Fahn Kanne

Grant Thornton

If you are planning on doing business in Israel, knowledge of the investment environment and information on the legal, accounting and taxation framework are essential to keep you on the right track…

August 2009

# Contents

# Foreword

Fahn Kanne & Co. Grant Thornton Israel is one of the **leading accounting firms in Israel**. While the firm's size affords it the ability to perform **high quality** services in a variety of fields, it is not too large and can therefore grant its clientele a **personal and friendly** touch. The services rendered, based on an intimate and in-depth knowledge of the client's organization and business environment, are closely supervised by a partner and senior staff.

The firm employs a professional staff of approximately 230, including a significant number of Israeli certified public accountants, economists and tax specialists. The work is managed and supervised by a team of 17 partners who, over the years, have amassed an extensive amount of experience in the fields of auditing, tax and management advisory services, in both the academic and the business worlds.

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This guide has been prepared for the assistance of those interested in doing business in Israel. It does not cover the subject exhaustively, but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Israel and to obtain appropriate accounting and legal advice. Moreover, the issues and topics covered in this guide are complex and require a more in-depth analysis by a competent professional. Accordingly, we would like to emphasize that this review is general in nature should not be construed as a comprehensive solution to specific issues and problems. This publication does not constitute an alternative to professional consultancy and, therefore, the reader is cautioned not to rely on the continents of this guide in lieu of obtaining the opinion of a professional expert in the areas covered.

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# Country Profile

## Geography and population

Israel is located at the eastern end of the Mediterranean Sea, covering an area of approximately 22,000 square kilometers (approximately 8,550 square miles) with a population of approximately 7.340 million.

Israel borders with Lebanon on the north, Syria and Jordan on the east, Egypt on the south and has common boarders with areas under Palestinian Authority.

Israel has coastlines on the Mediterranean in the west and the Gulf of Eilat (also known as the Gulf of Aqaba) in the south.

The majority of Israelis live in cities. One-quarter of the Israeli population lives in Jerusalem, Tel Aviv, Haifa or Rishon LeZion.

Jerusalem, the Capital of Israel, is the largest city in Israel, with 760,000 residents. The majority of Israelis live in the center of the country[1].

In 2008, the Israeli population has increased by some 1.8%, with most of this increase being attributed to natural growth. 151,000 babies were born (up 2.5% from last year) and some 18,129 new immigrants arrived.

Israel has an increasing population. In the last decade, Israel's population has increased at rates ranging between 1.8-2.6%. This rate includes both natural growth and immigration to Israel.[2]

Demographically, Israel has a relatively young population.

### Main Cities

Jerusalem is the capital city of Israel with a population of 760,000 people. The city's historic significance can be counted even from the days of King David, who made it the capital of the ancient kingdom of Israel some 3000 years ago. Today it is a flourishing, vibrant metropolis, the seat of the government and Israel’s largest city.

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[1] Israeli Central Bureau of Statistics.

[2] http://www.jewishvirtuallibrary.org/jsource/Society_&_Culture/newpop.html

http://www.mfa.gov.il/PopeinIsrael/Israel/ISRAEL+IN+BRIEF.htm

Tel Aviv-Jaffa (population in year 2008 - 392,700), which was founded in 1909 as the first Jewish city in modern times, is today the center of the country's industrial, commercial, financial and cultural life. The city of Tel-Aviv borders the ancient city of Jaffa.

Haifa (population in year 2008 - 265,300), a well-known coastal town since ancient times, is a major Mediterranean port as well as being the industrial and commercial center of northern Israel.

Beer Sheba (population in year 2008 - 187,500), named in the Bible as an encampment of the patriarchs, is today the largest urban center in the south. It provides administrative, economic, health, education and cultural services for the entire southern region.

## Political and legal system

Israel is a democratic republic operating under a parliamentary system and consisting of legislative, executive and judicial branches. Its institutions are the Presidency (mainly ceremonial), the Knesset (parliament), the Government (cabinet) (headed by a prime minister), the Judiciary and the State Comptroller.

The system is based on the principle of separation of powers, with checks and balances, in which the executive branch (the government) is subject to the confidence of the legislative branch (the Knesset). The independence of the judiciary is guaranteed by law.

**The Knesset** is the 120-member parliament of the State of Israel. Elections are held at least every four years and Knesset members are elected through the "proportionate representation" method. The primary function of the Knesset is legislative. The Knesset operates through both plenary sessions and committees.

**The Government** comprised of the Cabinet of Ministers, is the executive authority of the state. The government is responsible for administering domestic and foreign affairs and security matters. The policy-making powers of the government are wide ranging. The government usually serves for four years. In the case of a vote of no-confidence, the government and the prime minister remain in their positions until a new government is formed.

**The Judiciary**- The legal system is comprised of and evolved from English common law, British Mandate regulations and Jewish, Christian, and Muslim legal systems for personal matters. The independence of the judiciary is guaranteed by law. The Israeli judiciary branch consists of a three-tier system of courts. Magistrate Courts, are situated in most cities. District Courts, serving both as appellate courts and as courts of first instance, are situated in five cities. The Supreme Court of Israel is seated in Jerusalem. The Supreme Court serves a dual role as both the highest court of appeals in Israel and as the body for a separate institution known as the High Court of Justice (HCOJ). The HCOJ is responsible for addressing petitions presented to the Court by citizens.

## Language

Hebrew and Arabic are the official languages. English is taught at school as the first foreign language and can be considered as a third official language. The non-Israeli will have no problem in conducting his affairs in English as most Israelis speak it as a foreign language.

Due to a large immigration of Russian speakers during the 1990s, Russian is also a language that is spoken by many people in Israel.

### Business hours / time zone

Normal business hours are 9.00 a.m. to 5.30 p.m. from Sunday to Thursday. Banks are generally open until 2.00 p.m. from Sunday to Thursday and until 6.00 p.m. on Monday and Wednesday.

Shops are usually open between 10 a.m. and 8 p.m. on workdays and between 10 a.m. and 2 p.m. on Friday. Shopping centers are usually open on Saturdays from 8 p.m. till 11 p.m.

The entire country is located in one time zone, GMT+2. Daylight Saving is observed from April to October.

### Public holidays

Legal holidays in Israel are determined according to the **Jewish calendar.**

| Holiday | 2009 | 2010 |
|---|---|---|
| Passover | April 9-15 | March 30-April 5 |
| Independence Day | April-29 | April-20 |
| Shavuot (Feast of Pentecost) | May-29 | May-19 |
| Rosh Hashanah (Jewish New Year) | September 19-20 | September 9-10 |
| Yom Kippur (Day of Atonement) | September-28 | September-18 |
| Sukkoth (Feast of Tabernacles) | October 3-10 | September 23-30 |

# Economy

## Economic Performance

Though Israel is a small country with limited resources, it stands out as a competitive economy. In fact, The World Economic Forum (WEF) ranked Israel as the 23rd most competitive economy (out of 134) in its 2008-2009 Global Competitive Index.

The country's market economy can be characterized as resilient, global-oriented and technologically advanced. Over the last two decades, Israel has become famous for its high-tech capabilities, particularly in telecommunications, information technology, electronics and life sciences. Israel capacity for innovation and highly-educated and skilled workforce, has played a key role in Israel becoming a highly rated high-tech center. The World Economic Forum has designated Israel is one of the leading countries in the world in technological innovation.

Despite ongoing geopolitical challenges, the Israeli economy continued to grow steadily in 2008. Gross domestic product grew 4.1[3] percent to about $168 billion at current prices, representing a continuation of the sustainable growth seen over the last few years: on average, the Israeli economy has grown 5 percent annually since 2005. In purchasing-power-parity (PPP) terms, Israel's GDP per capita, which has averaged around $30,000 for the past couple of years, has been on par with members of the Organization for Economic Cooperation and Development (OECD), which is comprised of the world's top 30 industrialized nations.

In fact, over the past 20 years, the country – with a population of approximately 7 million – has ranked as one of the world's five fastest growing emerging markets[4].

Responsible fiscal and monetary policies have accompanied reforms that have liberalized the economy, accelerated the process of privatization and made the economy more competitive. Israel is in the accession process to the OECD.

Growth has been fueled by a steady increase in exports and foreign investment. Foreigners continue to show their recognition of Israel's economic potential by increasing their investments in the country. Foreign direct investment in Israel was close to $10 billion in both 2008 and 2007, after reaching a record $14 billion in 2006.

[3] Source: www.investinisrael.gov.il

[4] Ibid

At the close of 2008 and the beginning of 2009 the effects of ongoing financial turmoil globally have led to a slowdown in real economic activity. Though national account data for the last quarter of 2008 show negative growth of 0.5% (annual), Israeli economy has so far managed to withstand international financial pressures.

### Israel Economic Indicators

| Criteria | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| GDP (current prices, B$) | 131.2 | 142 | 161.8 | 168 |
| GDP Real Growth Rate (%) | 5.1 | 5.2 | 5.4 | 4.1 |
| GDP per Capita (Current Prices, thousands of $) | 18.7 | 19.9 | 21 | 21.7 |
| GDP per Capita (thousands of $, based on purchasing power parity) | 29,044 | 30,464 | 27,957 | 27,700 |
| Exports of Goods & Services (B$) | 57.9 | 62.6 | 70.65 | 78 |
| Imports of Goods & Services (B$) | 57.5 | 61.7 | 73.7 | 84 |
| Unemployment Rate (%) | 9.0 | 8.4 | 7.5 | 7.0 |
| Inflation Rate ( CPI, end of year) | 2.4 | 0 | 3.4 | 3.8 |
| Inward FDI (current prices in B$) | 4.8 | 14.3 | 9.7 | 9.7 |
| Current Account (% of GDP) | 3.0 | 5.6 | 2.8 | 1.0 |

Sources: The Ministry of Finance (2008), International Monetary Fund (2007).

### Inflation[5]

Until September 2008 inflation was high (4.3%), reflecting the increase in global oil and commodity prices and the excess demand in the economy. It then declined sharply, in light of the fall in world prices and the moderation of excess demand. The CPI increased by 3.8 percent in 2008, exceeding the upper limit of the inflation target range (1-3). For previous inflation rates see table above.

### Exports Lead the Way

Exports are the engine that drives the Israeli economy. The share of industrial exports in 2008 grew to 78.5%, while the high-tech sector accounted for 43% of all industrial exports, positioning Israel as one of the most technologically oriented markets in the world.

Exports in the last quarter of 2008 declined by 13%, or 43.6% annually, weighed down by the effects of the global credit crisis, but continued to be supported by an extensive network of international trade and economic agreements, and treaties for the avoidance of double taxation. Israel is integrated into the global economy through free trade area agreements with the NAFTA countries (the U.S., Canada and Mexico), the European Union, EFTA, Jordan and Turkey. It also cooperates with neighboring Egypt and Jordan through the US-sponsored Qualified Industrial Zone (QIZ) agreements, giving co-produced goods preferential access to U.S. markets; a similar arrangement of accumulation of origin also exists with the EU and is already operational with Jordan.

In its constant effort to expand its network of trade cooperation through bilateral agreements, Israel has also signed a free trade agreement with the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay). In addition, Israel has developed an extensive network of technical cooperation, through

[5] http://www.bankisrael.gov.il.

R&D accords with many countries.
For more information see the chapter on Foreign Trade.

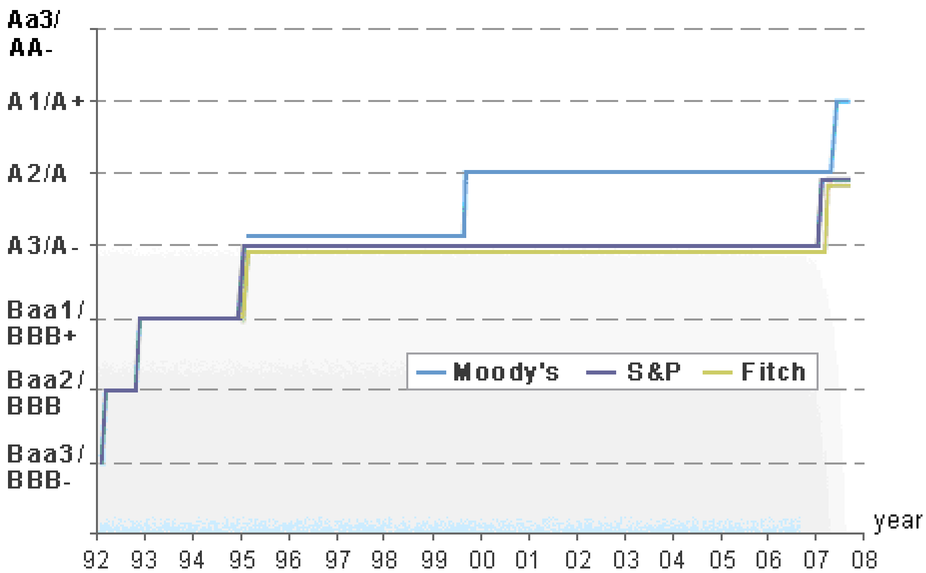
## Credit Rating

Israel credit rating of local and foreign debt, as of November 2008[6]:

| Rating Agency | Term | Local Currency | Outlook | Foreign Currency |
|---|---|---|---|---|
| Moody's | Long | A1 | Stable | A1 |
| | Short | --- | | P1 |
| Standard&Poor's | Long | AA- | Stable | A |
| | Short | A-1+ | | A-1 |
| Fitch | Long | A+ | Stable | A |
| | Short | --- | | F1 |

Israel's continued rating stability is driven by the expectation that the fiscal impact of these shocks will be relatively short in duration, paid for by savings in other areas, and, most importantly, that liquidity will remain fully available. The government's broad access to credit is a crucial supporting factor for the country's high ratings given its exposure to shocks

Israel credit rating development in recent years (as of November 2008) [7]:




Index compiler Morgan Stanley Capital International (MSCI) has recently (7/2009) reclassified Israel as a "developed market" from its current status as an "emerging market." Israel's upgrade will be effective in May, 2010, when the MSCI Israel Index will be included in two of the most widely-tracked global equity benchmark indices, the MSCI World Index and the MSCI EAFE (Europe, Australasia, and Far East) Index, both of which only include developed markets. The reclassification of Israel is expected to draw more investors into the country's equity markets, as many of these are only permitted to invest in those countries classified as developed markets.

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6 Accountant General Internet site.

7 Ibid.

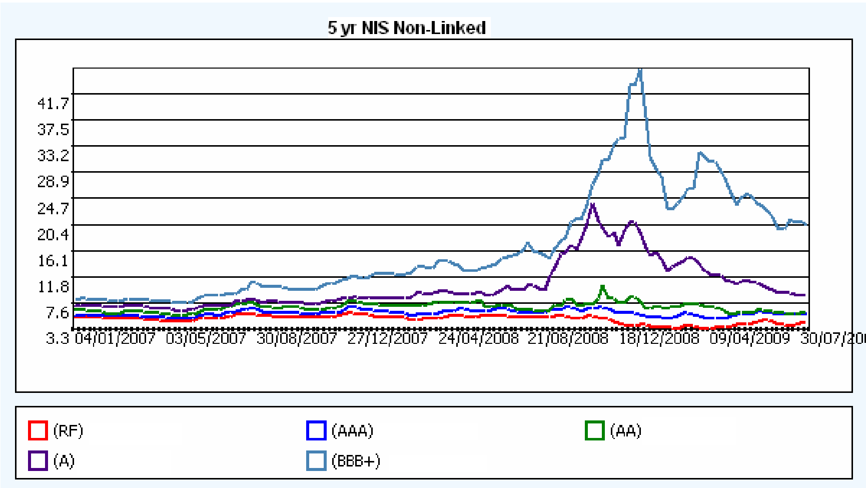
## Monetary policy

Since September 2008, with the start of the global credit crisis, the interest rate reached its lowest level ever after being reduced significantly several times. During that year, the Bank of Israel bought considerable quantities of foreign currency to increase the level of its reserves, especially in view of the background of rapid appreciation of the shekel.

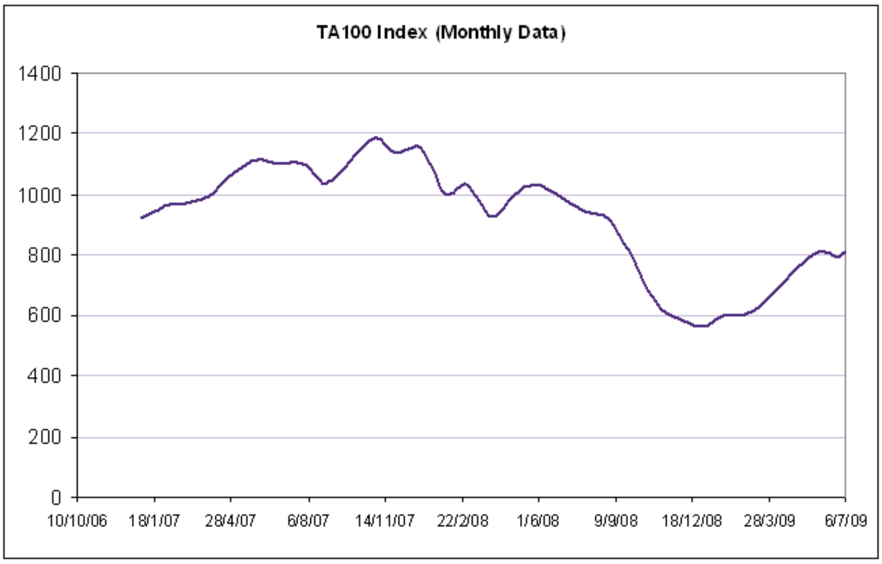
The current (July 2009) official interest rate is 0.5%.

## Financial System

Prices of shares and corporate bonds fell, and spreads in the credit market widened considerably. Financial institutions, including banks, exhibited resilience. The strongest impact was on the non-bank credit market, which became the principal risk of the financial system and the main cause behind the contraction of the supply of credit.




Source: Shaarey Ribit Ltd.




Source: Tel-Aviv Stock Exchange

### Globally open economy

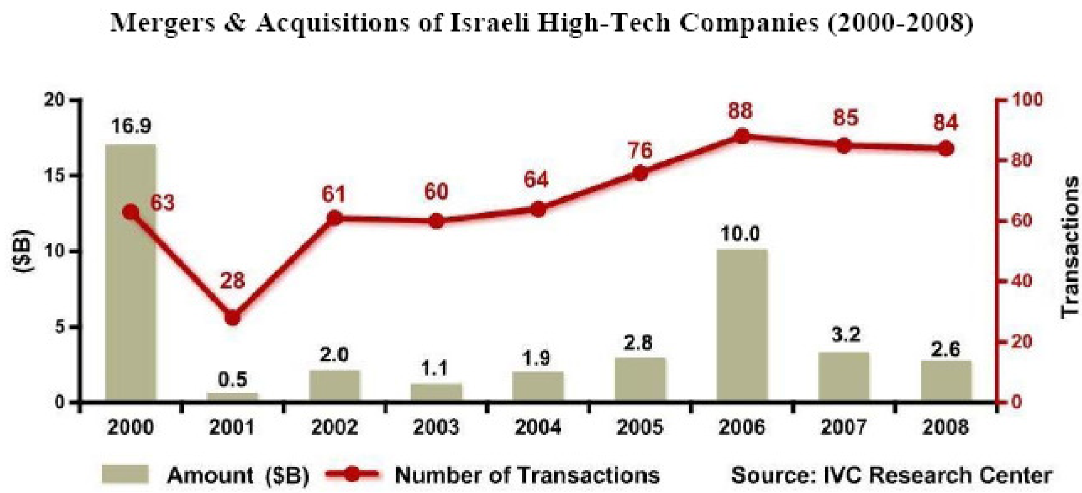
The business climate in Israel is rated the 4th most positive towards globalization, making it a preferred choice of leading global players. After the United States, Israel has the largest number of companies listed on the NASDAQ of any country (63)[8]. Additionally, more than 60 Israeli companies are traded on various European exchanges. The long list of multinationals that run core activities in Israel includes: Microsoft, Berkshire- Hathaway, Motorola, Intel, HP, Siemens, Samsung, GE, Philips, Lucent, AOL, Cisco, Applied Materials, Winbond, IBM and J&J.

### The Investors Keep Coming

In recent years, Israel has become highly sought after by foreign investors. Companies like Intel, Microsoft, Motorola, Google, Applied Materials, HP, Deutsche Telekom, Samsung are a mere few of the large list of top international companies who have taken advantage of Israel's uniquely skilled and highly educated workforce and cutting-edge R&D capabilities by establishing subsidiaries, production lines or R&D centers in Israel. Given Israel's emphasis on innovative technologies and research, Israeli companies continue to attract foreign investors. Despite the global credit crisis, multinational concerns continue to invest in Israeli expertise. Global demand for breakthrough technologies in the field of life sciences is expected to be less affected by the slowdown due to the long R&D processes required in this field and the culmination of patent licenses for some popular medicines in upcoming years. Hence, analysts expect the Israeli sector to be largely safeguarded from financial pressures. During the first two months of 2009 alone, three Israeli companies in the field of life sciences were acquired. Medtronic bought Ventor Technologies for $325 million, Johnson & Johnson bought Omrix for $438 million and St. Jude acquired Haifa's Mediguide for $300 million.

