the following sectors: US loan guarantee program 39%, sovereign issuances 36%, Israeli Bonds Organization 20%, and the remaining 5% comprising foreign government loans and various other loans. The average term to maturity of the total government debt stood at the end of 2013 at 7 years, compared to 6.6 years in 2012. The longer term to maturity stems from the policy of the Accountant General Division to lengthen the debt maturity and reduce the refinancing risk, taking advantage of the low interest rate environment.

The volume of funding and the debt management policy directly affect the ratio of government debt to the GDP and the burden of interest expenses (interest budget) in the State budget. The ratio of Government debt to GDP is an accepted measure for examining the State's financial strength, and reducing this ratio aids the State in its future financial obligations. The following graph shows the decrease in this ratio from 81.9% in 2006 to 67.4% in 2013. Further information can be found on the website of the debt unit in the Financing Division Accountant General Division - <http://www.ag.mof.gov.il/AccountantGeneral/GovDebt>.

State of Israel
Ministry of Finance – Accountant General
Government of Israel – Financial Statements as of December 31 2013



7. PUBLIC PRIVATE PARTNERSHIP (PPP) PROJECTS

The Projects Department in the Accountant General Division of the Ministry of Finance is responsible for the initiation and advancement of projects implemented in collaboration with the private sector ("PPP projects"). The projects currently underway are mainly in the areas of transportation, water, energy and construction. Advancement of the projects is done by means of inter-ministerial tender committees. The Projects Department possesses professional tools for leading these projects while providing a professional solution for all aspects of a project, including legal, financial and logistic aspects, *inter alia* on such subjects as feasibility studies, the correct distribution of risks in the project, preparation of the process documents, management of the tender process and the financial closing on behalf of the State, implementation of the tender, aiding and examination of the performance of agreements, involvement in the strategic thinking of the relevant Government ministry, etc.

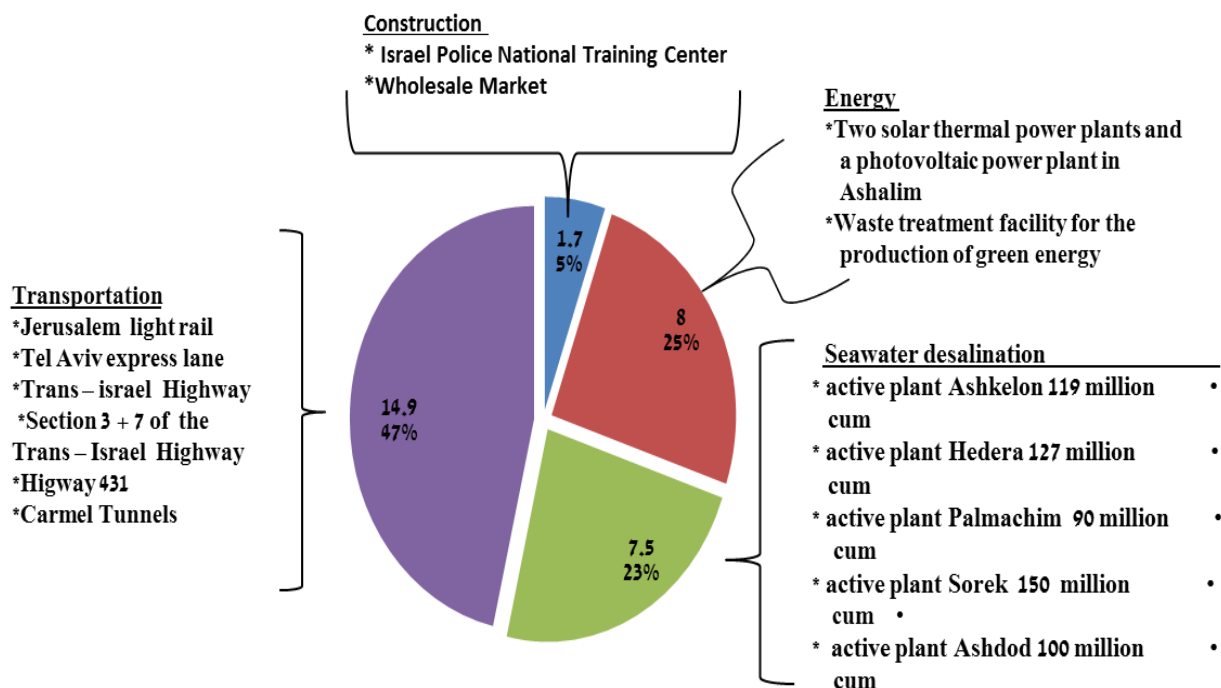
Projects based on the PPP model have been carried out in Israel for over a decade. These are investment-intensive projects for the construction of public infrastructure that are financed by the private sector under agreements between the State and private concessionaires. The assets and services in the projects constitute a public utility that benefits the economy, while the concessionaire is responsible for the planning, financing, construction and operation of the project for a fixed period. The level output of the service is dictated and enforced by the State; At the end of the concession period, the project is transmitted to the state in good functional condition, at no cost (with the exception of BOO projects in which the state-owned property remains). Correct distribution of the risks between the private sector and the public sector ensures that each side assumes the risks it is best able to manage.

Advantages of PPP projects: improving the level of service to the State and the citizen; shortening timetables; solution for alternative financing by means of various financing entities; cost-saving over the life of the project; generating growth without an increase in the short-term government deficit; increasing competition in the market; synergy in planning, construction and operation; optimal risk distribution; implementing advanced methods and technologies (international and/or local), and maximizing the private sector's advantages in the construction and operation of projects to obtain value for money.

The key criteria for choosing PPP projects in the area of infrastructure include viability for the economy, the ability to transfer major risks to the private sector, the existence of a significant operation and maintenance component, flexibility in planning and room for innovation according to a structured methodology.

