

THE TEL-AVIV STOCK EXCHANGE LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2004

THE TEL-AVIV STOCK EXCHANGE LTD.

FINANCIAL STATEMENTS

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Contents

| | <u>Page</u> |
|-------------------------------------|-------------|
| Independent auditors' report | 2 |
| Financial statements: | |
| Balance Sheets | 3 |
| Statements of Operations | 4 - 5 |
| Statements of Changes in Equity | 6 |
| Statements of Cash Flows | 7 - 10 |
| Notes to the Financial Statements | 11 - 27 |

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE TEL-AVIV STOCK EXCHANGE LTD.

We have audited the accompanying balance sheets of The Tel-Aviv Stock Exchange Ltd. ("the Company"), as of December 31, 2004 and 2003 and the consolidated balance sheets of the Company and of its subsidiary, as of those dates, and the related statements of operations, changes in equity and cash flows for the Company and on a consolidated basis, for each of the three years ended December 31, 2004. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed by the Israeli Auditors' Regulations (Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position - of the Company and on a consolidated basis - as of December 31, 2004 and 2003, and the results of operations, changes in equity and cash flows - of the Company and on a consolidated basis - for each of the three years in the period ended December 31, 2004, in conformity with generally accepted accounting principles.

As explained in Note 2(a) the financial statements for reporting periods subsequent to December 31, 2003 are presented in "reported amounts", in accordance with accounting standards established by the Israeli Accounting Standards Board. The financial statements at the above dates and for the periods then ended are presented in values adjusted until then, based on the changes in the general purchasing power of the Israeli currency and in accordance with the pronouncements of the Institute of Certified Public Accountants in Israel.

Brightman Almagor & Co.
Certified Public Accountants

Tel Aviv, Israel
May 26, 2005

THE TEL-AVIV STOCK EXCHANGE LTD.

BALANCE SHEETS
(NIS in thousands)

| | Note | Consolidated | | Company | |
|---|------|------------------|------------------|------------------|------------------|
| | | December 31, | | December 31, | |
| | | 2004 | 2003 | 2004 | 2003 |
| | | Reported amounts | Adjusted amounts | Reported amounts | Adjusted amounts |
| Current assets | | | | | |
| Cash and cash equivalents | 3 | 16,479 | 22,315 | 12,034 | 15,304 |
| Marketable securities | 4 | 109,981 | 76,932 | 70,041 | 48,916 |
| Trade accounts receivable | 5 | 1,867 | 1,289 | 1,867 | 1,289 |
| Receivables and other current assets | 6 | 5,939 | 5,311 | 7,721 | 5,115 |
| | | <u>134,266</u> | <u>105,847</u> | <u>91,663</u> | <u>70,624</u> |
| Investments | | | | | |
| Subsidiary | 7 | - | - | 40,162 | 33,553 |
| Affiliate | 8 | 4,148 | 4,231 | 4,148 | 4,231 |
| | | <u>4,148</u> | <u>4,231</u> | <u>44,310</u> | <u>37,784</u> |
| Fixed assets | | | | | |
| Cost | 9 | 111,005 | 112,721 | 111,005 | 112,721 |
| Less: accumulated depreciation | | 92,647 | 94,369 | 92,647 | 94,369 |
| | | <u>18,358</u> | <u>18,352</u> | <u>18,358</u> | <u>18,352</u> |
| | | <u>156,772</u> | <u>128,430</u> | <u>154,331</u> | <u>126,760</u> |
| Current liabilities | | | | | |
| Trade accounts payable | 10 | 4,834 | 3,343 | 4,834 | 3,343 |
| Payables and other current liabilities | 11 | 20,381 | 15,698 | 17,940 | 14,028 |
| | | <u>25,215</u> | <u>19,041</u> | <u>22,774</u> | <u>17,371</u> |
| Long-term liabilities | | | | | |
| Accrued severance pay, net | 12 | 4,125 | 2,835 | 4,125 | 2,835 |
| Capital notes | 13 | 2,600 | 2,600 | 2,600 | 2,600 |
| | | <u>6,725</u> | <u>5,435</u> | <u>6,725</u> | <u>5,435</u> |
| Contingent liabilities and special commitments | | | | | |
| | 14 | | | | |
| Shareholders' equity | | | | | |
| | | <u>124,832</u> | <u>103,954</u> | <u>124,832</u> | <u>103,954</u> |
| | | <u>156,772</u> | <u>128,430</u> | <u>154,331</u> | <u>126,760</u> |

Prof. Yair E. Orgler
Chairman of the Board

Saul Bronfeld
CEO and Director

Joseph Treister
Senior Vice President
Administration and Finance

Tel Aviv, May 26, 2005
Approval date of the financial statements

The accompanying notes are an integral part of the financial statements.

