

# STATE OF ISRAEL



**€3,000,000,000**

## **Euro Medium Term Note Programme**

On September 10, 1996, the State of Israel (the "Issuer" or "Israel") entered into a U.S.\$750,000,000 Euro Medium Term Note Programme (the "Programme"). On September 2, 1999, the Issuer increased to U.S.\$1,500,000,000 the amount of Notes which may be outstanding under the Programme. On September 5, 2002, the Issuer increased to U.S.\$2,000,000,000 the amount of Notes which may be outstanding under the Programme. On September 5, 2005, the Issuer changed the amount of Notes which may be outstanding under the Programme to €2,000,000,000 and on August 29, 2006, the Issuer increased to €3,000,000,000 the amount of Notes which may be outstanding under the Programme. This Base Prospectus supersedes all previous Offering Circulars. Any Notes (as defined below) issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions described herein. This does not affect any Notes already issued.

Under the Programme, the Issuer may from time to time issue notes (the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

No Notes may be issued under the Programme which have a minimum denomination of less than €1,000 (or equivalent in another currency).

The Notes may be issued on a continuing basis to one or more of the Dealers specified herein and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a "Dealer" and together the "Dealers"). References in this Base Prospectus to the "relevant Dealer" shall, in relation to any issue of Notes, be to the Dealer or Dealers agreeing to purchase such Notes.

Applications have been made for Notes issued during the period of 12 months from the date of this Base Prospectus to be admitted to the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, the "UK Listing Authority") and to trading on the Gilt Edged and Fixed Interest Market of the London Stock Exchange plc (the "London Stock Exchange"), which is a regulated market for the purposes of Directive 93/22/EEC (the "Investment Services Directive"). Details of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined herein) of Notes will be set forth in final terms (the "Final Terms") which, with respect to Notes to be admitted to listing on the Official List of the UK Listing Authority will be delivered to the UK Listing Authority or before the date of issue of the Notes of such Tranche.

This document has been approved on August 29, 2006 by the UK Listing Authority, which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in the United Kingdom, and constitutes a base prospectus issued in compliance with the Prospectus Directive (the "Base Prospectus") and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of Notes under the Programme during the period after the date of this Base Prospectus up to August 29, 2007.

The Programme provides that Notes may be admitted to listing, trading and/or quotation on or by any competent listing authority, stock exchange, regulated market and/or quotation system as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

Copies of each Final Terms will be available from the Ministry of Finance of Israel at its office set out at the end of this Base Prospectus and from the specified office of the Agent for the time being in London.

The Notes of each Tranche will (unless otherwise specified in the applicable Final Terms) initially be represented by a temporary global Note which will be deposited on the issue date thereof (the "Issue Date") with a common depository on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg") and/or any other agreed clearance system and which will be exchanged, as specified in the applicable Final Terms, for either a permanent global Note or Notes in definitive form, in each case upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. A permanent global Note will be exchangeable for definitive Notes, in the circumstances described in such permanent global Note, all as further described in "Form of the Notes" below.

The Programme has been rated by Moody's Investors Service Limited ("Moody's"), by Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. ("Standard & Poor's") and by Fitch Ratings Limited ("Fitch"). Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigned rating agency.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes admitted to listing on the Official List of the UK Listing Authority only) a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

There are certain risks relating to any issue of Notes under the Programme, which investors should ensure they fully understand (see "Risk Factors" on page 10 of this Base Prospectus).

**Arranger**

**Merrill Lynch International**

**Dealers**

**Daiwa Securities SMBC Europe**

**Goldman Sachs International**

**Morgan Stanley**

**Deutsche Bank**

**Merrill Lynch International**

**UBS Investment Bank**

The Issuer (the “Responsible Person”) accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with all information which is deemed to be incorporated herein by reference (see “Information Incorporated by Reference” below). This Base Prospectus shall be read and construed on the basis that such information is incorporated and forms part of this Base Prospectus.

The Dealers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained in this Base Prospectus or any other information provided by the Issuer in connection with the Programme or any Notes.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information provided by the Issuer in connection with the Programme or any Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an invitation or offer by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes constitutes an offer by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

The delivery of this Base Prospectus does not at any time imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme.

The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this document may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes outside the European Economic Area or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations, and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Base Prospectus or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom) and Japan (see “Subscription and Sale” below).

The Notes have not been and will not be registered under the United States Securities Act 1933, as amended, (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see “Subscription and Sale” below).

All references in this document to “U.S. dollars”, “U.S.\$” and “\$” refer to the currency of the United States of America, those to “New Israeli Shekels” and, those to “NIS” refer to the currency of the State of Israel, those to “Sterling” and “£” refer to the currency of the United Kingdom and those to “euro”, “EUR” and “€” refer to the single currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on the London Stock Exchange, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail.

However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

## TABLE OF CONTENTS

	<i>Page</i>
Summary of the Programme and the Terms and Conditions of the Notes .....	5
Information Incorporated by Reference .....	9
Risk Factors .....	10
Form of the Notes .....	15
Form of Final Terms .....	17
Terms and Conditions of the Notes .....	29
Use of Proceeds .....	48
Subscription and Sale .....	49
General Information .....	53

## SUMMARY OF THE PROGRAMME AND TERMS AND CONDITIONS OF THE NOTES

This summary must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of the Base Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Responsible Persons in any such Member State solely on the basis of the summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus. Where a claim relating to the information contained in this Base Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus before the legal proceedings are initiated.

The following summary is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this summary.

<b>Issuer:</b>	State of Israel
<b>Description:</b>	Euro Medium Term Note Programme
<b>Arranger:</b>	Merrill Lynch International
<b>Dealers:</b>	Daiwa Securities SMBC Europe Limited Deutsche Bank AG, London Branch Goldman Sachs International Merrill Lynch International Morgan Stanley & Co. International Limited UBS Limited
<b>Issuing and Principal Paying Agent:</b>	Citibank, N.A.
<b>Size:</b>	Up to €3,000,000,000 (or its equivalent in other currencies calculated as described herein) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Distribution:</b>	Subject to applicable selling restrictions, Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies:</b>	Subject to any applicable legal or regulatory restrictions, such currencies as may be agreed between the Issuer and the relevant Dealer.  Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale” herein).
<b>Redenomination:</b>	The applicable Final Terms may specify that certain Notes may be redenominated in euro. If so, the wording of the redenomination clause will be set out in full in the applicable Final Terms.

