

OFFERING CIRCULAR

# The State of Israel

**\$750,000,000 5.125% Guaranteed Notes due 2024, Class 4  
Fully Guaranteed as to Principal and Interest by the**

## United States of America

**Acting by and through the  
United States Agency for International Development**

The 5.125% Guaranteed Notes due November 1, 2024, Class 4 (the “Guaranteed Notes”) offered hereby constitute obligations of the State of Israel (the “Borrower”) guaranteed by the United States of America, acting through the United States Agency for International Development, as to payment of 100% of principal and interest due thereon. Each such guarantee (a “Guarantee”) will be entitled to the full faith and credit of the United States of America.

Interest on the Guaranteed Notes will be payable semiannually on May 1 and November 1 of each year commencing May 1, 2005. The Guaranteed Notes will be issued only in minimum denominations of \$1,000 and integral multiples of \$1 in excess thereof. The Guaranteed Notes will not be subject to prepayment or acceleration under any circumstances.

Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch” or the “Underwriter”) will offer the Guaranteed Notes to the public from time to time at varying prices to be determined at the time of sale.

The proceeds to the Borrower from the sale of the Guaranteed Notes will be approximately 99.57891005% of the aggregate principal amount of the Guaranteed Notes, plus accrued interest, if any, from November 1, 2004 to the date of delivery, less aggregate expenses estimated to be \$150,000. The Borrower will also be required to pay to the United States Government a guarantee fee in an amount equal to the estimated subsidy cost of the Guarantees.

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It is expected that delivery of the Guaranteed Notes will be made to the purchasers only through the facilities of The Depository Trust Company, Clearstream Banking, *soci t  anonyme*, and the Euroclear System on or about November 1, 2004.

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## Merrill Lynch & Co.

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October 28, 2004

CERTAIN PERSONS PARTICIPATING IN THE OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE GUARANTEED NOTES, INCLUDING PURCHASES OF THE GUARANTEED NOTES TO COVER SOME OR ALL OF A SHORT POSITION IN THE GUARANTEED NOTES MAINTAINED BY THE UNDERWRITER. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE “UNDERWRITING”.

THE GUARANTEED NOTES OFFERED HEREBY ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE “COMMISSION”). THE GUARANTEED NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Guaranteed Notes will initially be issued entirely in the form of beneficial interests in one or more restricted global notes (the “Global Notes”) registered in the name of a nominee of The Depository Trust Company (“DTC”), but such beneficial interests may, under certain limited circumstances, be exchangeable for Guaranteed Notes issued in definitive form (“Definitive Notes”). See “Issuance of Definitive Notes; Other Exchanges and Transfers”. Participants in DTC (in the United States) or Clearstream Banking, *société anonyme* (“Clearstream Luxembourg”) or the Euroclear System (“Euroclear”) (in Europe) may hold the Guaranteed Notes through DTC, Clearstream Luxembourg or Euroclear; indirect participants may hold the Guaranteed Notes through organizations that are participants in DTC, Clearstream Luxembourg or Euroclear. Beneficial interests in the Global Notes will trade in DTC’s Same-Day Funds Settlement System, and secondary market trading activity in such interests between DTC participants or between Clearstream Luxembourg customers or Euroclear participants will therefore settle in same-day funds. See “Book-Entry System”.

The statements made herein with respect to the Guaranteed Notes, the Guarantees, the Fiscal Agency Agreement, the Authorizing Legislation, the Regulations and related documents are subject to the detailed provisions of the Authorizing Legislation, the Regulations and such instruments and documents, and the statements made herein are qualified in their entirety by reference thereto. Copies of the Fiscal Agency Agreement (including the forms of the Guaranteed Notes, which are exhibits thereto) are available from the Fiscal Agent upon request.

## **BACKGROUND**

The financing contemplated hereby is being undertaken pursuant to the Emergency Wartime Supplemental Appropriations Act of 2003, as amended, Title I of Pub. Law 108-11, enacted on April 16, 2003 (the "Authorizing Legislation"). In accordance with the Authorizing Legislation, the United States Agency for International Development, an agency of the United States Government ("USAID"), is authorized to issue guarantees of up to \$9 billion in principal amount of loans to the Borrower, together with the interest thereon, during fiscal years 2003 through 2006. In addition to providing guarantees of loans to the State of Israel pursuant to the Authorizing Legislation, USAID carries out economic assistance programs to developing countries. The Administrator of USAID reports to the Secretary of State.

USAID has also promulgated regulations (the "Regulations") under the Authorizing Legislation for the purpose of establishing the terms and conditions of the Guarantees to be issued to guarantee each Guaranteed Note. Such Regulations were codified at 22 C.F.R. part 230 (2004).

## **THE BORROWER**

The Guaranteed Notes will constitute full faith and credit obligations of the State of Israel (the "Borrower"), in addition to being backed by a full faith and credit guarantee issued by the United States of America, acting through USAID.