THE TEL-AVIV STOCK EXCHANGE LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS
(NIS in thousands)

| | Note | Year ended December 31 | | |
|---|------|------------------------|---------------------|---------------------|
| | | 2004 | 2003 | 2002 |
| | | Reported amounts | Adjusted amounts | Adjusted amounts |
| Revenues from services | | | | |
| Trading and clearing commissions | | 95,340 | 77,565 | 87,238 |
| Securities registration and annual fees | | 20,755 | 13,445 | 12,796 |
| Clearinghouse services for the TASE members and for public companies | | 10,121 | 7,232 | 5,123 |
| Presentation of trade as well as other data | | 16,980 | 14,767 | 14,407 |
| Other | | 967 | 998 | 847 |
| | | <u>144,163</u> | <u>114,007</u> | <u>120,411</u> |
| Cost of revenues | | | | |
| Salaries and social benefits | 15A | 62,685 | 56,633 | 61,236 |
| Prior years' wages | | 3,002 | 339 | 711 |
| Special severance pay | | 1,120 | 2,941 | 945 |
| IT and communication expenses | | 11,794 | 10,242 | 9,526 |
| Rent, municipal taxes and building maintenance | | 8,015 | 7,627 | 9,513 |
| General and administrative expenses | | 8,963 | 7,695 | 7,136 |
| Fee to Israeli Securities Authority | 15B | 7,243 | 8,492 | 7,353 |
| Depreciation | | 8,870 | 8,519 | 7,663 |
| Premiums in respect of the Maof Risk Fund | | 7,706 | 6,769 | 6,291 |
| | | <u>119,398</u> | <u>109,257</u> | <u>110,374</u> |
| Operating income before net financing | | 24,765 | 4,750 | 10,037 |
| Financing income (expenses), net | 17 | 7,864 | 15,474 | (5,674) |
| Operating income after net financing | | 32,629 | 20,224 | 4,363 |
| Other income, net | | 114 | 2 | 61 |
| Pre-tax income | | 32,743 | 20,226 | 4,424 |
| Income taxes | 18 | 12,090 | 3,395 | 4,936 |
| Income (loss) after income taxes | | 20,653 | 16,831 | (512) |
| Company's share in earnings of investees, net | | 225 | 264 | 130 |
| Net income (loss) for the year | | <u>20,878</u> | <u>17,095</u> | <u>(382)</u> |

The accompanying notes are an integral part of the financial statements.

THE TEL-AVIV STOCK EXCHANGE LTD.

STATEMENTS OF OPERATIONS - COMPANY
(NIS in thousands)

| | Note | Year ended December 31 | | |
|---|------|------------------------|---------------------|---------------------|
| | | 2004 | 2003 | 2002 |
| | | Reported amounts | Adjusted amounts | Adjusted amounts |
| Revenues from services | | | | |
| Trading and clearing commissions | | 53,073 | 39,765 | 42,143 |
| Securities registration and annual fees | | 20,726 | 13,419 | 12,712 |
| Clearinghouse services for the TASE members and for public companies | | 10,121 | 7,232 | 5,123 |
| Presentation of trade as well as other data | | 16,980 | 14,767 | 14,407 |
| Other | | 967 | 998 | 847 |
| | | <u>101,867</u> | <u>76,181</u> | <u>75,232</u> |
| Cost of revenues | | | | |
| Salaries and social benefits | 15A | 62,685 | 56,633 | 61,236 |
| Prior years' wages | | 3,002 | 339 | 711 |
| Special severance pay | | 1,120 | 2,941 | 945 |
| IT and communication expenses | | 11,794 | 10,242 | 9,526 |
| Rent, municipal taxes and building maintenance | | 8,015 | 7,627 | 9,513 |
| General and administrative expenses | | 8,962 | 7,694 | 7,135 |
| Fee to Israeli Securities Authority | 15B | 7,243 | 8,492 | 7,353 |
| Depreciation | | 8,870 | 8,519 | 7,663 |
| | | <u>111,691</u> | <u>102,487</u> | <u>104,082</u> |
| Participation in expenses by the Maof Clearing House Ltd. | 16 | (28,149) | (29,525) | (35,415) |
| | | <u>83,542</u> | <u>72,962</u> | <u>68,667</u> |
| Operating income before net financing | | 18,325 | 3,219 | 6,565 |
| Financing income (expenses), net | 17 | 5,004 | 9,755 | (3,462) |
| Operating income after net financing | | 23,329 | 12,974 | 3,103 |
| Other income, net | | 114 | 2 | 61 |
| Pre-tax income | | 23,443 | 12,976 | 3,164 |
| Income taxes | 18 | 9,399 | 2,205 | 3,549 |
| Income (loss) after income taxes | | 14,044 | 10,771 | (385) |
| Company's share in earnings of investees, net | | 6,834 | 6,324 | 3 |
| Net income (loss) for the year | | <u>20,878</u> | <u>17,095</u> | <u>(382)</u> |

