

The following translation is intended solely for the convenience of the reader. This translation has no legal status and although every effort has been made to ensure its accuracy, the Authority does not assume any responsibility whatsoever as to its accuracy and is not bound by its contents. Only the original Hebrew text is binding and reader is advised to consult the authoritative Hebrew text in all matters which may affect them.

Securities Regulations (Preparation of Annual Financial Statements) 5753-1993¹

By virtue of my authority under sections 17(b)(1) and 36 of the Securities Law, 5728-1968 (hereafter — the Law), in accordance with a proposal of the Israel Securities Authority (henceforth – the ISA) and with the approval of the Finance Committee of the Knesset, I enact the following regulations:

Chapter 1 General Provisions

1. **in these regulations** -
'Financial statements' or *'statements'* - annual financial statements that include a balance sheet, profit and loss statement, a statement of changes in net worth and a cash flow statement, including explanatory notes thereto;

Definitions:

(Amended: 5756, 5764)

'Accounting rules' - the accepted accounting principles and accepted reporting rules;

'The auditor' - one of the following two:

- (1) An accountant auditor;
- (2) A person with an appropriate license from a competent authority in the country where he operates, to audit financial statements of the type of the financial statements of a foreign issuer;

'Accepted accounting rules in the United States' - the accounting rules as accepted from time to time in the United States with regard to companies traded on the stock exchanges

¹ Kovetz HaTakanot (Collection of Regulations) 5505, 5753 (1 March 1993), p. 466.

Amendments:

Kovetz HaTakanot (Collection of Regulations) 5577, 5754 (27 January 1994), p. 595;

Kovetz HaTakanot (Collection of Regulations) 5666, 5755 (23 February 1995), p. 1188;

Kovetz HaTakanot (Collection of Regulations) 5718, 5756 (5 December 1995), p. 190;

Kovetz HaTakanot (Collection of Regulations) 6200, 5763 (7 October 2002), p. 51;

Kovetz HaTakanot (Collection of Regulations) 6325, 5764 (21 June 2004), p. 716.

Kovetz HaTakanot (Collection of Regulations) 6431 (31 October 2005), p. 52.

Kovetz HaTakanot (Collection of Regulations) 6467 (12 March 2006), p. 575 (5767(2));

Kovetz HaTakanot (Collection of Regulations) 6528 (23 October 2006), p. 166.

(Preparation of Annual Financial Statements)

in the United States, including rules and standards published by the Financial Accounting Standards Board (FASB) and also rules that it adopts;

'Foreign issuer' - an issuer that was incorporated outside Israel and which on the date of its first offer to the public complies with the following conditions:

- (1) More than 50% of its income was not received in Israel;
- (2) The control thereof is held by persons who are not permanent residents in Israel; for this purpose, the possession or purchase of securities together with others - excluding possession with a permanent resident in Israel;

'American auditing standards' - accepted auditing standards in the United States for companies traded on the stock exchanges in the United States, including auditing standards published by the American Auditing Standards Board of the Institute of Certified Public Accountants (AICPA);

'International auditing standards' - the international auditing standards published by the International Federation of Accountants (IFAC);

'Adjusted financial statements' or *'adjusted statements'* - according to the meaning thereof in the accounting rules;

'Company' - including a partnership or a joint venture;

'Consolidated company' - a company whose statements are consolidated with the statements of the corporation, except for a consolidated company with relative consolidation;

'Consolidated company with relative consolidation' - a company whose statements are consolidated with the statements of the corporation by way of relative consolidation;

'Included company' - a company, except for a consolidated company and a consolidation company with relative consolidation, where the investment of the corporation therein is included in the statements of the corporation on the basis of the balance sheet value;

'Controlled company' - a consolidated company, a consolidated company with relative consolidation or an included company;

'Principal shareholder' - according to the meaning thereof in paragraph (1) of the definition of 'principal shareholder' in section 1 of the Law;

'Index' - the Consumer Price Index published by the Central Bureau of Statistics;

'Corporation' - a corporation that prepared the statements, except for a joint investment trust fund;

(Preparation of Annual Financial Statements)

'Date of approval of the statements' - the date on which the board of directors of the corporation, or a committee thereof which it authorized for that purpose, approved the statements.

Application of regulations (amended: 5767-2006)

2. (a) The provisions of these regulations shall apply to the preparation of the financial statements of a corporation, except for -
 - (1) Financial statements of a banking corporation which are prepared in accordance with the instructions and guidelines of the Supervisor of Banks; and except for information in financial statements of a corporation that consolidated or consolidated on proportionate basis a banking corporation, as far as this information pertains to said banking corporation;
 - (2) Financial statements of an insurer prepared in accordance with the Supervision of Insurance Business Regulations (Details of Report) -1988, and except for information in financial statements of a corporation that consolidated or consolidated on proportionate basis an insurer, as far as this information pertains to said insurer;
- (b) In this regulation -
 - 'Supervisor of Banks'* - within the meaning thereof in the Banking Ordinance, 1941;
 - 'Insurer'* - within the meaning of the Supervision of Insurance Business Law -1981
3. The statements shall be prepared in accordance with the accounting rules and shall fairly reflect, in accordance with the accounting rules, the position of the corporation's business on the balance sheet dates, the results of its activities, the changes in its net worth and its cash flow in the reported years.

Rules for preparing statements:

- 3A. (a) Notwithstanding what is stated in regulation 3, the financial statements of a foreign issuer may be prepared in accordance with international accounting standards or accepted accounting rules in the United States.

Financial statements of foreign issuer
(amended: 5764)

- (b) The financial statements of a foreign issuer may be audited in accordance with international auditing standards or American auditing standards in accordance with the type of rules or standards in accordance with which they were prepared as stated in sub-regulation (a).
- (c) For the purpose of financial statements of a foreign issuer, which are prepared as stated in sub-regulation (a) or which are audited as stated in sub-regulation (b), the following provisions shall apply:

(Preparation of Annual Financial Statements)

- (1) The reports shall include a note of the adjustment for the accepted accounting standards; for this purpose, “adjustment” — for profit and net worth.
- (2) The reports may be written in a language other than Hebrew, provided that they include a translation into Hebrew alongside them and a confirmation of the translator of the accuracy of the translation and of his consent to the inclusion of the translation and the confirmation in the reports;
- (3) If the currency in which the reports are prepared is not the NIS, the reports shall be included in NIS; if a translation into Hebrew is attached to the reports under paragraph (2), it shall also include values in NIS;
- (4) The auditor shall state in his opinion the accounting rules or standards according to which the statements were prepared and also the auditing standards in accordance with which they were audited;
- (5) The opinion of the auditor may be in a language other than Hebrew, provided that it includes a translation into Hebrew alongside it and a confirmation of the translator of the accuracy of the translation and of his consent to the inclusion of the translation and the confirmation in the reports;
- (6) In addition thereto, the auditor or accountant shall give his opinion as to whether the financial statements were prepared in accordance with the provisions of these regulations.

(amended: 5767)

4. Currency of reports is – NIS (New Israeli Shekel), nevertheless a corporation is allowed to present reports in a currency other than NIS if accounting rules permit it; if reports of a corporation have been presented in a currency other than NIS, the corporation shall attach conversion of sums that appear in the report into NIS.

Adjusted statements:

5.
 - (a) The statements of the corporation shall also include consolidated statements of the corporation with the companies that should be consolidated in accordance with the accounting rules.
 - (b) Consolidated statements shall be prepared in accordance with these regulations, mutatis mutandis.

Comparative statements:

(amended 5756)

6.
 - (a) Alongside each amount in the balance sheet shall be displayed the amount that corresponds with it in the balance sheet of the previous reporting year.