The proceeds of the sale of the Guaranteed Notes, after deducting amounts to be used to pay certain expenses related to the offering, will be used by the Borrower subject to the terms of the Authorizing Legislation and an agreement for the purpose of implementing the Authorizing Legislation (the "USAID Agreement"). While the Borrower has undertaken certain obligations to USAID under the USAID Agreement, a default or breach by the Borrower of such obligations will not affect USAID's obligations under the Guarantees or the rights of the Noteholders (as defined below) under the terms of the Guaranteed Notes, and will not cause the Guaranteed Notes to be subject to prepayment or acceleration under any circumstances.

## **THE USAID GUARANTEES**

The United States of America, acting through USAID, pursuant to the Guarantee to be issued in respect of each Guaranteed Note, will guarantee to each holder (a "Noteholder") of a Guaranteed Note listed in the Note Register (as defined below), payment of 100% of all payments of principal and interest due, together with interest on any overdue principal amount or interest amount in respect of such Guaranteed Note from the Note Payment Date (as hereinafter defined) on which such amounts were due but not paid to the date of payment, at the rate of interest borne by such Guaranteed Note (the "Guaranteed Amount"). Under the terms of the Guarantees, as set forth in the Authorizing Legislation and the Regulations, if the Borrower fails to make payment when due of any principal or interest amount under a Guaranteed Note, USAID will be obligated, upon demand of the Fiscal Agent on behalf of all of the Noteholders, or of any Noteholder (but only with respect to Guaranteed Notes held by such demanding Noteholder) to pay to each Noteholder the applicable Guaranteed Amount within three Business Days following the receipt of such demand. "Business Day" means any day other than a day on which banks in New York, New York are closed or authorized to be closed or a day which is observed as a federal holiday in Washington, D.C. by the United States Government.

In accordance with the Authorizing Legislation and the Regulations, the Guarantees provide, and the General Counsel or an Assistant General Counsel of USAID will render an opinion to the effect, that the Guarantees are supported by the full faith and credit of the United States of America. The issuance of the Guarantees and of such opinion is a condition to the issuance of the Guaranteed Notes offered hereby.

The Guarantees will not be affected or impaired due to any defect in the authorization, execution, delivery or enforceability of any agreement or other document executed by a Noteholder, USAID, the Fiscal Agent or the Borrower in connection with the transactions contemplated by the Guarantees, other than with

respect to losses arising out of fraud or misrepresentation for which a demanding Noteholder is responsible or of which it had knowledge at the time it became a Noteholder.

The Federal Credit Reform Act of 1990, as amended, Pub. Law 101-508 (the “Credit Reform Act”), provides that payments in respect of loan guarantee commitments made on or after October 1, 1991, including the guarantee commitments made by the United States of America through USAID under the Guarantees, will be made by the U.S. Treasury from a “financing account” to be established under Section 502(7) of the Credit Reform Act. Section 505(c) of the Credit Reform Act authorizes the Secretary of the Treasury to lend or pay to the financing account such amounts as may be necessary to make any payments required to discharge loan guarantee obligations and commitments in the event funds in the financing account are insufficient.

### **Payments under the USAID Guarantees**

Pursuant to the Fiscal Agency Agreement described below, if the Borrower does not deposit with the Fiscal Agent thereunder at or before 12 o’clock noon, New York City time, on any date on which a payment of principal or interest on the Guaranteed Notes is due (each, a “Note Payment Date”), immediately available funds in an amount sufficient to pay in full any principal and interest amount due on such Note Payment Date with respect to the Guaranteed Notes, the Fiscal Agent, acting on behalf of the holders of the Guaranteed Notes, is obligated to make a demand upon USAID not later than 2 o’clock p.m., New York City time, on such Note Payment Date for payment pursuant to the Guarantees. See “Fiscal Agent” below.

Pursuant to the Guarantees, USAID is required, not later than three Business Days following receipt of such demand, to pay to the demanding Noteholders the applicable Guaranteed Amount.

Upon receipt by the Fiscal Agent of payments from USAID pursuant to the Guarantees, the Fiscal Agent will be required, if such payments are received at or prior to 12 o’clock noon, New York City time, on any Business Day, to remit such payments to the registered holders of the Guaranteed Notes entitled thereto on such Business Day and, if such payments are received after such time, to remit such payments to such registered holders on the Business Day following receipt of such payment by the Fiscal Agent.

Each Noteholder will be deemed by the acceptance of a Guaranteed Note to have irrevocably appointed the Fiscal Agent as its agent for the purpose of making a demand for payment upon USAID pursuant to the Guarantees and receiving any payment to a Noteholder by USAID pursuant to the Guarantees. All payments made by USAID to the Fiscal Agent pursuant to the Guarantees will be held in trust by the Fiscal Agent solely for the benefit of the registered holders of the Guaranteed Notes until remitted to such holders. USAID will be discharged from its obligations to make a payment pursuant to the Guarantees upon the making of such payment to the Fiscal Agent on behalf of the Noteholders, provided that such discharge will be effective only as to such payment and to the extent of the amount of such payment.