The State of Israel has a range of national targets. There is need today for the initiation of effective actions for the development of infrastructures and projects within the framework of partnerships between the different social and economic sectors. The overall investment in PPP projects in Israel amounts to more than NIS 19 billion. Additional projects on a scope of NIS 11.5 billion are currently in the tendering process. The total budget liability in respect of PPP projects stands today at an annual NIS 220 million (0.02% of GDP), and is expected to stand in 2022 at less than NIS 500 million (0.04% of GDP).

Volume of investments in PPP Projects by Area (Billion NIS)



Following is the breakdown by area of projects that are currently being advanced by the Projects Department, and the amounts invested in them:

Construction: Including the Israel Police National Training Center, and a wholesale market – for a total of NIS 1.7 billion.

Energy: Two solar thermal power plants and a photovoltaic power plant at Ashalim and a waste treatment facility for the production of "green energy" – for a total of NIS 8 billion.

Transportation: Jerusalem light rail, Tel Aviv express lane, Trans-Israel Highway (sections 3 and 7) of the Trans-Israel Highway, Highway 431, Carmel Tunnels – for a total of NIS 14.9 billion.

Desalination plants: four active Seawater desalination plants in Ashkelon, Palmachim, Hadera and at Sorek , and another plant under construction in Ashdod – for a total of NIS 7.5 billion. The active Seawater desalination plants have a production capacity in excess of 70% of drinking water for domestic use in the State of Israel.

Below are details of the main developments in 2012 and 2013 in the projects that are being advanced:

Construction

Israel Police National Training Center – The project is in an advanced stages of construction. Expected to begin operations in early 2015.

State of Israel
Ministry of Finance – Accountant General
Government of Israel – Financial Statements as of December 31 2013

Wholesale market – The market will be located in the vicinity of the Mesubim Junction. In 2012 it was decided to implement the project by the PPP method. In the course of 2013 a prequalification process will be held and the tender documents are expected to be published in 2014.

Energy:

- Plot A solar thermal power plant – In September 2013 a BOT agreement was signed with the winner in the tender. The financial closing and the start of construction are planned for 2014.
- Plot B solar thermal power plant – In December 2012 a BOT agreement was signed with the winner in the tender. The financial closing is planned for 2014 and construction period will commence following.
- Photovoltaic power plant – In April 2012 a BOT agreement was signed with the winner in the tender. The financial closing was in December 2013 and the start of construction is planned for 2014.
- Municipal organic waste treatment plant using advanced methods and producing "green energy" – In October 2012 the prequalification process was announced. The submission and examination of bids in the prequalification process and publication of the tender documents are planned towards the end of 2014.

Transportation:

- Jerusalem light rail, Tel Aviv express lane, Trans-Israel Highway, Highway 431 and the Carmel Tunnels are all in the operation stage.
- Sections 3 and 7 of the Trans-Israel Highway – Announcement of the winner was in 2013, the agreement was signed at the beginning of 2014, and the project is currently under development stage and financial closing.

Seawater desalination:

- The desalination plants in Ashkelon, Palmachim, Hadera and in Sorek are in the operation stage. The desalination plant in Ashkelon has a production capacity of 119 cubic meters of water in a year (119 million cu m.), the Hadera plant has a production capacity of 127 million cu m., the desalination plant at Palmachim has a production capacity of 90 million cu m.cubic, and the desalination plant in Sorek, which began operations in 2013, has a production capacity of 150 million cu m.
The desalination plants in Ashdod (100 million cu m.) - in the process of construction.