(Preparation of Annual Financial Statements)

- (b) Alongside each amount in the profit and loss statement, the statement of changes in net worth and the cash flow statement shall be displayed the amount that corresponds with it in each of the two previous reporting years.
- (c) If, in one of the reporting years included in the statements, there occurred a change in the accounting rules or in the manner of applying them in comparison with the previous reporting year, except for a change as aforesaid that must be reflected in a new presentation, the change shall be explained, the reasons for it shall be given and a statement shall be made of its effect in figures on the profit before deduction of income taxes, on the net profit, on the profit per share and on other items in the statements on which the effect of the change is material, for each of the reporting years whose figures are included in the statements.
- (d) If a comparative figure is displayed in a new way in the statements -
 - (1) The nature of the new presentation shall be explained, the reasons for it shall be given and its effect shall be stated in amounts on each of the items presented in a new way in the statements, on the net profit and on the profit per share for each of the previous reporting years whose figures are included in the statements;
 - (2) Details shall be given of the balance of profit or the balance of loss at the beginning of the earliest reporting year whose figures are included in the statements as previously reported, and the total of the whole effect on the profits and losses in the years before the earliest reporting year whose figures are included in the statements.
- (e) If an accounting estimate is changed in the reporting year and the change has a material effect on the statements or on statements in the reporting year or in future reporting years, the substance of the change shall be explained, the reasons for it shall be given and its effect shall be stated in amounts on the items in the balance sheet and the profit and loss statement, including the profit per share.
- (f) In the statements, every amount that is presented or classified in a new way shall be marked.

Separate presentation:

- 7.
 - (a) The items that are required by these regulations shall be presented separately in the financial statements, unless in the circumstances of the case they are not material.
 - (b) There is no obligation to state that a certain item does not exist, unless there is a contrary provision in these regulations.

Structure of the reports

(amended 5756)

- 8.
 - (a) The items in the statements shall be classified and presented in accordance

(Preparation of Annual Financial Statements)

with their order in these regulations, unless the business of the corporation requires a different classification or presentation, provided that the matter is stated.

- (b) The details required in accordance with these regulations shall be included in the explanatory notes.
 - (c) Details shall be given of the accounting policy that was adopted in the statements.
9. An item that can be quantified financially, including by a reasonable estimate, should include the appropriate amount.

Stating amounts

10. In addition to the items required in these regulations, details shall be given of every item or any information or clarification without which the statements will not fairly reflect what is required under regulation 3.

Additional information

Signatures and date of the statements

11. Alongside the signatures of the persons signing the statements shall be stated also their names and their offices in the corporation, and the date of approving the statements shall be stated.

Chapter 2**Items that should be included in the balance sheet with regard to the assets of the corporation****Classification of assets**

(amended 5755)

12. (a) The assets of the corporation shall be classified and presented in the following categories:
- (1) Current assets, which shall include cash and cash equivalents, customers and also debtors and debit balances, inventory, and other assets that are intended and expected to be realized within a year or within the ordinary operating turnover period of the corporation, if it exceeds a year, stating that period;
 - (2) Non-current inventory which shall include inventory that is not intended or expected to be realized within a year or within the ordinary operating turnover period of the corporation, if it exceeds a year;

(Preparation of Annual Financial Statements)

- (3) Investments, loans and long-term debit balances;
 - (4) Fixed assets;
 - (5) Other assets, including intangible assets and deferred expenses.
- (b) For the purpose of sub-regulation (a)(1) -
- (1) A debt of a controlled company or of a company that is a principal shareholder in the corporation shall be deemed to be expected to be realized within the aforesaid period, only if the position of its working capital on the date of balance sheet allows realization as aforesaid;
 - (2) If other assets in the current assets include an asset in an amount that exceeds five per cent of the total of all the current assets, such an asset shall be presented separately.
 - (3) Bills and checks that were received from customers shall be included in the 'customers' category; bills and checks received from others shall be included in the appropriate categories.

Customers, debtors and short-term debit balances

(amended 5755, 5756)

13. (a) Customers for the purpose of regulation 12(a)(1) shall be classified and presented in accordance with the following categories:
- (1) Open debts;
 - (2) Checks for collection.
- (b) Debtors and debit balances for the purpose of regulation 12(a)(1) shall be classified and presented in the following categories:
- (1) Employees;
 - (2) Institutions;
 - (3) Consolidated companies;
 - (4) Consolidated companies with relative consolidation;
 - (5) Included companies;
 - (6) Principal shareholders;
 - (7) Debtors and other debit balances.
- (c) If the category of 'debtors and other debit balances' includes an asset in an amount that exceeds five per cent of the total of all the current property, such an asset shall be presented separately.
- (d) The amounts of the provisions for doubtful debts shall be stated; the amounts of the provisions that were deducted from the customers' balances shall be stated separately.

Inventory (amended 5756)

14. (a) Inventory shall be classified and presented in accordance with its constituents, including raw materials and accessory materials, products in the production process and finished products, all in accordance with the circumstances of the case; the assessment basis for each of the components of the inventory shall be stated; for this purpose, '*inventory*' - including non-current inventory.
- (b) If all the amounts for carrying out works exceed the prepayments and provisions for those works, the costs, the amounts of the prepayments and the profits or the provisions for losses for the aforesaid works shall be stated.

Investments, loans and long-term debit balances

15. (a) The amounts of the investments, loans and long-term debit balances attributed to controlled companies shall be presented separately as stated in regulation 22.
- (b) The amounts of the investments, loans and long-term debit balances that are not attributed to controlled companies shall be presented with a statement of the bases for valuing them, in the following categories:
- (1) Investments in shares;
 - (2) Investments in participation certificates in joint investment trust funds;
 - (3) Investments in certificates that grant a right to buy shares;
 - (4) Investments in certificates of indebtedness that are convertible into shares;
 - (5) Investments in certificates of indebtedness that are not convertible into shares;
 - (6) Loans and long-term debit balances;
 - (7) Investments in land rights;
 - (8) Other investments.
- (c) With regard to each type of investment in securities as stated in sub-regulation (b), securities listed for trade on the Stock Exchange, including a stock exchange or a regulated market for securities outside Israel — stating their market value - and securities that are not listed as aforesaid shall be presented separately.
- (d) If the 'other investments' category includes an investment in an amount that exceeds five per cent of the total of all the investments, loans and long-term debit balances, such an investment shall be presented separately.
- (e) If the value of the investment of a corporation and its consolidated companies in a company that is not a controlled company - together with

(Preparation of Annual Financial Statements)

the amount guaranteed by guarantees that the corporation and its consolidated companies gave for its undertakings - exceeds five per cent of the corporation's net worth, the following details should be included:

- (1) The name of the company;
 - (2) The amounts of the investment in the shares, certificates that are convertible into shares or that grant a right to buy them, certificates of indebtedness that are not convertible, loans and debit balances;
 - (3) Details of the guarantees that the corporation and its consolidated companies gave for its undertakings;
 - (4) The income from a dividend and other income from the company.
- (f) There is no obligation to give details of comparative figures for the previous reporting year with regard to figures that are set out in sub-regulation (e).