The Regulations also provide that any Noteholder may make demand for payment upon USAID under a Guarantee on its own behalf immediately upon the failure of the Borrower to make any payment when due under such Noteholder’s Guaranteed Note. As described under “The Guaranteed Notes — General,” upon the occurrence of an Event of Default, any holder of a beneficial interest in a Global Note may request that its interest be exchanged for Definitive Notes of the same aggregate outstanding principal amount in order to make such a demand.

## THE GUARANTEED NOTES

### General

On original issuance, all Guaranteed Notes will be issued to investors in the form of beneficial interests in one or more restricted global notes (the “Global Notes”) through The Depository Trust Company (“DTC”), the Euroclear System (“Euroclear”) or Clearstream Banking, *société anonyme* (“Clearstream Luxembourg”). After original issuance, all Guaranteed Notes will continue to be held as beneficial interests in the Global Notes, except that, from and after an Event of Default (as defined below), a beneficial owner of an interest in a Global Note may request that its interest be exchanged for certificated Guaranteed Notes of the same aggregate outstanding principal amount in definitive form (“Definitive Notes”). See “— Book-Entry System”, “— Issuance of Definitive Notes; Other Exchanges and Transfers” and “USAID Guarantees — Payments Under the USAID Guarantees.”

Guaranteed Notes, both as interests in Global Notes and as Definitive Notes, will be available in minimum denominations of \$1,000 principal amount and integral multiples of \$1 in excess thereof. All Guaranteed Notes will be issued in registered form only.

### The Guaranteed Notes

Semiannual payments of interest on the Guaranteed Notes are due on May 1 and November 1 of each year, commencing May 1, 2005 (or the next succeeding Business Day, if such day is not a Business Day, and no further interest shall accrue with respect to payments made on such next succeeding Business Day). Principal on the Guaranteed Notes is payable at maturity (or the next succeeding Business Day, if such day is not a Business Day).

All payments on the Guaranteed Notes will be made to the persons in whose names the Guaranteed Notes are registered on the April 16 or October 17, as the case may be, (whether or not a Business Day) next preceding the applicable Note Payment Date.

Each Guaranteed Note will bear interest on any overdue installment of principal or any overdue interest payment at the interest rate borne by such Guaranteed Note. Such interest shall be payable from the date of such default to, but excluding, the date on which such defaulted amount is paid.

Interest on the Guaranteed Notes is computed on the basis of a year of 360 days consisting of twelve 30-day months.

The Borrower may, from time to time, without the consent of the holders of Guaranteed Notes, create and issue additional Guaranteed Notes having substantially identical terms and conditions as the Guaranteed Notes of any series, which additional Guaranteed Notes may be consolidated and form a single series with the outstanding Guaranteed Notes of such series. Such additional Guaranteed Notes may not be issued with original issue discount (other than *de minimis* original issue discount) under United States Treasury regulations under Code Sections 1271 through 1273 and 1275 and the provisions of the United States Tax Reform Act of 1986, as amended.

### Book-Entry System

The Borrower has obtained the information in this section concerning DTC, Clearstream Luxembourg and Euroclear and their book-entry systems and procedures from sources that the Borrower believes to be reliable, including from DTC, Euroclear and Clearstream Luxembourg, and the Borrower takes responsibility for the accurate reproduction of this information. The Borrower takes no responsibility, however, for the accuracy of this information. DTC, Euroclear and Clearstream Luxembourg are under no obligation to perform or continue to perform the procedures described below, and they may modify or discontinue them at any time. Neither the Borrower nor the Fiscal Agent will be responsible for the performance of the obligations of DTC, Euroclear and Clearstream Luxembourg under their respective rules and procedures. The Borrower and the Fiscal Agent will not be responsible for the performance by direct or indirect participants of their respective obligations under their respective rules and procedures.

The Guaranteed Notes initially will be issued as Global Notes and will be represented by one or more fully registered global notes deposited with, or on behalf of, DTC or any successor thereto and registered in the name of Cede & Co., DTC's partnership nominee.

Investors may hold their interests in the Guaranteed Notes in the United States through DTC, or in Europe through Clearstream Luxembourg or Euroclear, either as a participant in those systems or indirectly through organizations which are participants in those systems. Clearstream Luxembourg and Euroclear will hold interests in the Guaranteed Notes on behalf of their respective participating organizations or customers through customers' securities accounts in Clearstream Luxembourg's and Euroclear's names on the books of their respective depositories, which in turn will hold those positions in customers' securities accounts in the depositories' names on the books of DTC.