The accompanying notes are an integral part of the financial statements.

THE TEL-AVIV STOCK EXCHANGE LTD.

STATEMENTS OF CHANGES IN EQUITY
(NIS in thousands)

| | |
|---|-----------------------|
| Balance - January 1, 2002 (Adjusted amounts) | 87,124 |
| Erosion of capital notes | 166 |
| Loss for the year | <u>(382)</u> |
| Balance – December 31, 2002 (Adjusted amounts) | 86,908 |
| Erosion of capital notes | (49) |
| Net income for the year | <u>17,095</u> |
| Balance – December 31, 2003 (Adjusted amounts) | 103,954 |
| Net income for the year | <u>20,878</u> |
| Balance - December 31, 2004 (Reported amounts) | <u><u>124,832</u></u> |

The accompanying notes are an integral part of the financial statements.

THE TEL-AVIV STOCK EXCHANGE LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

| | Year ended December 31 | | |
|---|-------------------------------|-----------------------------|-----------------------------|
| | 2 0 0 4 | 2 0 0 3 | 2 0 0 2 |
| | Reported amounts | Adjusted amounts | Adjusted amounts |
| CASH FLOWS – OPERATING ACTIVITIES | | | |
| Net income (loss) for the year | 20,878 | 17,095 | (382) |
| Adjustments required to present cash flows provided by operating activities (Appendix A) | 14,789 | 7,683 | 8,040 |
| Net cash provided by operating activities | <u>35,667</u> | <u>24,778</u> | <u>7,658</u> |
| CASH FLOWS – INVESTING ACTIVITIES | | | |
| Additions to fixed assets | (9,008) | (4,262) | (11,633) |
| Proceeds from disposition of fixed assets | 246 | 2 | 81 |
| Dividends received from an affiliate | 308 | 167 | 238 |
| Investment in an affiliate | - | (288) | - |
| Marketable securities, net | (33,049) | (9,532) | 2,753 |
| Net cash used in investing activities | <u>(41,503)</u> | <u>(13,913)</u> | <u>(8,561)</u> |
| CASH FLOWS – FINANCING ACTIVITIES | | | |
| Short-term bank borrowings | - | - | (31) |
| Net cash used in financing activities | <u>-</u> | <u>-</u> | <u>(31)</u> |
| Increase (decrease) in cash and cash equivalents | (5,836) | 10,865 | (934) |
| Cash and cash equivalents at beginning of year | <u>22,315</u> | <u>11,450</u> | <u>12,384</u> |
| Cash and cash equivalents at end of year | <u>16,479</u> | <u>22,315</u> | <u>11,450</u> |

The accompanying notes are an integral part of the financial statements.

THE TEL-AVIV STOCK EXCHANGE LTD.

APPENDIX TO CONSOLIDATED STATEMENTS OF CASH FLOWS
(NIS in thousands)

| | Year ended December 31 | | |
|--|-------------------------------|-----------------------------|-----------------------------|
| | 2 0 0 4 | 2 0 0 3 | 2 0 0 2 |
| | Reported amounts | Adjusted amounts | Adjusted amounts |
| Appendix A - Adjustments required to present cash flows provided by operating activities: | | | |
| Income and expense not involving cash flows: | | | |
| Depreciation | 8,870 | 8,519 | 7,663 |
| Capital gain from disposition of fixed assets | (114) | (2) | (61) |
| Share in earnings of an affiliate | (225) | (264) | (130) |
| Increase (decrease) in accrued severance pay, net | 1,290 | (1,481) | 2,115 |
| | 9,821 | 6,772 | 9,587 |
| Changes in assets and liabilities: | | | |
| Increase in trade accounts receivable and receivables and other current assets | (1,206) | (569) | (1,926) |
| Increase (decrease) in trade accounts payable | 1,491 | (1,631) | (773) |
| Increase in payables and other current liabilities | 4,683 | 3,111 | 1,152 |
| | 4,968 | 911 | (1,547) |
| | 14,789 | 7,683 | 8,040 |

The accompanying notes are an integral part of the financial statements.