<b>Maturities:</b>	Such maturities as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
<b>Issue Price:</b>	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.  The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the Dealer(s) at the time of issue in accordance with prevailing market conditions.
<b>Form of Notes:</b>	Each Tranche of Notes will initially be represented by a temporary global Note or (if so specified in the applicable Final Terms that such Final Terms is in respect of Notes to which U.S. Treasury Regulation §.1.163.5(c)(2)(i)(C) (the “C Rules”) applies) a permanent global Note. Such global Note will be deposited on the relevant Issue Date with a common depository for Euroclear and Clearstream, Luxembourg and/or any other agreed clearance system. Interests in each temporary global Note will be exchanged for either interests in a permanent global Note or definitive Notes (as indicated in the applicable Final Terms) in either case not earlier than the later of (i) 40 days after the Issue Date and (ii) 40 days after completion of distribution of the relevant Tranche upon certification of non-U.S. beneficial ownership as required by U.S. Treasury regulations. Each permanent global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.
<b>Fixed Rate Notes:</b>	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer (as indicated in the applicable Final Terms) and on redemption and will be calculated on the basis of such Fixed Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) and as indicated in the applicable Final Terms.
<b>Floating Rate Notes:</b>	Floating Rate Notes (as defined in the applicable Final Terms) will bear interest at a rate determined either: <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series; or</li> <li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer,</li> </ul> as indicated in the applicable Final Terms.  The Margin (if any) relating to such Floating Rate Notes will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
<b>Indexed Notes:</b>	Payments of principal in respect of Indexed Redemption Amount Notes or of interest in respect of Indexed Interest Notes will be calculated by reference to such index and/or formula as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).

Floating Rate Notes and Indexed Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

**Other provisions in relation to Floating Rate Notes and Indexed Interest Notes:**

Interest on Floating Rate Notes and Indexed Interest Notes in respect of each Interest Period, as selected prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates specified in, or determined pursuant to, the applicable Final Terms and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms).

**Dual Currency Notes:**

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree (as indicated in the applicable Final Terms).

**Zero Coupon Notes:**

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest other than in the case of late payment.

**Redemption:**

The Final Terms relating to each Tranche of Notes will indicate either that the Notes of such Tranche cannot be redeemed prior to their stated maturity (other than in specified instalments (see below), if applicable, or following an Event of Default) or that such Notes will be redeemable prior to their stated maturity at the option of the Issuer and/or the Noteholders upon giving not less than 30 nor more than 60 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.

Any Notes in respect of which (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom and in each case which have a maturity of less than one year must (a) have a minimum denomination of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (b) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "FSMA") by the Issuer.

The Final Terms relating to any particular Notes may provide that such Notes may be repaid in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

**Denomination of Notes:**

Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer and as indicated in the applicable Final Terms (at least €1,000 or its equivalent in another currency or such higher amount) save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

Any Notes in respect of which (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom and in

each case which have a maturity of less than one year must (a) have a minimum denomination of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (b) be issued in other circumstances which do not constitute a contravention of section 19 of the FSMA by the Issuer.

- Taxation:** All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within the State of Israel, as more fully described in Condition 6.
- Status of the Notes:** The Notes will constitute direct, general and unconditional obligations of the Issuer and will rank *pari passu* without any preference among themselves. The payment obligations of the Issuer under the Notes will rank at least equally with all other payment obligations of the Issuer relating to unsecured, unsubordinated External Indebtedness (as more fully described in Condition 2).
- Cross Default:** None.
- Negative Pledge:** None.
- Rating:** The Programme has been rated by Moody's, by Standard & Poor's and by Fitch. Notes issued under the Programme may be rated or unrated.
- Where any issue of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
- Risk Factors:** There are certain risks relating to any issue of Notes under the Programme, which investors should ensure they fully understand (see "Risk Factors" on page 10 of this Base Prospectus).
- Listing:** Application has been made to admit the Notes to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The Notes may also be admitted to listing, trading and/or quotation or by any competent listing authority, stock exchange, regulated market and/or quotation system as may be agreed between the Issuer and the relevant Dealer in relation to each Series.
- Unlisted Notes and/or Notes not admitted to trading on any market may also be issued.
- The Final Terms relating to each Tranche of Notes will state whether or not and, if so, on which competent listing authority, stock exchange, regulated market and/or quotation system the Notes are to be listed.
- Governing Law:** The Notes will be governed by, and construed in accordance with, English law.
- Selling Restrictions:** There are selling restrictions in relation to the United States, the European Economic Area (including the United Kingdom and The Netherlands) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "Subscription and Sale" below.

## INFORMATION INCORPORATED BY REFERENCE

Exhibit D to the Issuer's Annual Report on Form 18-K to the United States Securities and Exchange Commission ("SEC") for the fiscal year ended December 31, 2005 dated as of 30 June 2006 submitted to and filed with the UK Listing Authority on 29 August 2006 shall be incorporated in, and form part of, this Base Prospectus save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any such subsequent document which is subsequently incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise), provided that such modifying or superseding statement is made by way of a supplement to this Base Prospectus pursuant to Article 16 of the Prospectus Directive.

Copies of the documents incorporated by reference in this Base Prospectus can be obtained without charge from the Ministry of Finance of Israel at its office set out at the end of this Base Prospectus and from the specified office of the Agent. Where a document incorporated by reference in turn incorporates information by reference, such information does not form part of the Base Prospectus for the purposes of the Prospectus Directive.

If the terms of the Programme are modified or amended in a manner which would make this Base Prospectus, as supplemented, inaccurate or misleading, a new Base Prospectus will be prepared to the extent required by law.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes. The Issuer has undertaken to the Dealers in the Programme Agreement (as defined in "*Subscription and Sale*") that it will comply with section 87G of the Financial Services and Markets Act 2000.

## RISK FACTORS

*Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

**Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme.**

***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

***Risks related to the structure of a particular issue of Notes***

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

### *Notes subject to optional redemption by the Issuer*

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

### *Index Linked Notes and Dual Currency Notes*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, you should consult your own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of their particular circumstances.

