

Quarterly Report 2006 | Q3



TEL-AVIV STOCK EXCHANGE

News Headlines

First Ever TASE NASDAQ Investors Conference in New York

During September, 2006 the Tel Aviv Stock Exchange and Nasdaq held a joint investors conference in New York. Institutional investors took the opportunity to meet the leaders of Israel's biggest publicly traded companies, including **Bank Leumi, Bank Hapoalim, Israel Chemicals, Nice Systems, Delek Group, and Teva Pharmaceutical Industries**. The conference offered leading international investors a direct exposure to Israeli leading companies and an opportunity to hear about the potential they and the Israeli capital market pose.

The Governor of the Bank of Israel, **Prof. Stanley Fischer**, opened the conference, and presented an positive view of Israel's macro-economics for 2006 and 2007.

Ms. Charlotte Crosswell, Head of Nasdaq International, said at the conference: "The first joint Nasdaq-TASE conference marks Nasdaq's commitment to the Israeli marketplace. Its success demonstrates the sustained interest that American investors have in Israeli companies".

Market Makers for Government Bonds

On September 4, 2006, eight TASE members started operating as market makers for the TASE's government bond market.

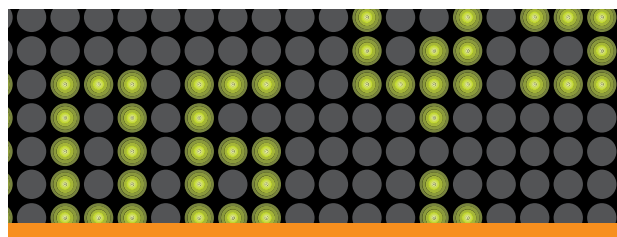
The market makers are required to quote two-way bid and ask orders amounting to NIS 1 million at least. TACT system will show at all times quotes for Shahaar government bonds amounting to more than NIS 8 million, throughout at least five hours of each trading day.

The introduction of market makers is expected to increase liquidity in the Israeli government bonds market and to enhance their attraction.

Citigroup Israel to Provide Direct Custody & Clearing Services

Citigroup Israel would provide direct custody and clearing (DCC) services to clients through the TASE Clearing House, making Citigroup the first foreign bank in Israel to offer DCC services to a large international client base. Citibank N.A. was recently approved as a member of TASE and the TASE Clearing House, enabling the bank to offer securities clearing and settlement services in Israel.

TASE and Citigroup have been working together for several years. In 2001 the TASE Clearing House developed the Galaxy System in collaboration with Citigroup. Galaxy allows members to effectively manage, reconcile and standardize clearing and settlement processes in the U.S markets and minimize risk.



TASE is Taking Part at the Reform in the Government Bond Market

The reform in the government bond market is taking shape, having commenced on September 4, 2006. The **Ministry of Finance** has established an inter-dealer system for trading Israel government bonds for which it chose the **MTS** platform. The TASE has completed its preparations for the reform and is collaborating on implementing in several key areas: Transactions executed on the MTS system are cleared by the TASE Clearing House, which also operates a repo facility through which the Ministry lends bonds to the primary market makers. The TASE also disseminates trading data from the system, and provides additional services to MTS and to the primary dealers. Furthermore, the TASE launched futures on "Shahaar" government bonds, a leading fixed income product. "Shahaar" futures are structured like similar products in international markets, to facilitate trading by international investors and banks.

Market Review

During July - September 2006 and from the year's start to the end of September, the TA-100 index gained 10%, while the broad-market index of small-cap stocks (Yeter) soared by 26%.

The eruption of the conflict on the northern border with Lebanon and the security problems in the country's south hardly affected the capital market. Share prices did retreat during the first two days of the northern conflict by 6% but then rallied, spurred by gains on Nasdaq and the expectation that the conflict in the north would end before long.

Throughout the entire period of the conflict, mid July-mid August, stocks retreated by only 0.6%, and the shekel (NIS) lost no ground against other currencies. The Tel-Tech index, which is heavily affected by Nasdaq because of its dual-listed shares, gained 3.5% in the third quarter. From the year's start, the Tel-Tech Index has lost 2%. The shekel (NIS) also stood strong, barely budging throughout the conflict. From the year's start, the shekel has appreciated by about 6.5% against the U.S. dollar.

The TA-25 Index Composition

Company	Market capitalization* (US \$ millions)	Weighting** (%)
1. Teva	26,379	9.50%
2. Israel Chemicals	6,280	9.50%
3. Bank Hapoalim	5,961	9.50%
4. Bank Leumi	5,549	9.50%
5. Bezeq	3,261	5.96%
6. Israel Corporation	3,153	5.76%
7. Africa	3,069	5.60%
8. Makhteshim-Agan	2,143	3.91%
9. Delek Group	1,917	3.50%
10. Bank Discount	1,851	3.38%
11. IDB Development	1,639	2.99%
12. Perrigo	1,616	2.95%
13. Partner	1,527	2.79%
14. Nice	1,395	2.55%
15. Mizrahi Tefahot	1,343	2.45%
16. Gazit Globe	1,297	2.37%
17. Discount Investment	1,291	2.36%
18. Migdal Insurance	1,284	2.34%
19. Elbit Systems	1,267	2.31%
20. Ormat	1,150	2.10%
21. Clal Insurance	1,054	1.92%
22. Strauss-Elite	965	1.76%
23. Harel Insurance	951	1.74%
24. IDB Holding	911	1.66%
25. Koor	878	1.60%
TOTAL	78,131	100%

*As of September 28, 2006

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

The market boost may be attributed to data showing that Israel's economic growth in the first half of 2006 remained powerful, at 5.9% growth in annual terms; Bank of Israel assessments that the war will reduce Israel's 2006 growth by no more than 1%, bringing annual growth to 4.6%; and the generally upbeat quality of the TASE-listed companies' second-quarter financial statements. Further impetus came from retreating oil prices which spurred gains on foreign markets, the cabinet's approval of the 2007 state budget and broad expectations that the Bank of Israel will be lowering interest rates.

