

Quarterly Report 2006 | Q2



TEL-AVIV STOCK EXCHANGE

News Headlines

"Remote membership" in the TASE

The Tel Aviv Stock Exchange Board of Directors resolved to permit financial institutions, which have no permanent representation in Israel, to become "remote members" on the TASE.

Companies that eligible are international banks and investment houses which have been stock exchange members in their home countries for at least ten years on one of the following markets: The London Stock Exchange, Euronext, New York Stock Exchange, DTB (Frankfurt), Eurex (Germany), SWE (Switzerland) or TSE (Tokyo).

"The Board resolution reflects the growing interest of the international investors in the Israeli Capital Market and the many opportunities that exist on the Tel Aviv Stock Exchange for global and Israeli investors", said **Saul Bronfeld**, Chairman of the TASE.

International bodies who are currently members of the TASE, include: UBS, Deutsche Bank, HSBC and the most recent addition - Citibank.

Tel-Div 20 - "Dividend Payers" Index

The TASE launched a new index in July, 2006 - the Tel-Div 20. It is comprised of twenty shares included in the TA-100, that offer the highest dividend yield.

Nine of the twenty shares comprising the Tel-Div 20 Index are included in the TA-25 Index, while the total market value of aggregate shares in this index stands at \$25 billion. Based on the composition of the index, the companies included have an average annual dividend yield of 7.7%.

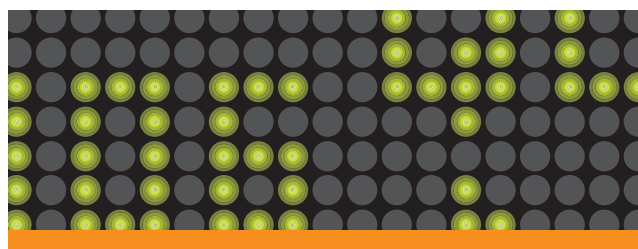
The new Tel-Div 20 will be updated twice a year, along with other leading indices on the TASE; based on the dividend yield of companies over the past year. Recently, an Index-Linked certificate (ETF) tracking the Tel-Div 20 Index was launched.

TASE Launches New Website

The Tel Aviv Stock Exchange is upgrading its online services with a new website: www.tase.co.il. Extensive market data is available on this site, along with diverse information on the TASE itself and on the Israeli Capital Market in general, and offers convenient access to various target audiences.

The website, enables the public, for the first time, access to historic trading data from 2000 onward, free of charge. Its main feature is a comprehensive, user-friendly presentation of trading figures, in both Hebrew and English. In addition, an in-depth description of all products traded on the TASE is also provided.

The new website contains a wide range of information for both local and international investors, including details of Israel's Capital Market and TASE traded products; Government regulations; Indices; Trading methods; Shares; Listings; Facts & figures, and more.



The TA-25 Index Now Also in Milan

Open End Certificates (OECs) tracking the TA-25 index began trading on the Italian Stock Exchange in June, 2006. The certificates were issued by the London branch of the Dutch investment bank ABN AMRO, enabling Italian investors to track the TA-25 index through a simple and convenient investment instrument.

This Open End Certificate joins 3 other OECs currently issued on the TA-25 Index by ABN AMRO on the Swiss Exchange, and by UBS on the Stuttgart and Frankfurt Stock Markets.

Market Review

Since the middle of July, Israel's economy has been contending with effects of the eruption of hostilities in the country's north.

The financial markets, however, proved quiet resilient: neither the stock nor the foreign currency markets lost ground during this period.

By the end of July the TA-25 index, had returned to its level of the beginning of 2006, after reaching a new peak in the beginning of May. Share priced ebbed from that peak as a result of the sharp drop in Emerging Markets and the volatility of the U.S. markets.

The negative trend persisted during the last two weeks of July due to the hostilities in northern Israel, but the TA-25 index dropped only slightly - by 1.5% (as of August 1, 2006).

The TA-25 Index Composition

Company	Market capitalization* (US \$ millions)	Weighting** (%)
1. Teva	25,452	9.50%
2. Bank Hapoalim	5,360	9.50%
3. Israel Chemicals	5,121	9.50%
4. Bank Leumi	5,014	9.50%
5. Bezeq	3,029	6.01%
6. Israel Corporation	2,738	5.43%
7. Makhteshim-Agan	2,285	4.53%
8. Africa	2,272	4.50%
9. Delek Group	1,723	3.42%
10. Bank Discount	1,670	3.31%
11. IDB Development	1,646	3.26%
12. Perrigo	1,541	3.06%
13. Migdal Insurance	1,331	2.64%
14. Nice	1,329	2.63%
15. Mizrahi Tefahot	1,271	2.52%
16. Partner	1,267	2.51%
17. Discount Investment	1,220	2.42%
18. Gazit Globe	1,149	2.28%
19. Elbit Systems	1,098	2.18%
20. Ormat	1,083	2.15%
21. Clal Industries	1,021	2.02%
22. Strauss-Elite	983	1.95%
23. Harel Insuranc	904	1.79%
24. IDB Holding	855	1.70%
25. Koor	852	1.69%
TOTAL	72,214	100%

*As of June 29, 2006

**Weighting is adjusted according to the 9.5% cap.

The trade in stocks during the first half of the year was characterized by unprecedented volumes of \$320 million daily - about 45% above the daily average in 2005. In May, a peak volume of \$409 million daily was recorded.