### *Partly-paid Notes*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

### *Variable rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

### *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

### ***Risks related to Notes generally***

Set out below is a brief description of certain risks relating to the Notes generally:

#### *Noteholder meetings, modification and waivers*

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

#### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be

required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

#### *Change of law*

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

#### ***Risks related to the market generally***

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### *The secondary market generally*

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

#### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

#### *Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

#### *Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## FORM OF THE NOTES

Each Tranche of Notes will be initially represented by a temporary global Note or, if so specified in the applicable Final Terms, by a permanent global Note without receipts, interest coupons or talons, which will be delivered to a common depository for Euroclear and Clearstream, Luxembourg. Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) due prior to the Exchange Date (as defined below) will be made against presentation of the temporary global Note only to the extent that certification (in a form to be provided), as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent. Any reference in this section “Form of the Notes” to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system approved by the Issuer and the Agent.

On and after the date (the “Exchange Date”) which is the later of (i) 40 days after the temporary global Note is issued and (ii) 40 days after completion of the distribution of the relevant Tranche, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of syndicated issue) (the “Distribution Compliance Period”), interests in such temporary global Note will be exchangeable (provided, in the case of a Partly Paid Note (as defined below) that all instalments of the purchase moneys due before the Exchange Date have been paid) (free of charge) upon a request as described therein either for interests in a permanent global Note without receipts, interest coupons or talons or for definitive Notes with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described in the second sentence of the immediately preceding paragraph unless such certification has already been given. The holder of a temporary global Note will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless, upon due certification, exchange of the temporary global Note is improperly withheld or refused. Pursuant to the Agency Agreement (as defined under “Terms and Conditions of the Notes” below) the Agent shall arrange that, where a further Tranche of Notes is issued, the Notes of such Tranche shall be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Notes of such Tranche.

Payments of principal and interest (if any) on a permanent global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the permanent global Note without any requirement for certification. If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes” or “Permanent Global Note exchangeable for Definitive Notes”, then the Permanent Global Note will be exchangeable in whole, but not in part, for Definitive Notes:—

1. *Upon notice:* upon not less than 60 days’ written notice being given to the Agent by Euroclear and/or Clearstream, Luxembourg acting on the instructions of any holder of an interest in the Permanent Global Note, if so specified in the Final Terms; or
2. *In limited circumstances:* if the Final Terms specifies “in the limited circumstances described in the Permanent Global Note”, then if either of the following events occurs:—
  - 2.1 *Closure of clearing systems:* the Issuer has been notified that both Euroclear and Clearstream, Luxembourg and any other relevant clearing system have been closed for business for a continuous period of 14 days (other than by reason of legal holidays) or have announced an intention permanently to cease business; or
  - 2.2 *Event of Default:* any of the circumstances described in Condition 8 (*Events of Default*) occurs and is continuing; and

2.3 *Adverse Tax Consequences:* the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form; or

3. *Upon demand:* at any time at the request of the Issuer, if so specified in the Final Terms.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Agent within 45 days of the bearer requesting such exchange.

The following legend will appear on all global Notes and definitive Notes which have an original maturity of more than 365 days and on all receipts, interest coupons and talons relating to such Notes:—

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.”

The sections referred to provide that holders who are United States persons (as defined in the United States Revenue Code of 1986, as amended), with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Notes, receipts or interest coupons.

A Note may be accelerated by the holder thereof in certain circumstances described in “Terms and Conditions of the Notes – Events of Default”. In such circumstances, where any Note is still represented by a global Note and a holder of such Note so represented and credited to his securities account with Euroclear or Clearstream, Luxembourg gives notice that it wishes to accelerate such Note, unless within a period of 15 days from the giving of such notice payment has been made in full of the amount due in accordance with the terms of such global Note, such global Note will become void. At the same time, holders of interests in such global Note credited to their accounts with Euroclear or Clearstream, Luxembourg will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and Clearstream, Luxembourg, on and subject to the terms of a deed of covenant (the “Deed of Covenant”) dated September 5, 2005, executed by the Issuer.

## FORM OF FINAL TERMS

Final Terms dated [ ]

### STATE OF ISRAEL

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the €3,000,000,000  
Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated August 29, 2006 [and the supplemental Prospectus dated [ ]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at and copies may be obtained from the Ministry of Finance of Israel at 1 Kaplan Street/Hakiria, Jerusalem 91131, Israel and from the specified office of the Agent for the time being in London.]

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Base Prospectus dated [original date] [and the supplemental Prospectus dated [ ]]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated [current date] [and the supplemental Prospectus dated [ ]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] [and the supplemental Prospectus dated [ ]] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [original date] and [current date] [and the supplemental Prospectuses dated [ ] and [ ]]. [The Base Prospectuses [and the supplemental Prospectuses] are available for viewing at and copies may be obtained from the Ministry of Finance of Israel at 1 Kaplan Street/Hakiria, Jerusalem 91131, Israel and from the specified office of the Agent for the time being in London.]

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]*

*[When completing any final terms, or adding any other final terms or information, consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. Issuer State of Israel

2. (i) Series Number: [     ]
- (ii) Tranche Number: [     ]  
    (If fungible with an existing Series,  
    details of that Series, including the  
    date on which the Notes become  
    fungible)]
3. Specified Currency or Currencies: [     ]
4. Aggregate Nominal Amount:
- (i) Series: [     ]
- (ii) Tranche: [     ]
5. Issue Price: [     ] per cent. of the Aggregate Nominal Amount  
plus accrued interest from [insert date]  
[(if applicable)]
6. Specified Denomination(s): [     ]  
[     ]  
*(No Notes may be issued under the Programme which  
have a minimum denomination of less than €1,000 (or  
equivalent in another currency) (N.B. If an issue of  
Notes is (i) NOT admitted to trading on an European  
Economic Area exchange; and (ii) only offered in the  
European Economic Area in circumstances where a  
prospectus is not required to be published under the  
Prospectus Directive the €1,000 minimum denomination  
is not required.)*
7. (i) Issue Date: [     ]
- (ii) Interest Commencement Date: [     ]
8. Maturity Date: [specify date or (for Floating Rate Notes) Interest  
Payment Date falling in or nearest to the relevant month  
and year]  
*[If the Maturity Date is less than one year from the Issue  
Date and either (a) the issue proceeds are received by  
the Issuer in the United Kingdom or (b) the activity of  
issuing the Notes is carried on from an establishment  
maintained by the Issuer in the United Kingdom, (i) the  
Notes must have a minimum redemption value of  
£100,000 (or its equivalent in other currencies) and be  
sold only to “professional investors” or (ii) another  
applicable exemption from section 19 of the FSMA must  
be available.]*