Certificates of indebtedness, loans and long-term debit balances

(amended 5756)

16. The amounts of the investments and balances as stated in regulation 15(b)(5) and (6) shall be presented in accordance with the following provisions:
- (1) The amounts before deduction of the current maturities shall be classified and presented in accordance with the type of currency and method of linkage in the following categories:
 - (a) Investments and balances in Israeli currency that are unlinked;
 - (b) Investments and balances in Israeli currency that are linked to the index;
 - (c) Investments and foreign currency balances or investments and balances linked to foreign currency, for each major type of currency separately;
 - (d) Investments and balances that are linked to another basis;
 - (2) An investment or balance whose parts are stipulated in various currencies or which is linked to various bases shall be presented in the appropriate categories in accordance with the classification in paragraph (1);
 - (3) For each type of investment or balance in accordance with paragraph (1), the amounts shall be classified in accordance with the interest rates according to the circumstances of the case;
 - (4) After the total of the investments or balances of every kind in accordance with paragraph (1), the total of all the current maturities and the total of all the investments or balances after deduction of the current maturities shall be stated.
 - (5) The total of all the investments and the balances, after deducting the current maturities, shall be stated in accordance with the following realization dates:
 - (a) In the second year;
 - (b) In the third year;
 - (c) In the fourth year;
 - (d) In the fifth year;

(Preparation of Annual Financial Statements)

- (e) More than five years.
- (6) Investments that are not listed for trade on the Stock Exchange, including a stock exchange or regulated market for securities outside Israel, shall be classified into categories in accordance with the size of the balances of the borrowers, such that all the balances of one borrower and all the certificates of indebtedness that it issued shall be deemed one loan, and a total shall be included of all the balances in all the categories; the categories shall be determined in accordance with the circumstances of the case, and for each category the number of the loans and the total of all the balances shall be stated.
- (7) There is no obligation to present comparative figures for the previous reporting year with regard to the figures mentioned in this regulation.

Exchange of securities

- 17. If securities are purchased in return for other securities that the corporation held, details of the transaction and its circumstances shall be included and the accounting rules according to which it was recorded shall be stated.

Fixed assets

- 18. (a) Fixed assets shall be classified and presented in the following categories:
 - (1) Land;
 - (2) Machines, equipment and tools;
 - (3) Vehicles;
 - (4) Office equipment and furniture;
 - (5) Installations and improvements to rented premises;
 - (6) Other fixed assets.
- (b) If the 'other fixed assets' category includes an asset in an amount that exceeds five per cent of the total of all the fixed assets, such an asset shall be presented separately.
- (c) In each category of fixed assets, where during the reporting year a provision was made for a reduction in the value of the asset, this shall be stated; there is no obligation to mention a provision as aforesaid that was made before 25 Tevet 5752 (1 January 1992).
- (d) The amount of the investment grants that was received on account of purchasing fixed assets shall be stated

Depreciating fixed assets (amended 5756)

- 19. (a) Depreciating fixed assets shall be presented in categories as stated in regulation 18(a) and for each category the following details shall be included:
 - (1) The cost of the assets at the beginning of the reporting year, the cost of the assets that were added in the reporting year, the cost of

(Preparation of Annual Financial Statements)

- the assets that were subtracted during the reporting year and the cost of the assets on the date of the balance sheet;
- (2) The accumulated depreciation at the beginning of the reporting year, the provision for depreciation during the reporting year, the accumulated depreciation for assets that were subtracted during the reporting year and the accumulated depreciation on the date of the balance sheet;
 - (c) The reduced balance for each category.
 - (b) There is no obligation to present comparative figures for the previous reporting year with regard to the amounts mentioned in sub-regulation (a)(1) and (2).
 - (c) The depreciation rates shall be stated, and if the depreciation method is not the 'straight line method', the useful lifetime of the asset shall also be stated.

Land rights

20. If the investments or fixed assets include land rights, the following provisions shall apply:
- (1) These rights shall be presented with a distinction between ownership and long lease rights;
 - (2) Long lease rights shall be presented with a statement of the balance of the period of the long lease and with a distinction between a capitalized lease and a non-capitalized lease;
 - (3) If land rights in Israel are not registered in the name of a corporation or its subsidiary at the Land Registry, the reason for the lack of registration shall be stated;
 - (4) If land rights outside Israel are not registered in the name of the corporation or its subsidiary in a register maintained under the law of the foreign country, the reason for the lack of registration shall be stated;
 - (5) Land rights shall also include land rights held through a controlled company whose sole business is holding these rights; if the corporation holds fifty per cent or less of the voting rights in the aforesaid company, the share of the corporation in that company shall not be included in 'land rights' unless the share in the land rights is at the corporation's disposal as if it held it directly;
 - (6) If costs or expenses are attributed to the value of the land rights, the amounts of the costs or expenses attributed as aforesaid shall be stated; there is no obligation to state amounts of costs or expenses that were attributed before 25 Tevet 5752 (1 January 1992).

Other assets (amended 5763)

21. If the 'other assets' category includes an asset whose balance exceeds five per cent of the total of all the other assets, details shall be given of the asset, the

circumstances of recording it in the statements, its original value, its rate of depreciation and its balance after the depreciation on the balance sheet date.

Chapter 3

Details that shall be included in the balance sheet of the corporation with regard to controlled companies

Details of investments in Controlled companies

(amended 5756)

22. (a) The amounts of the investments, loans and long-term debit balances attributed to controlled companies shall be classified and presented for consolidated companies separately and consolidated companies with relative consolidation separately and included companies separately, in the following categories:
- (1) Shares;
 - (2) Certificates that grant a right to purchase shares;
 - (3) Certificates of indebtedness that can be converted into shares;
 - (4) Certificates of indebtedness that cannot be converted into shares;
 - (5) Loans and debit balances that are not included in the current assets.
- (b) An investment in shares shall be presented with a distinction between the cost of the shares that were purchased and the amounts of the profits or losses that have accumulated from the date of the purchase; there is no obligation to give details of an investment in shares as aforesaid with regard to an investment that was made before 25 Tevet 5752 (1 January 1992).
- (c) The book value of assets under sub-regulation (a)(1) to (4) that are listed for trade on the Stock Exchange, including a stock exchange or regulated market for securities outside Israel, and their value on the Stock Exchange on the date of the balance sheet shall be presented separately.
- (d) Details shall be given, for consolidated companies separately, for consolidated companies with relative consolidation separately and for included companies separately, of goodwill that derives from the purchase of the investments in them, provided that it has not been depreciated in full; the original amount, the depreciation rate and the balance on the date of the balance sheet shall be stated.
- (e) Certificates of indebtedness that cannot be converted into shares, loans and debit balances that are not included in the current assets shall be classified and presented for all the controlled companies separately, in accordance with the provisions stated in regulation 16.

Attaching the statements of an included company

(amended: 5763, 5764, 5756, 5767(2))

(Preparation of Annual Financial Statements)

23. (a) In this regulation -
'Foreign accounting rules' - a system of accounting principles and reporting rules which is not the binding one under these regulations, and which is not international accounting standards;
'Accountant' - including someone who is authorized to practice accounting outside Israel;
'Profit' - a profit as stated in regulation 46(a)(3), including the items listed in paragraphs (4) and (5) and excluding the items listed in paragraphs (6) to (8) of that regulation;
'Foreign auditing standards' - auditing standards which are not accepted auditing standards in Israel and that are not the international auditing standards.
- (b) Financial statements of an included company, for the reporting year, shall be attached to the statements of the corporation, as stated in sub-regulations (e) to (j), if one of the following is fulfilled:
- (1) The amount of the investment of the corporation in the included company, as presented in the balance sheet, in accordance with regulation 22, in its absolute value, is ten or more per cent of the total of the assets in the balance sheet of the corporation, in its absolute value;
 - (2) The amount which is associated in the profit and loss statement for the investment of the corporation in the included company, in accordance with regulation 46(a)(4), constitutes, in its absolute value, ten or more per cent of the corporation's profit, in its absolute value;
 - (3) The included company is of significant importance to the business or the activity of the corporation in their existing format or in their format that is planned for the future;
 - (4) A condition as stated in paragraphs (1) or (2) was fulfilled in the previous reporting year, and it is expected that a condition as aforesaid in those paragraphs shall also be fulfilled in the coming reporting year;
 - (5) The company became an associated company of the corporation after the date of the balance sheet and the aforesaid under clause (3) is fulfilled;
The examination of the conditions set out in this sub regulation shall be made with regard to the consolidated financial statements of the corporation.
- (c) Financial statements of an included company shall not be attached to the statements of the corporation, notwithstanding the stated under clause (b), if one of the following is fulfilled:
- (1) The statements of the included company are insignificant in proportion to the statements of the corporation;