So long as DTC or its nominee is the registered owner of the Global Notes representing the Guaranteed Notes, DTC or that nominee will be considered the sole owner and holder of the Guaranteed Notes for all purposes of the Guaranteed Notes and the Fiscal Agency Agreement. Except as described below, owners of beneficial interests in the Guaranteed Notes will not be entitled to have the Guaranteed Notes registered in their names, will not receive or be entitled to receive physical delivery of the Guaranteed Notes in definitive form and will not be considered the owners or holders of the Guaranteed Notes under the Fiscal Agency Agreement, including for purposes of receiving any reports delivered by the Borrower or the Fiscal Agent under the Fiscal Agency Agreement. Accordingly, each person owning a beneficial interest in a Guaranteed Note must rely on the procedures of DTC or its nominee and, if that person is not a participant, on the procedures of the participant through which that person owns its interest, in order to exercise any rights of a holder of Guaranteed Notes.

Unless and until the Borrower issues the Definitive Notes under the limited circumstances described below under "Issuance of Definitive Notes; Other Exchanges and Transfers":

- the holders of beneficial interests in the Global Notes will not be entitled to receive certificates representing their interests in the Guaranteed Notes;
- all references in this offering circular to actions by holders will refer to actions taken by DTC upon instructions from its direct participants; and
- all references in this offering circular to payments and notices to holders will refer to payments and notices to DTC or Cede & Co., as the registered holder of the Guaranteed Notes, for distribution to the holders of beneficial interests in the Global Notes in accordance with DTC procedures.

### **The Depository Trust Company**

DTC or a custodian on its behalf will act as securities depository for the Guaranteed Notes. The Guaranteed Notes will be issued as fully registered Guaranteed Notes registered in the name of Cede & Co. DTC is:

- a limited-purpose trust company organized under the New York Banking Law;
- a "banking organization" under the New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" under the New York Uniform Commercial Code; and
- a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

DTC holds securities that its direct participants deposit with DTC. DTC also facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants' accounts, thereby eliminating the need for physical movement of securities certificates.

Direct participants of DTC include securities brokers and dealers (who may include the Underwriter), banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Indirect participants of DTC, such as securities brokers and dealers, banks, trust companies and clearing corporations, can also access the DTC system if they maintain a custodial relationship with a direct participant.

Holders of interests in the Guaranteed Notes that are not direct participants or indirect participants in DTC and that wish to purchase, sell or otherwise transfer ownership of, or other interests in, Guaranteed Notes, must do so through a direct participant or an indirect participant. DTC will agree with and represent to DTC participants that it will administer its book-entry system in accordance with its rules and by-laws and requirements of law. The Commission has on file a set of the rules applicable to DTC and its direct participants.

Purchases of the Guaranteed Notes under DTC's system must be made by or through direct participants, which will receive a credit for the Guaranteed Notes on DTC's records. The ownership interest of each beneficial owner is in turn to be recorded on the records of direct participants and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct participants or indirect participants through which such beneficial owners entered into the transaction. Transfers of ownership interests in the Guaranteed Notes are to be accomplished by entries made on the books of direct participants and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in Guaranteed Notes, except as described below in "Issuance of Definitive Notes; Other Exchanges and Transfers".

The deposit of Global Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC will have no knowledge of the actual beneficial owners of the Guaranteed Notes. DTC's records will reflect only the identity of the direct participants to whose accounts such Guaranteed Notes are credited, which may or may not be the beneficial owners. The direct participants and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

### **Clearstream Luxembourg and Euroclear**

Clearstream Luxembourg and Euroclear will record the ownership interests of their participants in much the same way as DTC.

Clearstream Luxembourg has advised that it is incorporated under the laws of Luxembourg as a bank. Clearstream Luxembourg facilitates the clearance and settlement of securities transactions between its customers through electronic book-entry transfers between their accounts. Clearstream Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream Luxembourg interfaces with domestic securities markets in over 30 countries through established depository and custodial relationships. As a bank, Clearstream Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector, also known as the *Commission de Surveillance du Secteur Financier*. Customers of Clearstream Luxembourg are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. U.S. customers of Clearstream Luxembourg are limited to securities brokers and dealers and banks. Indirect access to Clearstream Luxembourg is also available to other institutions such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Luxembourg customer.

Euroclear advises that it was created in 1968 and that it clears and settles transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfacing with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V., referred to as the “Euroclear Operator”, under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation, referred to as the “Cooperative”. All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks, including central banks, securities brokers and dealers and other professional financial intermediaries and may include the Underwriter. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

### **Book-Entry Format**

Under the book-entry format, the Fiscal Agent will pay interest or principal payments to Cede & Co., as nominee of DTC. DTC will forward the payment to the direct participants, who will then forward the payment to the indirect participants (including Clearstream Luxembourg or Euroclear) or to the investors (as the beneficial owners of the Guaranteed Notes) that have an account with such direct participants. Investors in the Guaranteed Notes may experience some delay in receiving their payments under this system.