9. Interest Basis: [[ ] per cent. Fixed Rate]  
[[Specify reference rate] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
[Indexed Interest]  
[Other (*specify*)]  
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]  
[Indexed Redemption Amount]  
[Dual Currency]  
[Partly Paid]  
[Instalment]  
[Other (*specify*)]  
*(N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
11. Change of Interest or Redemption/Payment Basis: [Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
13. (i) Status of the Notes: [Senior/[Dated/Perpetual]]
- (ii) Date approval for issuance of Notes obtained: [ ]  
*(only relevant where authorisation is required for the particular tranche of Notes)*
14. Method of distribution: [Syndicated/Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [ ] in each year  
[adjusted in accordance with [*specify Business Day Convention and any applicable Additional Business Centre(s) for the definition of "Business Day"*]/not adjusted]

- (iii) Fixed Coupon Amount(s): [ ] per [ ] in Nominal Amount
  - (iv) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)]*
  - (v) Fixed Day Count Fraction: *[30/360 or Actual/Actual (ICMA) or specify other]*
  - (vi) Determination Dates: [ ] in each year *(insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*
  - (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
16. **Floating Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s): [ ]
  - (ii) Specified Interest Payment Dates: [ ]
  - (iii) Business Day Convention: *[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (give details)]*
  - (iv) Additional Business Centre(s): [ ]
  - (v) Manner in which the Rate(s) of Interest is/are to be determined: *[Screen Rate Determination/ISDA Determination/ other (give details)]*
  - (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Agent): [ ]
  - (vii) Screen Rate Determination:
    - Reference Rate: [ ]
    - Interest Determination Date(s): *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and second day on which the TARGET System is open day prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
    - Relevant Screen Page: *(In the case of EURIBOR if not Telerate Page 248, ensure it is a page which shows a composite rate)*

- (viii) ISDA Determination:
- Floating Rate Option: [     ]
  - Designated Maturity: [     ]
  - Reset Date: [     ]
- (ix) Margin(s): [+/-] [     ] per cent. per annum
- (x) Minimum Interest Rate: [     ] per cent. per annum
- (xi) Maximum Interest Rate: [     ] per cent. per annum
- (xii) Day Count Fraction: [     ]
- (xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [     ]
17. **Zero Coupon Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Accrual Yield: [     ] per cent. per annum
  - (ii) Reference Price: [     ]
  - (iii) Any other formula/basis of determining Amortised Face Amount: [     ]
  - (iv) Day Count Fraction in relation to Early Redemption Amounts and late payments: [Condition 5(d)(iii) and 5(i) apply/specify other]
18. **Indexed Interest Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula/other variable: [give or annex details]
  - (ii) Calculation Agent responsible for calculating the interest due: [     ]
  - (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [Need to include a description of market disruption or settlement disruption events and adjustment provisions]
  - (iv) Determination Date: [     ]

- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [ ]
- (vi) Interest or Calculation Period(s): [ ]
- (vii) Specified Interest Payment Dates: [ ]
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (give details)]
- (ix) Additional Business Centre(s): [ ]
- (x) Minimum Rate/Amount of Interest: [ ] per cent. per annum
- (xi) Maximum Rate/Amount of Interest: [ ] per cent. per annum
- (xii) Day Count Fraction: [ ]
19. **Dual Currency Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [ ]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [Need to include a description of market disruption or settlement disruption events and adjustment provisions]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

## PROVISIONS RELATING TO REDEMPTION

20. **Issuer Call** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Note of [ ] specified denomination

- (iii) If redeemable in part:
  - (a) Minimum Redemption Amount: [    ]
  - (b) Maximum Redemption Amount: [    ]
- (iv) Notice period (if other than as set out in Condition 5(b)): [    ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

**21. Investor Put**

[Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Optional Redemption Date(s): [    ]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [    ] per Note of [    ] specified denomination
- (iii) Notice period (if other than as set out in Condition (5(c))): [    ]  
*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

**22. Final Redemption Amount of each Note**

[[    ] per Note of [    ] specified denomination/other (specify)/see Appendix]  
*(N.B. If the Final Redemption Amount is less than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*

In cases where the Final Redemption Amount is Indexed or other variable-linked:

- (i) Index/Formula/variable: [give or annex details]
- (ii) Calculation Agent responsible for calculating the Final Redemption Amount: [    ]

- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [ ]
  - (iv) Determination Date(s): [ ]
  - (v) Provisions for determining Final [ ] Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [ ]
  - (vi) Payment Date: [ ]
  - (vii) Minimum Final Redemption Amount: [ ]
  - (viii) Maximum Final Redemption Amount: [ ]
23. **Early Redemption Amount**  
 Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [ ]

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

24. Form of Notes: **Bearer Notes:**
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/in the limited circumstances specified in the Permanent Global Note/at any time at the request of the Issuer].]
  - [Temporary Global Note exchangeable for Definitive Notes upon certification as to non-U.S. beneficial ownership on or after the Exchange Date].
  - [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/in the limited circumstances specified in the Permanent Global Note/at any time at the request of the Issuer].]
25. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates to which items 15(ii), 16(iv) and 18(ix) relate]

26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details*]
28. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
29. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Final Terms apply]
30. Other final terms: [Not Applicable/*give details*]  
(*When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive*)

## DISTRIBUTION

31. (i) If syndicated, names and addresses of Managers and underwriting commitments: [Not Applicable/*give names, addresses and underwriting commitments*]  
(*Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers*)
- (ii) Date of [Subscription] Agreement: [ ]
- (iii) Stabilising Manager (if any): [Not Applicable/*give name*]
32. If non-syndicated, name and address of Dealer: [Not Applicable/*give name and address*]
33. Total commission and concession: [ ] per cent. of the Aggregate Nominal Amount
34. Whether TEFRA C or TEFRA D rules applicable or TEFRA rules not applicable: [TEFRA C/TEFRA D/TEFRA not applicable]
35. Additional selling restrictions: [Not Applicable/*give details*]

**[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €3,000,000,000 Euro Medium Term Note Programme of the State of Israel.]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By: .....  
*Duly authorised*

## PART B – OTHER INFORMATION

### 1. Listing

- (i) Listing: [UK Listing Authority/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable.]  
(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)

### 2. Ratings

- Ratings: The Notes to be issued have been rated:  
[S & P:[ ]]  
[Moody's: [ ]]  
[[Other]: [ ]]  
[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]  
(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

### 3. [Notification

The Financial Services Authority [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