### Mergers & Acquisitions Activity

2008 M&A activity involving Israeli high-tech companies that were either acquired or merged totaled $2.64 billion in 84 deals.

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[8] According to the NASDAQ International Companies list. http://www.nasdaq.com/asp/NonUsOutput.asp?page=I&region=.

The number of deals approximated that of the two previous years (85 in 2007, 88 in 2006), while deal value decreased by 19 percent from that of 2007 and 74 percent from that of 2006. Average deal size fell more than 18 percent from $38 million in 2007 to $31 million in 2008.

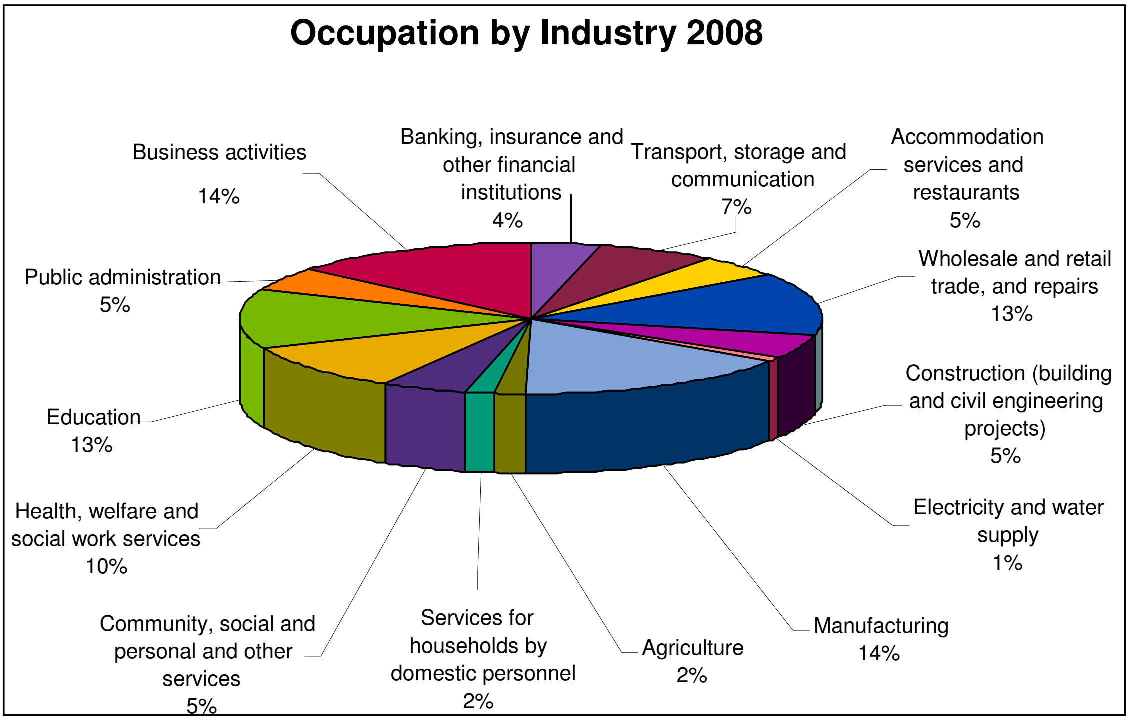
M&As of Israeli VC-backed companies in 2008 totaled $1.5 billion, down 22 percent from 2007 figures. The number of VC-backed M&A deals at 34 slightly edged ahead of 2007's 33 deals.

The two most noteworthy M&A deals of 2008 were both within the Life Sciences sector. Johnson & Johnson's Ethicon division acquired Omrix, a provider of biosurgery and passive immunotherapy products, for $438 million in cash. US medical device and services company St. Jude Medical acquired MediGuide, a firm focused on inter-body navigation and minimally invasive cardiology, for $300 million. (See table M&A)

Acquisitions of foreign companies by Israeli firms reached $9.42 billion, with approximately 40 deals in 2008. Teva accounted for more than 87 percent of the total with its purchase of two US-based firms, Barr Pharmaceuticals and CoGenesys, and Bentley Pharmaceuticals of Spain.

See a list of M&A transactions in **Appendix A**.

## Employment Levels[9]




There were 2,777 thousand people employed during year 2008. The unemployment rate in 2008 was 6.1%, while in 2007 it was 7.3%. The unemployment rate in the US, Eurozone and OECD countries in 2008 was 5.7%, 6.8% and 5.8% respectively.

[9] Data taken from Central Bureau of Statistics in Israel.

The labor market also reacted to the crisis and already in the fourth quarter of 2008 a significant change could be seen in wages and employment. The unemployment rate in the first quarter of 2008 was 6.2%, declined to 6.0% in the second and third quarters and climbed again in the fourth quarter.

### Living standards

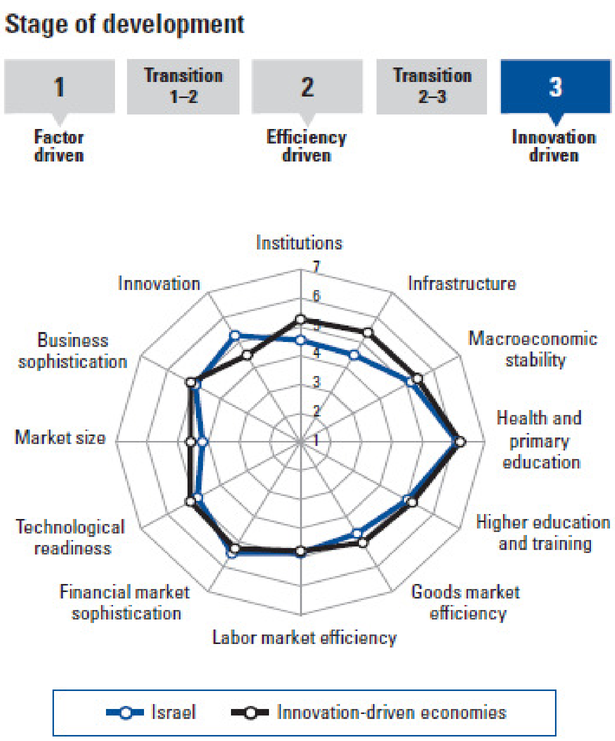
The monthly minimum wage was NIS 3,850 (about €700 /$960) per month in 2008. The average nominal wage was NIS 7,630 (about €1,390 /$1,900) per month in 2007, and NIS 7,909 (about €1,438 /$1,980) in 2008. The rate of increase of the nominal wage is consistent with the increase in labor excess demand for labor in the first half of the year. However, the real wage per employee declined in 2008 by 0.9 percent. The decline in real wage by mid-year may also reflect surprise over the upturn in inflation at that time.

# Business Sectors

At the foundation of the state in 1948, the Israeli economy was based primarily on agriculture and light industry. Over the years, following global trends, the Israeli economy expanded into the fields of hi-tech, communications, software, technology-driven agriculture, medical devices and bio-technologies, as well as many other varied fields like diamond and tourist industry.

Due to the country's lack of natural resources and raw materials, Israel's one advantage lies in highly qualified labor force, scientific institutes, and R&D centers. Today, Israeli industry concentrates mostly on manufacturing products with high added value, by developing products based upon Israel's own scientific creativity and technological innovation.

According to World Economic Forum reports, Israel's recent development history is an inspiring example of how a small and resource-poor country turned into a global high-tech powerhouse in less than 30 years, thanks to coherent vision and strategy of its government.[10]




Source: The Global Competitiveness Report 2008-2009. World Economic Forum.

[10] The Global Information Technology Report 2008-2009. World Economic Forum.

**Israel's Competitiveness**

| Country rank | 1st | 2nd | 3rd | 4th |
|---|---|---|---|---|
| Business Expenditure on R&D | Israel | Sweden | Japan | Korea |
| Total Expenditure on R&D as a Percentage of GDP | Israel | Sweden | Finland | Japan |
| Availability of Qualified Engineers | Singapore | Israel | Chile | Taiwan |
| Knowledge Transfer Between Industry and Academia | Singapore | Israel | Switzerland | U.S.A |
| Venture Capital Availability | U.S.A | Hong Kong | Israel | Singapore |
| Information Technology Skills | Sweden | Singapore | Israel | U.S.A |
| Resilience of the Economy | Australia | Denmark | Switzerland | Israel |

Source: IMD World Competitiveness Yearbook 2008

According to the World Economic Forum's Global Information Technology Report 2008-2009, Israel's 5th-ranked position in the world for the number of utility patents, coupled with its relatively high ratio of high-tech exports, continues to place it amongst the top nations in terms of its networked readiness.

Israel is ranked 1st in the world for the number of start-ups per capita and ranked 3rd in the world for Venture Capital availability. Israel provides its entrepreneurs with the necessary backing to turn their innovative ideas into profitable businesses[11].

Israel invests 4.5% of its GDP in R&D, which is the highest ratio of any country in the world[12]. Israel provides the ideal environment to help stimulate innovation The World Economic Forum's Global Competitiveness Report 2008-2009 ranked Israel 3rd in terms of the quality of its scientific research institutions and 5th in terms of utility patents and government procurement of advanced tech products. Profit driven Israeli innovations include a long list of market firsts such as disk-on-key technology, IP telephony, ZIP compression, the ingestible pill-size camera, modern drip-irrigation technology, ICQ instant messenger, and many more.

**Comparative Salaries in the R&D Sector – Annual 2008 Figures (USD)**

| | U.S.A | Germany | *Israel* | Canada | Ireland | U.K | China | India |
|---|---|---|---|---|---|---|---|---|
| R&D Engineer | 86,249 | 79,295 | *67,520* | 67,150 | 60,016 | 58,602 | 23,896 | 19,188 |
| R&D Manager | 166,137 | 164,025 | *139,427* | 138,663 | 137,888 | 140,382 | 93,312 | 44,606 |

Source: www.investinisrael.gov.il.

[11] IMD World Competitiveness Yearbook 2008. Source: www.investinisrael.gov.il

[12] Ibid.

## Hi-Tech Sectors[13]

The main Hi-Tech sectors in Israel are:

1 Communications

2 Semiconductor Industry

3 Israeli Aerospace and Defense Industry

4 Water Technologies

5 Life Sciences

### 1. Communications

Israeli companies have traditionally been at the forefront of the global communications industry. 60 years of innovation in civilian and military applications have resulted in the emergence of several world renowned communication powerhouses in Israel, along with hundreds of smaller tech companies and over 1,000 active Israeli communications start-ups.

Over the years, companies like VocalTec, Comverse, NDS and others have introduced innovations that have changed the face of global communications – Voice over IP, Voice Mail, Conditional Access, Instant Messaging and Mobile WiMAX are all attributed to Israeli research and development.

Israel communications track record of cultivating start-ups, capable of expanding into global communications leaders, and its specialty in Communications infrastructure and digital networking, has fostered pioneering companies such as ECI Telecom, Alvarion, NICE, RADVision and many others. The communication software sector is also thriving, piloted by companies such as Amdocs and Comverse (with aggregate revenues of $4 billion in 2007).

Of the approximately 6,000 Israeli start-up companies operating in 2007, 20% were in the Communications sectors. All European Union countries combined have a total of only 700 operating communications start-ups.

### 2. Semiconductor Industry

Israel has long been recognized as a leading force in the semiconductor industry. Semiconductors continue to drive growth in many other markets including microprocessors, data and voice communications, wireless, IP and networking communications, medical, consumer, automotive, defense and more.

Israel presently maintains 5 semiconductor manufacturing plants (fabs). Intel has three plants and Tower Semiconducter maintains two. Israel also has over 150 fabless semiconductor companies, R&D facilities and design centers. Several companies develop and manufacture equipment for manufacturers of semiconductors. The world's first nano-wire (three times thinner than those used in microchips) was created at the Technion-Israel Institute of Technology.

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[13] www.investinginisrael.gov.il

### 3. Israeli Aerospace and Defence Industry

The Israeli Defense Industry was established during the early 1920s, but the catalytic event that triggered its modernization was indisputably the 1967 Six-Day War. Today, the Israeli Defense Industry is one of the most important defense industries in the world and is widely recognized as one of the leading industries in developing military technology. Currently, there are a significant number of defense firms in Israel, which are activated in a wide range of the Aerospace and Defense industry. Additionally, the industry employs several thousand people, all of whom share a high level of quality and professionalism, which is considered one of the most important advantages of the national Aerospace and Defense industry.

Israel currently produces a wide range of products from ammunition, small arms and artillery pieces to sophisticated electronic systems, UAVs, and probably the world's most advanced tank (Merkava). The government, which owns three major defense firms, encourages the formation of private companies. This has substantially led to the creation of a rather competitive environment that has furthered the development of a sophisticated defense industry. In addition to producing many of the arms needed for Israel's own defense, a majority of the industry's revenues come from exports, allowing for Israeli companies to compete against some of the largest companies in the world for foreign contacts. Israeli companies partner with other leading defense companies, worldwide, formulating strategic alliances.

The largest entities of Israeli Defense Industry are the government-owned IAI (Israel's Aerospace Industries), IMI (Israel's Military Industries), Rafael Arms Development Authority and a private firm Elbit Systems, all of which produce a wide range of state-of-the-art combat-ready solutions..

### 4. Water Technologies[14]

Since its founding, Israel has been coping with water scarcity and has been treating the issue as a national priority. The country has been constantly developing novel and efficient water technologies, which can benefit the world as it is increasingly finds itself dealing with water scarcity concerns due to global warming.

Israel's Areas of Expertise:

6 Water Resource Management - First to adopt a comprehensive all encompassing approach on a national scale

7 Irrigation Solutions - highest ratio of crop per water unit

8 Purification & Reclamation - countless innovative breakthroughs

9 Desalination - the most economical in the world

10 Water Security - applying years of experience in Defense to counter a new threat

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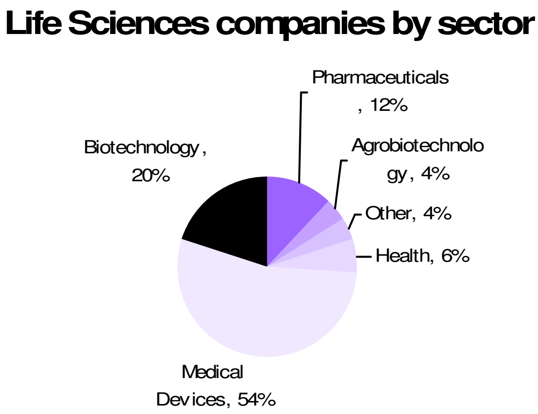
[2] http://www.investinisrael.gov.il

## 5. Life Sciences

Israel is home to over 900 Life Science companies, with 50-60 new companies being formed each year. 41% of all Life Science companies operating in Israel today were established during the last 5 years. In a relatively short period of time, an astounding 34% of these companies have already begun to generate revenue. Israel's thriving Life Sciences industry is world renowned for its groundbreaking innovations, ingenuity and creativity. Israel's Life Sciences sector is supported by a strong foundation of academic excellence, including some of the world's leading research institutes, renowned R&D facilities and cutting – edge medical centers. Multinationals including J&J, Perrigo, GE Healthcare and Phillips Medical, together with local companies such as Teva, Given Imaging, Insightec, Medinol, Disc-o-tech, Brainstorm and others, have been at the global forefront in the development and marketing of life-changing medical breakthroughs and valuable innovations.

Israeli life Sciences industry major sectors are **Medical Devices and BioPharma**. Over the last 5 years, more companies were established in Life Sciences than in any other sector, with the rate of investment (including Angels, Venture Capital and Corporate) greatly outpacing all other segments of the economy.




The largest sub sector in the medical device arena is therapeutic devices, both implantable and disposable.

Many of Israel's innovations in Medical Devices have already been adopted worldwide. Others have been more recently introduced and are undergoing clinical trials both in Israel and other countries. According to the US Patent Office, Israel has the highest rate of registered medical device patents per capita in the world.

### Biopharmaceuticals

In the field of Biopharmaceuticals, Israel is recognized as one of the world leaders. Biotechnology serves as a key driver for growth in the entire pharmaceutical industry: introducing new and improved products, innovative technologies, extending patent life, adding revenue streams and shortening the time to FDA approval and the market. Israel is a global leader in the number of new patents filed in the biopharma, in new companies founded, and in the number of companies taken public over the past 5 years. Within the last decade the Israeli biotechnology sector has grown impressively, with the number of companies increasing at a rate of 17% annually. Biotechnology research in Israel is carried out at all major universities, technical colleges, research institutes and hospitals throughout the country.

### Pharmaceuticals

Israeli thriving pharmaceutical industry includes some of the country's largest, most mature and profitable corporations, with more than 60 companies and over 25,000 workers. The combination of Israeli expertise and continued clinical progress has led to the emergence of blockbuster drugs and promising treatments for cancer, MS and Alzheimer's disease. Home grown companies such as Taro, Dexcel/Dexxon and Rafa focus primarily on generic drug manufacturing. Also Teva Pharmaceutical Industries with over $9 billion in annual sales (2007), is today the world's largest generic drug manufacturer and one of the 20 largest international pharmaceutical companies in the world.

## Agro-Technology and Agriculture[15]

Israel has become a world leader in high-yielding and high-quality agriculture, as farmers and researchers cooperate in developing and applying sophisticated science-based methods in all branches of agriculture. Locally designed and manufactured machinery and electronic equipment are widely used in farming activities, from irrigation and harvesting to milking and packing.

Making maximum use of scarce water and arable land, Israel produces more food than it needs for its own use. Imports include mainly grain, meat, tea, coffee, rice and sugar, while it exports much more, with long stemmed roses, spray carnations, melons, kiwis, strawberries, tomatoes, cucumbers, peppers and avocados amongst the most successful, especially in European and American markets during the cold winter months.

**Israel's agricultural production** has increased twelvefold over the past 40 years. In the early years of the state, during the late 1940s and early 1950s, Israel's very limited agricultural production capacity necessitated a policy of food rationing for all Israelis. Since then, Israeli agriculture has developed dramatically. Today, Israel has a thriving agricultural export sector marketing a wide range of high value-added crops. The remarkable evolution of Israel's agriculture was based on the development of sophisticated input methodologies, including revolutionary irrigation technologies and water management practices and more resistant and productive seed varieties as well as the implementation of innovative policies for sustainable agricultural production development and provision of extension services for farmers.

**Israel's agricultural productivity**, in terms of GDP per person employed in agriculture, stands at $66,960 and ranks 3rd compared to other countries according to the IMD World Competitiveness Yearbook of 2006.

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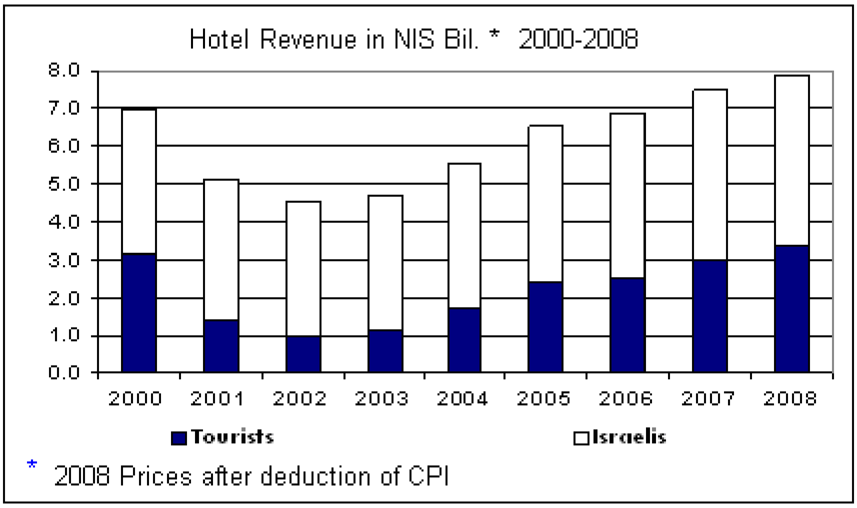
[15] http://mashav.mfa.gov.il

## Tourism[16]

According to The Travel and Tourism (T&T) Competitiveness Report 2009 of the World Economic Forum, in comparison to the Middle East and Africa region, Israel is the second-ranked country in the region, showing a stable performance since last year. The country's human resources base is well evaluated, providing healthy and well-trained people to work in the T&T sector. Furthermore, its infrastructure is quite well developed compared with those of other countries in the region. Israel's rules and regulations are conducive to the development of the sector, with low foreign ownership restrictions and visas required from few countries, although it requires much time to set up a business in the country. Israel gets excellent marks related to health and hygiene. The major concern is safety and security stemming primarily from terrorism.[17]

Revenues from incoming tourism were estimated at $4 billion in 2008, and revenues from internal tourism were estimated at $2.67 billion, totaling $6.67 billion for the entire tourism industry in 2008, an increase of 9% over 2007.




Source: Central Bureau of Statistics.