These factors overcame the drag of fears about the aftermath of the war, mainly insofar as the conflict would impact third-quarter financial reports, and the impact on the country budgets' deficit.

Trading volumes in shares have never been so high, rising to \$300 million a day during the third quarter, an increase of 35% compared to the average daily trading volume in 2005. Like the equity market, trading volumes in options on the TA-25 index reached 310,000 contracts a day, the highest quarterly levels ever seen in these instruments. On the fifth day of the war, turnover in the options market spiked to a peak of 818,000 contracts.

Action in the bond market continued to gain momentum, with turnover reaching an average of \$370 million a day in the third quarter. The highest-ever volume of bond trade was reached on September 25: a record \$710 million.

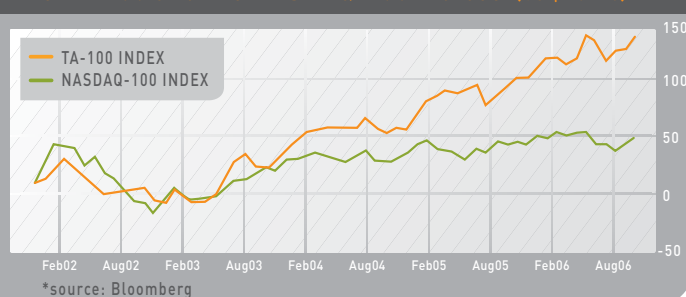
The proportion of trading devoted to share index-linked notes that track the stock indices (similar to ETFs), continued to increase, reaching 20% of the total trading volume in shares, double than last year. The increase was partly due to the launch of 53 new notes on local and international indices. Also, eight new notes tracking commodities prices were issued, bringing the total number of ETF like notes listed on the TASE to 96.

In the primary market, 70 new offerings were held from the year's start, in which \$1.1 billion was raised in Tel Aviv, compared with \$1.5 billion throughout the whole of 2005. About 60% of the amount raised this year was by companies debuting on the TASE, half of which were R&D or biotechnology companies.

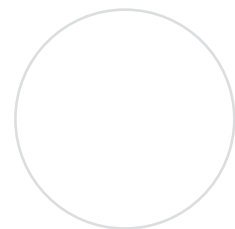
Two foreign companies, **Xfone** and **Ampal**, dual-listed on the TASE, joining the 34 companies already dual-listed in Tel Aviv. The American company **Verifone** is expected to dual-list towards year-end, once it completes its merger with **Lipman** through a share swap. Verifone will be joining the TA-25 index shortly after the merger.

In the bond market, companies raised \$5.6 billion from institutional investors and individuals, mostly through CPI-linked bonds, compared with the record-breaking \$10 billion raised in the year 2005.

The TA-100 and the NASDAQ-100 Indices (US \$ Terms)



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 Israeli capital gains tax.

Regulation and Investor Protection

The Israel Securities Authority (ISA) is the primary institution in charge of the securities market, and monitors the Tel Aviv Stock Exchange. The market's advanced regulatory framework is based on US legislation, and the ISA's responsibilities are similar in nature to those of the US Securities and Exchange Commission: to protect shareholder's rights and to uncover stock manipulation, fraudulent acts and other violations of the securities laws. The ISA also oversees regulations governing investment advisers, mutual funds and portfolio managers. The comprehensive Securities Law provides investors with a fully transparent environment that supports their decision-making.

Membership and Remote Membership at the TASE

Twelve banks and fifteen investment houses, including four international banks and investments houses, serve the community of local and international investors on the TASE. All are renowned for their stability, reliability and professionalism. The capital and liquidity requirements of our members are stringent, for the sake of protecting the investing community.

International investment houses that have no permanent representation in Israel are permitted, to become "remote members". Remote members may be international banks and investment houses that have been stock exchange members in their home countries for at least ten years, in 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 central order book system is based on international mainstream rules. All trades are cleared and settled 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 must be in compliance with strict requirements for capital and liquidity.

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

Dual-Listing on the TASE

The TASE offers companies traded in the U.S. and on the London Stock Exchange - Main Market a convenient way to dual-list their shares on the TASE. Dual-listing has been made easy and simple, imposes no additional regulatory burden, nor entails significant costs - and offers continuous trading from 9:45 AM to 11:00 PM (Israeli time), for companies listed in the U.S. There are currently more than fifty dual-listed companies on the TASE.

About Us

Founded in 1953, The Tel Aviv Stock Exchange operates at the heart of the Israeli economy. Combining the advantages of a sophisticated market with the opportunities of an emerging one, the TASE has a vast range of exciting possibilities to offer the global investment community.

Regulated by the Israel Securities Authority, the TASE provides a highly advanced platform for trading in shares, bonds, treasury bills and derivatives, along with the full range of market services. The TASE also offers clearing and data vending services and the calculation of indices.