DTC is required to make book-entry transfers on behalf of its direct participants and is required to receive and transmit payments of principal and interest on the Guaranteed Notes. Any direct participant or indirect participant with which an investor has an account is similarly required to make book-entry transfers and to receive and transmit payments with respect to the Guaranteed Notes on behalf of such investors. The Borrower and the Fiscal Agent under the Fiscal Agency Agreement will have no responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Guaranteed Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Fiscal Agent will not recognize the holder of a beneficial interest in the Global Notes as a holder under the Fiscal Agency Agreement, and such holders can only exercise the rights of a holder indirectly through DTC and its direct participants. DTC has advised the Borrower that it will only take action regarding Guaranteed Notes if one or more of the direct participants to whom the Guaranteed Notes are credited direct DTC to take such action. DTC can only act on behalf of its direct participants. The ability of investors in the Guaranteed Notes to pledge Guaranteed Notes to non-direct participants, and to take other actions, may be limited, because, except as described below in “Issuance of Definitive Notes; Other Exchanges and Transfers,” investors will not possess a physical certificate that represents their Guaranteed Notes.

Clearstream Luxembourg or Euroclear will credit payments to the cash accounts of Clearstream Luxembourg customers or Euroclear participants in accordance with the relevant system’s rules and procedures, to the extent received by its depository. These payments will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream Luxembourg or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the Fiscal Agency Agreement on behalf of a Clearstream Luxembourg customer or Euroclear participant only in accordance with its relevant rules and procedures and subject to its depository’s ability to effect those actions on its behalf through DTC.

DTC, Clearstream Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the Guaranteed Notes among participants of DTC, Clearstream Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

## **Transfers Within and Among Book-Entry Systems**

Transfers between DTC's direct participants will occur in accordance with DTC rules. Transfers between Clearstream Luxembourg customers and Euroclear participants will occur in accordance with their applicable rules and operating procedures.

DTC will effect cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Luxembourg customers or Euroclear participants, on the other hand, in accordance with DTC rules on behalf of the relevant European international clearing system by its depository. However, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, instruct its depository to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Luxembourg customers and Euroclear participants may not deliver instructions directly to the depositories.

Because of time-zone differences, credits of securities received in Clearstream Luxembourg or Euroclear resulting from a transaction with a DTC direct participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date. Those credits or any transactions in those securities settled during that processing will be reported to the relevant Clearstream Luxembourg customer or Euroclear participant on that business day. Cash received in Clearstream Luxembourg or Euroclear as a result of sales of securities by or through a Clearstream Luxembourg customer or a Euroclear participant to a DTC direct participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream Luxembourg or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Guaranteed Notes among participants of DTC, Clearstream Luxembourg and Euroclear, they are under no obligation to perform or continue to perform those procedures and those procedures may be discontinued at any time.

## **Same-Day Settlement and Payment**

The Underwriter will settle the Guaranteed Notes in immediately available funds. The Borrower will make principal and interest payments on the Guaranteed Notes in immediately available funds or the equivalent. Secondary market trading between DTC direct participants will occur in accordance with DTC rules and will be settled in immediately available funds using DTC's Same Day Funds Settlement System. Secondary market trading between Clearstream Luxembourg customers and Euroclear participants will occur in accordance with the applicable rules and operating procedures of Clearstream Luxembourg and Euroclear and will be settled using the procedures applicable to conventional eurobonds in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity, if any, in the Guaranteed Notes.

## **Issuance of Definitive Notes; Other Exchanges and Transfers**

After an Event of Default with respect to a Guaranteed Note, any person that is a holder of a beneficial interest in such Guaranteed Note may, upon request, exchange its interest for a Definitive Note. Upon receipt by the Fiscal Agent of written or electronic instructions from DTC or its nominee on behalf of any holder of a beneficial interest in a Guaranteed Note and upon receipt by the Fiscal Agent of a written order of such person containing registration information for the requesting holder and upon payment by the requesting holder of the Fiscal Agent's applicable charges, the Fiscal Agent will cause, in accordance with the standing instructions and procedures existing between DTC and the Fiscal Agent, the aggregate principal amount of the applicable Global Note to be reduced and, following such reduction, the Fiscal Agent will authenticate and issue on behalf of the Borrower and deliver to such person, one or more Definitive Notes.

