



TEL-AVIV STOCK EXCHANGE

QUARTERLY REPORT

Q2 2003



2003

News Headlines

A Turning Point in the Political and Economic Areas

The second quarter of 2003 saw a number of positive political and economic changes, which resulted in renewed optimism in the capital markets: The American victory in Iraq, the launching of a “road map” to settling the Israeli-Palestinian conflict and the resulting cease-fire.

The markets’ sentiment has improved, particularly after Israel received loan guarantees from the US government and implemented a new economic program in order to reduce the government’s budget deficit.

Other factors contributing to the improvement were renewed share-price increases on the Nasdaq; a 9% rise in the shekel against the dollar; continued gradual interest rate cuts by the Bank of Israel, and improved profitability of publicly traded industrial companies following efficiency measures implemented in previous quarters.

These developments have resulted in a significant rise in TASE trading volumes, significantly higher share prices, and, after a long absence, the return of international investors to Israeli opportunities.

El Al Israel Airlines Privatized



From right, El Al CEO Amos Shapira, Chairman Michael Levy, Transportation Minister Avigdor Lieberman, the director of the Government Companies Authority, Eyal Gabbai, and the TASE's Chairman, Prof. Yair E. Orgler

In June, the government sold the shares of El Al Israel Airlines, Israel’s national carrier, and listed them on the TASE. El Al’s first trading days saw exceptionally high turnover and a sharp increase in the share price, which enabled El Al to join the TA-100 Index on July 1. The TASE marked the opening of trading in El Al shares at its new Visitors Center.

El Al has been under government control since its founding in 1948. It is the first government-owned company to be fully privatized on the TASE in a single, initial, offering: 15% of the shares were sold to the public and 85% were sold in the form of options that can be exercised over the next four years.

FTSE-MED 100 Index Launched

On June 19, the stock exchanges of Athens, Tel-Aviv and Cyprus, in cooperation with the FTSE Group, launched a joint stock index, FTSE-Med 100 Index.

FTSE-Med 100 Index comprises 100 shares of the three exchanges, some of which are listed also on US and European markets. The total market capitalization of the FTSE-Med 100 shares is 92 billion Euros.

The new regional index enables international investors to track the performance of the largest shares that are traded on the three markets. It will also enable the exchanges to introduce index-derivatives in the future.

The Equity Market - Main Indicators

| | 2002 | 1-6/2003 | Q2 2003 |
|---|--------|----------|---------|
| Average Daily Turnover (US \$ Millions) | 51 | 66 | 100 |
| Market Capitalization (US \$ Billions) | 43 | 63 | 63 |
| TA-25 Index (US\$ terms) | -32.2% | 45.6% | 44.1% |
| TA-100 Index (US\$ terms) | -30.6% | 49.8% | 44.2% |
| Tel-Tech Index (US\$ terms) | -42.9% | 61.4% | 48.3% |

The TA-25 Index Composition

As of June 30, 2003

| COMPANY | MARKET CAPITALIZATION (in US\$ millions) | WEIGHTING* (%) |
|------------------------|---|-------------------|
| 1. Teva | 15,378 | 9.50 |
| 2. Bezeq | 2,864 | 9.50 |
| 3. Bank Hapoalim | 2,658 | 9.46 |
| 4. Bank Leumi | 2,273 | 8.08 |
| 5. Israel Chemicals | 1,611 | 5.73 |
| 6. Migdal Insurance | 1,452 | 5.16 |
| 7. IDB Development | 1,319 | 4.69 |
| 8. Discount Investment | 1,068 | 3.80 |
| 9. Makhteshim - Agan | 986 | 3.51 |
| 10. Partner | 917 | 3.26 |
| 11. Clal Insurance | 877 | 3.12 |
| 12. IDB Holdings | 850 | 3.02 |
| 13. Israel Corporation | 840 | 2.99 |
| 14. Bank Discount | 831 | 2.95 |
| 15. Osem | 816 | 2.90 |
| 16. Elbit Systems | 769 | 2.74 |
| 17. Africa Israel | 757 | 2.69 |
| 18. Delek Group | 708 | 2.52 |
| 19. Bank Mizrahi | 676 | 2.40 |
| 20. Clal Industries | 674 | 2.40 |
| 21. Agis | 656 | 2.33 |
| 22. Phoenix | 581 | 2.07 |
| 23. Supersol | 515 | 1.83 |
| 24. Bank Tefahot | 490 | 1.74 |
| 25. Elco Holdings | 454 | 1.61 |
| TOTAL | 41,020 | 100% |

* Weightings are capped at 9.5%

The first half of 2003 ended with strong volumes and significant share-price increases, reflected in advances of 46% in the TA-25 Index and 61% in the Tel-Tech Index of technology companies. This compares with a weaker performance earlier in the year: Through February 13, the indices showed declines of 10% and turnover was low. The positive political and economic developments (see "news headlines") reversed the trend, sharply boosting trading volumes and share prices.

The daily trading volume of shares in the first half averaged \$66 million. The second quarter's volume averaged \$100 million, twice the volume for 2002. First-half daily trading volume in bonds averaged \$161 million. Daily trading in options on the TA-25 Index averaged 122,000 units, similar to last year's levels. Volume for dollar options averaged 38,000 units daily, about a 20% decline from last year.

At the start of 2003, Israel introduced a tax on capital gains realized by local investors. The tax reform includes a capital-gains tax of 15% on real gains. International investors are exempt from the tax.

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, 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

11 banks and 13 brokerage firms 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.

Trading and Clearing: A Seamless One-Stop Shop

A fully-electronic order-driven and integrated trading system is serving 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 | 09:45-16:45 |
| Closing (Crossing) | 16:45-17:00 |

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

The Tel-Aviv Stock Exchange, founded in 1953, 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.

For further information, Visit our Website at: www.tase.co.il

You are also welcome to contact: Mr. Ofer Simchony, Marketing and Media Relations

Phone: (972) 3 567-7405 Fax: (972) 3 510-5376 E-Mail: info@tase.co.il