THE TEL-AVIV STOCK EXCHANGE LTD.

STATEMENTS OF CASH FLOWS - COMPANY
(NIS in thousands)

| | Year ended December 31 | | |
|---|-------------------------------|-----------------------------|-----------------------------|
| | 2 0 0 4 | 2 0 0 3 | 2 0 0 2 |
| | Reported amounts | Adjusted amounts | Adjusted amounts |
| CASH FLOWS – OPERATING ACTIVITIES | | | |
| Net income (loss) for the year | 20,878 | 17,095 | (382) |
| Adjustments required to present cash flows provided by operating activities (Appendix A) | 5,431 | 1,201 | 10,607 |
| Net cash provided by operating activities | <u>26,309</u> | <u>18,296</u> | <u>10,225</u> |
| CASH FLOWS – INVESTING ACTIVITIES | | | |
| Additions to fixed assets | (9,008) | (4,262) | (11,633) |
| Proceeds from disposition of fixed assets | 246 | 2 | 81 |
| Dividends received from an affiliate | 308 | 167 | 238 |
| Investment in an affiliate | - | (288) | - |
| Marketable securities, net | (21,125) | (3,419) | (5,437) |
| Net cash used in investing activities | <u>(29,579)</u> | <u>(7,800)</u> | <u>(16,751)</u> |
| CASH FLOWS – FINANCING ACTIVITIES | | | |
| Short-term bank borrowings | - | - | (31) |
| Net cash used in financing activities | <u>-</u> | <u>-</u> | <u>(31)</u> |
| Increase (decrease) in cash and cash equivalents | (3,270) | 10,496 | (6,557) |
| Cash and cash equivalents at beginning of year | <u>15,304</u> | <u>4,808</u> | <u>11,365</u> |
| Cash and cash equivalents at end of year | <u>12,034</u> | <u>15,304</u> | <u>4,808</u> |

The accompanying notes are an integral part of the financial statements.

THE TEL-AVIV STOCK EXCHANGE LTD.

**APPENDIX TO THE COMPANY STATEMENTS OF CASH FLOWS
(NIS in thousands)**

| | Year ended December 31 | | |
|--|-------------------------------|-----------------------------|-----------------------------|
| | 2 0 0 4 | 2 0 0 3 | 2 0 0 2 |
| | Reported amounts | Adjusted amounts | Adjusted amounts |
| Appendix A - Adjustments required to present cash flows provided by operating activities: | | | |
| Income and expense items not involving cash flows: | | | |
| Depreciation | 8,870 | 8,519 | 7,663 |
| Capital gains from disposition of fixed assets | (114) | (2) | (61) |
| Company's share in losses (earnings) of a subsidiary | (6,609) | (6,060) | 127 |
| Company's equity in earnings of an affiliate | (225) | (264) | (130) |
| Increase (decrease) in accrued severance pay, net | 1,290 | (1,481) | 2,115 |
| | 3,212 | 712 | 9,714 |
| Changes in assets and liabilities: | | | |
| Increase in trade accounts receivable and receivables and other current assets | (3,184) | (754) | (79) |
| Increase (decrease) in trade accounts payable | 1,491 | (1,631) | (773) |
| Increase in payables and other current liabilities | 3,912 | 2,874 | 1,745 |
| | 2,219 | 489 | 893 |
| | 5,431 | 1,201 | 10,607 |

The accompanying notes are an integral part of the financial statements.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - GENERAL

- A.** The Tel Aviv Stock Exchange Ltd. (“TASE”), a company limited by its members’ guarantees, was incorporated in 1953 and engages in administering a stock exchange as well as providing clearing services for securities, including derivatives.