(Preparation of Annual Financial Statements)

- (2) What is stated in paragraphs (3) to (5)² of sub-regulation (b) is not fulfilled, and in the previous reporting year what is stated in paragraphs (1) or (2) of sub-regulation (b) was not fulfilled, and it is expected that even in the coming reporting year what is stated in these paragraphs will not be fulfilled;
- (3) After the balance sheet date, the company ceased to be an included company of the corporation.
- (d) The statements of the corporation shall state the names of the included companies whose statements are attached to the corporation's statements; if the statements of an included company are not attached because of what is stated in sub regulation (c), they shall state the name of the included company and the paragraph in sub-regulation (c) on account of which the statements of the included company were not attached.
- (e) The statements of an included company shall be attached when they have been prepared in accordance with the provisions of these regulations, or when they have been prepared in accordance with international accounting standards, in accordance with the accounting rules according to which the corporation included its investment in the included company; in this sub-regulation, '*the provisions of these regulations*' - except for the obligation to attach the statements of an included company under this regulation and except for the obligation to attach statements of a guaranteed company under regulation 36(b)(2)(c).
- (f) Notwithstanding what is stated in sub-regulation (e) with regard to the format of the attachment, it is permissible to attach statements of an included company when they are prepared in accordance with foreign accounting rules, provided that all of the following are fulfilled:
- (1) The system of accounting rules in accordance with which the statements were prepared is comprehensive;
- (2) The content of the information in the statements is similar in principle to that required under these regulations or to that required under international accounting standards;
- (3) The statements of the included company or the statements of the corporation shall include an explanatory note concerning conformance to the accounting rules required by these regulations or to international accounting standards, in accordance with the accounting rules according to which the corporation included its investment in the included company; for this purpose, '*conformance*' — for profit and net worth.
- (g) If the currency in the statements of the included company is not the NIS, the exchange rate of the currency in the statements shall be stated as of the date of the balance sheet, and the changes that occurred to it in the reporting year.
- (h) The statements of an included company shall be audited in accordance with accepted auditing standards in Israel or in accordance with

²The original Hebrew text is '15', apparently in error.

(Preparation of Annual Financial Statements)

international auditing standards, or in accordance with a system of foreign auditing standards which is comprehensive.

- (i) A report of an auditing accountant on the statements of the included company shall be attached to them, in which it is stated, inter alia, the accounting rules in accordance with which the statements were prepared and the auditing standards in accordance with which the audit of the statements was made.
- (j) If the language of the statements of the included company is not Hebrew or English, a translation of the statements into Hebrew, including a certificate of the translator as to the accuracy of the translation containing his consent to the attachment of the translation and the aforesaid approval, shall also be attached; if the statements translated into Hebrew are duly signed, attaching the statements in the original language is not required; for this purpose, '*statements*' - including a report of an auditing accountant.
- (k) If the chairman of the ISA is persuaded that on the date of filing the statements, a certain corporation was unable to attach the statements of a company which complies with what is stated in sub-regulation (b)(5), he may order it to publish statements of that company in an immediate report within a period that he shall prescribe; for this purpose, '*date of filing the statements*' - the date prescribed for filing the statements in the Securities Regulations (Periodic and Immediate Reports), 1970.
 - (l) The provisions of this regulation shall not apply to an included company which is in itself a reporting corporation.

Dividend from controlled companies

(amended 5756)

24. A statement shall be made of the dividend that was recorded in the reporting year from consolidated companies separately, from consolidated companies with relative consolidation separately and from included companies separately.

Certificates and rights of controlled companies

25. If a controlled company issued certificates granting a right to purchase shares, certificates of indebtedness that are convertible into shares or rights to buy certificates as aforesaid, or it received amounts on account of shares, certificates or rights as aforesaid, or it entered into a contract in another way to issue shares, details with regard to the aforesaid rights shall be stated separately for each controlled company.

Chapter 4

Details that shall be included in the Balance Sheet with regard to the

Corporation's Liabilities

Classification of the liabilities

(amended 5756)

26. (a) The liabilities of the corporation shall be classified and presented in the following categories:
- (1) Current liabilities;
 - (2) Long-term liabilities.
- (b) Current liabilities of the corporation shall include:
- (1) Liabilities that may be repayable within a year or within the operating turnover period of the corporation's business, if it is greater than a year, stating this period;
 - (2) Prepayments from customers, advance income and profits that have not yet been realized that may be recorded as income in the profit and loss statement within the period stated in paragraph (1).
- (c) *Repealed*
- (d) If the payment of a liability in the reporting year is brought forward, the amount of the liability that was brought forward shall be stated and details shall be given of the new date of payment and its main terms.

Current liabilities

(amended 5755, 5756)

27. (a) Current liabilities shall be classified and presented in the following categories:
- (1) Credit from banking corporations and from other credit providers;
 - (2) Liabilities to suppliers and service providers;
 - (3) Creditors and credit balances;
 - (4) A dividend that was declared or proposed;
 - (5) *(repealed)*.
- (b) If the category of 'other current liabilities' includes a liability in an amount that exceeds five per cent of the total of all the current liabilities, such a liability shall be presented separately.
- (c) Amounts of current maturities of long-term liabilities shall be included in the appropriate items.

Credit from banking corporations

(amended: 5755, 5756)

28. (a) Credit from banking corporations and from other credit providers for the purpose of regulation 27(a)(1) shall be classified and presented in the following categories:
- (1) Short-term credit from banking corporations separately and from other credit providers separately;

(Preparation of Annual Financial Statements)

- (2) The total of all current maturities of long-term loans.
- (b) Short-term credit for the purpose of sub-regulation (a)(1) shall be classified and presented in accordance with the interest rates and linkage bases according to the circumstances of the case.

Liabilities to suppliers and service providers

(amended 5755)

- 29. (a) Liabilities to suppliers and service providers for the purpose of regulation 27(a)(2) shall be classified and presented in the following categories:
 - (1) Open debts;
 - (2) Bills payable.
- (b) Bills and checks given to suppliers or service providers shall be included in the 'liabilities to suppliers and service providers' category; bills and checks given to others shall be included in the appropriate categories.

Creditors and credit balances

(amended 5755, 5756)

- 30. (a) Creditors and credit balances for the purpose of regulation 27(a)(3) shall be classified and presented in the following categories:
 - (1) Advance income;
 - (2) Prepayments from customers;
 - (3) Profits that have not yet been realized;
 - (4) Liabilities to workers and other liabilities on account of wages and salary;
 - (5) Institutions;
 - (6) Liabilities to consolidated companies;
 - (7) Liabilities to consolidated companies with relative consolidation;
 - (8) Liabilities to included companies;
 - (9) Liabilities to principal shareholders;
 - (10) Creditors and other credit balances.
- (b) If the amounts of prepayments from customers for carrying out works exceed the cost and the provisions for those works, a statement shall be made of the aforesaid difference, the amounts of the prepayments, the costs and the profits or the provisions for losses on account of the aforesaid works.
- (c) If the 'creditors and other credit balances' category includes an undertaking in an amount that exceeds five per cent of the total of all the current liabilities, the liability as aforesaid shall be presented separately.