### Incoming tourism broken down by source country – visitors (including day visits)

Tourism from the U.S. was the primary source of tourism to Israel. In 2008, 617 thousand visitors arrived from the U.S. (constituting 20% of total tourism to Israel), an increase of 14% from the previous year and a record from that country. In second place was tourism from Russia, 356 thousand visitors (12% of total tourism to Israel), 84% more than in 2007 (44% of these tourists came for day visits). In third place was France, with 263 thousand visitors. The rest of the list includes the U.K. (187 thousand visitors) - fourth place, Poland in fifth place with 155 thousand visitors, 81% more than in 2007 (approximately half day visitors). Following these countries, the list includes Germany, Italy, the Ukraine (half day visitors), Canada and Spain.

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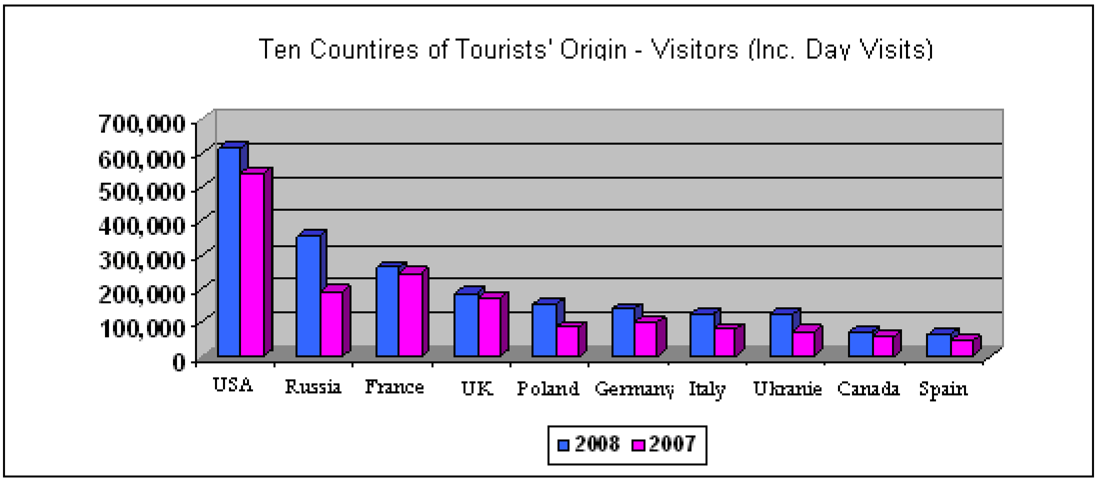
16 www.tourism.gov.il

17 The Travel and Tourism Competitiveness Report 2009. World Economic Forum.




Source: Ministry of Tourism

### Characteristics of Tourism to Israel

The characteristics of incoming tourism in 2008 indicate that the improvement in tourism in that year was not only reflected in the number of tourists coming to Israel but also in the increase in various and important segments, such as: first-time tourism, Christian tourism, organized travel tourism, etc. 25% of the incoming tourism was Jewish, 66% was Christian, and the rest belonged to other religions or non-religious at all.

### Hotels

In 2008, 334 hotels operated in Israel, with 45,000 rooms:

- 69 hotels with 9,000 rooms operated in Jerusalem
- 50 hotels with 10,800 rooms operated in Eilat
- 47 hotels with 6,000 rooms operated in greater Tel Aviv
- 15 hotels with 4,000 rooms operated in the Dead Sea region
- 45 hotels with 6,000 rooms operated in the area of Tiberias and the Sea of Galilee

### Jerusalem

Jerusalem, the capital of Israel, is a city of overwhelming emotions, a city that promises a religious and spiritual experience, excitement and pleasure, interesting tours and entertaining adventures.

Alongside Jerusalem's fascinating historic and archeological sites, there are amazingly modern tourist attractions for all lovers of culture, the arts, theater and music, architecture and gastronomic delights.

Source: www.holyland-pilgrimage.org

Although Jerusalem is known primarily for its religious significance, the city is also home to many artistic and cultural venues.

In 2008 the total revenue of Jerusalem hotels amounted to NIS 1,402 million, with tourists accounting for NIS 1,049 million ($294 million). This represents about 11.5% and 17.6% growth in relation to 2007, respectively.

### Dead Sea

The Dead Sea is the lowest point on earth in any land mass (417 meters below sea level). The quantity of water that evaporates from it is greater than that which flows into it, such that this body of water has the highest concentration of salt in the world (340 grams per liter of water). It is called the Dead Sea because its salinity prevents the existence of any life forms in the lake. That same salt, on the other hand, provides tremendous relief to the many ailing visitors who come on a regular basis to benefit from its healing properties.

Source: gallery.tourism.gov.il

The Dead Sea can also be called "the lowest health spa in the world." Sea salts are produced from the southern section for industry, while the northern section promotes tourism and good health. The composition of the salts and minerals in the water are what make it so unique and beneficial for the body.

In 2008 the total revenue of Dead Sea hotels amounted to NIS 839 million, whereas tourists accounted for NIS 211.5 million ($59 million). This represents about 9.7% and 35.1% growth in relation to 2007, respectively.

### Tel Aviv

Tel Aviv, often called "the city that never stops," was the first modern Jewish city built in Israel.

Tel Aviv is the country's economic and cultural center. It is a lively and active city with entertainment, culture and art, festivals, and a rich night life.

Hundreds of thousands of workers, visitors, tourists, and partygoers move about the city each day until the early hours of the morning, seeking out the city's nightclubs, restaurants, and centers of entertainment.

In 2008 the total revenue of Tel Aviv hotels amounted to NIS 1,429 million, whereas tourists accounted for NIS 955 million ($268 million). This represents about 8.3% and 12.2% growth in relation to 2007, respectively.

### Eilat

Over the years, the city of Eilat has become the ultimate resort city with hotels and beaches packed with thousands of Israeli vacationers and tourists from around the world, who come to relax in the country's southernmost spot.

In the winter (November-March) it mainly attracts tourists from Europe who prefer vacations in a warmer and more pleasant climate while Israelis flock to the city in the summer (May-September).

The combination of a hot climate, a tropical sea and a breathtaking background of wild, bare granite mountains has turned it into a tourist gem. In 2008 the total revenue of Eilat hotels amounted to NIS 2,007 million, whereas tourists accounted for NIS 339.6 million ($93 million). Israelis accounted for the rest of the income. This represents about 8.1% and 20.9% growth in relation to 2007, respectively.

## Diamond Industry[18]

The Israeli diamond industry constitutes one of the largest and important diamond centers in the world. Beyond its being a world leader in both cutting-edge technologies and craftsmanship by ensuring the best yield of polished diamonds from the rough diamonds, the Israeli diamond industry has developed into an international commercial center through which raw and polished diamonds pass and become a significant part of the diamond jewelry that is sold throughout the world.The Israeli diamond industry is characterized by its advanced technology, creativity and a high ethical code.

A number of institutions operate as part of this industry, at the head of which is the Israel Diamond Institute that incorporates a number of companies that are engaged in the development of new means to strengthen the Israeli diamond industry. The Diamond Exchange, which incorporates the diamond dealers, and the Diamond Industry Association, which incorporates the diamond manufacturers, both operate in their own field to strengthen the status of the diamond merchants with the government and other international organizations.

Supervision over the industry, in the areas of import and export, is carried out by the Supervisor of Diamonds in the Ministry of Trade and Commerce.

The high technological level of this industry, the trained and educated manpower and integration of second and third generation diamond dealers - all assist in maintaining Israel's leading position within the international arena, even in times of global recession.

### Major target markets

Israel exports polished diamonds to a number of major target markets, including the U.S., the U.K., Switzerland and Hong Kong. Israel's major export destination for diamonds is the U.S., which receives 42% of the entire diamond export volume. The following table shows that the relative share

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[18] www.israelidiamonds.co.il

of the export volume of diamonds to the U.S. market as a percentage of the total volume of Israeli diamond exports decreased in the period 2005 – 2008. A possible reason for this is the fact that Israeli exporters in recent years have been exposed to new target markets, thereby expanding the spread of their customers while reducing risk.

The following table details the volume of Israeli diamond exports to the various markets during the period 2005 – 2008.

| Country | 2008 | | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|---|---|
| | Turnover | % | Turnover | % | Turnover | % | Turnover | % |
| United States | 2,625 | 42% | 3,731 | 53% | 3,984 | 60% | 4,074 | 61% |
| Hong Kong | 1,442 | 23% | 1,310 | 19% | 986 | 15% | 911 | 14% |
| Belgium | 545 | 9% | 562 | 8% | 455 | 7% | 501 | 8% |
| Switzerland | 484 | 8% | 429 | 6% | 328 | 5% | 321 | 5% |
| England | 172 | 3% | 109 | 2% | 160 | 2% | 144 | 2% |
| Other countries | 992 | 16% | 935 | 13% | 698 | 11% | 756 | 11% |
| **Total** | **6,240** | **100%** | **7,076** | **100%** | **6,611** | **100%** | **6,707** | **100%** |

# Government Incentives

The State of Israel encourages both local and foreign investment by offering a wide range of incentives and benefits to investors in industry, tourism and real estate. Special emphasis is given to hi-tech companies and R&D activities.

## Investment Incentives

Investment incentives are outlined in the Law for the Encouragement of Capital Investment. The incentive programs can be divided into 2 main types:

- **The Grants program** - administered by the Israel Investment Center (IIC), a department of the Ministry of Industry, Trade and Labor.

- **The Automatic Tax Benefits program** - administered by the Tax Authorities.

In order to take advantage of the benefits provided in the law, an enterprise has to meet two conditions, as follows:

1 The industrial enterprise must make a contribution to Israel's economic independence.

2 The industrial enterprise is one that is competitive and contributes to the gross domestic product.

### Grant program

Summary of Program Benefits

3 Investment Grants according to the National Priority Area in which the enterprise is located as per the investment grants table below.

4 Tax benefits as per the tax benefits table below.

5 Accelerated depreciation.

*Investment Grants according to the National Priority Area*

The government grants scheme is affected in part by the location of the company's activities. Several regions in Israel have been declared National Priority Regions:

1 Priority Area A includes:
- The Galilee
- Jordan Valley

- The Negev
- Jerusalem (for hi-tech enterprises)

2 Priority Area B includes:
- Lower Galilee
- Northern Negev

3 Area C includes the rest of the country.

The amount of the government grant is calculated as a percentage of the original cost of land development and investment in buildings (except in Area C), in machinery and equipment. This cost includes installation and related expenses. The percentages are:

| | Priority Area A* | Priority Area B* |
|---|---|---|
| **Industrial project** | | |
| Up to NIS 50 million** | 24% | 10% |
| Above NIS 50 million | 20% | 10% |
| Investment in hotels and other accommodations | 24% | - |
| Other tourist enterprises | 15% | |

* Plus an additional grant of up to 8% for companies located in the south ("Negev Law") and an exemption from company tax, a benefit available only during a company's first two years.

** Or located in a low socioeconomic town.

Source: http://www.investinisrael.gov.il/

Time to Completion - Under the provisions of the grants scheme, 20 percent of the approved program for industrial projects should be completed within 24 months from the date of approval. The investment program should be completed within 5 years from the date of approval.

### *Tax Benefits*

Companies choosing the grant program receive tax benefits as well, for a period of 7 consecutive years (10 years when dealing with a company that meets the "foreign investors" criterion), starting with the first year in which the company earns taxable income (grants are not considered income).

Moreover, an Approved Investment located in Priority Area A is entitled to a complete tax exemption for the first two years.

(See chapter "Tax", paragraph "Law for encouragement of capital investments", page 61)

Tax Benefits table

| Percentage of foreign investment during the tax year | Corporate tax rate | Tax rate on dividend | Total tax rate (company + shareholders) |
|---|---|---|---|
| 49-74% | 20% | 15% | 32% |
| 74-90% | 15% | 15% | 27.75% |
| Over 90% | 10% | 15% | 23.5% |

* Based on 25% standard dividend tax for controlling shareholder.

### *Accelerated Depreciation*

An **Approved/Preferred** Investment is entitled to accelerated depreciation on its property and equipment. During the first five-year period of operation these assets, the company may depreciate its assets for tax purposes at 200% of the ordinary rate of depreciation for equipment and 400% of the ordinary rate for buildings. Depreciation on buildings shall not exceed 20% per annum.

## R&D Incentives

The Office of the Chief Scientist (OCS) of the Ministry of Industry, Trade and Labor is responsible for implementing the government's policy of encouraging and supporting industrial research and development in Israel through the Law for the Encouragement of Industrial R&D. The OCS provides a variety of support programs that operate on an annual budget of about US $300 million. This is spent on about 1,000 projects undertaken by 500 companies. These programs have helped make Israel a major center of hi-tech entrepreneurship.

The main OCS program (the R&D Fund) supports R&D projects of Israeli companies by offering conditional grants of up to 50% of the approved R&D expenditure. If the project is commercially successful, the company shall be obliged to repay the grant through payment of royalties.

A new support program for traditional industry was launched in 2005 by the OCS, which offers separate evaluation and discussion for projects from traditional industries.

## International Support

International support programs include bi-national funds for competitive R&D, enabling a joint R&D program with a foreign counterpart. Such funds include:

| Fund Name | Countries | Website |
|---|---|---|
| BIRD | Israel-USA | www.birdf.com |
| CIIRDF | Israel-Canada | www.ciirdf.ca |
| SIIRD | Israel-Singapore | www.siird.com |
| BRITECH | Israel-Britain | www.britech.org |
| KORIL | Israel-Korea | www.koril-rdf.or.kr |
| VISTECH | Israel-Australia | www.business.vic.gov.au |

In addition, numerous international R&D agreements with countries such as Austria, Belgium, Ireland, Germany, Holland, France, Hong Kong and China, among others, provide access to sources of national funding – Israeli companies participating in the program are entitled to receive R&D grants from the OCS.

Israel is a participant in the Sixth Framework Program for R&D of the European Union, the only non-European Associated State, fully participating in the program. **FP6**[19] is the prime vehicle for Research and Technological Development of the European Community which provides significant funding to participating parties. **ISERD**[20] - The Israeli Directorate for the Framework Program-

[19] Sixth EU Framework Programme for Research and Technological Development.

[20] www.iserd.org.il

provides assistance to Israeli companies and research organizations who wish to implement R&D programs with the European business and science communities. Grants to industrial R&D are 50% of the full cost and overhead; grants to universities are 100% of the additional costs and 20% of overhead.

The **Global Enterprise R&D Cooperation Framework** encourages cooperation in industrial R&D between Israel and multi-national companies (MNCs). This program shares the high risks and enormous costs inherent in hi-tech development, with the partnering companies. Joint R&D projects between MNCs and Israeli companies authorized by the OCS, could be entitled to financial assistance of 50% of the Israeli company's R&D approved costs. Direct investments in joint R&D project with Israeli companies will be credited with 150 percent of the value of such investment for "Buy-Back" liabilities.

**Project Centers** -The MNC establishes a Project Center in order to identify Israeli partners with whom it will conduct joint R&D projects. Government funding will be the lower of the following three:

1 40% of the total operational costs of the Project Center.

2 50% of the total investments the Projecs Center is conducting with the Israeli partners.

3 The total investments the Project Center will invest in the periphery (priority) areas and Traditional Industries.

### Domestic Support

Besides the main OCS program other domestic support programs include:

- **The Technological Incubators**[21] which provide a framework and support (including grants of up to 85% of approved expenses) for nascent companies to develop innovative technologies.
- **The Heznek-Seed Fund**[22] through which the government matches an investor's investment in the share capital of a seed company, later giving the investors an option to purchase the government shares. Grants are up to 50% of the approved work program.
- **The Tnufa Program**[23] is designed to encourage and support an individual entrepreneur in his initial efforts to build a prototype, register a patent, design a business plan etc. Grants are up to 85% of the approved expenses for a maximum of $50,000 for each project.
- **The Magneton and Noffar programs**[24] are designed to support applied academic research in all areas and especially in biotechnology and nanotechnology in order to promote the transfer of the technology to the industry. Grants are up to 66% and 90% of the approved expenses respectively.

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[21] www.incubators.org.il

[22] www.moital.gov.il/NR/exeres/A25D6C39-69BA-4545-9E05-FBFE0461C7E4.htm

[23] www.tnufa.org.il

- **The Magnet Program**[25] supports the formation of consortia comprised of individual firms and academic institutions in order to jointly develop generic, pre-competitive technologies by offering grants of up to 66% of the approved budget.

### 3. Employment grants for R&D centers and large enterprises established in the north and south

This program is part of a long term plan for the Negev and Galilee. One of the main objectives of this plan is to spread the prosperity that the Hi-Tech community has brought to Israel to areas in the south and north, thereby providing these areas with high-paying quality work places.

#### The basic outline

The program offers two alternative tracks: one meant for small R&D centers numbering at least 15 employees (R&D track) and the other for large enterprises numbering above 100 employees (Anchor enterprises track).

Both tracks will entitle the investor to grants that will be determined as a percentage of the employer's cost of salary for each new employee, for a period of 4 years.

#### Requirements

**1 R&D Track**

- Minimum number of employees required: 15
- The average cost of salary of all new employees has to be at least 2.5 times the average cost of salary in Israel (about NIS 20,000 or $5,000).

**2 Anchor enterprise Track**

- Minimum number of employees required: 100.
- The average cost of salary of all new employees has to be at least 1.5 times the average cost of salary in Israel (about NIS 12,000 or $3,000).

#### Grants

The following is an outline of the grants scheme:

- 35% - 45% of each new employee's cost of monthly salary in the first year.
- 30% - 40% in the second year.
- 10% -20% in the third year.
- 5% in the fourth year.

The precise grant level (within the ranges specified above) will be determined according to the number of employees in the center – the higher the number, the higher the grant level per employee.

An additional 5% grant on the first year of employment will be given to new employees in year 2009, so that the total grant may reach up to 50% of the cost of salaries.

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[24] www.consortia.org.il

[25] www.magnet.org.il

### General conditions (for both tracks)

- The company establishing the center is required to have a minimum of US$25 million in revenues.

- The maximum salary entitled for the incentive is NIS 30,000 (or about US$7,500) monthly; Salaries above this level will be calculated as NIS. 30,000

- The center has to be established in the Negev or the Galilee. This area includes most locations outside the central metropolitan regions (For instance: Beer Sheba in the south, Karmiel in the north).

- At least 60% of all new employees should be residents of the above entitled regions (north or south).

### 4. Film Law Benefits

The main aim of the law is to encourage the production of foreign films in Israel. To this end the law offers generous tax benefits that reduce the cost of production by up to 20%.

The law recognizes two models:

1. Foreign Productions
2. Co-Productions

In both cases the benefits by law accrue to an Israeli production company which is expected to pass on these benefits to the foreign production company.

# Regulatory Environment[26]

## Summary

The table below summarizes the World Bank ratings of the regulatory environment in Israel[27]:

| Ease of… | Doing Business 2009 rank | Doing Business 2008 rank | Change in rank |
|---|---|---|---|
| Doing Business | 30 | 30 | 0 |
| Starting a Business | 24 | 18 | -6 |
| Dealing with Construction Permits | 120 | 111 | -9 |
| Employing Workers | 92 | 92 | 0 |
| Registering Property | 160 | 158 | -2 |
| Getting Credit | 5 | 5 | 0 |
| Protecting Investors | 5 | 5 | 0 |
| Paying Taxes | 77 | 74 | -3 |
| Trading Across Borders | 9 | 8 | -1 |
| Enforcing Contracts | 102 | 100 | -2 |
| Closing a Business | 39 | 43 | 4 |

| Indicator | Israel | Region | OECD |
|---|---|---|---|
| **Starting a Business** | | | |
| Procedures (number) | 5 | 8.4 | 5.8 |
| Duration (days) | 34 | 23.5 | 13.4 |
| Cost (%GNI per capita) | 4.4 | 41 | 4.9 |
| Paid in Min. Capital (% of GNI per capita) | 0 | 331.4 | 19.7 |
| **Dealing with Construction Permits** | | | |
| Procedures (number) | 20 | 19.3 | 15.4 |
| Duration (days) | 235 | 186.6 | 161.5 |
| Cost (%GNI per capita) | 112.8 | 433.3 | 56.7 |
| **Registering Property** | | | |
| Procedures (number) | 7 | 6.4 | 4.7 |
| Duration (days) | 144 | 37.4 | 30.3 |
| Cost (%property value) | 7.5 | 5.9 | 4.7 |
| **Enforcing Contracts** | | | |
| Procedures (number) | 35 | 43.7 | 30.8 |
| Duration (days) | 890 | 688.8 | 462.7 |
| Cost (%of claim) | 25.3 | 23.7 | 18.9 |
| **Closing a Business** | | | |

[26]A guide to doing business in Israel prepared by **S.Horowits&Co.** Advocates, notaries and patent attorneys.

[27] http://www.doingbusiness.org/ExploreEconomies/?economyid=95

| Indicator | Israel | Region | OECD |
|---|---|---|---|
| **Starting a Business** | | | |
| Time (years) | 4 | 3.5 | 1.7 |
| Cost (% of estate) | 23 | 14.1 | 8.4 |
| Recovery rate (cents on the dollar) | 44.9 | 29.9 | 68.6 |

## Restrictions on foreign ownership

A company incorporated overseas may establish a branch or local office in Israel as long as it is registered as a foreign company with the Registrar of Companies within a month of its establishment. If the company uses the term "limited" as part of its name, then it must display its name and the name of the country in which it is incorporated in every invoice, letter, announcement, advertisement or other official publication.