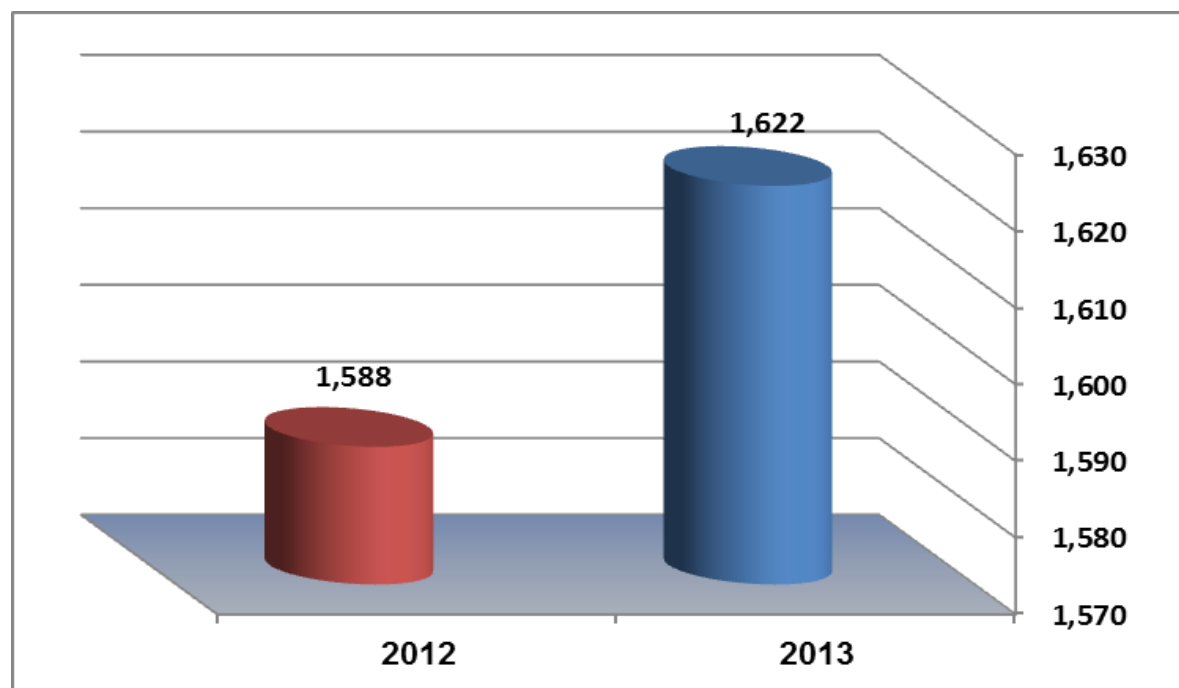
8. REVENUE FROM ROYALTIES

The Government has a right to receive royalties or other economic benefits arising from the grant of concessions and licenses to concessionaires and from assistance in R&D programs which are supported by the Chief Scientist in the Ministry of Economy ("royalty arrangements"). These royalty arrangements may exist pursuant to laws, regulations, administrative decisions, agreements, arrangements, etc which may vary from time to time. Revenue from royalties is attributable mainly to concessions granted for the extraction of natural resources (e.g.: production of oil and natural gas, mining of potash, phosphates, gravel and sand, etc.), R&D programs supported by the Chief Scientist and the grant of licenses to media concessionaires. The royalties to which the Government is entitled are usually calculated as royalty formula fixed in a specific arrangement or as a percentage of the revenue (sometimes net of certain expenses) from sales of the natural resources/products developed by the concessionaires/supported companies to third parties. Usually, revenue from royalties in the different government ministries is not distributed linearly, and the royalty percentage paid by the different companies/entities is derived from profits/sales in a given period.

In the framework of the control on royalties, an Administrative Code directive was issued regarding "Revenue from Royalties – Recording, Reporting and Control".

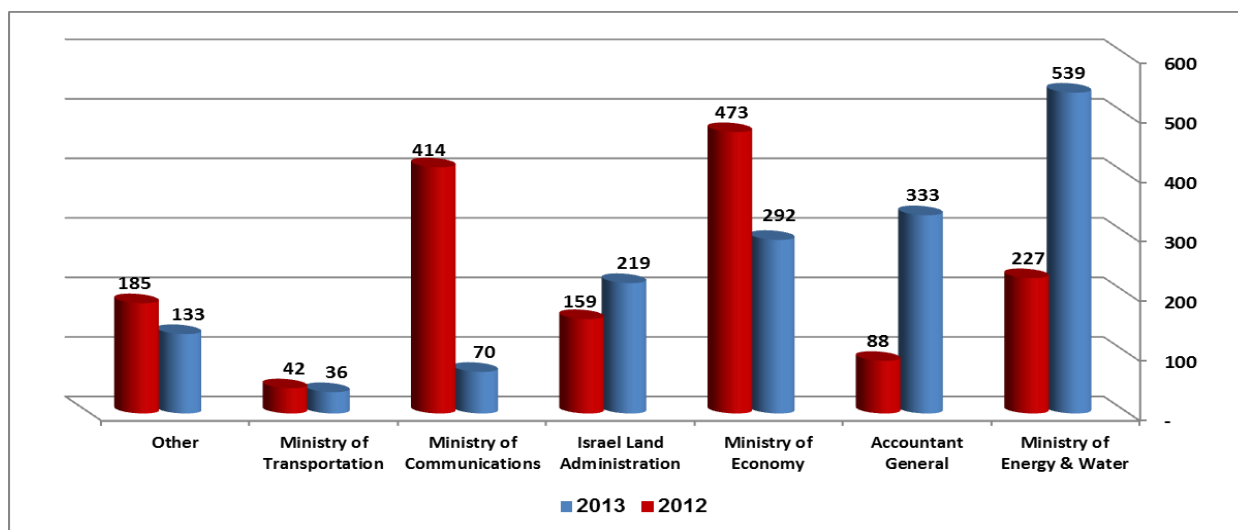
It should be noted that, according to the accounting treatment, royalties derived from assistance in R&D programs are not presented in the financial statements as current revenue but as the write-down of assets (see note 9A).

Diagram 1 – Annual comparison – Government revenue from royalties, 2012-2013 (Million NIS)



State of Israel
 Ministry of Finance – Accountant General
 Government of Israel – Financial Statements as of December 31 2013

Diagram 2 – Inter-ministerial comparison – State income from royalties in 2012-2013 (Million NIS)



Following is an analysis of the main differences compared to the previous year:

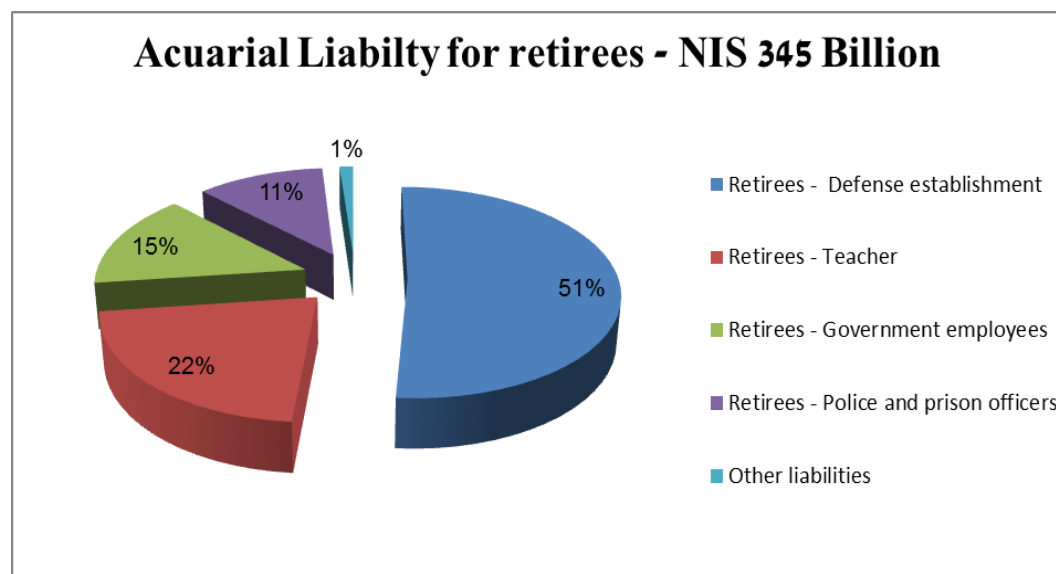
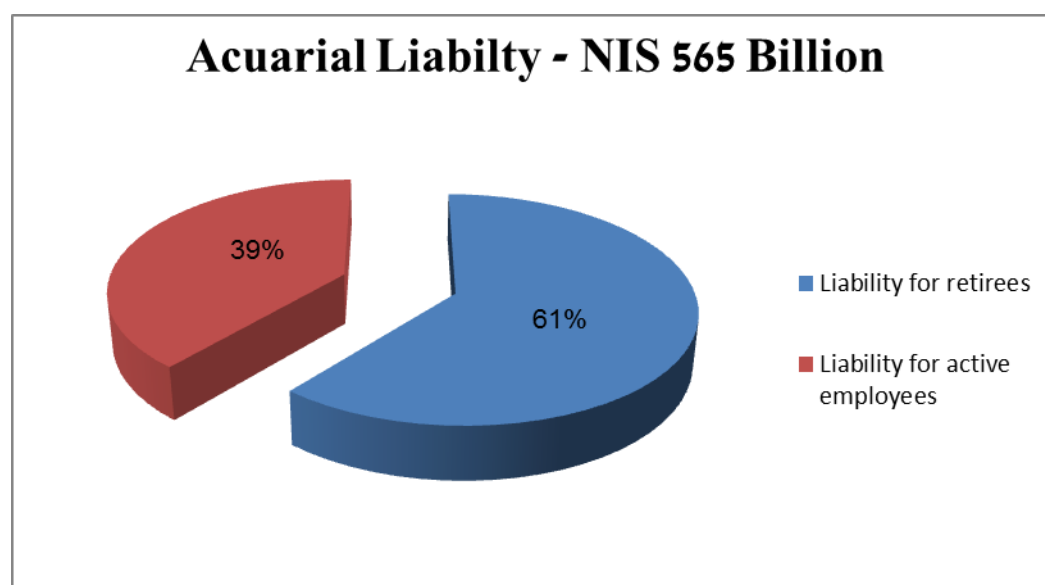
The State's total revenue from royalties for January-December 2013 was higher by NIS 34 million (an increase of 4%) than in the same period last year.

- **Ministry of National Infrastructures, Energy and Water Resources** – The ministry's revenue in 2013 was higher by NIS 312 million than in the same period last year. The main difference stems from the fact that in 2013 began producing gas from the Tamar reserve, while significantly reducing gas production from the Yam Tethys reserve during 2013.
- **Accountant General Division** – The Accountant General's revenue from royalties in 2013 was higher by NIS 244 million than in the same period last year. Most of the increase is due to the fact that in 2013 royalty income recognized under the agreement of a concession for operating the Tel Aviv express lane.
- **Ministry of Economy** – The ministry's revenue in 2013 was lower by NIS 181 million than in the same period last year. Most of the decrease in 2013 is due to reduction in royalties from the dead sea works, which is mainly due to decrease in the average selling price per ton of potash.
- **Israel Land Authority** – The authority's revenue from royalties in 2013 was higher by NIS 60 million than in the same period last year. The difference is due primarily to increase in the quantity of minerals sold and increase their selling price.
- **Ministry of Communications** – Revenue of the Communications Ministry in 2013 was lower by NIS 344 million than in the same period last year. The decrease is due reduction of royalties in the communication industry.
- **The communications regulations (Bezek and broadcasting) (royalties),2001; The communications regulations (Bezek and broadcasting) (Television broadcasts via satellite) (License fees and royalties),1999; and The communications regulations (Bezek and broadcasting) (concessions),1987; as from 1.1.2013 The royalty rate is 0%.**

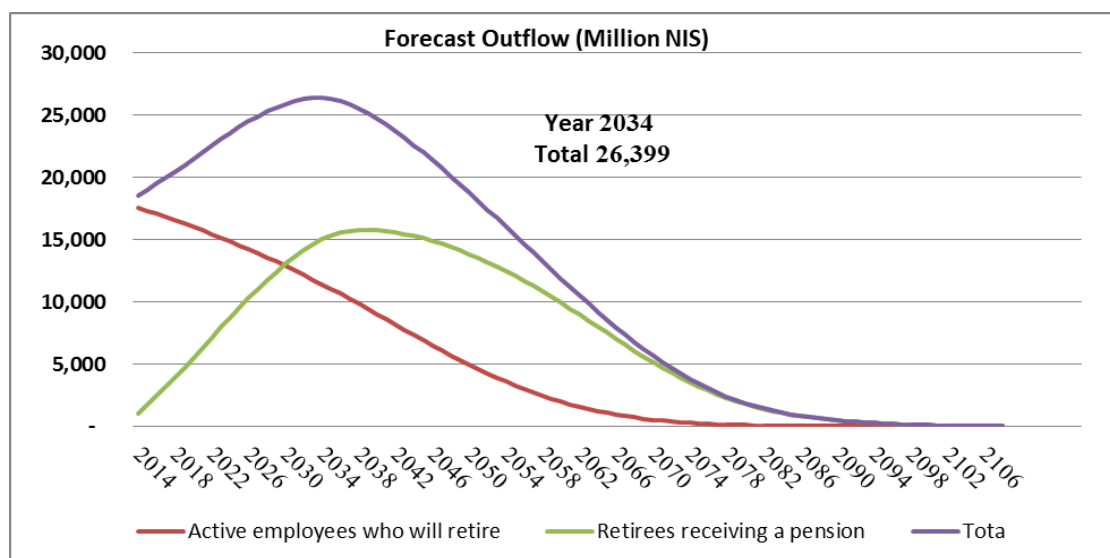
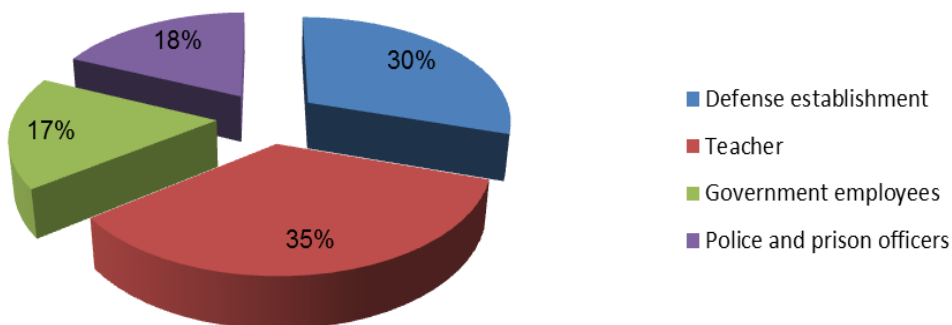
9. LIABILITIES FOR BUDGETARY PENSION