### 4. [Interests of natural and legal persons involved in the [Issue/Offer]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in “Subscription and Sale”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

### 5. Reasons for the Offer, Estimated Net Proceeds and Total Expenses\*

- [(i) Reasons for the offer [ ]  
(See “Use of Proceeds” wording in Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
- [(ii) Estimated net proceeds: [ ]  
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

[(iii)] Estimated total expenses: [ ] [Include breakdown of expenses.]  
(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

6. **[Fixed Rate Notes only – Yield**

Indication of yield: [ ]  
Calculated as [include details of method of calculation in summary form] on the Issue Date.  
As set out above, the yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. **[Floating Rate Notes only – Historic Interest Rates**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]

8. **[Indexed or other variable-linked Notes only – Performance of index/formula/other variable, explanation of effect on value of investment and associated risks and other information concerning the underlying]\*\***

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

9. **[Dual Currency Notes only – Performance of rate[s] of exchange and explanation of effect on value of investment]\*\***

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]*

10. **Operational information**

ISIN Code: [ ]

Common Code: [ ]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Societe Anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [ ]

\* Delete if the minimum denomination of the Notes is €50,000 and the Notes are not derivative securities to which Annex XII of the Prospectus Directive Regulation applies.

\*\* Delete if the Notes are not derivative securities to which Annex XII of the Prospectus Directive Regulation applies.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each global Note and each definitive Note, in the latter case only if permitted by the relevant competent listing authority, stock exchange, regulated market and/or quotation system (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each temporary global Note, permanent global Note and definitive Note. Reference should be made to “Form of the Notes” above for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by the State of Israel (the “Issuer”) pursuant to the Agency Agreement (as defined below).

References herein to the “Notes” shall be references to the Notes of this Series and shall mean:—

- (i) in relation to any Notes represented by a global Note, units of the lowest Specified Denomination in the Specified Currency;
- (ii) definitive Notes issued in exchange for a global Note; and
- (iii) any global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) are issued with the benefit of an Amendment and Restatement Agreement (Agency Agreement) dated September 5, 2005 (the “Agency Agreement”, which expression shall include such agreement as further amended, supplemented or restated as at the Issue Date of the first Tranche of the Notes) and made among the Issuer, Citibank, N.A., London office as issuing and principal paying agent and agent bank (the “Agent”, which expression shall include any successor agent specified in the applicable Final Terms) and the other paying agents named therein (together with the Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (“Coupons”) and, if indicated in the applicable Final Terms, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (“Receipts”) for the payment of the instalments of principal (other than the final instalment) attached on issue.

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References herein to the “applicable Final Terms” are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference herein to “Noteholders” shall mean the holders of the Notes, and shall, in relation to any Notes represented by a global Note, be construed as provided below. Any reference herein to “Receiptholders”

shall mean the holders of the Receipts and any reference herein to “Couponholders” shall mean the holders of the Coupons, and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the “Deed of Covenant”) dated September 5, 2005, and made by the Issuer. The original of the Deed of Covenant is held by a common depository on behalf of Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at and copies may be obtained from the Ministry of Finance of Israel at 1 Kaplan Street/Hakiria, Jerusalem 91131, Israel and from the specified office of the Agent for the time being in London save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be available for inspection by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Final Terms which are applicable to them.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

## **1. Form, Denomination and Title**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Indexed Interest Note, an Indexed Redemption Amount Note, a Dual Currency Note, a Partly Paid Note or an Instalment Note or any combination of the foregoing, depending upon the Interest Basis or, as the case may be Redemption/Payment Basis specified in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and any Paying Agent may deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note held on behalf of Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) and/or Clearstream Banking, société anonyme,

(“Clearstream, Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg, as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on the Notes, for which purpose the bearer of the relevant global Note shall be treated by the Issuer and the Paying Agents as the holder of such Notes in accordance with and subject to the terms of the relevant global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly. Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or of Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer and the Agent.

## **2. Status of the Notes**

The Notes and the relative Receipts and Coupons constitute direct, general and unconditional obligations of the Issuer and rank *pari passu* without any preference among themselves. The payment obligations of the Issuer under the Notes will at all times rank at least equally with all other payment obligations of the Issuer relating to unsecured, unsubordinated External Indebtedness. For the purposes of this Condition 2, “External Indebtedness” means any Indebtedness which is payable by its terms or at the option of its holder in any currency other than the currency of Israel and “Indebtedness” means all obligations of the Issuer in respect of borrowed money and guarantees given by the Issuer in respect of money borrowed by others.

## **3. Interest**

### *(a) Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year and on the Maturity Date if that does not fall on an Interest Payment Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the Fixed Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards).

For the purposes of these Conditions, “Fixed Day Count Fraction” means, in respect of the calculation of an amount for any period of time (the “Calculation Period”), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (i) if “Actual/Actual (ICMA)” is so specified, means:
  - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the

actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

- (b) where the Calculation Period is longer than one Regular Period, the sum of:
  - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if “30/360” is specified, on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

“Regular Period” means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, except for the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “Regular Date” means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “Regular Date” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

“Sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) *Interest on Floating Rate Notes and Indexed Interest Notes*

- (i) Interest Payment Dates Each Floating Rate Note and Indexed Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:—
  - (A) the Specified Interest Payment Date(s) in each year (the period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment Date to but excluding the next Interest Payment Date each being an “Interest Period”); or
  - (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an “Interest Payment Date”, which terms shall hereinafter in these Terms and Conditions include a Specified Interest Payment Date) which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:—

- (1) in any case where Interest Periods are specified in accordance with Condition 3(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the number of months or other period specified as the Interest Period in the applicable Final Terms after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition (subject as otherwise provided in the applicable Final Terms), “Business Day” means a day which is both:—

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
  - (B) either (1) in relation to any sum payable in a specified currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (“TARGET System”) is operating.
- (ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Indexed Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant

ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as amended, updated or replaced from time to time, published by the International Swaps and Derivatives Association, Inc. (the “ISDA Definitions”), and under which:—

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (LIBOR) or on the Euro zone (as defined below) inter-bank offered rate (EURIBOR) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:—

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page (as indicated in the applicable Final Terms)), expressed as a percentage rate per annum; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations (expressed as a percentage rate per annum),

for deposits in the Specified Currency for that Interest Period which appears or appear, as the case may be, on the Relevant Screen Page as at the Relevant Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (A) above, no such quotation appears or, in the case of (B) above, fewer than three of such offered quotations appear, in each case as at such time, the Agent shall request the principal London office of each of the Reference Banks (as defined below) or, in the case of the determination of EURIBOR, the principal office of each of four EURIBOR Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for deposits in the Specified Currency for the relevant Interest Period to leading banks in the London inter-bank market (or, in the case of the determination of EURIBOR, where the Reference Rate of EURIBOR is used for euro Notes, the Euro zone inter-bank market) at approximately the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks or, as the case may be, EURIBOR

Reference Banks, provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded as provided above) of such offered quotations plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent.