In order to register, a foreign company must submit all the necessary documents to the Registrar of Companies. There is no requirement to publish the financial statements of a private company.

## Government approvals and registration

All companies in Israel must register with the Registrar of Companies and the Tax Authorities. In order to register a business as a company with the Registrar of Companies the following documents must be submitted:

1 Form No.1 of the Company Registrar – an application form to register a company.

2 Memorandum of Association, which establishes the corporate identity and principal objectives of the company, shareholders' responsibility and shares issued.

3 Articles of Association, which set forth rules of conduct for the company. Should a company not submit its own articles of association, then the standard articles which are listed in the Companies Ordinance will be in force for this company.

4 The fee for registering a company which is currently NIS 2,244.

## Competition rules/consumer protection

### Competition rules

The Anti-Trust Authority is an independent body headed by a Director and is under the auspices of the Ministry of Industry and Trade in accordance with the Restrictive Business Practices Law of 1988.

The Anti-Trust Authority is responsible for enforcing the law regarding government intervention to maintain appropriate levels of competition in the economy. The Authority deals with three types of restrictive practices: cartels, monopolies (including oligopolies) and mergers.

### Consumer protection

The Israel Consumer Council deals with consumer protection.
The Council is a government corporation of which the Prime Minister and the Minister of Industry and Trade appoint its Board of Directors. The Council's Board of Directors is composed of representatives from the Ministry and the public.

The following are the goals of the Council as set out in its protocol:

1 To protect consumer rights and respond to individual consumer complaints.

2 To improve consumer protection

3 Ensure a reasonable level of quality for durable goods.

4 Improve the marketing of goods and services including delivery and their compatibility to consumer usage.

5 Prevent consumer fraud and unfair terms in the conditions of sale or lease of goods and services.

6 To inspect the quality of goods and services.

### Price controls

With the exception of certain essential utilities, no directly imposed price controls are operated in Israel. Essential utilities such as water, electricity, telecommunications, public transport, basic foodstuffs (e.g., eggs, salt, flour, milk, etc.) have regulatory authorities which are able to impose restrictions on prices charged to the applicable system and end-users.

# Finance

## Banking system

Under the provisions of the Bank of Israel Law, The Banking Law, and the Currency Control Law, the Bank of Israel has a range of responsibilities. The main ones are listed below:

1 Regulating and Directing Monetary Policy
2 Economic Advice to the Government
3 Foreign Currency Market and Managing the Foreign Exchange Reserves
4 Monitoring and analyzing foreign exchange activity
5 Banking Supervision
6 Promoting Financial Stability
7 Currency Issue
8 Banker of the Government and of the Banks
9 Representing Israel in International Institutions

The Israeli banking system is a concentrated system based on five large commercial banks which handle most of the personal and business banking needs of the country: Bank Leumi Le–Israel B.M., Bank Hapoalim B.M., Israel Discount Bank Ltd., The First International Bank of Israel Ltd. and Mizrahi Tefahot Bank Ltd.

The decline in the share of the banks in financial activity has continued for several years and this is reflected in a variety of financial aggregates, such as the banks' share of credit to the business sector and of the management of private sector assets. This was augmented by the accelerated sale of the banks' provident and mutual funds at the end of the year 2008, even though the Law allows them to sell off these funds over a period of several years. The banks have primarily been replaced by institutional investors (pension funds, insurance companies and provident funds) both in the provision of business credit and in the management of the public's assets. The banks sold their provident and mutual funds primarily to insurance companies but also to non-resident investors. These changes in the relative position of the banks and other financial institutions are likely to increase competition and efficiency in the capital market.

The involvement of non-residents in Israel's capital market is not new but its degree has increased as of late. In 2005, there was a continued increase in non-resident activity on the local stock exchange, in the purchase of companies that the government privatized and in the purchase of some of the entities sold off by the banks. The involvement of non-residents in the local economy, coupled with the investment abroad by residents, is strengthening the integration of the Israeli capital market with global markets as part of the wider process of globalization.

### Capital markets

The Tel Aviv Stock Exchange (TASE) comprises the major arena in the Israeli capital market where fundraisers and the investment public meet. Israeli corporations use the stock exchange to raise much needed capital to finance their operations, and the government uses the stock exchange to privatize the many government corporations in Israel. Trading takes place in three major markets: shares, bonds, and derivatives.

TASE is supervised by the Israeli Securities Authority (ISA), which has placed a strong emphasis on transparency and fairness of activity in the securities market. In recent years, the Securities Law has undergone many changes designed to enhance and strengthen the supervision and enforcement over capital issues and trade in the capital markets.

The TASE's advanced regulatory framework is based on the comprehensive Securities Law, which is enforced by the ISA. The TASE's regulatory and technological standards have been recognized by the U.S. Securities and Exchange Commission, which has named the TASE a designated offshore securities market. The TASE is an active member of both the International Federation of Stock Exchanges (FIBV) and the International Options Markets Association (IOMA). The TASE is set for growth in the new millennium - and that means superb investment opportunities for the international investor.

### International Investors

Amongst international investors, Israel is considered a developed economy. The world's top investment houses have been consistently increasing their coverage of, and investment in, Israeli securities. Many have even established local offices in Israel. Worldwide institutional investors have become active investors on the TASE, and an increasing percentage of the bourse's market capitalization is held by foreign investors. Their proportionate share of the daily trading volume on the TASE is growing at an even faster rate.

Interest by non-residents to invest in Israel is enhanced by the fact that international firms wishing to participate in the Israeli market face no regulatory barriers. Israeli laws put virtually no restrictions on the repatriation of proceeds - including profits - from an investment, while assuring investors that the country's securities industry is subject to rigorous regulation and oversight. Additionally, Israel has adopted international accounting rules (IFRS) as its accounting standard. As of 1/1/2008 Israeli public companies traded on TASE have to prepare their financial statements according to IFRS or US GAAP (if they are dually listed on TASE and US Stock exchanges).

### The Office of the Chief Scientist (OCS) at the Israeli Ministry of Industry, Trade and Labour

The policy of the OCS is to invest extensive resources in advancing and supporting the dynamic needs of the Israeli hi-tech industry. A variety of ongoing support programs developed and offered by the OCS have played a major role in enabling Israel to become a key center for hi-tech entrepreneurship.

## Venture Capital[28]

With over 200 venture capital funds active in Israel and over $10 billion under management in nearly 3000 Israeli start-ups, Israel's venture capital industry continues to thrive even in the face of a global tightening of credit due to the financial crisis. In 2008, 483 Israeli high-tech companies raised over $2.1 billion – the highest amount in the past 7 years, 18% above the $1.8 billion raised in 2007 and 28% above 2006 levels.

In the fourth quarter of 2008, 109 Israeli high-tech companies raised $394 million - 22% below the $503 million raised in the fourth quarter of 2007, and 34% below the $600 million raised in the previous quarter – the highest third quarter reported in the last eight years. Though venture capitalists expect the global recession to lead to a slowdown in investments for 2009, they are confident that the Israeli high-tech industry will continue to be a highly productive source of technology innovation.

According to the World Economic Forum report, Israeli firms, while only accounting for 2.3% of all venture transactions in total, represent 35.4% of all VC transactions outside of North America and Western Europe.[29]

### Thriving VC Market in Israel

International Venture Capital Firms: Several leading U.S. and European VC funds have Israeli branches, namely Alta Berkeley Venture Partners, Battery Ventures, Bessemer Venture Partners (BVP), BlueRun Ventures (BRV; formerly Nokia Venture Partners), Blumberg Capital, Bridge Capital Fund (BCF) LP, Canaan Partners, Defta Partners, Lightspeed Venture Partners, Partech International Inc., Susquehanna Growth Equity (SGE) LLC, Venrock, YL Ventures, Ziegler Meditech Equity Partners (ZMEP) LP.

Additionally, there are some 220 international funds, including Polaris Venture Partners, Accel Partners and Greylock Partners, that do not have branches in Israel, but actively invest in Israel through an in-house specialist. The VC divisions of leading multinationals, among them Intel, HP, TimeWarner Inc., Sony, Cisco and others, which have opened R&D centers and acquired companies in Israel , have also found that the country offers a profitable VC market.

Israeli Venture Capital Firms: The great interest shown by the International VC's in Israel is in part due to the existence of a thriving local VC industry. In 2008, Israeli VCs invested $780 million in Israeli high-tech companies, accounting for 38% of the total amount invested in Israeli high-tech companies. In 2008, first investments made by Israeli VCs were 31% of the total amount invested by Israeli VCs, compared to 43% in 2007.

Following the removal of regulatory boundaries, all major Israeli financial institutions started allocating capital to venture capital firms. The share of insurance companies, pension funds and provident funds has persistently grown in the last years in the field of alternative investments, like Private Equity funds and VC's.

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[28] www.investinisrael.gov.il.

[29] The Global Economic Impact of Private Equity Report 2009.

### Delivering Successful Exits

The Boom in Mergers & Acquisitions: In 2008, there were 84 mergers and acquisitions in the Israeli market worth a total of $2.64 billion, compared to the 85 in 2007 which were valued at about $3.2 billion. In 2006 mergers and acquisitions amounted to $10.5 billion, reflecting several very large acquisitions including that of Iscar by Warren Buffet.

M&As of Israeli VC-backed companies in 2008 totaled $1.5 billion, down 22% from 2007 figures. In numbers, VC-backed M&A deals in 2008 edged up slightly to 34 from 33 in 2007.

### Global Financial crisis puts freeze on IPO's:

For the first time since 2003, Israeli high-tech companies had no initial public offerings on international exchanges during calendar year 2008, reflecting the problematic global technology IPO markets.

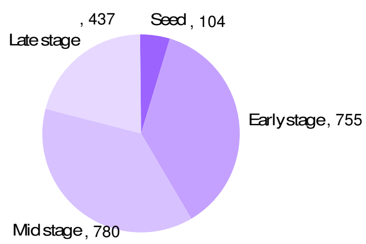
### Investment Trends in the Israeli VC Market

n 2008, the Communications Sector led the market with $516 million or 25% of total capital raised, followed by the Software Sector with $407 million or 20% and the Semiconductors sector with $323 million or 16% of total capital raised. Internet firms continued to attract investor attention with 14% of capital raised in 2008 and 15% in 2007. Within seed investments, software companies attracted the largest share, 41%, followed by life science companies with 20%.

### Investment by Stage

In 2008, 70 Seed Companies attracted $104 million or 5% of the raised capital.

Capital raised ($ million) by stages




156 Early Stage/R&D Companies raised $755 million in 2008, compared to $557 million raised in the previous year. Early stage companies had a 36% share of capital raised, versus 32% in 2007 and 30.5% in 2006. Of all early stage investments, Life Science companies attracted the largest share of capital, 32%, followed by firms in the Semiconductor and Communications sectors, each with 19%.

194 mid-stage companies (with up to $10 million in revenues) raised $780 million, the largest sum of funding in 2008, accounting for 38% of the capital raised. This compares with 182 companies that raised $668 million or 38% in 2007 and 169 companies that raised $675 million or 42% in 2006. Within mid-stage investments, communications companies attracted the largest share, 34%, followed by internet companies with 21%.

With start-up companies continually moving through the pipeline and reaching the revenue growth stage, there were 63 Late Stage Companies that raised $437 million or 21% of the total raised in 2008. This compares with 46 companies that raised $383 million or 22% in 2007 and 37 companies that raised $313 million or 19% in 2006. From among late stage investments, software companies attracted the largest share of capital – 34% – followed by communications companies with 24%.

## World Bank Summary

The table below summarizes the World Bank rating of the financial environment in Israel[30]:

| Indicator | Israel | Region | OECD |
|---|---|---|---|
| **Getting Credit** | | | |
| Legal Rights Index | 9 | 3.3 | 6.8 |
| Credit Information Index | 5 | 2.9 | 4.8 |
| Public registry coverage (% adults) | 0 | 4.8 | 8.4 |
| Private bureau coverage (% adults) | 91 | 9.7 | 58.4 |
| **Protecting Investors** | | | |
| Disclosure Index | 7 | 5.9 | 5.9 |
| Director Liability Index | 9 | 4.8 | 5 |
| Shareholder Suits Index | 9 | 3.7 | 6.6 |
| Investor Protection Index | 8.3 | 4.8 | 5.8 |

| Getting Credit Indicators | Indicator |
|---|---|
| Can any business use movable assets as collateral while keeping possession of the assets; and any financial institution accept such assets as collateral? | Yes |
| Does the law allow businesses to grant a non possessory security right in a single category of revolving movable assets, without requiring a specific description of the secured assets? | Yes |
| Dose the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of the secured assets? | Yes |
| May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets? | Yes |
| Is a general description of debts and obligations permitted in collateral agreements, so that all types of obligations and debts can be secured by stating a maximum amount rather than a specific amount between the parties? | Yes |
| Is a collateral registry in operation that is unified geographically and by asset type, as well as indexed by the grantor's name of a security right? | Yes |
| Do secured creditors have absolute priority to their collateral outside bankruptcy procedures? | Yes |
| Do secured creditors have absolute priority to their collateral in bankruptcy procedures? | Yes |
| During reorganization, are secured creditors' claims exempt from an automatic stay on enforcement? | Yes |
| Does the law authorize parties to agree on out of court enforcement? | No |

[30] www.doingbusiness.org

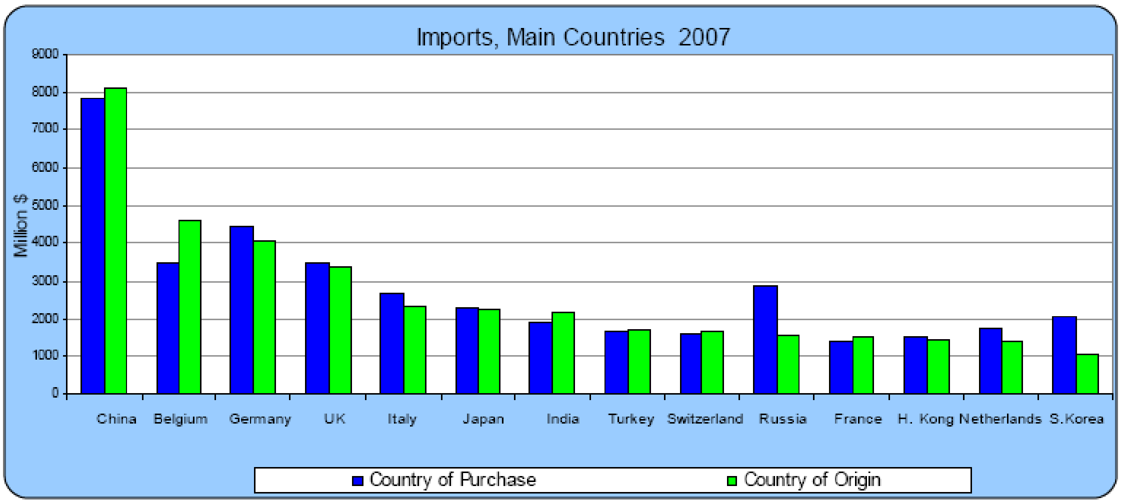
Measures on credit information sharing and the legal rights of borrowers and lenders are shown below. The Legal Rights Index ranges from 0-10, with higher scores indicating that those laws are better designed to expand access to credit. The Credit Information Index measures the scope, access and quality of credit information available through public registries or private bureaus. It ranges from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau.

# Foreign Trade

### Summary[31]

| Indicator | Israel | Region | OECD |
|---|---|---|---|
| Documents for export (number) | 5 | 6.5 | 4.5 |
| Time for export (days) | 12 | 23.3 | 10.7 |
| Cost to export (US$ per container) | 665 | 1024.4 | 1069.1 |
| Documents for import (days) | 4 | 7.6 | 5.1 |
| Time for import (days) | 12 | 26.7 | 11.4 |
| Cost to import (US$ per container) | 605 | 1204.8 | 1132.7 |

### Imports by countries




[31] www.doingbusiness.org

The costs and procedures involved in importing and exporting a standardized shipment of goods are detailed under this topic. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

## Israel International Trade and Economic Agreements


Source: www.investinisrael.gov.il

For list of countries with which Israel has signed trade and R&D agreements and Israel membership in international trade organizations see **Appendix B**.

## Export and import controls

### Export controls

Controlled exports are included in the Annexes to the Free Export Order. Annexes 1–4 contain a list of items with respect to which export is prohibited under law (unless a special license or permit has been obtained), for various reasons, such as the control of quality and standards of Israeli goods, compliance with international agreements (including those regarding dangerous drugs and protection of plants and animals) and goods falling within the scope of the security authorities. Annex 5 details the countries to which exports are restricted.

Israel prohibits direct export to countries that do not allow trade with Israel or that have no diplomatic relations with Israel. Israel may also impose trade embargoes under provisions of international agreements and in compliance with United Nations' resolutions with respect to trade embargoes.

### Import controls

During recent years, Israel has eliminated most of its import quotas, save for those imposed on a few agricultural products, which are maintained under Annex 5 of the WTO (World Trade Organization) agreement on Agriculture and on ozone depleting substances, under the Montreal Protocol.

Prohibited import products, as listed in Annex 2 to the Customs Order, relate mainly to public morals, health or safety considerations. Annex 5 to the Free Import Order refers to drugs and prohibited chemicals in line with international obligations.

A special import regime applies to imports from those countries having no diplomatic relations with Israel and which prohibit imports from Israel. Imports from the 17 countries affected by the regime are generally prohibited; the said countries include: Afghanistan, Algeria, Bahrain, Bangladesh, Iran, Iraq, the Democratic Republic of Korea, Kuwait, Lebanon, Libya, Pakistan, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen.

### Customs duties

With most products from the United States, the European Union and the European Free Trade Association receiving duty-free status in the Israeli market, relatively few of Israel's imports are subject to customs duties.

Most imports, like domestic products, are also subject to purchase tax and VAT, while certain items (such as fuel and tobacco) are subject to additional taxes.

Israel levies VAT, currently at the rate of 16.5%, on most products sold in Israel, including imports. The VAT element is then recoverable by the importer upon resale of the goods to, and the ultimate payment thereof by, consumers of the retail price for such goods. The VAT rate mentioned above was increased in July 2009 from the previous rate of 15.5%, as part of the government's contending with the global financial crisis. The rate is expected to revert to 15.5% at the end of 2010.

Purchase tax is levied on certain luxury items and consumer goods, most notably, motor vehicles, electrical goods, alcoholic beverages and tobacco. The purchase tax on imports is calculated, inter alia, on the basis of the customs value thereof to which must be added customs duties. Thus, for the purposes of calculating the applicable purchase tax to be imposed with respect to an imported product (and in order to approximate the local wholesale price thereof), certain costs must be added to the declared value of such imported product, such as insurance and inland freight charges. Importers also have an alternative option of declaring the actual (and not estimated) wholesale value of the relevant product (after deducting specific costs applicable to the type of imported product).

# Business entities

## Business entities

The principal types of business entities in Israel are as follows:

7 Limited liability company

8 Foreign company (e.g. a branch)

9 Partnership

10 Self employed

11 Cooperative

12 Non-profit organizations

13 Joint ventures

14 Trusts

## Limited liability company

The Israeli Companies Ordinance (ICO) defines a company as a corporation formed and registered in Israel, in accordance with Israeli law.

It is necessary to register the company with the Registrar of Companies. While Hebrew and Arabic are the official languages of Israel, in practice, corporate documents in English will generally be accepted by the Registrar. However, the Company Registrar does require that the Articles of Association be translated into Hebrew as well.

Most companies limit the personal liability of their members, usually in the form of shares. In this case, the term "Limited" (or the abbreviation "Ltd.") must appear as part of the full name of the company.

A company may be registered as a "Private Company" or a "Public Company", with securities registered on a Stock Exchange. Both types of companies must present annual reports, including audited financial statements to their shareholders.

A private company, consisting of 1-50 shareholders, and one director, may not offer or sell debentures or shares to the public and its articles of incorporation must contain restrictions on the transferability of its shares.

A public company may offer stock or debentures to the public, but only after issuing a prospectus in accordance with the requirements of the ICO and the Securities Law. Also, a public company is obliged to publish an annual report that includes the audited financial statements and directors' report, all to be filed with the Register of Companies, where they are available to the public.

## Foreign company

A foreign company (a company registered abroad and also any body of persons registered or organized abroad, other than a partnership) can maintain a place of business in Israel, including a share transfer office or a share registration office, provided that it has been registered in Israel as a foreign company under the provisions of the Companies Law and the relevant registration and publication fees have been duly paid.

### Local subsidiaries (wholly owned companies)

There are no restrictions under local law on the incorporation of a local subsidiary of a foreign enterprise. In the event that the local subsidiary is incorporated in Israel, Israeli law will apply to such local subsidiary. However, in certain sectors (such as telecommunications and broadcasting) specific restrictions are imposed on foreign investors for holding shares in Israeli companies.