The Maof Clearinghouse Ltd., (“MCH”), a wholly owned subsidiary of the TASE, is mainly engaged in the following activities: derivatives (options and forward transactions) traded on the TASE, clearing the derivatives traded on the TASE and realization of the derivatives.

B. Definitions

The Company - the Tel-Aviv Stock Exchange Ltd.

The Group - the Company and its investees.

A list of the Group companies is presented in Notes 7 and 8. Investees include the following:

Subsidiary - an over-50%-controlled company, whose financial statements are directly or indirectly consolidated with those of the Company.

Affiliate - a company, other than a subsidiary, in which the Company exercises significant influence, and the investment in which has been included, directly or indirectly, in the Company’s financial statements on the basis of the equity method.

Investee - a subsidiary or an affiliate.

Related parties - as defined in Opinion No. 29 of the Institute of Certified Public Accountants in Israel.

CPI - the Israeli official consumer-price index.

Dollar (or “\$”) - the US dollar.

C. Use of estimates

Generally accepted accounting principles require management to make estimates or assumptions regarding transactions or issues whose ultimate effect on the financial statements cannot be precisely determined when the financial statements are being prepared. Although the estimates or assumptions are made using best judgments, the ultimate implications of those transactions or issues might differ from the estimates or assumptions made.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. Ceasing adjustment of financial statements and financial reporting in reported amounts

1. Definitions:

Adjusted amount – a nominal, historical amount adjusted to the CPI of December 2003 in accordance with Opinion No. 36 of the Institute of Certified Public Accountants in Israel.

Reported amount – an adjusted amount plus nominal values added, and of net of any amounts deducted, subsequent to December 31, 2003.

2. Accounting Standard No. 12 (“Ceasing the Adjustment of Financial Statements”) went into effect on January 1, 2004, following which the Company discontinued, starting January 1, 2004, the adjustment of its financial statements based on the changes in the general purchasing power of the Israeli currency. Starting in 2004 the Group’s financial statements are prepared in “reported amounts”, with the comparative figures pertaining to periods up to (and including) December 31, 2003 included in “adjusted amounts”.

The reported and/or adjusted amounts of non-monetary items reflect their cost in terms of reported amounts and/or amounts adjusted to the changes in the consumer-price index (CPI) until December 2003 while not necessarily reflecting these items’ market value or value to the business.

3. Method for determining the reported amounts in the annual 2004 financial statements:

Balance sheet:

- Monetary items (whose balance-sheet amount reflects current or realizable value at the balance-sheet date) have been included at their nominal values at the financial statements date.
- Non-monetary items have been included at their “adjusted amount” plus nominal amounts added during the reported period and less amounts deducted from them during the reported period.
- Investments in investees have been included on the basis of these companies’ financial statements in reported values.

Statement of operations:

- Income and expenses, including financing, have been included in nominal values.
- Income and expenses stemming from non-monetary items (mainly depreciation) have been computed concurrently with the computation of their corresponding balance-sheet amounts.
- The share of the Company in the results of investees has been determined on the basis of those companies’ financial statements in reported values.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A. Ceasing adjustment of financial statements and financial reporting in reported amounts (cont.)

4. Method for determining the adjusted amounts in the annual 2003 financial statements:

Balance sheet:

- Non-monetary items (items whose balance-sheet amounts reflect historical values or values at acquisition) have been adjusted based on the changes in the CPI from date of acquisition or creation) up to the CPI of December 2003.
- The value of investments in investees has been determined by those companies' financial statements adjusted by the CPI of December 2003.
- Monetary items (items whose balance-sheet amount reflects current or net realizable values) were presented in the adjusted balance sheet at December 31, 2003 in nominal terms of that date.

Statement of operations:

- Income and expenses reflecting transactions, other than financing, were adjusted by the changes in the CPI from payment/transaction date up to the month of December 2003, with the erosion of related monetary balances allocated to financing.
- Income and expenses stemming from non-monetary items (mainly depreciation) were computed concurrently with the computation of their corresponding balance-sheet amounts.
- The Company's equity in results of investees was determined on the basis of those companies' adjusted financial statements.
- Real financing income and expense amounts are reflected including the effect of the erosion of monetary items during the year.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

B. Principles of consolidation

The consolidated financial statements include the full consolidation of a wholly owned and controlled subsidiary.

Material inter-company balances and transactions with the subsidiary have been eliminated.

The data in the consolidated financial statements is based on the audited financial statements of the subsidiary.