A government employee whose employment commenced before 2002 (2004 for defense entities) is entitled to a budgetary pension paid from the State's current budget, pursuant to the following laws: State Service (Pensions) Law [Consolidated Version], 5730-1970, Permanent Service in the Israel Defense Forces (Pensions) Law [Consolidated Version], 5745-1983, and the Pensions for Officers in Government Authorities Law, 5729-1969. The State's pension liability for retirees, active employees and the survivors of those entitled to pensions amounted as of December 31, 2013 to NIS 565 billion, based on the actuarial calculation set out in note 18 to the consolidated financial statements of the State of Israel.

The diagrams below show the State's actuarial liability broken down according to active employees and retirees, with a further breakdown according to active employees and retirees of the government and the defense establishment (including survivors who are entitled by law to a pension).



Actuarial Liability for active employees - NIS 220 Billion



* Appendix E to the financial statements provides a breakdown by years and amounts of the expected outflow in respect of the full budgetary pension liability.

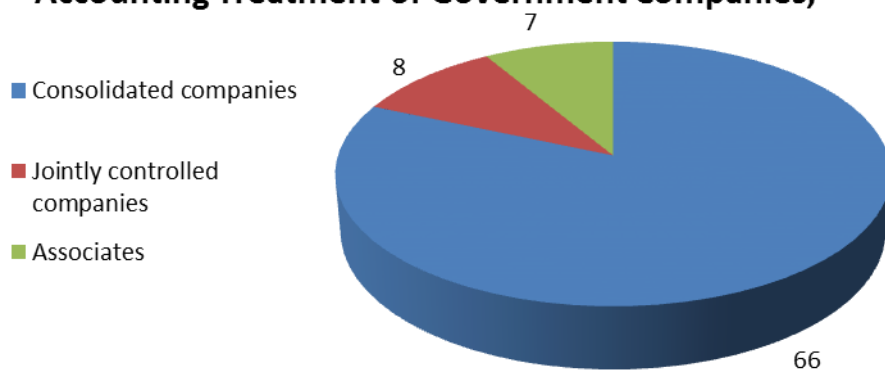
The actuarial liability is an estimate based on the method, data and assumptions as aforesaid. The Government's exact pension liability will become known only upon the death of the employee or the retiree or their survivor who is the last insured. Until then, it is possible merely to estimate the liability by means of basic assumptions as to future events not certain to happen which could affect the amount of the pensions that will be paid, the starting date for the payment of any future pension and the duration of payment of each pension. These assumptions are reviewed from time to time and updated based on current data and studies.

10. GOVERNMENT COMPANIES

Investment in Government Companies

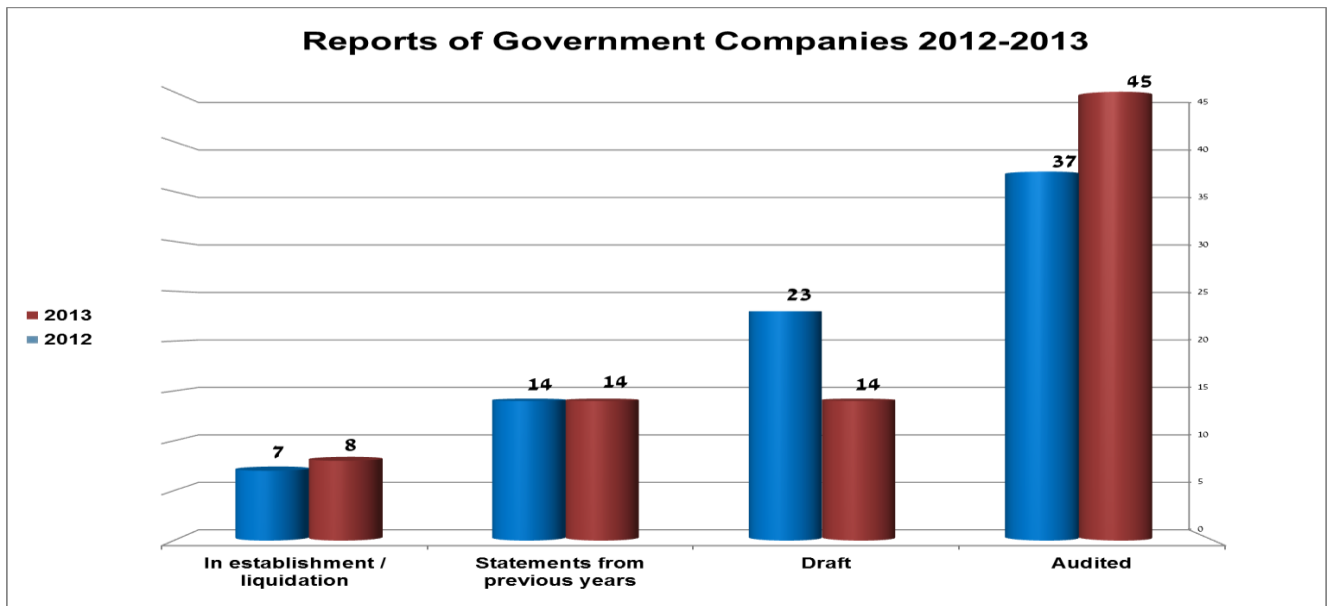
The Government of Israel acts to promote its socioeconomic policy also through investments in government companies and mixed companies, as these terms are defined in the Government Companies Law, 5735-1975 ("the Companies Law"). The activity of the government companies has a significant impact on the economy and on the supply of public services in the areas of infrastructure, construction, electricity, water and so forth. The Government companies are under the supervision of the Government Companies Authority, which also advises the companies, the ministerial committees and the government ministries on the management of the companies' business and deals with matters related to privatization, liquidation and the establishment of new companies. The Government Companies Authority gave information about 81 government companies, of which the major ones are: Israel Electric Corporation, Israel Aeronautic Industries, Mekorot Water Company, Israel Military Industries, Rafael Armament Development Authority, the port companies and Israel Railways.