## Partnerships

The Partnership ordinance defines a partnership as an entity that consists of persons who contracted to form a partnership. Personal liability of the partners is not limited unless they are limited partners of limited partnerships. A foreign partnership is also permitted to do business in Israel.

### General partnerships

In a general partnership, each partner is responsible for the partnership's liabilities without limitation. Each partner is entitled to act on behalf of the partnership and is held to be its agent. Each partner's activities and actions are binding on the other partners.

### Limited Partnerships

A limited partnership is required to have at least one general partner whose liabilities are unlimited. The limited partner's liabilities are limited to the extent of their capital contribution, as specified in a written agreement among all partners.

The limited partners are prohibited from taking part in management of the partnership. A limited partnership may not conduct business prior to its registration.

### Establishing a partnership

The Partnership Ordinance 1975 governs the activities of partnerships. If a partnership is established for the purpose of conducting business in Israel, it is required to be registered with the Registrar of Partnerships at the Ministry of Justice. Registration requires, inter alia, furnishing the

Registrar of Partnerships with the partnership's name, activities, address, partners' names and identifying details, etc.

A partnership is not required to file reports of any kind. Profit or loss should be added to the financial reports and income statements of the individual partners.

### Self employed

There are no statutory requirements for establishing a sole proprietorship and no registration requirements are imposed (other than registering itself with the Israeli taxation authorities for income tax purposes (if necessary) or in cases where a permit to operate a business is required by law).

Please note that since the Companies Law went into effect (on February 1, 2000), companies may be established by one shareholder. Accordingly, the incorporation and functioning of a sole proprietor company are broadly similar, in all respects, to companies having more than one shareholder.

### Cooperatives

The Cooperatives Ordinance governs the activities of cooperatives. Cooperatives are required to register with Registrar of Cooperative Societies at the Ministry of Labor and Social Affairs.

Members of a cooperative may be individuals or other cooperative societies.

Restrictions exist regarding membership in a cooperative society and the contents of the cooperative Articles of Incorporation.

This type of entity is not very common and serves business mainly in the transportation and agriculture sectors.

### Non-Profit Organizations

These entities operate mainly as academic institutions, hospitals, charitable organizations and municipalities. Non-profits are subject to a special law dealing mainly with the formation of such organizations and the way they may operate as such.

15 Non-profit societies or associations, under the "Amutot" Law, 1980:

16 Corporations with public objectives, under the Companies Law;

17 Public trusts.

The vast majority of these entities function as "Amutot" (non-profit associations). The Registrar of Non-Profit Associations oversees the registration and activities of these organizations, which are defined by the following characteristics:

a Prohibiting profit distribution to association members.

b Limiting of the association's activities to those stated and authorized.

c Prohibiting any sale or transfer of members' right.

## Joint Ventures

Conducting business by means of a joint venture is permitted in Israel. The term "joint venture" is not expressly defined under Israeli law but, for the purposes of this section, "joint venture" shall mean a commercial venture between two or more separate legal entities that pool their resources and carry on a specialized business activity without establishing a separate legal entity but, rather, rely solely on the execution of a joint venture (or cooperation) agreement between them.

A foreign investor wishing to conduct business in Israel on the premise of a joint venture should consult an Israeli lawyer prior to entering into any joint venture agreement in order to ensure that the investor's liability thereunder is limited to a reasonable extent.

## Trusts

Israeli law recognizes trusts which have been set up to manage the assets of a grantor on behalf of the beneficiaries thereunder and for any other purpose. However, the general view is that a trust will not be deemed to be a separate legal entity. A trust may be created by law, by written agreement with a trustee or by a written instrument of endowment.

# Labour

## Israeli Workforce Excellence

### Highly-educated available workforce

Being 2nd in the world for its availability of qualified scientists and engineers, Israel provides multinationals with a professional and skilled labor market (2008 IMD Global Competitiveness Yearbook). 4 Israelis have won Nobel Prizes within the last 5 years, those being in the fields of Chemistry and Economics.

Israel leads the world in the quality of its work force. Israel has 135 scientists for every 100,000 workers, the highest proportion in the world. Israeli scientists are educated both at Israel's own excellent institutions of higher education, and abroad, at some of the world's top universities. The quality of Israel's own scientific research institutions is ranked 3rd in the world by the WEF (2008).

### Multi-Lingual

Israel's highly educated population comes from over 100 countries across five continents. This results in a multi-lingual and multi-cultural workforce by definition. In addition to Hebrew and Arabic, Israel's two official languages, many Israelis are fluent in English, as well as other languages such as French, Russian, Spanish and many more.

The World Business/INSEAD Global Innovative Index for 2007 noted that "Israel . . . has a sparkling economic story to tell in human capacity and technological sophistication . . . Successive governments have invested heavily in education – reinforced by large-scale immigration – to build human capital."

## Wages

The minimum wage was NIS 3,850 (about €700) in 2008. The average nominal wage was NIS 7,630 (about €1,390) per month in 2007, and NIS 7,909 (about €1,438) in 2008.

## Social security

The National Insurance Institute (NII) (the Israeli equivalent of the U.S. Social Security Administration) is the government institution responsible for protecting the economic welfare of all Israeli residents. The NII collects social security taxes from the general population and pays benefits to eligible recipients, subject to criteria stipulated by law. The major benefits paid by the NII are as follows:

1 Long-term benefits – recipients are those taxpayers who have reached pensionable age, widows, the handicapped, and disability benefits (partial or full).

2 Benefits in lieu of salaries – insured persons of working age and capable of working, who for temporary reasons cannot work and earn income. These benefits are paid for limited periods of time to recipients such as women on maternity leave, workers injured on the job, unemployed, and soldiers on reserve army duty.

3 Benefits to those earning less than minimum wage – benefits paid to individuals who do not earn minimum wage due to old age, widowhood, caring for young children, sickness, handicaps, unemployment, or low wage.

4 Child allowance – benefits to families with children.

5 Rehabilitation benefits – paid to the handicapped, widows, and nursing home residents.

## Pensions

In January 2008, a mandatory pension law went into effect. The law stipulates that every employer must withhold a minimum amount per employee in favor of pension insurance, based on the salary of the employee. This can take the form of a provident fund or a pension fund. The insured salary for purposes of executing the withholding is the salary of the employee and its components, as defined by the law, up to a specified ceiling. The obligatory pension insurance shall apply to the lower of the salary paid to the employee or the average salary in the economy, as updated from time to time.

The employee shall be entitled to pension insurance and to execute the withholdings at the end of the first six months following commencement of employment. An employee who is already covered by pension insurance shall be entitled to execute the withholdings already from the first day of his current employment. The employer's deposits and payments in respect of the severance components are nonrefundable to the employer, except where the employee withdrew money from the provident fund before he or his survivors become entitled to receive money from the provident fund in accordance with the articles – as a result of an event that grants such rights: death, disability, or retirement at the age of 60 or thereafter.

## Fringe benefits

### Holiday pay

Every salaried employee is entitled to annual vacation pay. The duration of the vacation is based on seniority, ranging from 10 to 20 days per annum.

### Sick pay

The entitlement period for sick pay is 18 days per annum (with a maximum aggregate of 90 days). The employee is not entitled to any compensation for the first day of sickness, 37.5% for the second and third days, and 75% from the fourth day and thereafter.

### Workers' compensation

An employee who is fired after having worked at the same employer for a continuous period of at least one year is entitled to severance pay of one month's salary for every year of service or part thereof. The salary used for the calculation is the employee's last salary.

### Supplementary severance pay

An employer who provides for severance pay is entitled to pay the supplemental severance pay of up to 8.33% to a personal pension provident fund in the name of the employee or to an annuity provident fund. An employer who does not transfer the payments for the supplemental severance pay on a regular basis shall pay the supplemental severance pay to the employee who is entitled to receive such payments.

The rights of an employee to old age pension, disability and survivor rights in a pension fund shall be in accordance with the articles of the pension fund in which the employee is insured and in accordance with the insurance contract.

The employee is entitled to select the pension fund or the annuity provident fund which he wants to be a member of within 60 days following commencement of employment. The employee must give written notice as to which pension fund or annuity provident fund he selected. If an employee does not give such written notice to his employer within the aforementioned time track, as to which fund he selected, the employer shall insure him in a new comprehensive pension fund. The employee will be entitled to transfer to another annuity provident fund only on condition that it contains death and disability coverage.

### Recreation pay

Employees with at least one year of seniority are entitled to recreation pay. The number of days is based on seniority, ranging from 5 to 10 days per annum. At present, for each day of entitlement, the employee receives an amount of between approximately NIS 300 – 350.

### Healthcare

Under the national health insurance law, every Israeli resident is entitled to receive medical care on a level stipulated by the Minister of Health in what is known as the "basket of services". A mandatory health insurance tax is collected by the NII. Salaried employees have the health tax withheld from their salaries.

## Employment protection legislation

Israel has a number of laws designed to protect workers' rights and prevent discrimination in the workplace.

**Equal Opportunity Law** – prohibits discrimination against workers or those seeking employment on the basis of: sex, sexual preference, marital status, parenthood, age, race, religion, nationality, country of origin, belief, or political association. Sexual harassment of employees or candidates for employment by an employer or his representative is prohibited.

**Minimum Wage Law** – by law, employees are entitled to a minimum wage, which is updated periodically. The guaranteed minimum wage cannot be waived and is unconditional. The current minimum wage to an employee over the age of 18 is NIS 3,850 a month. A part-time worker is entitled to the relative portion of the monthly minimum wage.

**Foreign Workers Law** – designed to regulate the employment of workers who are not Israeli citizens or residents and guarantee them fair working conditions. The employer must sign a written contract with the foreign worker (in a language understood by the worker), stipulating the terms of the agreement between the parties. The employer must obtain health insurance for the employee for the duration of the employment. The employer must provide the employee with adequate housing for the duration of his employment, plus an additional seven day period. The employer has the right to withhold amounts from the employee's salary to cover the costs of the health insurance and the housing.

### Unions

Most labor unions in Israel are united under the aegis of the Federation of Labor (the Histadrut). The Histadrut's Labor Union Division is active in protecting and furthering workers' rights in Israel, and it is the major player in the balance of power in the Israeli labor market, negotiating with the government, the employers and the workers.

The labor unions focus primarily on the following:

1 Conducting negotiations on a national scale and signing collective work agreement which include renewal and enforcement clauses.

2 Conducting negotiations for industry-wide agreements which include, among other things, pay rates and pay increases, compensation, expense reimbursements, and grants.

3 Guaranteeing fair wages for workers and preventing of erosion of salaries, including guaranteed minimum wages.

4 Protection of workers during strikes.

### Personnel limitations - foreigners/nationals

Employment of foreign workers requires both a special permit and work visa.

Application for a work permit must be made with the applicable department at the Ministry of Industry, Trade and Labor. The application must be made in writing by the prospective employer and must include, inter alia, details of the employer and the prospective employee and of his/her skills, justifying the issue of a work permit to a foreign worker.

The following documents must be filed with the application:

1 The employing company's certificate of registration/business license;

2 A copy of the employer's Form 102 issued by the National Insurance Institute;

3 An explanatory letter, detailing the need to employ a foreign employee instead of an Israeli resident/citizen;

4 Documents proving the employee's education and training (certificates, diplomas and resume);

5 An affidavit signed by or on behalf of the employer testifying to the accuracy of the details stated in the application and confirming the efforts made to locate a suitable employee in Israel (the affidavit constitutes an appendix to the application);

6 A certificate by an attorney or an accountant certifying that the person signing the affidavit is authorized to do so on behalf of the employer;

7 A document setting out the employee's personal details and the proposed terms of employment;

8 A contract of employment (which would usually obviate the need for submission of the documents).

9 A further affidavit by or on behalf of the employer (usually requested at a later stage of the application procedure) including an undertaking as to the minimum monthly salary to be paid to the employee; and

10 A confirmation by an accountant that the employer has the financial resources to pay the employee the said monthly salary.

Usually, it may be possible to obtain a work permit within 1-2 months from the date the application is field, in proper form and together with the necessary supporting documentation, is filed. Once the work permit has been issued, an application for a work visa must be submitted (together with such work permit) to the Ministry of Interior. If the application is accepted, the Ministry of Interior will then issue a visitor's work visa (B–1).

The Foreign Workers Law is a comprehensive law regulating various aspects of the employment of foreign workers in Israel. As of 2003, the initial fee to be paid upon applying for a permit is approximately US $116 and the annual fee payable for maintaining such permit is US $930 (in agriculture the annual fee is lower). In addition, the employer must procure medical insurance, provide other basic hiring necessities (such as adequate lodging facilities) for the foreign worker and may also be required to provide the authorities with appropriate securities in order to ascertain that the employer has complied with all legal obligations pertaining to the employment of foreign workers.

Under a law passed at the beginning of June 2003, employers of foreign workers (save for specific exceptions) are obliged to pay to the income tax authorities a levy of 8% in respect of the income paid by an employer to a foreign employee during the relevant tax year.

# Financial reporting and audit

## Background

The Companies Law 1999 distinguishes between a reporting corporation (a corporation whose shares or securities are listed for trade on a stock exchange or were offered to the public under a prospectus and held by the public) and a private corporation, and stipulates that a reporting corporation should present its financial statements in accordance with the Israeli Securities Law and Regulations, and that a private corporation should present its financial statements in accordance with the stipulations of the Companies Law.

According to Israeli law, every limited liability company, as well as other entities, is required to file a report once a year with the Israeli Companies Registrar. The report must include, among other things, audited financial statements.

In addition, reporting corporations are required to file their financial statements with the Israeli Securities Authority and the stock exchange on which the securities of the corporation are registered for trade. Such financial statements of a reporting corporation are required to be filed within 90 days after the balance sheet date of an annual reporting period.

Moreover, according to the Securities Regulations, a reporting corporation must file quarterly financial statements with the Israeli Securities Authority and the Israeli stock exchange. Such interim financial statements of a reporting corporation are required to be filed within 60 days after the balance sheet date of an interim reporting period.

The abovementioned financial statements of reporting corporations and other filings (such as immediate reports and press releases, etc.) are published on the web using a reporting system known as "Magna" (Hebrew acronym for "Electronic Fair Disclosure System"). This system enables every web surfer to access the information at *www.magna.isa.gov.il.* Furthermore, beginning in January 2008, Israeli public companies started to publish their filings using the Extensible Business Reporting Language (XBRL) - an electronic language used for reporting of financial and other data, the worldwide use of which has accelerated lately. The XBRL provides major benefits in the preparation, analysis and communication of business information and is characterized by the option to mark parameters with smart tags.

## Generally Accepted Accounting Principles and Reporting Requirements in Israel

### Reporting corporations

In November 2005, the Israel Accounting Standards Board stipulated that the financial statements of all domestic reporting corporations which are subject to the Israeli Securities Law shall be prepared and presented in accordance with International Financial Reporting Standards (IFRS) starting January 1, 2008 (i.e. the financial statements of the first quarter of 2008 were the first financial statements to be prepared in accordance with IFRS).

In accordance with the provisions of International Financial Reporting Standard No. 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1), the opening IFRS balance sheet at the date of transition to IFRS was determined to be January 1, 2007.

In light of the foregoing, during fiscal years 2006 and 2007, Israeli reporting corporations were required to present certain additional information within the Management Discussion and Analysis and within the financial statements regarding the effect of the first-time adoption of IFRS.

In addition to the disclosures required or allowed under IFRS, the Israeli Securities Law and Regulations require reporting corporations to present certain additional disclosures (such as pro-forma information, separate financial statements etc.).

### Private corporations

Private corporations are required to prepare their financial statements in accordance with Generally Accepted Accounting Principles in Israel (Israeli GAAP), established by the Israel Accounting Standards Board.

Currently, Israeli GAAP may differ in certain respects from International Financial Reporting Standards. Nevertheless, the standards issued recently by the Israel Accounting Standards Board are based mainly on International Financial Reporting Standards.

### Branches of foreign companies

The chapter "Background" above applies also to every Israeli corporation which is a branch of a foreign corporation, since such branches are incorporated in Israel and registered with the Israeli Companies Registrar.

### A foreign company which issues securities to the public in Israel

A foreign company (a company registered abroad, the control of which is not in the hands of Israeli residents, and more than 50% of whose revenues are derived from sources outside of Israel) wishing to issue securities to the Israeli public should include in its prospectus and in its ongoing filings financial statements presented in accordance with U.S. GAAP or in accordance with IFRS. These financial statements may be audited in accordance with the type of rules or standards that are applied in these financial statements (U.S. GAAP or IFRS, respectively). Moreover, a foreign issuer that prepares its financial statements in accordance with U.S. GAAP is required to present a reconciliation to International Financial Reporting Standards.

The financial statements and other filings may be written in a language other than Hebrew, provided that they include an accompanying translation into Hebrew and a confirmation of the translator of the accuracy of the translation and of his consent to the inclusion of the translation and the confirmation in the reports.

Moreover, if the currency in which the reports are prepared is not New Israeli Shekels (NIS), the reports shall include a translation into NIS.

**Double-listed companies (in Israel and in certain foreign stock exchanges[32])**
Double-listed companies that issue securities in Israel shall remain in the same reporting environment that they were in prior to the public issue and can continue reporting in accordance with the same reporting standards they used for the foreign stock exchange abroad, with no additional requirements (i.e. the issuer shall furnish the report that was submitted or published abroad). It should also be noted that an Israeli reporting corporation that is subsequently listed also on foreign stock exchange can report in accordance with the requirements of the foreign stock exchange abroad and discontinue reporting under local Israeli requirements.

Regarding this issue, documents originally published or submitted by the corporation in the English language may be included in the original language.

### Generally Accepted Auditing Standards in Israel[33]
The Institute of Certified Public Accountants in Israel (the "Institute") is responsible for setting and updating Generally Accepted Auditing Standards in Israel (Israeli GAAS) which are in general similar to international auditing standards and principles. In addition, the Institute regularly publishes guidelines for recommended auditing procedures to be applied by auditors.

According to the abovementioned auditing standards,  auditors in Israel are required to perform an audit in order to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the company, the results of its operations, changes in its stockholders' equity and cash flows, in conformity with the type of rules or standards applied in these financial statements (i.e. IFRS and Israeli Securities law and Regulations for a reporting corporation and Generally Accepted Accounting Principles in Israel for a private corporation).

In performing the audit, the auditor is required to comply with the Auditor's Regulations (Auditor's Mode of Performance), professionally and prudently. Furthermore, the auditor is required to perform the audit independently and objectively.

According to Israeli law, every limited liability company, as well as other entities, must appoint an independent certified public accountant in order to audit its annual financial statements and to render an opinion thereon (auditors' report). In addition, the interim financial statements distributed to the public shall contain a review report of the CPA, further to his review of the financial statements.

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[32] The Israeli Securities Law dual listing rules refer to the following stock exchanges as "Foreign stock exchange":  New York Stock Exchange (NYSE), American Stock Exchange (AMEX), NASDAQ, London Stock Exchange and National Association of Securities Dealers Automated.

[33] Please note that the financial statement of a double-listed company that is registered on an American stock exchange (NYSE, NASDAQ or AMEX) are required to be audited in accordance with the standards of the Public Company Accounting Oversight Board (United States).

## Sarbanes Oxley Act

In May 2009, the Israel Securities Authority issued a regulation applying provisions to public companies in Israel, similar in nature to the provisions of articles 302 and 404 of the Sarbanes Oxley Act (hereinafter – "SOX"), commencing in 2010.

The proposed regulation requires a gradual implementation of SOX, starting back in 2009, through a significant milestone in the financial statements of June 2010, with full implementation commencing with the financial statements as of December 31, 2010.

The regulation requires companies, their CEOs, and Vice Presidents - Finance to declare in the periodic report, that the internal control framework pertaining to financial reporting is effective. In addition, companies and their executives are required to declare in their quarterly financial statements that since the previous financial statements, there were no changes that impact on the conclusion that the internal control framework pertaining to financial reporting is fair. The declarations made by the companies have to be certified by the auditors of the companies.

In the explanatory notes to the regulation, the Authority sets out what is expected of the companies, and according to the notes, in order to maintain an effective internal control framework, a company is required to address four major components:

1 **Entity-level controls (ECL)** – such controls may have an impact over the company as a whole since they constitute the infrastructure for the nature of the activities carried out by the organization. Strong entity-level controls are the foundation blocks of an effective internal control framework.

2 **The closing process of the financial statements** – The activities involving collection of data for the trial balances, stipulation and implementation of accounting policy, required adjustments for purposes of financial statement presentation, setting out the financial statements and approval of the financial statements by the relevant organs of the company.

3 **Information Technology General Controls (ITGC)** – Lateral controls in the information systems that have a connection with financial reporting, impacting on the ability of the entity to save, store, and retrieve data, to block access based on the user's position in the company, etc.

4 **Testing a small number of processes that are crucial for financial reporting and disclosure** – Every company is required to ascertain, based on a risk assessment of the issue of disclosure and reporting, what the critical processes are that impact on the reporting. For example, the process of gathering the data from subsidiaries and investee companies of a holding company, or the processes of sales, inventory, purchasing, and payroll of manufacturing companies, etc.