Upon issuance as described above, (i) Definitive Notes may be exchanged, upon presentation and surrender at the offices of the Fiscal Agent at Riggs Bank N.A., Sovereign Trust Services, 7th Floor, 808 17th Street, Washington, D.C. 20006, if presented by hand delivery, or Riggs Bank N. A., Sovereign Trust Services, P.O. Box 96208, Washington, D.C. 20077-7573, if presented by mail, for Definitive Notes in other authorized denominations and in the same aggregate principal amount; and (ii) any Definitive Note may be transferred by the registered holder thereof, or by its attorney-in-fact duly authorized in writing, at the office of the Fiscal Agent specified above upon presentation and surrender of such Definitive Note for cancellation, and upon any such transfer a new Definitive Note or Notes, of like series in other authorized denominations and in the same aggregate principal amount will be issued to the transferee. In addition, upon notice to the Fiscal Agent, Definitive Notes will be eligible to be held as Global Notes through DTC, and the Fiscal Agent will arrange for any Definitive Note which is the subject of such an exchange to be represented by a related Global Note.

The Fiscal Agent is required to make all payments of interest due to the registered holders of Definitive Notes as of the applicable record date by check mailed by the Fiscal Agent to such registered holders or, if written instructions are received by the Fiscal Agent from the registered holder thereof at least five Business Days prior to the applicable Note Payment Date, by wire transfer in immediately available funds to an account at a commercial bank in the United States designated by such registered holder. The principal of the Guaranteed Notes is payable to holders of Definitive Notes at the office of the Fiscal Agent, upon presentation and surrender of such Definitive Notes.

#### **Payment of Additional Amounts**

Pursuant to the terms of the Guaranteed Notes, all payments of principal and interest will be made free and clear of, and without liability for or deduction by the Borrower or any other party for, any and all present and future taxes, levies, deductions, penalties and withholdings whatsoever imposed or levied thereon by the State of Israel or by any municipality or other political subdivision or taxing authority thereof (all such taxes, levies, deductions, penalties and withholdings hereinafter referred to as "Local Tax"); provided, however, if any Local Tax is imposed or levied, with respect thereto, the Borrower will, on behalf of the Noteholder, pay the same, or in the event that the Noteholder has made such payment, hold the Noteholder harmless from and reimburse the Noteholder therefor so that the Noteholder will receive, net and free of all withholdings and deductions and all liability for such Local Tax, an amount equal to the amount the Noteholder would have received if there had not been any such levy, collection or assessment. Notwithstanding the foregoing, the obligations of the Borrower contained in this paragraph shall not apply to a Noteholder if such Noteholder is otherwise subject to taxation in the State of Israel by reason of any relationship with or activity within the State of Israel other than its ownership of a Guaranteed Note.

Pursuant to the Guarantees, USAID will guarantee any additional payment the Borrower may be required to make pursuant to the foregoing.

Under Israeli law in effect as of the date hereof, payments made under the Guaranteed Notes will be exempt from Israeli taxation and there are no stamp or similar taxes under the laws of the State of Israel payable in connection with the issuance and sale of the Guaranteed Notes.

#### **Events of Default**

As provided in each Guaranteed Note, an Event of Default will be deemed to occur if the Borrower fails to make any payments on such Guaranteed Note on the applicable Note Payment Date. Upon the occurrence of an Event of Default, the Fiscal Agent on behalf of all of the Noteholders, or any registered holder of a Guaranteed Note on behalf of itself, may make demand upon USAID under the Guarantees, and any Noteholder may proceed to protect and enforce any of its rights as a lender under a Guaranteed Note at law or in equity. However, none of the Fiscal Agent, any Noteholder, nor USAID has the right to accelerate payment of any Guaranteed Note, notwithstanding any failure of the Borrower to make payment on the Guaranteed Notes.

**Consent to Jurisdiction; Service of Process**

Under the terms of the Guaranteed Notes, the State of Israel has consented to jurisdiction in the courts of the State of New York in suits brought to enforce the State of Israel's obligation under the Guaranteed Notes. The State of Israel has appointed as its authorized agent for service of process in suits with respect to the Guaranteed Notes the Chief Fiscal Officer for the Western Hemisphere of the Ministry of Finance of the Government of Israel, 800 Second Avenue, 17th Floor, New York, New York 10017.

**THE FISCAL AGENT**

Riggs Bank N.A., a national banking association (in such capacity, the "Fiscal Agent"), will enter into a Fiscal Agency Agreement (the "Fiscal Agency Agreement") with the Borrower and USAID pursuant to which the Borrower will appoint it to act as the fiscal agent with respect to the Guaranteed Notes and the Fiscal Agent will, among other things, agree to maintain a register (the "Note Register") of the holders of the Guaranteed Notes, to receive payments from the Borrower and USAID with respect to the Guaranteed Notes, to remit such payments to the registered holders thereof and to make demands under the Guarantees on USAID upon a default by the Borrower.