If on any Interest Determination Date one only or none of the Reference Banks or, as the case may be, EURIBOR Reference Banks, provides the Agent with such an offered quotation as provided above, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded as provided above) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or, as the case may be, EURIBOR Reference Banks, or any two or more of them, at which such banks were offered, as at the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for the relevant Interest Period by leading banks in the London inter-bank market (or, in the case of the determination of EURIBOR, where Reference Rate of EURIBOR is used for euro Notes, the Euro zone inter-bank market) plus or minus (as indicated in the applicable Final Terms) the Margin (if any) or, if fewer than two of the Reference Banks or, as the case may be, EURIBOR Reference Banks, provide the Agent with such offered rates, the offered rate for deposits in the Specified Currency for the relevant Interest Period, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for the relevant Interest Period, at which, on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are suitable for such purpose) informs the Agent it is quoting to leading banks in the London inter-bank market or in the case of the determination of EURIBOR, the Euro zone inter-bank market (or, as the case may be, the quotations of such bank or banks to the Calculation Agent) plus or minus (as indicated in the applicable Final Terms) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be that determined as at the last preceding Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period.

In this Condition:—

“Reference Banks” means, in the case of (A) above, those banks whose offered rate were used to determine such quotation when such quotation last appeared on the Relevant Screen Page and, in the case of (B) above, those banks whose offered quotations last appeared on the Relevant Screen Page when no fewer than three such offered quotations appeared;

“EURIBOR Reference Bank” means a major bank operating in the Euro zone inter-bank market and “EURIBOR Reference Banks” shall be construed accordingly;

“Euro zone” means the zone comprising the member states of the European Union which adopt or have adopted the euro as their lawful currency in accordance with the Treaty establishing the European Community, as amended; and

“Relevant Time” means, in the case of LIBOR, 11:00 am (London time) or, in the case of EURIBOR, 11:00 am (Brussels time) or, as the case may be, as specified in the relevant Final Terms.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) *Minimum and/or Maximum Interest Rate*

If the applicable Final Terms specifies a Minimum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Interest Rate, the Rate of Interest for such Interest Period shall be such Minimum Interest Rate.

If the applicable Final Terms specifies a Maximum Interest Rate for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Interest Rate, the Rate of Interest for such Interest Period shall be such Maximum Interest Rate.

(iv) *Determination of Rate of Interest and Calculation of Interest Amounts*

The Agent, in the case of Floating Rate Notes, or the Calculation Agent, in the case of Indexed Interest Notes will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Indexed Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same. The Agent will calculate the amount of interest (the “Interest Amount”) payable on the Floating Rate Notes or Indexed Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period, and unless any other basis is specified in the relevant Final Terms:—

- (i) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of any Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of an Interest Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any competent listing authority, stock exchange, regulated market and/or quotation system by which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day. For the purposes of this paragraph (v) the expression “London Business Day” means a day (other than a Saturday or Sunday on which banks and foreign exchange markets are open for business in London. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each competent listing authority, stock exchange, regulated market and/or quotation system by which the relevant Floating Rate Notes or Indexed Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 12.

(vi) *Certificates to be Final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(b), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Dual Currency Notes*

In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(d) *Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) *Accrual of Interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:—

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given in accordance with Condition 12 or individually.

#### **4. Payments**

(a) *Method of Payment Subject as provided below:—*

- (i) payments in a Specified Currency other than euro will be made by transfer to an account in the relevant Specified Currency maintained by the payee with, or at the option of the payee by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney or Auckland, respectively); and
- (ii) payments in euro will be made by euro cheque drawn on a bank in a principal financial centre of a state participating in the European economic and monetary union or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6.

(b) *Presentation of Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against surrender of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against surrender of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any), other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against surrender of the relevant Receipt. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against surrender of the relevant Note. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Indexed Interest Notes or Indexed Redemption Amount Notes) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of seven years after the Relevant Date (as defined in Condition 6) in respect of such principal or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note or Indexed Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not a Fixed Interest Date or an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Fixed Interest Date or Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant global Note against presentation or surrender, as the case may be, of such global Note at the specified office of any Paying Agent. A record of each payment made against presentation or surrender of such global Note, distinguishing between any payment of principal and any payment of interest, will be made on such global Note by such Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made.

The holder of a global Note shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such global Note.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of this Note is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of this Note will be made at the specified office of a Paying Agent in the United States if:—

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(c) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, “Payment Day” means any day which is:—

- (i) if the currency of payment is euro, any day (except Saturday or Sunday) which is:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation, London and any Additional Financial Centre specified in the applicable Final Terms; and
- (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which the relevant Clearing System settles payments; or
- (ii) if the currency of payment is not euro, any day (except Saturday or Sunday) which is:
  - (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant place of presentation, London and any Additional Financial Centre specified in the applicable Final Terms; and
  - (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre specified in the relevant Final Terms;

“TARGET Settlement Day” means a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

(d) *Interpretation of Principal and Interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:—

- (i) any additional amounts which may be payable with respect to principal under Condition 6;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount; and (vii) any premium and any other amounts which may be payable by the Issuer under or in respect of the Notes.

**5. Redemption and Purchase**

(a) *At Maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) *Redemption at the Option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:—

- (i) not less than 30 nor more than 60 days’ notice (or such other notice period as is indicated in the applicable Final Terms) to the Noteholders in accordance with Condition 12; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent;

(which notices shall be irrevocable), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount equal to the Minimum Redemption Amount or a Maximum Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed (“Redeemed Notes”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 12 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 12 at least 5 days prior to the Selection Date.

(c) *Redemption at the Option of the Noteholders (Investor Put)*

If Investor Put are specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 12 not less than 30 nor more than 60 days’ notice (or such other period of notice as is specified in the applicable Final Terms) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

If this Note is in definitive form, to exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is to be made by cheque, an address) to which payment is to be made under this Condition.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 8.