Dividend that was announced or proposed

(amended 5763)

- 31. (a) Statements shall state the amount of dividends that have been declared or

(Preparation of Annual Financial Statements)

- offered, prior to the balance date.
- (b) The statements shall include separate details with regard to a dividend that was declared or proposed after the date of the balance sheet until the date of approving the statements.

Deferred taxes
(amended 5756)

32. (a) If differences result in the creation of amounts of deferred taxes, the major types of differences shall be stated and the following details shall be stated with regard to each major type, with a distinction between deferred taxes in current liabilities or in current assets and other deferred taxes:
- (1) The balance of deferred taxes at the beginning of the reporting year;
 - (2) The adjustment of the balance as a result of changes in tax laws, if any;
 - (3) Other changes in the balance in the reporting year, stating separately changes that are not included in the profit and loss statement;
 - (4) The balance of deferred taxes at the end of the reporting year.
- (b) It shall be stated that the deferred taxes are calculated in accordance with the tax rates that are expected to apply at the time when they are paid or realized, under the law in force, and details shall be given of these tax rates and the amounts of the deferred taxes for each one of the balance sheet categories.
- (c) If assets are recorded on account of deferred taxes, the justification for this shall be given.
- (d) The amounts of deferred taxes for which no asset is recorded shall be stated.
- (e) The amount of the balance of losses for tax purposes shall be stated.
- (f) Details shall be given of the policy with regard to taxes that are expected to apply in a case of realization of investments in controlled companies, with regard to additional tax in a case of a distribution of a dividend by these companies and with regard to additional tax that is likely to apply in a case of a distribution of a dividend by the corporation or its controlled companies out of income that grants entitlement to benefits under the law.

Liabilities for termination of employee employer relations
(amended 5763)

33. (a) The total of all the liabilities for termination of employee employer relations shall include liabilities under any law, agreement, practice and expectations of the management. In the liabilities as aforesaid for a planned structural change, liabilities for expectations only shall not be included; if liabilities as aforesaid on account of a planned structural change are included, details shall be given of the

(Preparation of Annual Financial Statements)

- additional conditions whose fulfillment as of the date of the balance sheet necessitated the inclusion of the liabilities.
- (b) Details and a description shall be given of the types of liabilities for termination of employee-employer relations, including pension, severance pay, retirement compensation, retirement grant, acclimatization grant and compensation for sick days that were not utilized.
 - (c) A statement shall be made of the amount included in the balance sheet with regard to every type of liability as aforesaid, and the category in which it is included; if the liability is a liability to pay severance pay for which the payment to a provident fund or to another fund constitutes payment of the liability under the Severance Pay Law, 5723-1963, this shall be stated and there is no obligation to give details of the amount of the liability and the category in which it is included.
 - (d) Details shall be given of the method of calculating any amount which is stated under sub-regulation (c) and the assumptions that formed the basis for calculating it.
 - (e) A statement shall be made of the amount of the reserve arising from deposits of the corporation in funds, provident funds, insurance companies and savings plans for each type of liability for which the amount was stated in accordance with sub regulation (c) and the category in which it is included.

Long-term liabilities

(amended 5755, 5756)

- 34. (a) Long-term liabilities, after deduction of current maturities, shall be classified and presented in the following categories:
 - (1) Certificates of indebtedness which are convertible into shares;
 - (2) Certificates of indebtedness which are not convertible into shares;
 - (3) Liabilities to banking corporations;
 - (4) Other long-term liabilities.
- (b) *(repealed)*.

Details of long-term liabilities

(amended 5756)

- 35. (a) Other long-term liabilities, as stated in sub-regulation 34(5), shall be classified and presented in the following categories:
 - (1) Liabilities to consolidated companies;
 - (2) Liabilities to consolidated companies with relative consolidation;
 - (3) Liabilities to included companies;
 - (4) Principal shareholders;
 - (5) Long-term and other loans;
 - (6) Liabilities deriving from a capital long lease;

(Preparation of Annual Financial Statements)

- (7) Deferred income;
- (8) Profits that have not yet been realized;
- (9) Other long-term balances.
- (b) If the 'other long-term balances' category included a liability in an amount that exceeds five per cent of the total of all the long-term liabilities, details of such a liability shall be given separately.
- (c) The long-term liabilities, before deducting the current maturities, shall be classified and presented in the following categories in accordance with the type of currency and method of linkage:
 - (1) Liabilities in Israeli currency which are unlinked;
 - (2) Liabilities in Israeli currency that are linked to the index;
 - (3) Liabilities in foreign currency or liabilities that are linked to foreign currency, for each major type of currency separately;
 - (4) Liabilities that are linked to another basis.
- (d) A liability of which parts are stipulated in various currencies or which is linked to various bases shall be split and presented in the appropriate categories in accordance with the classification in sub-regulation (c).
- (e) For each type of liability in accordance with sub-regulation (c), the amounts shall be classified in accordance with the interest rates according to the circumstances of the case.
- (f) After the total of the long-term liabilities of every kind in accordance with sub-regulation (c), the total of all the current maturities and the total of all the long-term liabilities after deduction of the current maturities shall be stated.
- (g) The total of all the long-term liabilities, after deducting the current maturities, shall be stated in accordance with the following dates of payment:
 - (1) In the second year;
 - (2) In the third year;
 - (3) In the fourth year;
 - (4) In the fifth year;
 - (5) More than five years.
- (h) The part of the amount of the certificates of indebtedness held by consolidated companies and consolidated companies with relative consolidation (subsidiaries)³ shall be stated, with a distinction between certificates of indebtedness that are convertible into shares and certificates of indebtedness that are not convertible into shares.
- (i) If circumstances occurred in the reporting year that may bring forward the payment of the liability, details of these circumstances shall be given and the amount of the liability should be stated.
- (j) If a liability is accompanied by a condition that restricts the corporation in using its assets, in receiving credit or in other transactions, details shall be given of the condition.

³In view of the 5756 amendment (which added the words 'consolidated... relative consolidation), it would appear that this word is redundant, even though no instruction was given to delete it.

(Preparation of Annual Financial Statements)

- (k) There is no obligation to present comparative figures for the previous reporting year with regard to the figures mentioned in sub-regulations (c) to (j).

Contingents
(amended 5756)

36. (a) In this regulation, '*contingents*' - contingent liabilities and contingent losses.
- (a1) Details shall be given of claims that were filed against the corporation and with regard to which a complete provision was not made, and the amount of these claims.
- (b) Contingents shall be classified and presented in accordance with the following items:
- (1) (a) A provision for contingents shall be classified in the balance sheet and in the profit and loss statement in accordance with the nature thereof as if the liabilities or the loss were absolute;
- (b) (*deleted*);
- (c) If a provision was made for contingents and there is an additional exposure with regard to those contingents whose probability of being realized is not slight, or no provision was made for contingents whose probability of being realized is not slight, details shall be included with regard to the aforesaid contingents and the amount of the additional exposure shall be stated; it is permitted to state in one amount exposure for contingents of an identical nature;
- (d) If a provision was made for contingents and there is an additional exposure with regard to those contingents whose probability of being realized is slight, or no provision was made for contingents whose probability of being realized is slight, but the maximum possible liability or loss may place in doubt the continued activity of the corporation in its existing format⁴ — details shall be included with regard to the contingents or the exposure, as applicable; it is permitted to state in one amount additional exposure for contingents of an identical nature;
- (e) Details shall be included separately about contingents with regard to which there is no possibility of a reasonable estimate of the exposure, with reference to an opinion, if there is one, which states the aforesaid.
- (2) (a) The full amount of the debts for which the company is a

⁴The original Hebrew text is: 'in their original format'.