In the first phase, the companies will be required to prepare detailed documentation of the aforementioned components, in the form of flow charts, verbal descriptions, and risk and control matrices, and to assess whether the planning of the controls were effective. In the second phase, the companies will be required to assess the effectiveness of the operation of the controls through tests conducted on the controls of the aforementioned processes.

An investor who is interested in taking a company public on the Israeli stock exchange or in issuing debentures on the exchange has to be aware of the provisions of the regulation and the ramifications thereof.

# Tax

"In principle, the tax system in Israel is mostly a personal one…"

## The tax regime in Israel

### Personal tax system

In principle, the tax system in Israel is mostly a personal one.

As of January 1, 2003, all Israeli residents, both individuals and corporations, are liable to Israeli tax on their worldwide income, regardless of whether this income was generated or derived in Israel or abroad.

Foreign residents, both individuals and corporations, are liable to Israeli tax only on transactions and income that can be attributed to an Israeli source.

In cases where income is subject to tax in both Israel and other countries, and in order to prevent double taxation, the tax liability is subject to a system of tax treaties and tax relief (credits).

### Residency

A corporate entity is considered to be an Israeli resident if one of the following conditions is met:

5 The entity was incorporated in Israel;

6 The entity's control and management are operated from Israel.

The location of "Management and control" is determined mainly on the basis of where the strategic decision-making and business policy of the entity take place.

An individual is considered to be an Israeli resident if the "center of his life" is in Israel. The "center of life" is determined according to the individual's familial, economic and social interests. Also, there are two presumptions based on the individual's duration of presence in Israel – a "days test", and if one of the tests is valid, then the individual is presumed to be an Israeli resident. Both the individual and the tax assessor can contradict these presumptions.

### Tax base

Tax is paid on "taxable income", defined as income, net of deductible expenses, tax losses and tax-exempt income.

In general, an individual's taxable income is calculated on the cash basis, and a company's taxable income is calculated on the accrual basis. In cases where a company does not have a significant amount of inventory and its financial statements are prepared on the cash basis, it is possible to compute taxable income under the cash basis, subject to certain conditions.

### Tax year, tax returns and reports

The tax year usually ends on December 31.

Annual tax returns have to be filed at stipulated times during the year, based on the relevant tax year. A company's tax return has to be certified by an Israeli C.P.A. (Certified Public Accountant)

Foreign residents have to file an annual tax return in Israel, for the year during which they had taxable income in Israel, but they may be exempt from filing tax returns pertaining to certain income from which full tax was withheld at the source.

In addition, a report on capital gains and capital losses (excluding capital gains from real estate) has to be filed within 30 days following the sale date.

There are also separate reporting deadlines (January 31 and July 31 of each tax year) for capital gains that derive from traded securities.

### Tax advances

Advances on account of taxes have to be paid throughout the year. There are different types of tax advances as follows:

- "Ordinary" advances (usually computed as a percentage of the revenue turnover);
- Advances due to certain types of foreign income (only for individuals);
- Advances due to capital gains;
- Advances due to capital gains, which derive from traded securities;
- Advances due to non-deductible expenses.

### Tax planning required reporting

As of January 1, 2007 there are a few transactions that have to be reported as "Reportable Tax Planning". The regulations are in force in respect of the 2007-2009 tax years and include directives relating to transactions between related parties, acquisition of different types of foreign companies, as well as directives relating to real estate transactions and types of transactions which might reduce the VAT liabilities involving non-profit organizations.

### Tax pre-ruling

As of January 1, 2006, the director of the Israeli tax authority is allowed, upon the request of any taxpayer, to give, in advance, a decision regarding the tax liability of the taxpayer, including the consequences of that liability, for any transactions performed or for any income derived by that taxpayer. This procedure is called a "Pre-Ruling". These decisions might be publicized, without the names of the taxpayers.

## Companies

### Tax base

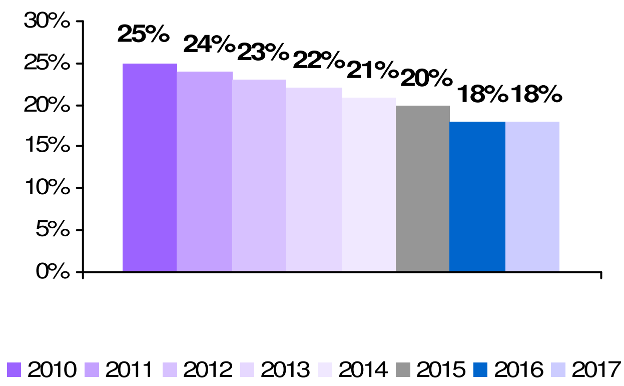
As mentioned above, Israeli corporations are taxed on transactions and income on a global basis while foreign corporations are taxed on transactions and income that can be attributed to an Israeli source; all subject to a system of tax relief and tax treaties. A company's taxable income is usually calculated based on the accrual basis.

### Protection against the effects of inflation or changes in the US dollar exchange rate

In the past, in order to avoid erosion of corporate equity in times of high inflation, Israeli companies implemented the Income Tax Law (Adjustment for Inflation) 1985, pursuant to which taxable income was adjusted for changes in the Israeli Consumer Price Index. Since inflation in Israel in recent years has not been significant, the Income Tax Law (Adjustment for Inflation) 1985 was cancelled as from the 2008 tax year, subject to provisions that were set out. Companies which meet specific conditions can report their taxable income in US dollars.

### Corporate tax rate

The corporate tax rate is 26% for the 2009 tax year. The corporate tax rate for the subsequent years was set as follows:




### Deductibility of expenses

In general, expenses are deductible from taxable income, on condition that they were solely and entirely incurred in the generation of income in the same tax year. Depreciation is deductible for tax purposes under the straight-line method with respect to fixed assets used in generating income, at depreciation rates stipulated in the Income Tax Regulations.  Expenses, which are non-deductible, include, among other things, the following:

- Private expenses
- Capital expenditures for the purchase or betterment of assets, except under certain circumstances. Such expenses will be deductible as part of depreciation or added to the cost base.
- Certain expenses stipulated by law are partially deductible, such as: business travel abroad, car expenses, etc.
- Provision for doubtful debts before they are determined to be bad debts.
- Interest expenses for loans taken to acquire assets are not deductible in the period before the assets were put into use for generating revenue. These expenses are capitalized as part of the cost of the asset and they may be allowed as depreciation deductions, or when computing profit (loss) which results from the sale of the asset.

### Tax on dividend income

Dividends received by an Israeli company from other Israeli companies are not part of taxable income and therefore are not taxed.

Dividends received by an Israeli company from outside of Israel are subject to tax. The tax rate is 25% with receipt of a tax credit in respect of the tax withheld at the source from the distributed dividend (hereinafter – "direct credit"). Notwithstanding, if certain conditions are met, the company can opt for the corporate tax rate with receipt of a tax credit in respect of the corporate tax paid abroad on the income from which the dividend was distributed (underlying credit) plus the direct credit.

### Offset of losses (except for capital losses)

Losses generated in Israel:

*A. Business losses*

Business losses generated during the current year can be offset against income from any source on condition that had they been profits, they would have been taxable in Israel. The balance of business losses not offset in the year in which they arose, can be carried forward to future years and may be offset only against business income (as opposed to "passive" income), generated in Israel or abroad, or against a capital gain arising from the sale of an asset which was used in generating business income in Israel or abroad.

The taxpayer is entitled not to offset these losses against capital gains, interest and dividends, which are taxed at a tax rate that does not exceed 20%.

*B. Losses from a passive source*

Losses incurred from renting a building (which has not reached the level of a "business") can be offset only against income from the same property in the following years. Losses from other Israeli passive sources cannot be offset.

Losses generated abroad:

*A. General*

Business losses and passive losses, the source of which is from abroad, can be offset only if tax would actually have been paid in Israel, if these losses had been profits (after taking into account tax credits which the taxpayer would have received for taxes paid abroad on those profits).

*B. Business losses*

Losses incurred outside of Israel by an Israeli resident from a business that is not managed and controlled from Israel, can be offset first against taxable income in the current year from any business outside of Israel, including capital gains arising from the sale of an asset which was used in generating business income abroad.

The balance of the loss can be offset against taxable passive income from abroad (which remains in the current year after offset against losses from a passive source, as below).

The unutilized balance of a loss can be carried over to following years, one after another, and can be used to offset income from a business abroad, including capital gains arising from the sale of an asset which was used in generating business income abroad.

Losses incurred outside of Israel by an Israeli resident from a business that is run and controlled from Israel (the "controlled business") will be treated similar to the manner described above with some expansion.

*C. Losses from a passive source*

A loss deriving from a passive source abroad (the sources include, among others, interest, linkage differences, dividends, royalties and rent) will be offset against taxable passive income from abroad. Notwithstanding the above, losses incurred from a passive rental of a building abroad, which resulted from depreciation, will be able to be offset also against the capital gain which resulted from the sale of that building.

The unutilized balance of the passive loss from abroad can be carried forward year after year and be offset against passive income from abroad.

The taxpayer is entitled not to offset these losses against capital gains, interest and dividends, which are taxed at a tax rate that does not exceed 20%.

## Capital gains tax

*Tax Liability*

Capital gains tax is imposed on the sale by residents of Israel of any capital asset in Israel or abroad.

Capital gains tax is imposed on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the relevant country of residence provides otherwise.

In general, a capital gain is taxed on the date of the realization (sale) of the capital asset.

*The components of the capital gain*

Capital gains are defined as the excess of the proceeds received (net of selling expenses) over the cost and the betterment expenses, both depreciated for tax purposes, of the sold asset.

The gain on the sale of capital assets is composed of two components

- **The inflationary component** is the increase in the cost of the asset, due to the increase in the Israeli Consumer Price Index, since the sold asset was purchased until the sale date. Notwithstanding the above, in case of foreign residents who purchased assets in foreign currency, and in case of an individual who purchased a security that is linked to or denominated in foreign currency – up to the increase in the exchange rate of the currency of purchase. This “inflationary” component is exempt from tax, except for the tax at a rate of 10% that would be imposed on the inflationary capital gain arising from the purchase date until December 31, 1993.

- **The real gain** is the excess of the total capital gain over the inflationary surplus. Real capital gains tax derived from assets, except for securities, real estate located in Israel and rights in a "real estate union" [34]- is 25%.

For assets, except for un-purchased goodwill, which were purchased before January 1, 2003, the real capital gain, which refers to the period from the purchase date until December 31, 2002, will be taxed at the corporate tax rate (26% for 2009).

*Real capital gains tax derived from securities*
The tax rate applicable to the capital gain resulting from the sale of traded or un-traded securities will be the same as mentioned above, unless specified otherwise below.

For un-listed securities that were purchased prior to January 1, 2003, the real capital gain, which refers to the period from the purchase date until December 31, 2002, will be taxed at the corporate tax (26% for 2009).

Companies which, prior to January 1, 2006, were not subject to the Income Tax Law (Adjustments for Inflation) – 1985, will be taxed at a rate of 25% on the capital gain on the sale of securities in the period 2006-2009. In 2010 and thereafter, a capital gain will be taxed at the corporate rate, which in 2010, is expected to be 25%.

The real capital gain on the sale of securities by a company which, prior to January 1, 2006, was subject to the provisions of the Adjustment Law, will be taxed at the corporate tax rate applicable in the year of the sale, as follows: 2009-26%, 2010-25%.

There is also special tax treatment for securities that were purchased before they were listed for trade on the stock market.

Part of the real capital gain that resulted from the sale of un-listed shares or listed shares in certain conditions of a company that is taxed in Israel might be taxed at a lower rate, under certain conditions: The part of the real gain which reflects the available profit for distribution that accrued up to December 31, 2002 is liable for tax at rate of 10%. The part that reflects the available profit for distribution that accrued after December 31, 2002 is liable for the tax rate imposed on the dividend.

*Offset of capital losses*
A capital loss, generated in Israel or abroad, can be offset, based on the place where it would have been taxable had it been income.

Capital losses may be set-off against capital gains and real-estate betterment gains.

[34] A **"real estate union"**is defined as an organization whose total assets, directly or indirectly, are real estate in Israel, except for organizations whose rights are traded on the stock exchange market.

For this matter, cash, shares, bonds, other securities and chattels, that are not used in generating the income of the organization or which are used in generating the income of the organization but are not significant to the main goals of the organization, will not be deemed to be assets of the organization.

Capital losses deriving from securities may be set-off also against income from interest and dividends paid on the same security in respect of which the loss was created, or on other securities if the tax rate applicable to such interest income or dividend does not exceed 25%

Losses generated from the sale of assets abroad, should be off-set first against capital gains generated from assets abroad.

"The CFC rules apply in cases where a controlled foreign company has profits, which arise mostly from passive income produced in the tax year and such profits were not distributed to the shareholders during that year …"

The unutilized balance of the loss can be carried over to following years, one after another, and can be used to offset only against capital gains/ real-estate betterment gains.

**CFC – Controlled foreign company**

There are CFC rules in Israel that impose tax on Israeli shareholders that are viewed as having received a "theoretical dividend" from a "controlled foreign company" in which they own at least 10% of one of the means of control.

The CFC rules apply in cases where a controlled foreign company has profits, which arise mostly from passive income produced in the tax year, and such profits were not distributed to the shareholders during that year. In such cases, the Israeli shareholder, as long as he is a "controlling owner" (i.e. he is an Israeli resident who holds, directly or indirectly, alone or together with others, at least 10% of one of the means of control in the controlled foreign company) will be viewed as if he received as a dividend his share of these profits (a "theoretical dividend"). At the same time, the Israeli shareholder will be entitled to a "theoretical tax credit" for taxes that would have been paid abroad had the dividend actually been distributed.

A "controlled foreign company" is defined as a foreign-resident company that meets, in general, the following conditions:

1 Its rights are not registered for trade on the stock exchange, or they are partially registered but less than 30% of the rights are offered to the public.

2 The majority of its revenues in the tax year are from passive sources or the majority of its profits come from passive revenues.
For this purpose, **passive revenue** is each of the following revenues, as long as they are not viewed as business income according to Israeli tax law: dividend income, interest, royalties, rents, or consideration received for selling an asset not used in generating business income. Passive revenue also includes all income arising from passive revenues, even if it is business income.

3 The tax rate applicable to the passive revenues in its country of residence does not exceed 20%.

4 More than 50% of one or more of the means of control are held, directly or indirectly, by Israeli residents; or more than 40% of one or more means of control therein are held by Israeli residents who, jointly with a relative of one or more of the Israeli residents, owns more than 50% of the means of control in the company; or the Israeli residents have the right to prevent the company from making significant managerial decisions.

**Foreign Vocation Company**

There are "Foreign vocation company" rules in Israel that impose tax on a foreign company's income, as if it had been generated by an Israeli company, in cases where it was established mainly by professional Israeli residents who provide their professional services via this company.

The "Foreign vocation company" is defined as a foreign-resident entity, which meets, in general, the following criteria:

1 If it is a company, then it is owned by not more than 5 persons and it is not a company in which the public has an interest;

2 At least 75% of its means of control is held, directly or indirectly, by Israeli individuals;

3 Controlling owners (i.e. an Israeli resident who holds, directly or indirectly, alone or together with others, at least 10% of one of the means of control in the foreign vocation company) or their relatives who own, directly or indirectly, more than 50% of the controlling means in the company, provide their special professional services via a foreign vocation company;

4 Most of its revenues or profits derive from "**special professions**" (as defined in the law and refer generally to the liberal professions).

The income of a "Foreign vocation company" that derives from a "special profession" will be deemed to be income that is generated by an Israeli company, even though it is actually earned abroad, and therefore it will be taxed in Israel based on the percentage of the Israeli shareholders (directly or indirectly) in it. For this purpose and also for the purpose of a dividend distribution, the company will be deemed to be managed and controlled from Israel.

The law allows a tax credit with respect to the foreign tax that was paid abroad by the "Foreign vocation company".

## Tax benefits and exemptions

**General**

In order to encourage activity in certain areas, Israel has set down various tax benefits (or prevented tax barriers from being impediments to business activity) as follows:


1 Benefits to investors in the following areas, by recognizing the capital investment as a deductible expense, subject to various conditions:

- Financing of R & D
- Investment in oil exploration
- Investment in films

"In order to encourage activity in certain areas, Israel has set down various tax benefits…"

2 Reorganization of companies is exempt from tax, except for a reduced property purchase tax at a rate of 0.5%:

- Transfer of assets to companies in return for shares
- Mergers
- Spin-offs
- Splits

3 Encouragement of industrial activity by these (a partial list):
- Reduced income tax rate or income tax exemption and reduced tax rate imposed on dividends given to a “Beneficiary Plant” (see below).
- Accelerated depreciation of equipment that is owned by an industrial company and is used in an industrial.
- Deduction of the expenses incurred in respect of a public issuance of shares.
- Consolidated tax reports.
- Depreciation of purchased know-how and patents.
- Grants given to an “Approved Enterprise”
- Grants for research and development activities (subject to payment of royalties to the State).
- Reduced income tax rate on payroll that is paid to employees who work in shifts.

4 Encouragement of businesses in Eilat.
- Partial refund to the employer of the tax that he withheld at the source from the salaries he paid to his employees.
- Exemption from V.A.T. or zero V.A.T on certain transactions that take place in Eilat or on certain transaction with residents in Eilat.

5 Encouragement of agriculture activity by awarding it “approved enterprise” status.

6 Public institutions are entitled to a tax exemption if they are active in the following public endeavors: religion, culture, education, science, health, welfare, sports, or other public endeavors that were approved for this matter. The tax exemption is subject to the provisions stipulated in the law. Charitable contributions to approved public institutions entitle the contributor to a tax credit.

**Law for Encouragement of Capital Investment**

The Law for the Encouragement of Capital Investment, 1959 (the “Investment Law”) was amended during 2005, so as to currently provide two major benefit tracks, as follows:

An Approved Enterprise under the “cash grants track”

This track has to be approved by the “Investment Center” of the Israeli Ministry of Industry and Trade and it is relevant to entities (such as companies and certain partnerships) that have, among other things, an industrial plant or tourist plant (such as a hotel) and fulfill a few criteria.

An entity having Approved Enterprise status under the “cash grants track” is entitled to the following benefits:

- Israeli Government cash grants (computed as a percentage of the approved capital investment, which differs based on the location of the plant and the chosen track);

- Reduced corporate tax during the “benefits period”, as defined in the Investment Law (25%-0%, depending on the “foreign investment in the entity” and the plant’s location;

- Accelerated depreciation on buildings and equipment;

- Reduced tax on dividends that are distributed from Approved Enterprise profits during the "benefit period", as defined in the Investment Law (15% instead of 20%/25% for individual shareholders or instead of 0% for a corporate shareholder).

### A Beneficiary Enterprise

The Beneficiary Enterprise replaces the "alternative track" of an Approved Enterprise that was entitled to a reduced corporate tax rate, accelerated depreciation and reduced tax on dividends that were distributed from profits derived from an Approved Enterprise.

This track does not need approval from the "Investment Center" of the Israeli Ministry of Industry and Trade or from the income tax authorities, but in order to provide for greater certainty, the company may apply to the income tax authorities for a pre-ruling that certain conditions, specified in the Investment Law, are fulfilled by the company.

In order to be entitled to the benefits of **Beneficiary Enterprise**, the entity must meet the conditions specified in the Investment Law:

a The enterprise must be an industrial plant or a hotel.

b The enterprise has to contribute to the economic independence of Israel and to the gross local product of Israel.

c The enterprise has to be a "competitive plant" as defined in the Investment Law.

Companies which have an industrial plant or hotel (including a parking lot), and which meet certain criteria that are specified in the Investment Law, can enjoy the following benefits that are granted to a Beneficiary Enterprise:

- Accelerated depreciation on buildings and equipment;

- Reduced corporate tax during the "benefits period", as defined in the Investment Law and reduced tax on dividends that are distributed from the profits of the Beneficiary Enterprise during the "benefits period", as defined in the Investment Law (instead of 20%/25% for individual shareholder or 0% for a company shareholder), as follows:

| "Development region" in which the plant is located | Track | Benefits Period | Corporate tax rate during "the benefits period" | Tax on dividends distributed during "the beneficiary period (*) | Tax imposed on the entity due to the distributed exempt profits (including the amount of the gross dividend ) |
|---|---|---|---|---|---|
| A | "The green track" | 10 years. Companies with huge foreign investments – 15 years (******) | Tax exemption | 15% (*****) | Up to 25% depending on the "foreign investment" in the corporation |
| | "The Ireland track" | 10 years. Companies with huge foreign investments – 15 years (******) | 11.5% | 15% (*****)<br>4% for dividend distributed to a foreign resident | - |
| | "The giant investment track"(**) | 10 years. Companies with huge foreign investments – 15 years | Tax exemption | Exempt from tax | - |

| | | | | | |
|---|---|---|---|---|---|
| "Beneficiary area" in region A | "The giant investment track"(***) | 10 years Companies with huge foreign investments – 15 years | Tax exemption | Exempt from tax | - |
| B (****) | | 7 years<br><br>Companies in foreign investments – 10 years<br><br>Companies with huge foreign investments – 15 years in certain conditions | For the first 6 years – tax exemption<br><br>For the remaining years - 10%-25%, depending on the "foreign investment" in the corporation (*******) | 15% (*****) | Up to 25%, depending on the "foreign investment" in the corporation |
| Other (****) | | 7 years<br><br>Companies in foreign investments – 10 years<br><br>Companies with huge foreign investments – 15 years in certain conditions | For the first 2 years – tax exemption<br><br>For the remaining years – 10%- 25% depending on the "foreign investment" in the corporation (*******) | 15% (*****) | Up to 25% depending on the "foreign investment" in the corporation |

(*) If the shareholder is a foreign resident, the tax rate is subject to the provisions set out in the tax treaty.