(d) *Early Redemption Amounts*

For the purpose of Condition 8, the Notes will be redeemed at the Early Redemption Amount calculated as follows:—

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

- (ii) in the case of Notes (other than Zero Coupon Notes but including Instalment Notes and Partly Paid Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the Final Terms, at their nominal amount outstanding; or
- (iii) in the case of Zero Coupon Notes, at an amount ( the “Amortised Face Amount”) equal to the sum of:—
  - (A) the Reference Price; and
  - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each or such other calculation basis as may be specified in the applicable Final Terms.

(e) *Instalments*

If the Notes are repayable in instalments, they will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (d) above.

(f) *Partly Paid Notes*

If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(g) *Purchases*

The Issuer, may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts and Coupons appertaining thereto are purchased therewith) in any manner and at any price. If purchases are made by tender, tenders must be available to all Noteholders of the same Series alike. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

(h) *Cancellation*

All Notes which are redeemed or purchased and surrendered for cancellation pursuant to paragraph (g) above will forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption or purchase). All Notes so cancelled (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(i) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b) or (c) above or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (d)(iii) above as though the references therein to the date fixed

for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:—

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given to the Noteholders either in accordance with Condition 12 or individually.

## **6. Taxation**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made free and clear of, and without withholding or deduction for or on account of any present or future taxes imposed by or within the State of Israel or any authority therein or thereof having power to tax (together “Taxes”) unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as will result in receipt by the holders of the Notes, Receipts or Coupons of such amounts as would have been received by them in respect of the Notes, Receipts or Coupons, as the case may be, had no such withholding or deduction been required; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:—

- (i) presented for payment by or by a third party on behalf of a Noteholder, Receiptholder or Couponholder who is liable for such Taxes in respect of such Note, Receipt or Coupon by reason of his having some connection with the State of Israel other than the mere holding of such Note, Receipt or Coupon; or
- (ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on the last day of such period of 30 days; or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) presented for payment by, or on behalf of a Noteholder, Receiptholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the “Relevant Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 12.

## **7. Prescription**

The Notes, Receipts and Coupons will become void unless presented for payment within a period of seven years after the Relevant Date (as defined in Condition 6) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 4(b) or any Talon which would be void pursuant to Condition 4(b).

## **8. Events of Default**

If any one or more of the following events (each an “Event of Default”) shall occur:—

- (i) default is made for more than 30 days in the payment of any amount in respect of any of the Notes; or
- (ii) default is made in the performance by the Issuer of any other obligation of the Issuer in respect of the Notes (other than any obligation for the payment of any amount due in respect of any of the Notes) and such default continues for a period of 60 days after written notification requiring such default to be remedied has been given to the Issuer by any Noteholder; or
- (iii) the Issuer declares a moratorium with respect to the payment of any amount in respect of any of the Notes;

then any Noteholder may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare its Note to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount (as described in Condition 5(d)), together with accrued interest (if any) to the date of repayment unless, prior to receipt of such notice, all such defaults shall have been cured.

## **9. Replacement of Notes, Receipts, Coupons and Talons**

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **10. Agent and Paying Agents**

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:—

- (i) so long as the Notes are admitted to listing, trading and/or quotation by any competent listing authority, stock exchange, regulated market and/or quotation system, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant competent listing authority, stock exchange, regulated market and/or quotation system;
- (ii) the Issuer undertakes that it will ensure that it maintains a Paying Agent (which may be the Agent) in an EU Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (iii) there will at all times be a Paying Agent with a specified office in a city in continental Europe; and
- (iv) there will at all times be an Agent.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 4(b). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 12.

## **11. Exchange of Talons**

On and after the Interest Payment Date, on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 7. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Fixed Interest Date or the Interest Payment Date (as the case may be) on which the final Coupon comprised in the relative Coupon sheet matures.

## **12. Notices**

All notices regarding the Notes shall be published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other competent listing authority, stock exchange, regulated market and/or quotation system by which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication in both such newspapers.

Until such time as any definitive Notes are issued, there may (provided that, in the case of Notes listed by a competent listing authority, stock exchange, regulated market and/or quotation system, the competent listing authority, stock exchange, regulated market and/or quotation system agrees), so long as the global Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Notes. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## **13. Meetings of Noteholders, Modification and Waiver**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, Receipts or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, Receipts or Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:—

- (i) any modification (except as mentioned above) of the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the laws of the State of Israel.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

#### **14. Further Issues**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, Receiptholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

#### **15. Governing Law and Submission to Jurisdiction**

- (a) The Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.
- (b) The Issuer agrees, for the exclusive benefit of the Paying Agents, the Noteholders, the Receiptholders and the Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Agency Agreement, the Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as “Proceedings”) arising out of or in connection with the Agency Agreement, the Notes, the Receipts and the Coupons may be brought in such courts.

The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

The Issuer appoints the Economic Minister at the Embassy of Israel in the United Kingdom whose address is 2 Palace Green, London W8 4QB as its agent for service of process, (with a copy to the Ministry of Finance, Accountant General’s Office, 1 Kaplan Street/Hakiria, POB13185, Jerusalem 91131, Israel) and undertakes that, in the event of such person ceasing so to act or ceasing to be effectively appointed to accept service of process on the Issuer’s behalf, it will appoint another person as its agent for service of process in England in respect of any Proceedings.

Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

The Issuer hereby irrevocably and unconditionally agrees not to claim with respect to the Agency Agreement, the Notes, the Receipts and/or the Coupons any right to sovereign or other immunity from

jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any proceedings.

Notwithstanding the foregoing, under the laws of the State of Israel, the funds, assets, rights and general property of the Issuer located in the State of Israel are immune from execution and attachment and any process in the nature thereof and the foregoing waiver shall not constitute a waiver of such immunity or of any immunity from execution or attachment or process in the nature thereof with respect to the premises of the Issuer's diplomatic missions in any jurisdiction outside the State of Israel or with respect to the assets of the Issuer necessary for the proper functioning of the Issuer as a sovereign power.

## **16. Third Party Rights**

No person shall have any right under the Contract (Rights of Third Parties) Act 1999 to enforce any term or condition of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from under that Act.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be used for the general financing purposes of the Issuer. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## SUBSCRIPTION AND SALE

The Dealers have in an Amendment and Restatement Agreement (Programme Agreement) dated September 5, 2005 (such agreement as further amended and restated or supplemented from time to time, the “Programme Agreement”) agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes” above. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme.