(Preparation of Annual Financial Statements)

- guarantor, including bills which it assigned, shall be stated, with a distinction between debts of consolidated companies, debts of consolidated companies with relative consolidation, debts of included companies and debts of principal shareholders.
- (b) If the corporation is a guarantor in a guarantee that is unlimited in amount, except a guarantee for a consolidated company, the following details shall be included:
- (1) The name of the party for whom the guarantee was given;
 - (2) The total of all the guaranteed liabilities on the date of the balance sheet;
 - (3) The collateral that was received on account of these guarantees;
 - (4) The expenses and income of the corporation on account of these guarantees.
- (c) Audited financial statements of a company for which a guarantee that is unlimited in amount has been given as stated in sub-paragraph (b) shall be attached to the statements of the corporation; the ISA may exempt the corporation from attaching the statements of such a company and it may also make the grant of an exemption conditional upon stating details about it.
- (d) The provisions of sub-regulation (c) shall not apply to the statements of a company for which a guarantee has been given and which is subject to section 36 of the Law.

Special transactions

37. Details shall be included with regard to special transactions about each of the following:
- (a) The scope of the transaction;
 - (b) The length of the period during which the transaction is in existence;
 - (c) The importance of the transaction;
 - (d) The fact that the transaction deviates from what is customary in the corporation in its usual course of business.
38. The amounts of the liabilities of the corporation and also the amounts of the liabilities of others that are secured by a charge on any of the assets of the corporation shall be stated, the charged asset shall be described and the type of charge shall be stated.

Chapter 5

Details that shall be included in the Balance Sheet with regard to the Net Worth of the Corporation**Option**

39. In this chapter, ‘*option*’ — a security that grants its holder a right to purchase shares that will be issued by the corporation in return for an additional realization amount on a date and on terms that have been determined, provided that the consideration that was paid is not refundable to the purchaser.

Net worth

(amended 5756)

40. The net worth of the corporation shall be presented.

Share capital

41. (a) Details shall be given of the registered, issued and paid-up nominal share capital, together with the number of the shares, which shall be divided into the classes of the shares, stating their nominal value and their main rights.
- (b) If shares have accompanying rights that are linked to foreign currency or another basis, this shall be stated and details shall be given of the linkage basis.
- (c) The redemption terms of redemption shares shall be stated, including who is entitled to demand the redemption or to determine the date thereof.
- (d) The amount of a cumulative dividend in arrears shall be stated.

Receipts on account of shares

42. (a) Any acceptance received on account of shares that have not yet been issued shall be stated separately.
- (b) If the amounts stated in sub-regulation (a) are refundable, these receipts shall be presented in a separate item in the liabilities as stated in regulation 26(c).

Permanent liabilities

(amended 5756)

43. *Repealed*

Reserves and surpluses

(amended 5756)

44. (a) Funds and surpluses shall be classified and details under the following categories:

(Preparation of Annual Financial Statements)

- (1) Capital funds – including premium on shares;
- (2) Surpluses;
- (b) Notwithstanding the stated under clause (a) and under regulation 40, it is permitted to include capital funds that were created before 2 Adar II 5746 (31 March 1986), together with the paid-up share capital, in one amount, provided that this is stated.
- (c) *Repealed*
- (d) If the distribution of surpluses and funds distributed in cash is restricted, the restriction and the amounts thereof should be stated.

Issue of securities to employees

(amended 5756)

- 44A. If securities of the corporation are issued to employees, the following details shall be stated:
- (1) The type and terms of the securities;
 - (2) The number of the securities;
 - (3) The manner in which the value of the securities was determined, the manner of calculating it and the assumptions that served as a basis therefore;
 - (4) The consideration that was received for them or that will be received when they are realized, and the manner of paying it;
 - (5) The share prices of the corporation shortly before the decision of the board of directors to issue the securities and shortly before the issue of the securities;
 - (6) The amounts of the loans that the corporation gave to buy securities and the terms thereof;
 - (7) If the corporation will be liable for taxes on the issue of the securities or the realization thereof, this should be stated and details shall be given of the amounts of the taxes that the corporation paid and, in so far as possible, the total of all the amounts of the taxes that are expected to be payable;
 - (8) Other terms which accompany the issue.

Transactions for the issue of shares

(amended 5756)

45. (a) If options were issued, the amounts that were received for them should be stated minus the expenses of the issue that are attributed to them.
- (b) The amounts that were received on account of options that have not yet been issued shall be stated.
- (c) If the amounts of the receipts stated in sub-regulation (b) are refundable, these shall be presented in a separate item in the liabilities as stated in regulation 26(c).

(Preparation of Annual Financial Statements)

- (d) Details shall be given of the terms according to which the corporation is likely to issue shares by virtue of options or by virtue of another transaction, whether receipts were received on account of the options or the transaction or not; details shall be given of these terms separately for each class of option or transaction, and they shall refer, inter alia, to the class of shares, the number thereof and the consideration for them, whether as consideration for issuing the options or as additional consideration that will be received at the time of the realization and also the periods or the times for realizing the options or the transaction.
- (e) If certificates of indebtedness that are convertible into shares are issued or securities that grant a right to buy such certificates are issued, details shall be given of the terms under sub-regulation (d), mutatis mutandis.
- (f) A statement should be made of the number of the shares of the various classes as a result of realizing the rights as stated in sub-regulation (d) and (e) in the reporting year, stating the consideration that was received at the time of the realization, and details shall be included with regard to the expiry of rights as aforesaid in the reporting year.

Chapter 6

Details that should be included in the profit and loss statement of the corporation

Categories of the profit and loss statement (amended 5756)

- 46. (a) The profit and loss statements shall be classified and presented in the following categories:
 - (1) Profit or loss before deduction of taxes on income as stated in regulation 47(a);
 - (2) Taxes on income;
 - (3) Profit after deduction of taxes on income;
 - (4) The corporation's share in the profits or losses of included companies; if included companies have profits or losses of the types listed in paragraphs (6) to (8), the share of the corporation in those profits or losses shall be set out within the framework of the aforesaid paragraphs;
 - (5) Minority rights in consolidated companies; if the minority has a share in the profits or losses of the types listed in paragraphs (6) to (8), this share shall be deducted from the profits or losses presented in those paragraphs;

(Preparation of Annual Financial Statements)

- (6) Profits or losses from activities that were stopped, after deduction of taxes on income for these, stating the amount of the tax that was deducted;
- (7) Profits or losses that constitute special items, after deduction of taxes on the income for these, stating the amount of the tax that was deducted;
- (8) The cumulative effect of a change in the accounting rules or in the manner of implementing them as of the beginning of the period in which the change was made, after deduction of taxes on the income for these, stating the amount of the tax that was deducted; if the change in the accounting rules or in the manner of implementing them is such that it requires a new presentation of comparative figures for previous periods, details shall be included in accordance with the provisions of regulation 6(d).
- (b) Categories of items in the profit and loss statement in accordance with sub-regulation (a) shall be totaled and the total shall be called 'net profit' or 'net loss'.
- (c) The profit or loss per share shall be presented.

Profit or loss before deduction of taxes on income

- 47. (a) Before the deduction of taxes on income, shall be classified as profit or loss and presented in the following categories:
 - (1) Turnover of activities;
 - (2) Cost of sales, works and services;
 - (3) Gross profit;
 - (4) Sales and marketing expenses;
 - (5) Administrative expenses and general expenses;
 - (6) Profit or loss from ordinary activity;
 - (7) Finance expenses or income from finance;
 - (8) Other income and expenses.
- (b) If the 'other income and expenses' category includes income or an expense in an amount that exceeds five per cent of the total of all the profit or loss, before taxes on income, the income or expense as aforesaid shall be stated separately.
- (c) Profits or losses that derive from transactions or from events that are not ordinary or usual and that do not constitute special items shall be included in 'other income and expenses'; the notes shall include details of the nature and composition of such profits or losses.