## UNITED STATES TAXATION

The following is a summary of the principal United States federal income tax consequences of the purchase, ownership and disposition of a Guaranteed Note. It deals only with Guaranteed Notes held as capital assets by their initial purchasers. It is based upon the provisions of the Internal Revenue Code of 1986, as amended (“Code”) and regulations, rulings and judicial decisions thereunder as of the date that this Offering Circular was issued; these authorities may be repealed, revoked or modified, possibly with retroactive effect, so as to result in tax consequences different from those discussed below. This summary does not discuss all of the tax consequences that may be relevant to a particular holder in light of the holder’s circumstances or to holders subject to special rules, such as:

- dealers in securities or currencies,
- banks, life insurance companies, and tax-exempt organizations,
- traders in securities that elect to mark to market,
- persons subject to the alternative minimum tax or to the expatriation provisions of the Code,
- persons treated as selling Guaranteed Notes under the constructive sale provisions of the Code,
- persons that hold Guaranteed Notes as part of a hedging transaction or a position in a straddle or conversion transaction, and
- persons whose functional currency is not the U.S. dollar.

This summary does not address tax consequences under the laws of any state, locality or foreign jurisdiction, nor does it address the possible impact of federal estate, gift, generation-skipping or other non-income taxes. **Noteholders are urged to consult their tax advisors concerning the United States federal income tax consequences of the purchase, ownership or disposition of Guaranteed Notes in light of their particular situations as well as any consequences arising under any other United States federal tax laws and the laws of any other taxing jurisdictions.**

*United States Holders.* As used herein, the term “United States Holder” means a holder of a Guaranteed Note who or that is:

- an individual citizen or “resident alien” (within the meaning of the Code) of the United States,
- a corporation or partnership (or other entity treated as a corporation or partnership for United States federal tax purposes) created in or under the laws of the United States or any state thereof,
- an estate the income of which is subject to United States federal income taxation regardless of its source, or
- any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more “United States persons” (within the meaning of the Code) have the authority to control all substantial decisions of the trust.

Payments of interest on a Guaranteed Note will be taxable to a United States Holder as ordinary interest income at the time that interest accrues or is received (in accordance with the United States Holder’s method of accounting for tax purposes). Interest on a Guaranteed Note will be treated as foreign source income for United States federal income tax purposes, but, with certain exceptions, will be treated separately, together with other items of “passive income” or “financial services income,” for purposes of computing the foreign tax credit allowable under the United States federal income tax laws. Pursuant to the recently enacted American Jobs Creation Act of 2004, the foreign tax credit provisions of the Code have been amended on a prospective basis in a manner intended to simplify the computation of allowable foreign tax credits. Noteholders are urged to consult their tax advisors concerning the effects of this legislation.

A United States Holder’s tax basis in a Guaranteed Note will be the purchase price of the Guaranteed Note. A United States Holder generally will recognize gain or loss on the sale or retirement of a Guaranteed Note equal to the difference between the amount realized on the sale or retirement and the tax basis of the

Guaranteed Note. Except to the extent attributable to accrued but unpaid interest, gain or loss recognized on the sale or retirement of a Guaranteed Note will be capital gain or loss. That gain or loss will be long-term if the Guaranteed Note was held for more than one year. Net capital gains of individuals may be taxed at lower rates than items of ordinary income. Limitations apply to the ability to offset capital losses against ordinary income. Any gain or loss recognized on the sale or retirement of a Guaranteed Note generally will constitute income from or loss allocable to sources within the United States for United States federal income tax purposes.

*Non-United States Holders.* Subject to the discussion of “backup” withholding below, a holder other than a United States Holder (a “Non-United States Holder”) will not be subject to United States federal income tax, including withholding tax, on payments of interest on the Guaranteed Notes unless:

- the holder of the Guaranteed Notes is an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code, or
- the holder of the Guaranteed Notes has an office or other fixed place of business in the United States to which the interest is attributable and the interest either:
  - is derived in the active conduct of a banking, financing or similar business within the United States or
  - is received by a corporation the principal business of which is in trading stocks or securities for its own account.

If either of the foregoing conditions applies to a Non-United States Holder, that holder may be subject to United States federal income tax on such interest in the same manner as if it were a United States Holder. In addition, if that holder is a corporation, it may be subject to a branch profits tax equal to 30% of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a Guaranteed Note will be included in the earnings and profits of such a holder if such interest is effectively connected with the conduct by such holder of a trade or business in the United States.

Subject to the discussion of backup withholding below, a Non-United States Holder will not be subject to United States federal income tax on any gain realized on the sale or retirement of a Guaranteed Note unless:

- the gain is effectively connected with the conduct by the Non-United States Holder of a trade or business within the United States, or
- the Non-United States Holder is an individual who is present in the United States for a total of 183 days or more during the taxable year in which that gain is realized and either:
  - the gain is attributable to an office or fixed place of business maintained in the United States by the Non-United States Holder or
  - the Non-United States Holder has a “tax home” (within the meaning of the Code) in the United States.