(**) This track applies to a "beneficiary enterprise", which is an industrial enterprise located in development area A, where the minimum qualifying investment made was in an amount of NIS 900 million or more. Also the revenues of the company which owns the beneficiary enterprise (hereafter: the "beneficiary company") or group of companies to which the beneficiary company belongs, amounted to NIS 20 billion or more in the year preceding the year in which the minimum qualifying investment was started, or the three year average preceding that year amounted to NIS 20 billion.

In addition to this, the ministers are allowed to lower the threshold so that the above benefits can be granted even when the minimum qualifying investment is only NIS 600 million or more, and the total revenues of the beneficiary company or group of companies to which the beneficiary company belongs are NIS 13 billion or more, if they determine, on the basis of economic opinions, that the investment will make a significant contribution to the gross local product, and to the overall economy and industry in Israel.

(***) This track applies to a "beneficiary enterprise", which is an industrial enterprise located in development area A which is a "qualifying area", (an area which is south of the 75 degree latitude line or north of the 258 degree latitude line) where the minimum qualifying investment made was in an amount of NIS 600 million or more. Also the revenues of the beneficiary company or group of companies to which the beneficiary company belongs, amounted to NIS 13 billion or more in the year preceding the year in which the minimum qualifying investment was started, or the three year average preceding that year amounted to NIS 13 billion.

(****) In addition to this, the ministers are allowed to determine that an exemption from corporate tax be granted for the entire period that the enterprise enjoys the benefits granted to a beneficiary enterprise that is located in development area B or another area, that invested the minimum qualifying investment of NIS 900 million or more, and whose total revenues of the beneficiary company or group of companies to which the beneficiary company belongs amounted to NIS 20 billion or more, in the year preceding the year in which the minimum qualifying investment was started, or the three year average preceding that year amounted to NIS 20 billion (the "giant investment track"), if they determine, on the basis of economic opinions, that the investment will make a significant contribution to the gross local product, and to the overall economy and industry in Israel.

(*****) If 12 years have not yet elapsed from the end of the benefit period. If the enterprise is owned by company with foreign investments, the limitation does not exist.

(******)The period of benefits may in no event exceed the 12 years from the year in which the program was activated.

(*******)As mentioned above, income derived from a Beneficiary Enterprise is generally subject to a tax rate of 25%. However, further reductions in tax rates depending on the percentage of the non-Israeli investment in a company's share capital (conferring rights to profits, voting and appointment of directors) and the percentage of its combined share and loan capital owned by non-Israeli residents, would apply. The tax rate would be 20% if the non-Israeli investment level is 49% or more but less than 74%, 15% if the non-Israeli investment level is 74% or more but less than 90%, and 10% if the non-Israeli investment level is 90% or more. The lowest level of foreign investment during the year will be used to determine the relevant tax rate for that year.

### Law for the Encouragement of Industry (Taxes), 1969

The Law for the Encouragement of Industry (Taxes), 1969, which is referred to as the Industry Encouragement Law, defines an Industrial Company as a company that is a resident of Israel, of which 90% or more of its income in any tax year, other than of income from defense loans, capital gains, interest and dividends, is derived from an Industrial Enterprise owned by it. An Industrial Enterprise is defined as an enterprise whose major activity in a given tax year is industrial production.

"An Industrial Enterprise is defined as an enterprise whose major activity in a given tax year is industrial production.."

The following corporate tax benefits, among others, are available to Industrial Companies:

- amortization of the cost of purchased know-how and patents over an eight-year period for tax purposes;
- accelerated depreciation rates on equipment and buildings;
- under specified conditions, an election to file consolidated tax returns with additional related Israeli Industrial Companies; and
- expenses related to a public offering are deductible in equal amounts over three years.

### Tax benefits for research and development

Israeli tax law allows a tax deduction for expenditures in the year incurred, including capital expenditures, in scientific research and development projects, if the expenditures are approved by the relevant Israeli government ministry and the research and development are for the promotion of the enterprise. Expenditures not so approved are deductible over a three-year period.

### Inter-company transactions and transfer pricing

In November 2006, transfer-pricing regulations were legislated and publicized in Israel.

These regulations are in effect regarding international transactions conducted between Israeli residents and foreign related parties. The regulations stipulate that the Israeli tax authorities have the right to check these transactions and to assess the Israeli tax liability according to the rules set out in the regulations.

The new legislation requires such international transactions between related parties to be reported for Israeli tax purposes at arm's length (market-based) terms and they reinforce this by requiring a transfer pricing study to be prepared according to a prescribed method.

Taxpayers must be able to furnish their transfer pricing study within 60 days after any demand made by the Israeli Tax Authority.

In addition, the new regulations set out the annual reporting obligations of Israeli taxpayers who conducted such international transactions during the tax year.

## Individual taxation

### General

Taxation in Israel is based on the individual method. Accordingly, as of 2003, all Israeli residents are liable to payment of tax in respect of their entire income worldwide.

Foreign residents are also liable to tax on income generated or derived in Israel, subject to source rules and double taxation treaties signed between Israel and the relevant countries.

### Marginal individual tax rates

We present below a table of the tax rates applicable to individual taxable income, for the 2009 tax year (in NIS). The highest marginal individual tax rate will be reduced gradually over the period 2009-2010 (2009-46%; 2010 and thereafter-45%). In addition, the tax brackets will be expanded gradually over these years.

| Annual income (NIS) | Cumulative income (NIS) | Tax rate(*) | Tax (NIS) | Cumulative tax (NIS) |
|---|---|---|---|---|
| Up to 55,080 | 55,080 | 10% | 5,508 | 5,508 |
| Next 42,840 | 97,920 | 15% | 6,426 | 11,934 |
| Next 49,080 | 147,000 | 23% | 11,288 | 23,222 |
| Next 64,200 | 211,200 | 30% | 19,260 | 42,482 |
| Next 243,480 | 454,680 | 34% | 82,783 | 125,265 |
| Above 454,680 | | 46% | | |

(*) The tax rates of 10%, 15%, 23% and 30% are levied only on taxable income resulting from "personal exertion" or taxable income of individuals that are at least 60 years old in the reported tax year.

"All Israeli residents are liable to payment of tax in respect of their entire income worldwide…"

For income of an individual that is under the age of 60 in the relevant tax year, that is not produced from personal exertion, excluding income that is levied with limited tax rates, the following tax rates will apply:

| Annual income (NIS) | Cumulative income (NIS) | Tax rate(*) | Tax (NIS) | Cumulative tax (NIS) |
|---|---|---|---|---|
| Up to 147,000 | 147,000 | 30% | 44,100 | 44,100 |
| Next 64,200 | 211,200 | 32% | 20,544 | 64,644 |
| Next 243,480 | 454,680 | 34% | 82,783 | 147,427 |
| Above 454,680 | | 46% | | |

### National Insurance tax (Social Security) and National Health tax

Every Israeli resident must pay Social Security tax and a national health tax.  For salaried employees – the employer is required to withhold both taxes (employer and employee) from the employee's monthly salary.  A self-employed individual is required to make Social Security and national health tax advance payments on a regular basis.

In addition to the employee's share, the employer is also required to pay his part of the Social Security tax (but not health tax) on the employee's salary.

The minimum and maximum monthly salaries, on which Social Security and national health taxes are paid, are as follows:

| Salary per month | Up to NIS 4,598 | From NIS 4,598 to NIS 76,830 |
|---|---|---|
| Employee | 3.85% | 12% |
| Employer | 3.5% | 5.43% |
| Total | 7.35% | 17.43% |
| Self-employed | 9.82% | 16.23% |

### Capital gains

Capital gains derived from assets, except for securities

Local taxes are levied on property. There is no wealth tax, inheritance tax or estate duty in Israel, although capital gains tax may arise on assets received through an inheritance or on the sale of the asset.

The maximum real capital gains tax derived from assets is 20%, unless the asset was purchased prior to 1.1.2003. In such a case, the capital gains tax rate will be divided on the basis of the linear method:

- **Real capital gains deriving prior 1.1.2003**- will be taxed according to the individual's marginal tax rate.

- **Real capital gains deriving after 1.1.2003**- will be 20%, and is implemented on a linear basis.

The real gain is the excess of the total capital gain over the inflationary surplus.

The inflationary capital gain will be exempt from tax, except for tax at a rate of 10% which is imposed on the inflationary capital gain arising from the purchase date until December 31, 1993.

Under certain circumstances, the capital gain may be exempt from tax.

*Capital gains tax deriving from securities*

The tax rate which is applicable to the real capital gain resulting from the sale of traded or un-traded securities is 20%, unless specified otherwise.

A tax rate of 15% (or 20% for a "significant shareholder") is applicable to an individual in respect of the nominal capital gain that derived from the sale of bonds or commercial securities that are not fully linked to the consumer price index or to a foreign currency exchange rate.

A tax rate of 25% is applicable to an individual on the sale of securities in which he is classified as a "significant shareholder"[35] at the time of sale or any time during the preceding 12-month period.

In case the sale of securities is classified as business income for the seller, than the tax rate which will be imposed is the individual's marginal tax rate.

For un-listed securities that were purchased prior to January 1, 2003, the real capital gain, which refers to the period from the purchase date until December 31, 2002, will be taxed at the individual's marginal tax rate. The inflationary capital gain will be exempt from tax, except for tax at a rate of 10% that is imposed on the inflationary capital gain arising from the purchase date until December 31, 1993.

Part of the real capital gain that resulted from the sale of shares of a company that is taxed in Israel might be taxed at a lower rate, under certain conditions:

- The part of the real gain which reflects the available profit for distribution that accrued up to December 31, 2002 is liable for a 10% tax rate.

- The part that reflects the available profit for distribution that accrued after December 31, 2002 is liable for the tax rate imposed on the dividend (25% / 20%).

## Tax on dividends

Dividends distributed by a company are taxed at the individual's level according to the type of company distributing the dividend. The following table clarifies the possible tax rates:

| Distributor | Tax rate |
|---|---|
| An ordinary company (one which is not subject to special provisions by law) (1) | 20% / 25% |
| "Approved Enterprise" under the "Grant track" (2) | 15% |
| "Beneficiary Enterprise" (see paragraph 3.2 above) | 15% / 4% / 0% |

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[35] A **"significant shareholder"** is defined as someone who holds, directly or indirectly, alone or "together with others", 10% or more in at least one of the "means of control" in a company.

"Means of control" include control through shares, rights to shares or other rights, or by any other manner including by means of voting agreements or trusts.

The term "together with others" means together with a relative, or together with someone who is not a relative with whom there is, either directly or indirectly, regular cooperation based on an agreement regarding the material company.

**(1)** The tax rate on dividends received by individuals or by residents of countries that do not have treaties with Israel and are not a "significant shareholder", is 20%. Dividends received by a "significant shareholder" (a foreign resident or an Israeli individual) at the time of distribution or during the preceding 12-month period are taxed at rate of 25%.

**(2)** The tax rate on dividends received by individuals from an Approved Enterprise will be set at this rate as long as the dividends have been distributed within 12 years of completion of the benefits period.

In general, interest income paid to individuals is subject to a 20% tax rate. Interest paid on an asset that is not linked to the Consumer Price Index is subject to tax at a rate of 15%. In addition, in some cases, interest income is taxable at a marginal rate (in cases in which the payer is related to the individual).

### Special individual tax rates

Under certain conditions, instead of the marginal rate, the individual might be subject to special rates and special conditions as follows:

| Type of income | Tax rate |
|---|---|
| Rental income on apartments in Israel, up to an amount of NIS 4,510 per month (as long as the property serves for residential purposes and the renter is an individual. | Exempt |
| Rent on apartments in Israel (*) | 10% |
| Rent from abroad, that is not considered as "business income"(*) | 15% |
| Interest | 15% / 20% |

(*) Subject to prohibition on deduction of certain expenses.

## Tax benefits granted in Israel to "first time Israeli residents", "veteran returning residents" and returning residents

*General*

In accordance with the Israeli Income Tax Ordinance, tax benefits are granted to "first-time Israeli residents", "veteran returning residents"[36] and "returning residents"[37].

For tax benefits, the status of a "veteran returning resident"[2] shall be identical to the status of an individual who became a "first-time Israeli resident" and, accordingly, the tax benefits shall be broader than the benefits granted to a "returning resident" who is not a veteran returning resident.

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[36] A "veteran returning resident" is an individual who returned to Israel and became an Israeli resident after having been a foreign resident for at least ten consecutive years. For tax purposes, this status shall be identical to the status of an individual who became a "first-time Israeli resident" and, accordingly, the tax benefits shall be broader than the benefits granted to a "returning resident" who is not a veteran returning resident. An individual who became an Israeli resident during the years 2007-2009 shall be called a "veteran returning resident" even if he/she returned to Israel after having been a foreign resident for at least 5 consecutive years (instead of at least 10 consecutive years).

[37] A "returning resident" is an individual who became an Israeli resident after having been a foreign resident for at least 6 years (until 1.1.2009, three consecutive years).

*The tax benefits*

The tax benefits granted to "first-time Israeli resident" and "returning resident" are as follow:

A. “First-time Israeli resident” or a “veteran returning resident”

- A tax exemption over a ten-year period in respect of ***all types of income*** (including business, interest, annuities, dividends, rents, royalties and capital gains) earned abroad or deriving from assets (acquired before and after date of the immigration to Israel) from abroad.

- An exemption will be granted to the "first-time Israeli resident" in respect of interest income deriving from a foreign currency deposit for a period of 20 years following the date on which he/she became an Israeli resident. The exemption applies to foreign currency deposits held with banking institutions in Israel and upon fulfilment of certain conditions set out in the Decree.

"Tax benefits are granted to "first-time Israeli residents", "veteran returning residents" and "returning residents…"

B. “Returning resident”

- A tax exemption for a five-year period on passive income abroad, deriving from foreign assets that he/she purchased during the period he/she stayed abroad after he/she ceased being an Israeli resident, and a tax exemption for a ten-year period on capital gains in respect of assets he/she purchased during his stay abroad.

- An exemption will be granted in respect of interest income deriving from a foreign currency deposit for a period of 5 years following the date on which he became an Israeli resident. The exemption applies to foreign currency deposits held with banking institutions in Israel and upon fulfilment of certain conditions set out in the Decree.

## Taxation of trusts

Rules relating to the taxation of trusts (revocable and irrevocable) went into effect only as of January 1, 2006. There are four types of trusts which have been defined for these purposes.

### An Israeli-resident trust

This is a trust of which, at the time of its creation, at least one grantor and one beneficiary were Israeli residents, and also, during the relevant tax year, at least one grantor or one beneficiary was an Israeli resident. Additionally, a trust that is not classified as a “foreign-resident grantor trust” or a “foreign-resident beneficiary trust” (not including a “trust by will”) will be considered as an “Israeli-resident trust”.

### A foreign-resident grantor trust

This is a trust of which, at the time of its creation, and also during the relevant tax year, all of its grantors were foreign residents; or alternatively, during the relevant tax year, all of its grantors, and all of its beneficiaries are foreign residents.

### A foreign-resident beneficiary trust

This is a trust of which, during the relevant tax year, all the aggregate conditions set forth in the law apply, such as the following: (1) the requirements to classify the trust as an “Israeli resident trust” or as a “trust by will”, do not exist; (2) All of its beneficiaries are individual foreign residents; (3) at least one of its grantors is an Israeli resident; (4) the trust is irrevocable.

### Trust pursuant to a will

This trust was created by a will and all of its grantors are the testators, who were, at the time of their demise, Israeli residents.

There are various potential "tax events" in the life of a trust which require reference, as specified below: (1) granting assets to the trust; (2) accumulation of profits in the trust; (3) distributing profits and/or assets to the beneficiaries; (4) dissolution/ending the life of the trust.

With respect to all types of trusts, it was stipulated as to whether the trustee's income would be considered to be the grantor's income or the beneficiary's income:

(1) With respect to an "Israeli-resident trust" (except for an irrevocable "Israeli-resident trust" that fulfills a few conditions) and a "foreign-resident grantor trust" - the income and assets of the trust will be deemed to be the income and assets of the grantor;

(2) With respect to a "foreign-resident beneficiary trust" and a "Trust pursuant to a will" - the income and assets of the trust will be deemed to be the income and assets of the beneficiary.

In all types of trusts (except for a few exceptions), the trustee himself is also responsible for tax liabilities, he is the party that will be assessed and he is responsible for the filing of returns on the trust's income and on the transactions in the assets of the trust.

Additional requirements of tax and reporting apply to the grantors.

## Income tax for foreign residents

### Tax on Interest and linkage differences income

In general, according to domestic tax law, interest income paid to individuals, residents and non-residents, is subject to a 20% tax rate. Interest paid on an asset that is not linked to the Consumer Price Index is subject to tax at a rate of 15%. In addition, in some cases, interest income is taxable at the individual's marginal rate.

Regarding residents of countries having tax treaties with Israel, the tax rate is set as stipulated in the treaty but not more than the rate that is stipulated in the domestic tax law.

The following incomes are tax-exempt for a foreign resident:

- Income from exchange rate differences on loans granted by a foreign resident is tax-exempt in Israel (except for loans granted by his own permanent establishment in Israel).

- Bonds that were issued by law, exempt the bondholder from tax on the interest as long as the bondholder is a foreign resident, and the bonds were purchased while he was a foreign resident (for example, certain "State of Israel Bonds").

- Under certain conditions there is a tax exemption on interest paid on a foreign currency deposit (a bank deposit or a deposit with the Accountant General).

- Income from dividends on shares or interest on bonds that were issued for a period of at least 12 years, are tax exempt in Israel if the shares and the bonds are traded on a stock exchange (in Israel or abroad) and were purchased in foreign currency. This tax exemption will not apply if the foreign resident can receive tax relief in his country of residence in respect of the Israeli tax that he would have paid on this income, if this tax exemption had not been granted to him.

- Income from interest, discounts, and linkage differentials that was generated from 2009 and thereafter on bonds traded on an Israeli exchange, issued by an Israeli-resident company, as long as the income is not in a permanent establishment of the foreign resident in Israel, are tax exempt in Israel. This tax exemption will apply in certain condition as defined in the law.

### Tax on dividends

Residents of countries which do not have treaties with Israel will be subject to 20%-25% tax rate on dividends. The difference between the rates is attributed to the percentage of holdings. While dividends received by a “significant shareholder” (as defined above), at the time of distribution or during the preceding 12-month period are taxed at a rate of 25%, foreign residents who are not classified as "significant shareholders" are taxed at a rate of 20% for such income.

Dividends that a foreign resident received from an “Israeli Holding Company” (as defined below) are taxed at a rate of 5% (instead of 25% / 20%).

Regarding residents of countries having tax treaties with Israel, the tax rate is set as stipulated in the treaty but not more than the rate stipulated in the domestic tax law.

### Capital gains

In general, capital gains on the sale by foreign residents of assets located in Israel, including shares in Israeli companies are subject to tax in Israel at a rate of 20% or 25% (see above for the tax rate imposed on capital gains), unless a specific exemption is available or unless a tax treaty between Israel and the relevant country of residence provides otherwise.

A foreign resident shall be exempt from tax on capital gains deriving from the sale of securities (except for shares of a “real estate investment fund”) traded on the Israeli stock exchange, unless the capital gains derive from the foreign resident’s permanent establishment in Israel.

A foreign resident shall be exempt from tax on capital gains deriving from the sale of securities issued by an Israeli-resident company that are traded on foreign exchanges under certain conditions, such as that the capital gain is not generated in the foreign resident’s permanent establishment in Israel and the securities were purchased by the foreign resident after the shares of the Israeli-resident company were registered on the foreign exchange.

The capital gains generated from the sale of securities of an Israeli company by a foreign resident are exempt as long as there is a treaty between Israel and his country of residence. Such exemption exists also for the sale of rights of a foreign corporation whose main assets are, directly or indirectly, rights in assets located in Israel, provided that the securities or the rights in the foreign corporation were acquired between July 1, 2005 and December 31, 2008, under certain conditions.

A foreign resident shall be exempt from tax on the capital gain from the sale of the un-listed security of an Israeli company purchased on or after January 1, 2009, under certain conditions as defined in the law.

**Miscellaneous**

- "Foreign Lecturers" and "foreign experts" are entitled to deduct from their income from teaching, researching and provision of services that were generated in Israel, the amounts they spent on meals (subject to a "ceiling"), and on the rent of an apartment in Israel or on their lodging expenses, during the first 12 months of their stay in Israel.