Turnover of activities

(amended 5756)

- 48. (a) The turnover of activities shall be stated according to its components, according to the circumstances of the case, including the amount of income from the sale of products that were manufactured by the

(Preparation of Annual Financial Statements)

corporation, from carrying out works and services, from other sales and commissions, with each type of income separately.

- (b) Without derogating from the generality of the aforesaid in regulation 8(c), a description shall be given of the policy of recognizing income for each of the components of the turnover of activities; if the turnover of activities includes income from long-term works, details shall be given of the earliest stage for recognizing profits.

Long-term credit sales

49. If the turnover of activities includes sales whose proceeds, in whole or in part, are being paid by credit over a period that exceeds a year, the turnover of these sales shall be stated, together with the method of recognizing the income and the manner of recording the finance element incorporated in them.

Long-term works

(amended 5756)

50. (a) Details shall be given of long-term works in accordance with the following items:
- (1) The income for the reporting year;
 - (2) The costs for the reporting year;
 - (3) The reserves for losses in the reporting year;
 - (4) The profit for the reporting year.
- (b) The details in accordance with sub-regulation (a) shall be classified separately for each one of the methods whereby the results from long-term works are determined.
- (c) Details in accordance with sub-regulation (a) shall be classified in accordance with the circumstances of the case, including in the following categories:
- (1) Residential building;
 - (2) Industrial and commercial building;
 - (3) Infrastructure works;
 - (4) Other.

Cost of sales, works and services

(amended 5756)

51. (a) The amount of the cost of sales, works and services shall be stated for each type of income as set out in regulation 48(a).
- (b) The cost of the sales, works and services shall be stated according to its components in accordance with the circumstances of the case, including the following details:
- (1) Use of materials, including parts that were purchased and ancillary materials;
 - (2) Salary, including the expenses ancillary thereto;
 - (3) The cost of external works;

(Preparation of Annual Financial Statements)

- (4) Depreciation;
- (5) Other manufacturing expenses;
- (6) Changes in the stock of products in the course of production;
- (7) Changes in the stock of finished products.

Sales and marketing costs

(amended 5756)

- 51A. Sales and marketing expenses shall be set out according to their constituents, according to the circumstances of the case, including wages and salary, commissions paid, advertising, depreciation and reductions.

Administrative expenses and general expenses

(amended 5756)

- 51B. Administrative expenses and general expenses shall be set out according to their constituents, according to the circumstances of the case, including wages and salary, depreciation and reductions.

Doubtful and bad debts

52. If amounts are included in the profit and loss statement for doubtful and bad debts, the amounts shall be included in the appropriate items, while stating these amounts separately.

Participation in expenses

53. If others participated in the corporation's expenses, the amounts of the participation shall be included in the appropriate items, while stating these amounts separately.

Finance expenses

(amended 5756)

- 53A. Details shall be given of finance expenses or income from finance according to their components, according to the circumstances of the case, including for certificates of indebtedness that can be converted into shares, certificates of indebtedness that are nonconvertible, long-term loans, short-term loans, profits or losses from securities.

Deferral and capitalization of expenses

54. If expenses were deferred or capitalized, the amount that was deferred or capitalized and the method of calculating it shall be stated, with details in

(Preparation of Annual Financial Statements)

accordance with the items in the profit and loss statement and the balance sheet, and details shall be given of the circumstances of the deferral or the capitalization.

Income from held companies

(amended 5756)

55. Income from held companies shall be set out for consolidated companies separately, for consolidated companies with relative consolidation separately, and for included companies separately, according to its components, including interest, management fees and services, but excluding dividends and the share of the corporation in the results of the activities of the held companies.

Realization of non-current assets

56. Profits and losses from the realization of non-current assets shall be set out in the following categories:
- (1) Investments in held companies - each investment separately, stating profits or losses arising from the issue of shares to a third party by the held companies or from another change in their capital structure;
 - (2) Other assets - each asset separately.

Taxes on income

57. (a) Taxes on income shall be classified and presented in the following categories:
- (1) Current taxes on income liable for tax for the reporting year;
 - (2) Deferred taxes for the reporting year, except the amount under paragraph (3);
 - (3) Differentials from an adjustment of the deferred taxes balances for changes in the tax laws, if any;
 - (4) Taxes for previous reporting years.
- (b) A statement should be made of the tax rates according to which the provision for current taxes on taxable income was calculated for the reporting year.
- (c) If the corporation is entitled to a tax exemption or concession, details of the exemption or concession shall be given, including the date on which they begin and expire; if the exemption or concession are contingent on compliance with certain conditions, details of the conditions shall be given and it shall be stated whether the corporation complied with them until the date of approval of the statements.
- (d) A reconciliation shall be included between the expenses of taxes on income presented in the profit and loss statement and the profit or loss before deduction of taxes multiplied by the main rate of tax applicable to the corporation's income; this reconciliation shall state the main components of the difference between the

(Preparation of Annual Financial Statements)

- aforesaid tax expenses and the aforesaid multiplication, including a debit of deferred taxes for which no asset was registered in previous years and which were realized in the reporting year.
- (e) If the corporation challenged the assessment, the difference which is the subject of the challenge, together with linkage, interest and fines, as applicable, shall constitute a contingent liability and it shall be subject to the provisions of regulation 36, mutatis mutandis.
 - (f) The last tax year for which the corporation and the subsidiaries received final tax assessments shall be stated.

Special profits or losses

58. Details shall be included as to the nature and composition of the amounts stated in paragraphs (6) to (8) in regulation 46(a), including the following details:
- (1) The corporation's share in the profits and losses of included companies that were included in the amounts presented in the aforesaid paragraphs;
 - (2) The share of the minority in the profits and losses of consolidated companies that was deducted from the amounts presented in the aforesaid paragraphs.

Chapter 7**Details that should be included in the Statement of Changes in the Net Worth of the Corporation****Statement of Changes in Net Worth**

(amended 5756)

59. The statement of changes in net worth shall present the movements in each of the following categories:
- (1) Paid-up share capital;
 - (2) Premiums on shares;
 - (3) Receipts on account of shares;
 - (4) Permanent liabilities;
 - (5) Capital reserves;
 - (6) Surpluses;
 - (7) Other capital items.

Dividends

(amended 5763)

60. Dividends that were declared or proposed before the balance sheet date shall be presented in the reports separately.

Bonus shares
(amended 5756)

61. If bonus shares were distributed or such a distribution was proposed before the date of approval of the statements, the number, class and nominal value of the shares that were distributed or whose distribution was proposed shall be stated, with details of the number of shares that were distributed or that will be distributed for each one hundred shares; there is no need to give details of a distribution that was included in a period before the reporting year and a designated distribution from profits of a period after the date of the balance sheet.

Chapter 8
Transactions of the Corporation with Principal Shareholders

Liabilities of the corporation to a principal shareholder
(amended 5755)

62. Information concerning liabilities of the corporation and its consolidated companies to a principal shareholder in a corporation shall be included in a note in accordance with the following details:
- (1) A statement shall be made of the amounts of the long-term liabilities before deduction of the current maturities, in categories according to the circumstances of the case, and details shall be given of the rates of interest, linkage bases, dates of payment and the other main terms, the total of all the current maturities shall be stated separately;
 - (2) A statement shall be made of the current liabilities, except for current maturities of long-term liabilities, and details shall be given of the rates of interest and linkage bases.