Accounting Treatment of Government Companies,



The financial data of the government companies included in the consolidated financial statements of the Government of Israel ("consolidated statements") are based on the companies' audited financial statements as of the date of the consolidated statements. In cases where audited financial statements were not received on time, the financial data are based on draft financial statements as of then or on audited/draft financial statements for earlier periods.

State of Israel
Ministry of Finance – Accountant General
Government of Israel – Financial Statements as of December 31 2013



11. GOVERNMENT DISBURSEMENTS

Government Disbursements

The "Government Disbursement Data" publication for 2013, presents government disbursement transactions¹ (excluding net civil service payroll and pension payments) carried out by the Accounting Unit in the Accountant General Department. The data are shown according to various profiles, including a 2013-over-2012 comparison as well as selected statistical data, and are meant to serve as a tool for optimal planning of government payments at the government disbursements, by the government as a whole and by each government ministry.

Following are key data:

Disbursements in 2013 totaled NIS 331 billion compared to NIS 323 billion in 2012 (a 2.5% increase). In 2013 Continued decrease in the disbursements through the Bohan system, as a result of the transfer of activity to the Merkava system. This trend is expected to continue with the transition of other ministries to Merkavta system.

Monthly disbursements - Based on a comparison with the previous year there was a significant increase in total monthly volume of disbursements in September and October, and significant decrease in april and august. See Diagram 1.

Government debt disbursements decreased, and account for 27.6% of total annual disbursements in 2012, to 25.8% in 2013. The variance between the different months is in accordance with the debt repayment dates in the Government Debt Management Unit **See Diagrams 2.**

Monthly payments by government ministries (net of government debt payments) were in the range of NIS 16-25 billion, apart from December, which recorded the highest disbursements at NIS 31 billion (end of the budget year), representing a gap of 150% compared to the monthly average.

¹ Computerized transfer of payroll and other payments (payments to suppliers, etc.) from the payor to the beneficiary's bank account by electronic fund transfer (EFT).

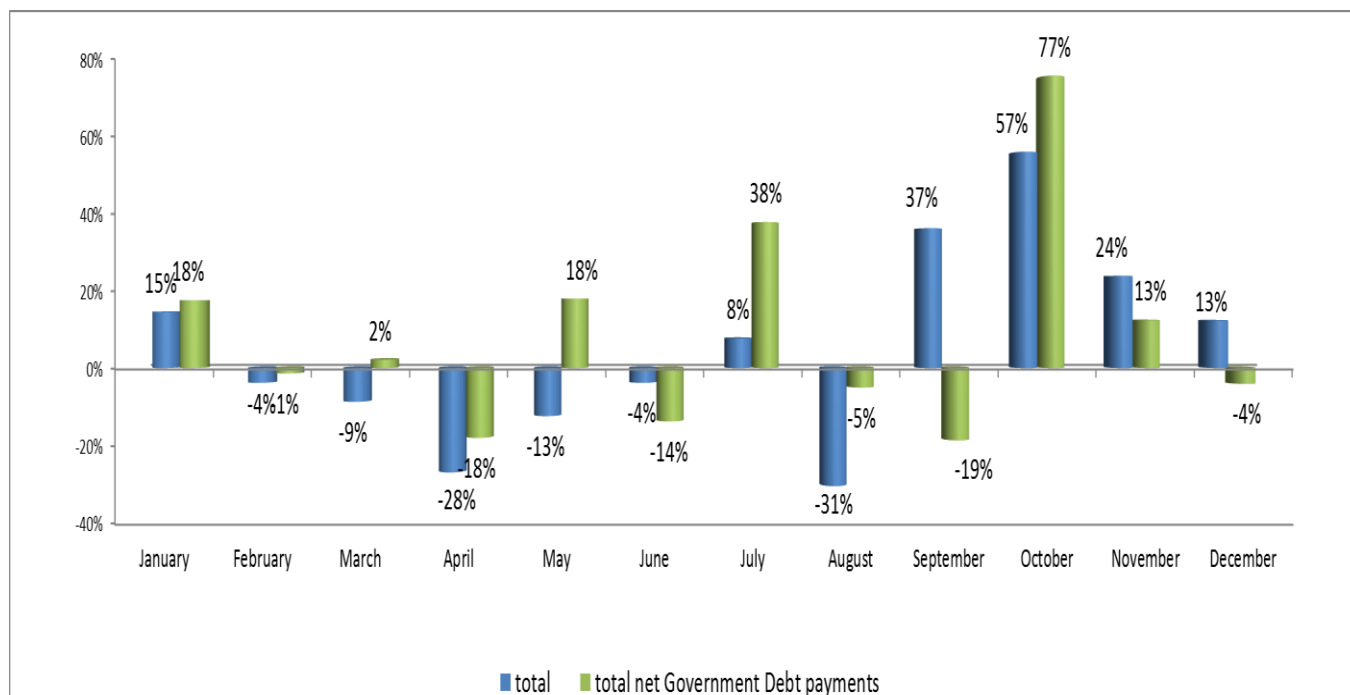
Diagram 1

**Monthly Disbursements –
 Monetary Amount and Number of Payments in 2013 Compared to 2012**



Diagram 2

Total payments Including and Net of Government Debt Payments- 2012-2013



PART B

**GOVERNMENT OF THE STATE
OF ISRAEL
ESSENCE OF FINANCIAL
STATEMENTS**

**AS OF DECEMBER 31 2013
(UNAUDITED)**

State of Israel
Ministry of Finance – Accountant General
Government of Israel – Financial Statements as of December 31 2013