C. Cash and cash equivalents

Cash and cash equivalents include demand deposits and short-term unrestricted deposits in banks with maturity dates not exceeding three months from the date of deposit.

D. Marketable securities

Investments in marketable securities are presented in current assets at their market value on the balance sheet date. Changes in value of marketable securities are recorded in the statement of operations as incurred.

E. Allowance for doubtful accounts

The allowance is computed on a specific basis for accounts whose collection, in the opinion of management, is doubtful.

F. Investments in an affiliate

An investment in affiliates over which the Company exercises significant influence is accounted for by the equity method on the basis of the investee's audited financial statements. Excess investment cost over book value at acquisition has been allocated mainly to the Company's real estate assets and mostly amortized by their depreciation rate (of 2% per annum).

G. Fixed assets

(1) Fixed assets are stated at cost, with depreciation computed by the straight-line method over the estimated useful lives of the assets.

Annual depreciation rates:

| | <u>%</u> |
|--|--------------------|
| Motor vehicles | 15 |
| Office furniture and equipment | 7-10 |
| IT and communications/ ticker system | 20-33 (mainly 20%) |
| Leasehold improvements (mainly the visitors' center) | 10-33 |

(2) Certain costs related to internal software development have been capitalized starting 2001 and amortized over three years.

H. Income taxes

The Company and its subsidiary do not record deferred income tax assets with regard to timing differences between recording certain income and expenses for financial reporting and for tax purposes due to the uncertainty of generating taxable income in the near future.

Taxes which would be payable in the case of realization of investments in investees have also not been recorded since the Group intends to hold the investments. Deferred income taxes payable on the distribution of profits have also not been taken into account since dividends are tax-exempt.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Capital notes

Erosion of unlinked capital notes is charged to a capital reserve in accordance with the Securities Regulations (Presentation of Transactions Between Companies and Controlling Shareholders), 1996.

J. Revenue recognition

The Group records revenues from services when the transaction is completed.

K. Exchange rates and linkage bases

1. Assets and liabilities in foreign currency or linked thereto are stated on the basis of the representative exchange rate published by the Bank of Israel that prevailed on the balance sheet date.
2. Balances linked to the CPI are stated on the basis of the index for the last month of the reporting period (month of December), depending upon the terms of the transaction.
3. CPI and exchange - rate data:

| | Exchange rate (NIS/\$) | CPI |
|--|-----------------------------------|------------|
| December 31 | | |
| 2004 | 4.308 | 114.3 |
| 2003 | 4.379 | 112.9 |
| 2002 | 4.737 | 115.1 |
| | <u>%</u> | <u>%</u> |
| Changes in year ended December 31 | | |
| 2004 | (1.62) | 1.2 |
| 2003 | (7.56) | (1.9) |
| 2002 | 7.27 | 6.5 |

4. Exchange and linkage differences are recorded to operations as incurred.

L. Impairment of assets

According to Standard No. 15 of the Israeli Accounting Standards Board, the Company examines at every balance-sheet date the recoverable amount of its assets whenever any indicators point to a possible impairment in their value. If the book value of an asset exceeds its recoverable value, the Company recognizes a loss from this impairment in value. A loss from an asset's impairment, other than goodwill, previously recognized, is eliminated only when a change occurs in the estimates used in the determination of the recoverable amount from the date when the last loss from impairment was recognized. The book value following this elimination is not to exceed the book value that would have been assigned to the asset had a loss from impairment not been recorded in previous years.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3 - CASH AND CASH EQUIVALENTS

| | Interest rate % | Consolidated | | Company | |
|---------------------------|--------------------------------|---------------------|---------------|---------------------|---------------|
| | | December 31, | | December 31, | |
| | | 2004 | 2003 | 2004 | 2003 |
| Cash on hand and in banks | | 2,169 | 1,075 | 962 | 1,062 |
| Bank deposits – unlinked | 2.65%-3.75% | 14,310 | 21,240 | 11,072 | 14,242 |
| | | <u>16,479</u> | <u>22,315</u> | <u>12,034</u> | <u>15,304</u> |

NOTE 4 - MARKETABLE SECURITIES

| | Consolidated | | Company | |
|---------------------------------------|---------------------|---------------|---------------------|---------------|
| | December 31, | | December 31, | |
| | 2004 | 2003 | 2004 | 2003 |
| Shares | 17,522 | 13,789 | 10,967 | 8,451 |
| Convertible debentures | 649 | 905 | 629 | 640 |
| Government bonds and other debentures | 91,810 | 62,238 | 58,445 | 39,825 |
| | <u>109,981</u> | <u>76,932</u> | <u>70,041</u> | <u>48,916</u> |