A record volume was set in the derivatives market in the first six months. The trading volume in options on the TA-25 Index totaled some 310 thousand units a day, with a peak volume of 355 thousand options being recorded in May.

The trading volume in the bonds market, totaled \$313 million a day - slightly higher than average in the preceding year.

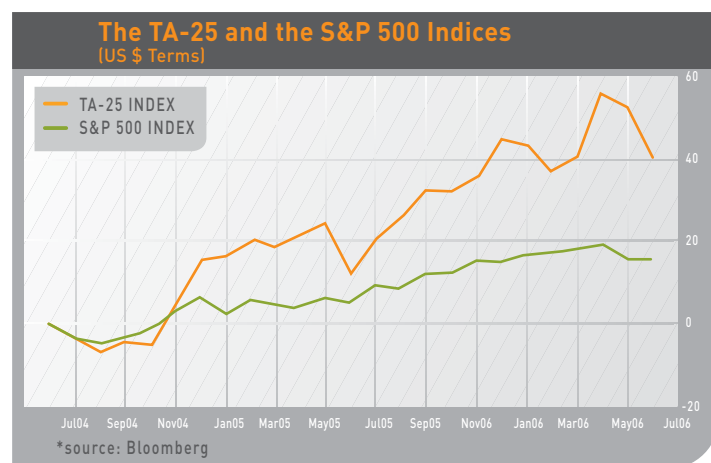
The trade in index-linked certificates (ETF) on share indices continued to rise, representing about 19% of the trading volume in stocks, compared to 10% in the preceding year. This boost stemmed, inter alia, from the issue of 30 new ETFs on international indices. At the present time, some 80 ETFs are traded on the TASE.

In the primary share market, 55 share issues were executed during the period, in which Israeli companies raised \$0.8 billion, compared with \$1.5 billion throughout the whole of 2005. In the period under review, approximately 60% of the amount was raised in 11 IPOs - half of which were R&D companies.

Radcom and **Visonic** were dual-listed on the TASE, thereby joining 33 other dual-listed companies traded in this category. Visonic is the second Israeli company to take advantage of the application of the Dual-Listing Law available to companies listed on the London Stock Exchange main list.

The Government continued to pursue its privatization program by selling 26% of the shares in **Israel Discount Bank** to corporations controlled by the Bronfman and Schron families, and a further 6% to institutional investors. The Government's revenue from sale of privatized companies in the first half of 2006 totaled \$430 million.

In the bonds market, companies raised \$2.1 billion through 45 offerings of bonds, mostly linked to the consumer price index; and a further \$1.4 billion were raised through private placements to institutional investors.



Key Issues for International Investors

International Investments: No Restrictions and Tax-Free

International investors face no regulatory restrictions in buying or selling TASE-listed securities, and they are exempt from capital gains tax.

Market Regulation: Transparency

The market's advanced regulatory framework is based on U.S. legislation. The comprehensive Securities Law, enforced by the Israel Securities Authority (ISA), provides investors with a fully transparent investment environment. To maintain market integrity, the ISA puts special emphasis on preventing insider trading and price manipulation. Regulators' efforts have substantially improved corporate-governance standards in recent years.

Membership: Reputation and Reliability

12 banks and 15 brokerage firms, including 4 international ones, are serving local and international investors on the TASE. All are renowned for stability, reliability and professionalism. The capital and liquidity requirements of the Exchange are very stringent, helping ensure the members' financial stability and increasing investor protection.

New at the TASE: Remote Membership

The Tel Aviv Stock Exchange enables financial institutions, that have no permanent representation in Israel, to become "remote members" on the TASE.

Eligible companies are international banks and investment firms from specific countries which have been stock exchange members in their home countries for at least ten years on one of the following markets: The London Stock Exchange, Euronext, New York Stock Exchange, DTB (Frankfurt), Eurex (Germany), SWE (Switzerland) or TSE (Tokyo).

Trading and Clearing: A Seamless One-Stop Shop

A fully-electronic order-driven and integrated trading system serves the equity, fixed income and derivatives markets simultaneously. The system's efficiency enables the TASE to consistently cut its commissions. The central order book is based on international mainstream rules.

Trading Hours (GMT+2) - The TA-100 Shares

Pre Opening	08:30-09:45
Opening (Call Auction)	09:45
Continuous Trading	09:45-17:15
Closing (Crossing)	17:15-17:30

All trades are cleared by the TASE Clearing House, Israel's Central Securities Depository. Paperless Straight-Through-Processing technologies enable trade-date clearing, while cash settlement takes place on the following day (T+1). The TASE clearing members comply with strict requirements for capital and liquid assets.

The Derivatives Market: Dynamic and Liquid

The TASE trades various derivative products: TA-25 Index options and futures and currency (Shekel-Dollar and Shekel-Euro) options and futures. Trading is executed via the fully automated Tel Aviv Continuous Trading (TACT) system.

About Us

Founded in 1953, the Tel-Aviv Stock Exchange is owned by its member firms and is regulated by the Israel Securities Authority. The Exchange provides a highly advanced electronic trading system for shares, bonds, Treasury bills and derivatives. All trades are cleared and settled by the TASE Clearing House. The TASE offers international investors a combination of attractive investment opportunities and a full complement of market services.