STATEMENTS OF FINANCIAL POSITION (NIS MILLIONS)

	Note	Consolidated (*)		Government of Israel	
		December 31		December 31	
		2013	2012 (**)	2013	2012 (**)
Current assets:					
Cash and cash equivalents	3(a)	33,571	26,671	21,708	15,280
Long-term deposits and investments	4	14,711	11,306	1,576	1,441
Current maturities in respect of long-term loans	5(a)	2,887	3,398	4,554	4,581
Accounts receivable	6	42,212	44,641	22,683	23,889
Current inventory	7	5,730	7,236	993	949
Total current assets		99,111	93,252	51,514	46,140
Non-current assets:					
Long-term loans	5(b)	21,547	25,192	21,547	25,192
Investments in investee entities (I)	8(a)	2,921	3,284	70,779	64,037
Receivables in respect of royalties	9(a)	6,815	7,233	6,815	7,233
Other financial assets	10	19,075	22,619	6,392	6,226
Non-current inventories	7	3,575	1,200	1,597	1,013
Investment in public private partnerships (PPP)	11	20,907	19,783	20,907	19,783
Property plant and equipment	12(a)	307,948	297,187	189,557	185,906
Intangible assets	13	5,041	2,571	581	573
Total non-current assets		387,829	379,069	318,175	309,963
Total assets		486,940	472,321	369,689	356,103
Contingent assets in respect of royalties from natural resources	9(b)				
State-owned lands	12(b)				

(*) Consolidated data for the Government of Israel, the non-commercial statutory corporations and government companies

(**) Restated

The assets presented in this statement do not represent the overall assets of the State of Israel, but only part of them.

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

State of Israel
Ministry of Finance – Accountant General
Government of Israel – Financial Statements as of December 31 2013

STATEMENTS OF FINANCIAL POSITION (NIS MILLIONS)

	Note	Consolidated (*)		Government of Israel	
		December 31		December 31	
		2013	2012 (**)	2013	2012(**)
Current liabilities:					
Short-term credit	3(b)	1,040	6,102	341	215
Domestic loans – current maturities	14	90,643	85,526	82,488	78,951
Foreign loans – current maturities	15	13,433	15,585	13,433	15,585
Accounts payable and accruals	16	53,844	49,414	22,229	17,664
Total current liabilities		158,960	156,627	118,491	112,415
Non-current liabilities:					
Domestic loans – less current maturities	14	565,006	528,300	706,417	662,170
Foreign loans – less current maturities	15	103,244	104,909	85,211	90,325
Provision for losses of investees	8(b)	-	-	292,231	273,393
Provision for support of pension funds	17	124,251	122,898	124,251	122,898
Liabilities in respect of employee benefits	18	588,537	565,511	574,984	552,180
Reserves for insurance events	19	465,882	440,748	4,150	4,277
Provision for lawsuits	20	8,438	5,791	5,031	5,033
Other long-term liabilities	21	29,174	31,405	15,843	17,636
Liabilities for Public Private Partnerships	11	18,892	18,136	18,892	18,136
Total non-current liabilities		1,903,424	1,817,698	1,827,010	1,746,048
Total liabilities		2,062,384	1,974,325	1,945,501	1,858,463
State guarantees	22				
Contingent liabilities	23				
Net assets/equity (net liabilities/capital deficiency):					
Attributable to the Government of Israel		(1,575,812)	(1,502,360)	(1,575,812)	(1,502,360)
Attributable to non-controlling interests		368	356	-	-
Total net liabilities/ capital deficiency		(1,575,444)	(1,502,004)	(1,575,812)	(1,502,360)
Total liabilities and capital deficiency		486,940	472,321	369,689	356,103

(*) Consolidated data for the Government of Israel, the non-commercial statutory corporations and government companies

(**) Restated

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

Uzi Sher, CPA
Chief Accountant

Michal Abadi-Boiangiu, CPA
Accountant General

May 29, 2014
Date of approval of
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 – Financial Statements as of December 31 2013

STATEMENTS OF FINANCIAL PERFORMANCE (NIS MILLIONS)

	Notes	Consolidated (*)		Government of Israel	
		For the year ended		For the year ended	
		December 31		December 31	
		2013	2012 (**)	2013	2012 (**)
Revenues					
Revenues from taxes and fees	24	297,885	271,860	263,320	239,695
Revenues from transfers	25	12,665	13,270	12,633	13,224
Total revenue from non-exchange transactions		310,550	285,130	275,953	252,919
Revenue from goods sold and services rendered	26	67,547	65,589	14,961	14,290
Passive revenues	27	10,983	9,657	10,546	10,554
Total revenues from exchange transactions		78,530	75,246	25,507	24,844
Other revenues	28	3,639	4,177	3,467	3,755
Total revenues		392,719	364,553	304,927	281,518
Expenses					
Payroll and employee benefits	29	123,502	102,401	106,758	84,142
Appropriations, allocations and transfers	30	199,396	225,030	138,311	134,427
Operating expenses	31	102,806	95,490	68,492	64,120
Events, Ceremonies and public relations activities	32	1,758	1,814	1,021	1,046
Administrative and general expenses	33	6,529	6,525	5,245	5,606
Financing expenses, net	34	32,689	36,690	41,495	44,449
Other expenses		4,187	2,221	3,726	1,264
Total expenses		470,867	470,171	365,048	335,054
Share of profits (losses) of investee companies and entities	8	(62)	140	(18,100)	(51,943)
Net deficit		(78,210)	(105,478)	(78,221)	(105,479)
Attributable to:					
The Government of Israel		(78,221)	(105,479)	(78,221)	(105,479)
Non-controlling interests		11	1	-	-
Net deficit		(78,210)	(105,478)	(78,221)	(105,479)

(*) Consolidated data for the Government of Israel, the non-commercial statutory corporations and government companies

(**) Restated

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

The net accounting deficit does not reflect the Government of Israel's budget deficit, as it is calculated using different measurement tools which are based on accrual-basis. These principles express changes in assets and liabilities which do not necessarily involve cash flow and which are not fully reflected in the State Budget, in accordance with the Budget Foundations Law and with the budget deficit measurement method common around the world. The net accounting deficit includes expenses that are currently accounted for but which will only materialize as cash expenses and budgetary charges in the future.