*Backup Withholding and Information Reporting.* In general, information reporting requirements will apply to payments within the United States to non-corporate United States Holders of interest on a Guaranteed Note and, under certain circumstances, to the proceeds of the sale thereof. “Backup withholding” at 28% will apply to those payments if the United States Holder (i) fails to provide an accurate taxpayer identification number (on an Internal Revenue Service (“IRS”) Form W-9 or substantially similar form), (ii) is notified by the IRS that the United States Holder has failed to report all interest and dividends required to be shown on a United States federal income tax return, or (iii) fails to certify, when required, (A) that the United States Holder is not subject to backup withholding or (B) that such United States Holder is a United States person.

Non-United States Holders having provided the requisite certification (on an IRS Form W-8BEN or substantially similar form) are generally exempt from these withholding and reporting requirements, provided the payor does not have actual knowledge or reason to know that the holder is a “United States person” (within the meaning of the Code). However, the proceeds of a disposition of a Guaranteed Note through a United States office of a broker generally will be subject to backup withholding and information reporting unless the Non-United States Holder certifies that it is a Non-United States Holder under penalties of perjury or otherwise establishes that it qualifies for an exemption. Information reporting (but not backup withholding) will apply to a Non-United States Holder who sells a Guaranteed Note through:

- a Non-United States branch of a United States broker, or
- a Non-United States office of a broker that is a controlled foreign corporation for United States purposes, that is a person 50% or more of whose income is effectively connected with a United States trade or business for a specified period, or that is a foreign partnership having certain connections with the United States,

in either case unless the broker has in its records documentary evidence that the beneficial owner is not a United States person and certain other conditions are met, or the beneficial owner otherwise establishes an exemption. Backup withholding may apply to any payment that such broker is required to report if such broker has actual knowledge or reason to know that the payee is a “United States person” (within the meaning of the Code).

Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a refund or a credit against the holder’s United States federal income tax liability if the required information is properly furnished to the IRS.

## **UNDERWRITING**

Subject to the terms and conditions set forth in the underwriting agreement (the “Underwriting Agreement”), between the Borrower and Merrill Lynch relating to the Guaranteed Notes, the Borrower has agreed to sell to Merrill Lynch, and Merrill Lynch has agreed to purchase from the Borrower, all of the Guaranteed Notes. In the Underwriting Agreement, Merrill Lynch has agreed, subject to the terms and conditions set forth therein, to purchase all of the Guaranteed Notes if any are purchased.

Merrill Lynch will offer the Guaranteed Notes to the public from time to time in negotiated transactions or otherwise at varying prices to be determined at the time of sale. The proceeds to the Borrower from the sale of the Guaranteed Notes are expected to equal approximately 99.57891005% of the principal amount of the Guaranteed Notes, less certain aggregate expenses. The Borrower will also be required to pay to the United States Government a guarantee fee in an amount equal to the estimated subsidy cost of the Guarantees. The Underwriter may effect the transactions referred to above by selling the Guaranteed Notes to or through dealers, and such dealers may receive compensation in the form of underwriting discounts, concessions or commissions from the Underwriter. In connection with the sale of the Guaranteed Notes, the Underwriter may be deemed to have received compensation from the Borrower in the form of underwriting compensation. The Underwriter and any dealers that participate with the Underwriter in the distribution of the Guaranteed Notes may be deemed to be underwriters, and any profits on the resale of the Guaranteed Notes positioned by them may be deemed to be underwriting discounts and commissions under the Securities Act of 1933, as amended.

The Guaranteed Notes are a new issue of securities with no established trading market. The Borrower does not intend to apply for listing of the Guaranteed Notes on a national securities exchange. The Borrower has been advised by Merrill Lynch that it intends to make a market in the Guaranteed Notes, as permitted by applicable laws, but it is not obligated to do so and may discontinue such market making at any time without notice. No assurance can be given as to whether a trading market in the Guaranteed Notes will develop or as to the liquidity of any trading market for the Guaranteed Notes.

The Underwriter and its affiliates may engage in transactions with and perform services for the Borrower in the ordinary course of business.

The Underwriting Agreement provides that the Borrower will indemnify the Underwriter against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or contribute to payments the Underwriter may be required to make in respect thereof.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for the Government of Israel by Arnold & Porter LLP, New York, New York and Washington, D.C., and for the Underwriter by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Certain matters with respect to Israeli law will be passed upon for the Government of Israel by the Legal Advisor to the Ministry of Finance of the Government of Israel. Arnold & Porter LLP will also render an opinion regarding certain federal income tax consequences. In addition, the General Counsel or an Assistant General Counsel of USAID will render an opinion with respect to certain matters relating to the Guarantees.

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No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Borrower or by the Underwriter. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy securities by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Borrower or USAID since the date hereof or that information contained herein is correct as of any time subsequent to its date.

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# The State of Israel

**\$750,000,000 5.125% Guaranteed  
Notes due 2024, Class 4**

**Fully Guaranteed as to  
Principal and Interest by the**

# United States of America

**Acting by and through the  
United States Agency for  
International Development**

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**OFFERING CIRCULAR  
October 28, 2004**

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**Merrill Lynch & Co.**

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