NOTE 5 - TRADE ACCOUNTS RECEIVABLE

| | December 31 | |
|---------------------------------------|--------------------|--------------|
| | 2004 | 2003 |
| Consolidated and Company: | | |
| Outstanding amounts | 2,062 | 1,453 |
| Post-dated checks receivable | 25 | 47 |
| Less: allowance for doubtful accounts | (220) | (211) |
| | <u>1,867</u> | <u>1,289</u> |

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 6 - RECEIVABLES AND OTHER CURRENT ASSETS

| | Consolidated | | Company | |
|-------------------------------------|---------------------|--------------|---------------------|--------------|
| | December 31, | | December 31, | |
| | 2004 | 2003 | 2004 | 2003 |
| Advances and loans to employees (*) | 2,223 | 1,026 | 2,223 | 1,026 |
| Stock -exchange members | 233 | 3 | 233 | 3 |
| Subsidiary | - | - | 1,782 | - |
| Affiliate | - | 36 | - | 36 |
| Institutions | 338 | 546 | 338 | 535 |
| Advances to suppliers | - | 24 | - | 24 |
| Prepaid expenses | 1,884 | 1,967 | 1,884 | 1,967 |
| Income receivable | 1,186 | 1,686 | 1,186 | 1,501 |
| Other | 75 | 23 | 75 | 23 |
| | <u>5,939</u> | <u>5,311</u> | <u>7,721</u> | <u>5,115</u> |

(*) The loans are non-interest bearing and are either fully or mostly (80%) linked to the CPI.

NOTE 7 - INVESTMENT IN A SUBSIDIARY

| | Company | |
|---|--------------------|---------------|
| | December 31 | |
| | 2004 | 2003 |
| Maof Clearing House Ltd. – wholly owned and controlled: | | |
| Cost of investment | 10,405 | 10,405 |
| Retained earnings | 29,757 | 23,148 |
| | <u>40,162</u> | <u>33,553</u> |

The Maof Clearing House provides clearing services for options and futures contracts (“derivatives”).

NOTE 8 - INVESTMENT IN AN AFFILIATE

A. The Company’s holding of shares of the Stock Exchange Offices Ltd. (“SOL”) grant it 55.88% of the right to appoint officers and 10.29% of the right to earnings and participation in distribution SOL assets upon liquidation.

B. Composition

The investment includes the excess of cost over net book value at acquisition as follow (consolidated and company):

| | December 31 | |
|--------------------------|--------------------|-------------|
| | 2004 | 2003 |
| Original amount | 1,166 | 1,166 |
| Accumulated amortization | (340) | (305) |
| | <u>826</u> | <u>861</u> |

C. Dividend declared subsequent to balance-sheet date

Subsequent to the balance sheet date, SOL declared a dividend of NIS 2.5 million. The Company’s share of the dividend is NIS 257 thousand.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 9 - FIXED ASSETS

A. Composition - consolidated and company:

| | Computers systems (hardware & software) & auxiliary equipment | Equipment & systems | Motor vehicles | Leasehold improvements (mainly visitors center) (*) | T o t a l |
|--|--|--|---------------------------|--|------------------|
| Cost (Reported amounts) | | | | | |
| Balance – January 1, 2004 | 92,395 | 11,914 | 1,396 | 7,016 | 112,721 |
| Additions during year | 8,915 | 84 | - | 9 | 9,008 |
| Disposals during year | (7,458) | (2,657) | (609) | - | (10,724) |
| Balance – December 31, 2004 | <u>93,852</u> | <u>9,341</u> | <u>787</u> | <u>7,025</u> | <u>111,005</u> |
| Accumulated depreciation (Reported amounts) | | | | | |
| Balance – January 1, 2004 | 80,577 | 10,805 | 840 | 2,147 | 94,369 |
| Depreciation for year | 6,728 | 1,015 | 140 | 987 | 8,870 |
| Disposals | (7,451) | (2,618) | (523) | - | (10,592) |
| Balance – December 31, 2004 | <u>79,854</u> | <u>9,202</u> | <u>457</u> | <u>3,134</u> | <u>92,647</u> |
| Net book value | | | | | |
| December 31, 2004 (Reported amounts) | <u>13,998</u> | <u>139</u> | <u>330</u> | <u>3,891</u> | <u>18,358</u> |
| December 31, 2003 (Adjusted amounts) | <u>11,818</u> | <u>1,109</u> | <u>556</u> | <u>4,869</u> | <u>18,352</u> |

(*) Includes electronic equipment and computers.