Investments of the corporation in a principal shareholder
(amended 5755)

63. Information concerning investments of the corporation and its consolidated companies in a principal shareholder of the corporation shall be included in a note in accordance with the following details:
- (1) Investments in a principal shareholder or in someone who was a principal shareholder when the investment was made, his loans and debts in accordance with the following details:
 - (a) Investments in shares, in certificates that grant a right to buy shares, in certificates of indebtedness that can be converted into shares and other investments, except for an investment in a held company that is a principal shareholder in the corporation;

(Preparation of Annual Financial Statements)

- (b) The investments of the corporation in certificates of indebtedness that are not convertible;
 - (c) The amounts of the long-term loans and debts of a principal shareholder, before deduction of the current maturities of the long-term loans and debts, the rates of interest, the linkage bases, the dates of payment and the other main terms; the total of all the current maturities shall be stated separately;
 - (d) The amounts of the current loans and debts of a principal shareholder on the balance sheet date and the highest balance in the period of the twelve months before the date of the balance sheet.
- (2) If the corporation guaranteed a debt of a principal shareholder or of someone who was a principal shareholder at the time of giving the guarantee or if the corporation charged one of its assets as collateral for such a loan, the following provisions shall apply:
- (a) If the guarantee is limited in amount, the amount of the guarantee shall be stated, and details shall be given of the sureties that the corporation received for the guarantee and the debit balance which the corporation guaranteed, distinguishing between a current debt and a long-term debt;
 - (b) If the guarantee is not limited in amount, the provisions of regulation 36(b)(2)(b) and (c) shall apply, *mutatis mutandis*.
 - (c) If the corporation charged one of its assets as collateral for a debt of a principal shareholder, the type of charge shall be stated, and a description shall be given of the charged asset, and the debit balance shall be stated.

Benefits to a principal shareholder and transactions with him

(amended: 5755, 5756, 5763, 5767)

64. Information concerning benefits that the corporation and its consolidated companies gave to a principal shareholder in the corporation, concerning transactions with a principal shareholder shall be set out together in a note in accordance with the following details:
- (1) (a) In this paragraph -
 - '*Benefits*' - wages and salary, directors' salary, management fees, commission and any other benefit that was given, paid or recorded, whether as a credit balance or as a reserve - whether directly or indirectly, but excluding dividends, interest and amounts as stated in paragraph (3);
 - '*Wages and salary*' - including amounts ancillary to wages and salary, and also amounts as stated in regulation 33;
 - '*Benefit*' - a right to receive cash or cash equivalents, whether it is immediately realizable or not;
 - (b) Benefits that the corporation or its subsidiary gave in the reporting year, distinguishing between a principal shareholder employed by

(Preparation of Annual Financial Statements)

the corporation or on its behalf, and a director who is not employed as aforesaid and another principal shareholder who is not employed, and the number of persons in each of these three categories shall be stated; if a benefit that cannot be quantified in money was given, the benefit and its terms shall be described.

- (c) If there is a contingent liability to give benefits for which no provisions was made, or if there exists a transaction according to which benefits are likely to be given, the liability or the transaction and its terms shall be described.
 - (d) If a benefit was given to a principal shareholder, details shall be given of its value, the manner in which the value of the benefit was determined and the assumptions adopted in calculating it; if the corporation is liable for taxes on account of giving the benefit, this shall be stated and details shall be given of the amounts of taxes that the corporation paid, and in so far as possible, the total of all the amounts of taxes that are expected to be payable.
- (2)
- (a) Finance income from a principal shareholder for debts, except for debts arising from transactions that were described in the statements in accordance with paragraph (3)(a) to (c) or transactions for which an exemption was given under paragraph (3)(d);
 - (b) A finance expense to a principal shareholder on account of a loan payable to him, except for debts arising from transactions that were described in the statements in accordance with paragraph (3)(a) to (c) or transactions for which an exemption was given under paragraph (3)(d);
 - (c) These provisions shall not apply to finance income from a principal shareholder that is a banking corporation or to finance expenditure to such a principal shareholder, for finance that was given in the normal course of business.
- (3)
- (a) A description shall be given of transactions between the corporation and its subsidiaries and a principal shareholder, whether they were made directly or they were made indirectly, stating the amounts of the transactions, the methods of determining the prices, the credit terms and the other terms according to the circumstances of the case.
 - (b) A statement shall be made of the amounts that include the profits or losses of the corporation as a result of transactions in a fixed asset as stated in sub-paragraph (a).
 - (c) If there is a contract to carry out a transaction as stated in sub-paragraph (a), details shall be given in accordance with sub-paragraphs (a) and (b), *mutatis mutandis*.
 - (d) The ISA may exempt the corporation from describing transactions as stated in sub-paragraphs (a) to (c), or from some of them, except for an exceptional transaction within the meaning thereof in section 1 of the Companies Law, 5759-1999, if in its opinion a

(Preparation of Annual Financial Statements)

description of transactions as aforesaid involves special difficulties, provided that giving the exemption does not harm the interests of someone investing in the corporation's securities; the ISA may make the giving of the exemption conditional upon stating details about transactions as aforesaid.

- (e) In this paragraph, '*principal shareholder*' - according to the definition thereof in regulation 1, except for a provident fund, within the meaning thereof in section 47(a)(2) of the Income Tax Ordinance.

Chapter 9 Miscellaneous Provisions

Repeal

65. Securities Regulations (Preparation of Financial Statements), 5729-1969, are repealed, subject to what is stated in regulations 66 and 67 (hereafter - the repealed regulations).

Commencement

(amended 5754)

66. (a) The provisions of these regulations, except for paragraphs (2) and (3) of regulation 64, shall apply starting from the financial statements prepared for the reporting year ending on 7 Tevet 5753 (31 December 1992).
- (b) Paragraphs (2) and (3) of regulation 64 shall apply starting from the financial statements prepared for the reporting year ending on 28 Tevet 5755 (31 December 1994)

Transition provisions

67. Notwithstanding what is stated in regulation 66(a) -
- (1) A corporation that files a periodic report under the Securities (Periodic and Immediate Reports) Regulations, 5730-1970 - which includes financial statements for the reporting year ending on 7 Tevet 5753 (31 December 1992) — before 7 Adar 5753 (28 February 1993) shall be entitled to include therein financial statements as aforesaid, prepared in accordance with the repealed regulations;
- (2) If the ISA is persuaded that a corporation is unable to prepare the financial statements for the reporting year ending on 7 Tevet 5753 (31 December 1992) in accordance with the provisions of these regulations, in whole or in part, the provisions of the repealed regulations shall apply to it, in whole or in part, as the ISA shall determine;

(Preparation of Annual Financial Statements)

- (3) A corporation that files with the ISA an application to receive a permit to publish a prospectus up until 9 Nissan 5753 (31 March 1993) may include in the draft prospectus and in the prospectus that will be published financial statements prepared in accordance with the repealed regulations, provided that both of the following are fulfilled:
- (a) The permit to publish a prospectus shall be given for a prospectus in which the most recent financial statements that are included are statements prepared for the reporting year ending on 7 Tevet 5753 (31 December 1992);
 - (b) At the time of giving the permit to publish the prospectus, section 36 of the Law does not apply to the corporation.
- (4) A corporation that is subject to the provisions of paragraphs (1) or (2) and that files with the ISA an application to receive a permit to publish a prospectus up until 9 Nissan 5753 (31 March 1993) may include in the draft prospectus and in the prospectus that will be published the financial statements that it prepared in accordance with paragraphs (1) or (2) as applicable, provided that the permit will be given for a prospectus in which the most recent financial statements that are included are statements prepared for the reporting year ending on 7 Tevet 5753 (31 December 1992).

27 Shevat 5753 (18 February 1993)

Avraham (Beige) Shohat
Minister of Finance