- The Investment Law grants greater benefits to an "Approved Enterprise" or a "Beneficiary Enterprise" in which foreign residents have invested at certain percentages. These benefits include, among other things, a reduced corporate tax rate, a reduced tax on dividends, and a longer "benefits period".

- The Minister of Finance is entitled to grant a full or partial refund of the taxes paid by a foreign resident in Israel if such taxes exceed the tax credit that was recognized by the tax authorities in his country of residence in respect of the Israeli tax on income that was generated in Israel.

- National Insurance Institute (Social Security)

A foreign resident who works in Israel as an employee pays Social Security at the following rates:

| Salary per a month | Up to NIS 4,598 | From NIS 4,598 to NIS 36,760 |
|---|---|---|
| Employee | 0.04% | 0.87% |
| Employer | 0.54% | 0.77% |

**Israeli holding company – "Participation Exemption"**

On January 1, 2006, a new law came into effect regarding the taxation of an "Israeli Holding company", also known in Europe as a "Participation Exemption". This law is intended to encourage the setting up of international management centers in Israel by foreign residents, by granting tax benefits to "Israeli Holding Companies".

"This law is intended to encourage the setting up of international management centers in Israel by foreign residents…"

An "Israeli Holding Company" is defined, among other conditions, as a private Israeli company in which for at least 300 days of the tax year, starting with the tax year following its incorporation, at least 75% of the cost of its assets were investments (including granting of loans) in "foreign held companies" and those investments were no less than NIS 50 million.

For the above purpose, the definition of a "foreign-held company" must meet the following conditions:
- At least 75% of its revenues in the tax year that originate abroad are revenues derived from business abroad.
- No more than 20% of its revenues and assets may be located in Israel.

Israeli holding companies that meet the requirements for a "Participation Exemption" will be exempt from paying taxes in Israel on the following earnings:

1 Capital gains arising from the sale of shares in a "Foreign Held Company", provided that the Israeli holding company owned at least 10% of the rights in the "Foreign-Held Company" for at least 12 consecutive months.

2 Dividends received from the "Foreign-Held Company", provided that the Israeli holding company owned at least 10% of the rights to the profits in the "Foreign-Held Company" for at least 12 consecutive months in which the Israeli holding company was a "significant shareholder" of the "Foreign-Held Company".

3 Interest income, dividends, and capital gains from securities traded on the Israeli stock exchange.

4 Interest and linkage income received from financial institutions for V.A.T purposes.
Please note that the exemptions discussed above replace the tax credits due to foreign tax that was paid on the abovementioned exempt earnings.

In addition, a reduced tax rate (of 5%, subject to any existing tax treaties) will be granted to the shareholders of an Israeli holding company, who are foreign residents, for dividends distributed by the Israeli holding company.

Israeli residents who are shareholders of an Israeli holding company, will have to pay tax at the "regular" tax rate on dividends on undistributed profits of the Israeli holding company ("theoretical dividend").

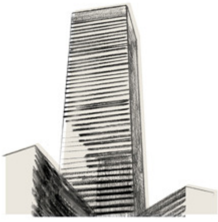
Once the dividend is actually paid out by the Israeli holding company, or if the abovementioned shareholders sell their shares in the Israeli holding company, they will receive a tax credit for the tax paid on the theoretical dividend.

Please note that the tax rate on capital gains of shareholders (both foreign and Israeli residents) upon selling their shares in an Israeli holding company will be set as the "regular" tax rate applicable to capital gains resulting from the sale of untraded shares.

## Real estate taxation

### Property Betterment Tax

The property betterment tax is applicable to the sale of real estate located in Israel and to the sale of rights in a "real estate union" (as defined in the law) and also to other transactions in the rights of a "real estate union", as determined by law.



"The principles of the property betterment tax are basically similar to those of the capital gains tax applicable to other capital assets…"

The principles of the property betterment tax are basically similar to those of the capital gains tax applicable to other capital assets:

- The betterment, in real terms, generated from the purchase date up to November 7, 2001 will be charged at the corporate tax rate (for companies) or the marginal individual tax rate (for individuals). The balance of the betterment, in real terms, will be taxed at a rate of 25%. (for companies)[38], and at marginal individual tax rates up to 25% (in 2006) and up to 20% (in 2007 and thereafter) (for individuals).

- The inflationary betterment will be exempt from tax, except for tax at a rate of 10% that would be imposed on the "inflationary" component arising from the purchase date until December 31, 1993.

The law stipulates provisions in which the tax event can be deferred or the betterment can be exempt from tax or reduced, such as in the following cases, and all under the conditions stipulated in the law:

- Reductions of 10%/20% in the amount of property betterment tax imposed on real estate purchased during the period commencing November 11, 2001 and ending December 31, 2003.

- Reduced property betterment tax rate imposed on "old" real estate purchased prior to 1948, or during the period 1949-1960.

- Deferring the tax event in cases of replacement properties and re-organization.

**Property purchase tax**

The property betterment tax is applicable to the sale of real estate located in Israel and to the sale of rights in a "real estate union" (as defined in the footnote above) and also to other transactions in the rights of a "real estate union", as determined by the law.

In principle, the property purchase tax rate is 5% of the "value of the purchase", as defined in the law. Among the exceptions, the law allows for a reduced and gradual purchase tax rate in cases of the purchase of an apartment (by an individual or by a company, as the case may be) that is used or that is designated to be used as a residential apartment, subject to additional conditions. In addition, discounts on purchase tax are granted to, among others, new immigrants.

The Property purchase tax is a deductible expense for purposes of the property betterment tax.

**Property sales tax**

There is no property sales tax in Israel as of August 1, 2007.

[38] There is an error in the law that the tax authorities intend on correcting. According to the error, the property betterment tax in the years 2007-2009 that relates to companies, which purchased property from November 7, 2001 or thereafter, will be at the company tax rate, instead of 25%

## Value Added Tax

### Tax Base

Value Added Tax (VAT) is an indirect tax levied on transactions in Israel and on the import of “goods”.

A “transaction” is generally a sale of an asset or the rendering of a service by a "VAT payer", during the course of his business, including the sale of equipment.

An “asset” includes both goods and real estate, but excludes securities.

A transaction is considered to be a transaction “in Israel” according to the following provisions:

- Regarding the sale of an asset - if the asset is in Israel; regarding an intangible asset - if the seller is an Israeli resident.

- Regarding the rendering of services - if the service provider has a business in Israel or if the services were provided to an Israeli resident or if the services were provided with respect to assets located in Israel.

In addition, a “transaction” includes also a "random transaction", which is defined as the random selling of goods or the rendering of services, which are of a "commercial" nature. A “random transaction” includes also the selling of real estate by a private person to a "VAT payer".

Businesses with an annual turnover of up to NIS 70,605 (in 2009) are considered as “exempt VAT payers", and no VAT is levied on their transactions.

### Tax Rate

The general VAT tax rate is 16.5% in respect of transactions that will be conducted until 31.12.2010.

### Exempt/ "Zero Percent Rate" Transactions

There are certain types of transactions in respect of which Value Added Tax is not levied or levied at a zero percent rate.

Examples of transactions liable for zero (0%) V.A.T.:

- Export of goods.

- Selling of an intangible asset to a foreign resident[39].

- Providing services to a foreign resident, on condition that: (1) the service is not actually provided also to an Israeli resident in Israel; and (2) the service is not provided with respect to an asset located in Israel; and (3) the service is not with regards to an agreement in which one of the parties is an Israeli resident.

- Providing certain services to tourists, such as hotel lodging, car rental, etc.

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[39] There is a specific definition for “foreign resident” in the VAT law.

- Transportation of goods by air or sea to and from Israel.

Examples of transactions which are exempt from V.A.T.:

- Residential renting for a period not exceeding 25 years.

- The sale of a building having "rental building" status under the Law for the Encouragement of Capital Investment.

- The sale of assets in respect to which the input tax could not be offset by law at the time of purchase or import.

### Offsetting Input VAT

When a business performs transactions that are liable for VAT at any rate (16.5% or 0%) (but not exempt), it is entitled to offset the input VAT that was paid and used in generating the liable transactions.

The amount of input tax is based on the amount included in the tax invoices issued to it by law or in the import invoices it receives. The excess of the input VAT over the output VAT can be refunded to the business.

It should be noted that according to the law, offsetting input VAT can be claimed with regards to invoices issued to the business no more than six months before the offsetting date.

### VAT Periodic Reporting

The VAT report is usually submitted to the VAT authorities once every month or two depending on the turnover of the "VAT payer". The report must include all transactions conducted during that period and it must be submitted within 15 days after the end of the period.

### Special Rules for Financial Institutions and "Not-for-Profit" Organizations

In general, financial institutions (banks, insurers, sellers of foreign currency or marketable securities, etc.) are not subject to VAT. Instead they are subject to payroll tax on the payroll they pay[40] and profit tax on their profits generated from "activity in Israel" (as defined in the relevant provisions of the VAT law) at a cumulative rate of 16.5%. Notwithstanding, the payroll and profit tax is a deductible expense for corporate tax purposes.

In general, "Not-for-profit organizations" (the state, local authorities, and other "not-for-profit" organizations) are not subject to VAT. Instead they are subject only to payroll tax of 7.5% on the payroll they pay with respect to their "activity in Israel".
As opposed to a VAT payer, financial institutions and not-for-profit organizations cannot claim input VAT refunds.

### Registering with VAT Authorities

In general, all businesses, including financial institutions and "not-for-profit" organizations, have to register with the VAT authorities.

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[40] After offsetting business losses.

A foreign resident conducting business or activity in Israel, must appoint a representative, who has a permanent residence in Israel. The appointment should take place within 30 days of commencement of business or activity in Israel. The representative is responsible for paying the value added tax due, and submitting all the relevant reports to the Value Added Tax authorities.

## Tax Treaties

Israel is as signatory of tax treaties with 47 countries.

Whenever conducting transactions with residents of the countries with which Israel has a tax treaty, the relevant articles of the treaty should be studied to determine whether in fact the specifics of the treaty supersede the general tax laws of the domestic country.

"Israel is as signatory of tax treaties with 47 countries…"

The following table summarizes the rates of withholding tax at the source from various payments made between Israel and other treaty countries, in accordance with the tax treaties to which Israel is a party.

It should be noted that the data listed below is subject to the specific provisions, definitions and conditions of each treaty.

It should also be noted that regarding payments that are made by residents of the treaty countries mentioned below, the following withholding tax rates should be checked also in comparison to the domestic tax law in these countries. Domestic rates apply if they are lower than the rates of the treaties.

| | | Withholding tax at the source - % | | |
|---|---|---|---|---|
| | Country | From royalties | From interest | From dividends |
| | Non-treaty countries | 25 | 25 | 20/25 |
| 1 | Austria | 10 | 15 | 25 |
| 2 | Belarus | 5/10 | 5/10 | 10 |
| 3 | Belgium | 10 | 15 | 15 |
| 4 | Brazil | 10/15 | 15 | 10/15 |
| 5 | Bulgaria | 7.5 - 12.5 | 5/10 | 7.5 - 12.5 |
| 6 | Canada | 15 | 15 | 15 |
| 7 | China | 10 | 7/10 | 10 |
| 8 | Croatia | 5 | 5/10 | 5/10/15 |
| 9 | Czech Republic | 5 | 10 | 5/15 |
| 10 | Denmark | 10 | 25 | 5/15/25 |
| 11 | Ethiopia | 5 | 5/10 | 5/10/15 |
| 12 | Finland | 10 | 10 | 5/10/15 |
| 13 | France | 10 | 5/10 | 5/10/15 |
| 14 | Germany | 0/5 | 15 | 25 |
| 15 | Greece | 10 | 10 | (A) |
| 16 | Hungary | 0 | 0 | 5/15 |
| 17 | India | 10 | 10 | 10 |
| 18 | Ireland | 10 | 5/10 | 10 |
| 19 | Italy | 0/10 | 10 | 10/15 |
| 20 | Jamaica | 10 | 15 | 15/22.5 |

| | Country | Withholding tax at the source - % From royalties | From interest | From dividends |
|---|---|---|---|---|
| 21 | Japan | 10 | 10 | 5/15 |
| 22 | Latvia | 5 | 5/10 | 5/10/15 |
| 23 | Lithuania | 5/10 | 10 | 5/10/15 |
| 24 | Luxemburg | 5 | 5/10 | 5/10/15 |
| 25 | Mexico | 10 | 10 | 5/10 |
| 26 | Moldova | 5 | 5 | 5/10 |
| 27 | Norway | 10 | 25 | 5/15/25 |
| 28 | Philippines | 15 | 10 | 10/15 |
| 29 | Poland | 5/10 | 5 | 5/10 |
| 30 | Portugal | 10 | 10 | 5/10/15 |
| 31 | Romania | 10 | 5/10 | 15 |
| 32 | Russia | 10 | 10 | 10 |
| 33 | Singapore | 5 | 7 | 5/10 |
| 34 | Slovakia | 5 | 2/5/10 | 5/10 |
| 35 | Slovenia | 5 | 5 | 5/10/15 |
| 36 | South Africa | 15 | 25 | 25 |
| 37 | South Korea | 2/5 | 0/7.5/10 | 5/10/15 |
| 38 | Spain | 5/7 | 5/10 | 10 |
| 39 | Sweden | 0 | 25 | 0/5/15 |
| 40 | Switzerland | 5 | 5/10 | 5/10/15 |
| 41 | Thailand | 5/15 | 10/15 | 10/15 |
| 42 | The Netherlands | 5/10 | 10/15 | 5/10/15 |
| 43 | Turkey | 10 | 10 | 10 |
| 44 | Ukraine | 10 | 5/10 | 5/10/15 |
| 45 | United Kingdom | 0/ 15 | 15 | 15 |
| 46 | USA | 10/15 | 10/17.5 | 12.5/15/25 |
| 47 | Uzbekistan | 5/10 | 10 | 10 |

(A) Domestic rate applies.

Treaties between Israel and Vietnam and between Israel and Taiwan have been signed but not yet ratified.

Please note that a competent tax authority of a Contracting State may deny the benefits of the treaties, if in its opinion, the granting of those benefits would constitute an abuse of the treaty according to its purposes.

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# Appendixes

# Appendix A - Table M&A transactions for years 2007-2008:

| Multinational | Israeli Company | Technology | Date | Sum in $ |
|---|---|---|---|---|
| ***Life Sciences*** | | | | |
| St. Jude Medical | Mediguide | Solutions for Intra body Navigation | 12.2008 | 300 mil |
| J&J | Omrix | Biopharmaceutical | 10.2008 | 438 mil |
| Nobel Biocare | AlphaBiotech | Pharmaceutical | 2.2008 | 95 mil |
| Amarin | Ester Neurosciences | Biotechnology | 12.2007 | 30 mil |
| Pharmaceutical | Industries | Pharmaceutical | 5.2007 | 454 mil |
| | | ***Medical Devices*** | | |
| Medtronic | Ventor Technologies | Aortic prosthesis | 2.2009 | 325 mil |
| Thales SA | CMT Medical | Medical Imaging Equipment | 12.2008 | 30 mil |
| Neovasc Inc | B-Balloon | Surgical Tools | 7.2008 | * |
| Bioness | NESS | Technology to stimulate nerves | 6.2007 | 75 mil |
| Boston Scientific | Remon Medical | Inter-body wireless communication | 6.2007 | 80 mil |
| CAIR LGL | DefinitIVe Medical | Intravenous infusion pumps | 6.2007 | * |
| Candela | Inolase | Aesthetic laser treatment | 3.2007 | 150 mil |
| | | ***Information Technology*** | | |
| Symantec Corp | Mi5 Networks Inc. | IT & Enterprise Software | 4.2009 | 15 mil |
| Tixdaq Ltd. | (Sportingo) | Internet | 4.2009 | 1 mil |
| Vector Capital | Systems | Software Security | 1.2009 | 160 mil |
| Quest Software | Monosphere Inc | IT & Enterprise Software | 1.2009 | * |
| Stats LLC | SportVU Ltd. | Motion Tracking, Image processing | 12.2008 | 18 mil |
| CA Inc. | Eurekify Ltd | IT & Enterprise Software | 11.2008 | 30 mil |
| Microsoft | Faircast | Advanced Electronic Tourist Services | 7.2008 | 115 mil |
| IBM | FilesX | IT & Software | 4.2008 | 80 mil |
| Vmware | B-Hive Networks | Technology | 7.2008 | * |
| Microsoft | Zoomix | Data Solutions | 7.2008 | 20-30 mil |
| IBM | Diligent Technologies | Data Storage | 4.2008 | 165 mil |
| Microsoft | Yadata | IT & Software | 2.2008 | $20-30 mil |
| Microsoft | Kidaro | Virtual Technology | 3.2008 | 100 mil |
| Technologies | Beinsync | IT & Software | 3.2008 | 25 mil |
| Yahoo | Foxytunes | Animation Technology | 2.2008 | * |
| eBay | Fraud Sciences | Security tech | 2.2008 | 169 mil |
| | | ***Semiconductors*** | | |
| Carl Zeiss SMT | Pixer Technology | Semiconductor Equipment Manufacturer | 8.2008 | * |
| Samsung | Transchip | non-memory chips, image sensors | 10.2007 | 70 mil |
| Spansion | Saifun Semiconductors | Non-volatile Memory Market Technology | 10.2007 | 249 mil |
| Corporation | Octalica | Digital home entertainment networking products | 5.2007 | 35 mil |
| PMC Sierra | Pasave | IT | 4.2006 | 300 mil |
| | | ***Communications*** | | |
| Sears Holdings | Delver Ltd. | Internet | 3.2009 | * |
| Elbit Systems Ltd. | Shiron Satellite | Communications | 2.2009 | 16 mil |
| Smart Call LLC | Personeta Inc | Communications | 1.2009 | 0.7 mil |
| Harmonic Inc. | Scopus video | Video networks | 12.2008 | 86 mil |
| Int'l | Destinator | Software | 7.2008 | 16 mil |
| Viaccess | Orca Interactive | Communications Applications | 5.2008 | 21.4 mil |
| Microfocus | Netmanage | Software | 5.2008 | 73.3 mil |
| Padtec SA | Civcom Ltd | Optical communications | 4.2008 | 30-40 mil |
| Allot Communi cations | Esphion | Network Solutions | 1.2008 | 5.5 mil |
| Software AG | Jacada | Service enabling | 12.2007 | 26 mil |
| AT&T | Interwise | Conferencing Services over IP Networks | 10.2007 | 121 mil |
| Liveperson | Kasamba | Social network company | 6.2007 | 40 mil |
| Sandvine | Matrix | Internet network bandwidth | 6.2007 | * |
| Motorola | Terayon | Cable Modem Systems | 4.2007 | 140 mil |
| Optium | Kailights | Optical systems for cosmetics | 3.2007 | 35 mil |
| Polycom | Destiny Conferencing | Communication and Conferencing Solutions | 1.2007 | 47.6 million |
| Nextwave | Go-Networks | Wireless | 1.2007 | 46.6 mil |
| | | ***Venture Capital*** | | |
| Markstone Capital | Solcon | VC Management | 3.2008 | 80 mil |
| | | ***Water & Agricultural Technology*** | | |
| Systems | John Deere | Agricultural Equipment | 6.2008 | 65 mil |
| Na'an Dan | Jain Irrigation Systems | Irrigation | 6.2007 | 21.5mil |

# Appendix B - List of Countries with whom Israel has signed Trade, R&D and Investment protection agreements

| Free Trade Area Agreements | Protection of Investments | Agreements on R&D | MFN Trade Agreements with non WTO Members |
|---|---|---|---|
| Canada | Albania | **Funds** | |
| Mexico | Argentina | Canada | Kazakhstan |
| U.S.A | Armenia*** | Singapore | Russian Fed. |
| | Belarus*** | South Korea | Ukraine |
| **E.U.** | Bulgaria | United Kingdom | Uzbekistan |
| Austria | China*** | U.S.A | Vietnam* |
| Belgium | Croatia*** | | |
| Denmark | Cyprus*** | | |
| Finland | Czech Republic | **Co-operation** | |
| France | El Salvador*** | Belgium | |
| Germany | Estonia | China | |
| Greece | Georgia | France | |
| Ireland | Germany | Hong Kong | Standardisation & Product Certification |
| Italy | Hungary | India | Jordan |
| Luxembourg | India | Ireland | Russian Fed. |
| Netherlands | Kazakhstan | Netherlands | Ukraine |
| Portugal | Latvia | Portugal | |
| Spain | Lithuania | Spain | |
| Sweden | Moldova | Fifth Framework | |
| United Kingdom | Poland | E.U. | |
| | Romania | Germany | |
| **E.F.T.A** | Slovenia*** | Italy | |
| Iceland | South Korea*** | Finland | |
| Lichtenstein | Thailand*** | Sweden | |
| Norway | Turkey | | |
| Switzerland | Ukraine | | |
| Bulgaria | Uruguay*** | | |
| Czech Republic | | | |
| Hungary | Zaire*** | | |
| Poland | Turkmenistan | | |
| Romania | Slovak Republic | | |
| Slovak Republic | Peru*** | | |
| Slovenia | | | |
| Turkey | | | |
| ***under negotiation** | ****Initialled** | ***** To be ratified** | |

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