### United States

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer, sell or deliver any Notes within the United States or to U.S. persons except as permitted by the Programme Agreement.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each issue of Indexed Notes and Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer or Dealers shall agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms. Each relevant Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

### European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:—

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **United Kingdom**

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (i) **No deposit taking:** in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer; and
- (ii) **General Compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

### ***The Netherlands***

(1) Each Dealer represents and agrees in respect of any Notes issued by the Issuer (including rights representing an interest in a Global Note) which have a maturity of less than 12 months and are money market instruments as referred to in art. 1a(d) of the Decree on the Dutch Securities Markets Supervision Act 1995 (*Besluit toezicht effectenverkeer 1995*) (“**Non-PD Notes**”) that it has not offered and that it will not offer, directly or indirectly, any Non-PD Notes *in The Netherlands* and that such an offer may not be announced (whether electronically or otherwise), unless it is made in accordance with one or more of the following restrictions (as specified in the applicable Final Terms).

- (i) such Non-PD Notes have a denomination of at least EUR 50,000 (or its equivalent in any other currency) per Note, provided that if any such Non-PD Notes are issued:
  - (i) at a discount, they may only be offered if their issue price is no less than EUR 50,000 (or its equivalent in any other currency);
  - (ii) on a partly-paid basis, they may only be offered if paid-up by their initial holders to at least such amount;
  - (iii) with a denomination of precisely EUR 50,000 (or its equivalent in any other currency), they may only be offered on a fully-paid basis and at par or at a premium; or

- (ii) such Non-PD Notes are offered exclusively to individuals and legal entities *in The Netherlands* who or which trade or invest in securities in the conduct of a business or profession (which includes, without limitation, banks, securities firms, insurance companies, pension funds, investment institutions, central governments, large international and supranational organisations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly trade or invest in securities, hereinafter; “**Professional Investors**”), provided that in the offer, in the applicable Final Terms and in any documents or advertisements in which a forthcoming offering of such Non-PD Notes is publicly announced (whether electronically or otherwise) *in The Netherlands* it is stated that such offer is and will be exclusively made to such Professional Investors; or
- (iii) if, regardless of their denomination, such Non-PD Notes can only be acquired in units comprising several Non-PD Notes (each a “**Unit**”) for a consideration with a value of at least EUR 50,000 (or its equivalent in any other currency), provided that:
  - (i) the offer, the applicable Final Terms and each document or advertisement containing an announcement of the offer *in The Netherlands* state that the Non-PD Notes can only be obtained in Units for a consideration with a value of at least EUR 50,000 (or its equivalent in any other currency) per Unit; and
  - (ii) a copy of the Base Prospectus, the applicable Final Terms and each announcement of the offer is submitted to the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*) before the offer is made; or
- (iv) in addition to offers made to Professional Investors under (1)(ii) above, such Non-PD Notes are offered to less than 100 individuals or legal persons, who are not Professional Investors, *in The Netherlands*; or
- (v) such Non-PD Notes are otherwise offered in accordance with the Dutch Securities Markets Supervision Act 1995 (*Wet toezicht effectenverkeer 1995*).

(2) In addition and without prejudice to the relevant restrictions set out under (1) above, Zero Coupon Notes (as defined below) in definitive form of the Issuer may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of either the Issuer or a member firm of Euronext Amsterdam N.V. in full compliance with the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) of 21 May 1985 (as amended) and its implementing regulations. No such mediation is required: (a) in respect of the transfer and acceptance of rights representing an interest in a Zero Coupon Note in global form, or (b) in respect of the initial issue of Zero Coupon Notes in definitive form to the first holders thereof, or (c) in respect of the transfer and acceptance of Zero Coupon Notes in definitive form between individuals not acting in the conduct of a business or profession, or (d) in respect of the transfer and acceptance of such Zero Coupon Notes within, from or into The Netherlands if all Zero Coupon Notes (either in definitive form or as rights representing an interest in a Zero Coupon Note in global form) of any particular Series are issued outside The Netherlands and are not distributed into The Netherlands in the course of initial distribution or immediately thereafter. As used herein “**Zero Coupon Notes**” are Notes that are in bearer form and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

## Japan

Each Dealer has acknowledged that the Notes have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, each Dealer has undertaken and each further Dealer appointed under the Programme will be required to undertake that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly

or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, “Japanese Person” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any other Dealer shall have any responsibility therefor.

Neither the Issuer nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other additional restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes thereunder have been duly determined by the Government of the State of Israel on behalf of the State of Israel acting through officials of the Ministry of Finance authorised under the State Property Law 5711/1951 of the State of Israel.

### Taxation

By virtue of the Income Tax Order of January 15, 1991 interest paid on the Notes to non-residents of Israel as well as capital gains made by them on a sale of Notes will not be subject to Israeli taxation, whether by withholding or otherwise.

### Listing of Notes

The admission of Notes to the Official List of the UK Listing Authority will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market will be admitted separately as and when issued, subject only to the issue of a temporary global Note initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The listing of the Programme in respect of Notes issued during the period of 12 months from the date of this Base Prospectus is expected to be granted on or about August 29, 2006.

### Governmental, Legal and Arbitration Proceedings

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months before the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the financial position of the Issuer.

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available from the office of the Issuer referred to at the back of this Base Prospectus and from the specified office of the Agent in London:

- (i) the Programme Agreement, the Agency Agreement, the forms of the Temporary Global Notes, the Permanent Global Notes, the Definitive Notes, the Receipts, the Coupons, the Talons and the Deed of Covenant;
- (ii) a copy of this Base Prospectus;
- (iii) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Agent, as to the identity of such holder) to this Base Prospectus and any other documents incorporated herein or therein by reference;

- (iv) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document);
- (v) financial and audit reports for the Issuer covering the last two fiscal years and the budget for the current fiscal year; and
- (vi) all reports, letters and other documents, valuations and statements prepared by any expert at the Issuer's request any part of which is included or referred to in this Base Prospectus.

### **No significant change**

There has been no significant change in relation to public finance and trade of the Issuer since the fiscal year ended December 31, 2005.

### **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the relevant Final Terms. Transactions will normally be effected for settlement not earlier than three business days after the date of the transaction.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### **European Directive on the Taxation of Savings**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Also with effect from July 1, 2005, a number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

**THE ISSUER**

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