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

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

GOVERNMENT OF ISRAEL/CONSOLIDATED

	Note	Balance as of Dec 31 2012(*)	Changes in net assets (**)	Net deficit for the period	Balance as of Dec 31 2013	Attributable to the government	Attributable to non- controlling interests
Accumulated deficit		(1,509,933)	3,514	(78,210)	(1,584,629)	(1,584,997)	368
<u>Non-budgetary capital reserves</u>							
State guarantees fund	35(a)	1,516	99	-	1,615	1,615	-
Compensation fund (property tax)	35(b)	4,597	791	-	5,388	5,388	-
Internal Government Insurance Fund	35(c)	1,105	46	-	1,151	1,151	-
Fund profits tax on oil	35(d)	235	99	-	334	334	-
Other capital reserves		476	221	-	697	697	-
Total non-budgetary capital reserves		7,929	1,256	-	9,185	9,185	-
Total net liabilities		(1,502,004)	4,770	(78,210)	(1,575,444)	(1,575,812)	368

(*) Restated Consolidated data for the Government of Israel, the non-commercial statutory corporations and government companies

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

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

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2013

NOTE 1 – GENERAL:

- A. The Government of Israel's financial statements as of December 31, 2013, are filed in accordance with Section 12 of the State Comptroller Law of 1958 [Consolidated Version] and in accordance with Section 49a of the Budget Foundations Law of 1985.
- B. The Government of Israel's financial statements (henceforth – the individual financial data) present the activities, financial position and financial performance of three authorities: the legislative authority, the executive branch and the judicial branch. The consolidated financial statements include, in addition to the individual financial data, the financial data of Government companies and Statutory Corporations. As of the date of the financial statements, the statutory corporations include only the financial data of the National Insurance Institution and Israel Airport Authority. A concise description of components of the consolidated financial statements follows (for extensive details see part C of the financial statements):
- (1) **The legislative authority** – The Knesset is the State's legislative authority and the parliament of the State of Israel. The Knesset has three additional key roles: supervising the Government's work, electing the President of Israel and the State Comptroller, and consideration of State matters through the Knesset Committees and Plenum. There are 12 permanent committees in the Knesset that address matters such as finance, foreign relations and security, constitution, law and justice. 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.
 - (2) **The executive branch** – The Government of Israel is the executive branch of the State of Israel. Heading the Government is the Prime Minister, and its members are ministers who are in charge of the various ministries. The Government of Israel retains authority in most national and public aspects, and represents the State of Israel internationally.
 - (3) **The judicial branch** - The judicial branch in Israel consists of law courts and tribunals which are vested with judicial power by the Basic Law: The Judiciary. The law courts have general jurisdiction over criminal, civil and administrative matters, while the jurisdiction of the tribunals is limited to specific matters or persons. The judiciary operates independently of any person or other authority, and the judges enjoy both personal and substantive independence.
 - (4) **Government companies** – Government companies are subject to the Government Companies Law of 1975, and are supervised by the Government Companies Authority, which is responsible for monitoring and supervising these companies, as well as for their privatization and restructuring. Some Government companies constitute controlled entities of the Government of Israel for financial reporting purposes, in accordance with Government Accounting Standard 6 – Consolidated and Separate Financial Statements (Revised 2010). In light of the abovementioned control, the financial statements of Government companies were consolidated in the Government of Israel's consolidated financial statements. For additional information regarding reporting requirements, controls over financial reporting and the accounting policies of Government companies, as well as information on the financial statements of Government companies, please visit the Government Companies Authority website, at www.gca.gov.il.

(5) **The statutory authority** – The statutory authority were established by special legislation which is the source of the authority they work by. In Israel corporations were established for various purposes, with the accounting activity of some of these corporations being separate from that of the Government. The financial statements as of 31 December 2013 include the financial data of the National Insurance Institution and Israel Airport Authority.

C. The State Comptroller:

As specified in Part A, the Government of Israel's financial statements are filed according to Article 12 of Law of the State Comptroller.

The State Comptroller is responsible for the independent auditing of the various activities of the State Administration and other public entities, to ensure supervision over public funds and accountability. The State Comptroller examines legality and regularity, savings, efficiency, and moral integrity. The Office of the State Comptroller supervises all government ministries, state institutions, all branches of the defense sector, local authorities and government companies. In addition, the Office has a separate unit headed by the Ombudsman, which is responsible for the protection of citizens from government authorities.

D. Information systems:

The financial statements are based on the performance data recorded in the various financial systems of Government ministries and entities, including a comprehensive cross-organizational ERP system for Government offices used for managing organization resources, including finance, logistics and HR (hereinafter – “the Merkava System”), which was implemented in the majority of the Government ministries and entities.

E. Auditing data:

Some of the Government ministries were audited by independent auditors. At the same time, it should be noted that some of the information, including the comparative figures presented in the financial statements of the Government of Israel, is primarily based on existing data in information systems, which were used as the source for these financial statements. This information is not audited and may include material deviation from actual results. In addition, the information included in the consolidated financial statements is to a large extent based on the incomplete reports of government companies as of 31 December 2013, or on available quarterly reports for the third quarter of 2013, or on financial statements as of 31 December 2012. The audited information of these investee entities, once it is published, may be materially different from the information based on which these financial statements were prepared and consolidated.