NOTE 10 - TRADE ACCOUNTS PAYABLE

| | December 31 | |
|----------------------------------|--------------------|----------------|
| | 2 0 0 4 | 2 0 0 3 |
| Consolidated and Company: | | |
| Open accounts | 4,571 | 3,121 |
| Post-dated checks | 263 | 222 |
| | <u>4,834</u> | <u>3,343</u> |

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 11 - PAYABLES AND OTHER CURRENT LIABILITIES

| | Consolidated | | Company | |
|---|---------------------|---------------|---------------------|---------------|
| | December 31, | | December 31, | |
| | 2004 | 2003 | 2004 | 2003 |
| Wages and social benefits (*) | 9,820 | 11,453 | 9,820 | 11,453 |
| Tax authorities | 2,194 | 1,450 | 2,194 | 1,450 |
| Provision for income taxes, net of advances | 5,740 | - | 5,072 | - |
| Related parties | 110 | 33 | 110 | 144 |
| Deferred income | 343 | 695 | 343 | 695 |
| Accrued expenses | 401 | 286 | 401 | 286 |
| Payables with regard to Maof Risk fund | 1,762 | 1,781 | - | - |
| Others | 11 | - | - | - |
| | <u>20,381</u> | <u>15,698</u> | <u>17,940</u> | <u>14,028</u> |
| (*) Includes: | | | | |
| Vacation accrual | <u>4,941</u> | <u>4,364</u> | <u>4,941</u> | <u>4,364</u> |
| Accrued severance pay, net | <u>1,072</u> | <u>4,039</u> | <u>1,072</u> | <u>4,039</u> |

NOTE 12 - ACCRUED SEVERANCE PAY, NET

A. Composition consolidated and company:

| | December 31 | |
|----------------------------|--------------------|-----------------|
| | 2004 | 2003 |
| Severance -pay obligations | 13,901 | 12,873 |
| Less: amounts funded | <u>(11,616)</u> | <u>(12,064)</u> |
| | 2,285 | 809 |
| Pension liabilities | <u>1,840</u> | <u>2,026</u> |
| | <u>4,125</u> | <u>2,835</u> |

B. Additional information

- (1) The accrued severance-pay balance covers the Company's entire obligation at the balance-sheet date for employee termination benefits and it excludes the obligation covered by deposits made to managers' insurance policies. This liability has been computed on the basis of each employee's seniority and latest salary.

The balances funded with the pension fund include accumulated profits and may be withdrawn upon fulfillment of the requirements stipulated in the Severance Pay Law, 1963.

The amounts paid to managers' insurance policies and the liabilities they cover are not presented in the financial statements since they are not under the Company's custody.

- (2) A 1998 employment agreement revision entitles the CEO, upon retirement in 2007 (in addition to current deposits at acceptable rates to a managers' insurance program), to a retirement bonus equaling one month's salary per each year of employment with the Company. The financial statements include a provision in respect of proportionate vesting period accrued from this revision date to the balance-sheet date. Under certain circumstances, termination of employment prior to the end of that period will entitle the CEO to receive an additional retirement bonus of one month's salary for each year of seniority, as well as a bonus equivalent to six months' pay above the current deposits made on his behalf, as noted above. The Company's board of directors has no intention of terminating the CEO employment and, therefore, no provision has been recorded with regard to the abovementioned bonus of six months' pay.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 12 - ACCRUED SEVERANCE PAY, NET (Cont.)

B. Additional information (Cont.)

- (3) The liability for allowance represents the Company's obligation to pay its former CEO (who departed in 1983) a life annuity and, in the case of death, pay his widow 65% of the allowance to which the manager was entitled, for the remainder of her life. The allowance liability has been included based on an actuarial computation, capitalized at an interest rate of 4% (in real terms), based on the agreement in effect at that time.
- (4) Pursuant to an employment contract signed in 1996, the chairman of the board is entitled to receive, following the expiration of his term, a special vacation allowance equaling three months' pay, which – under certain circumstances – may reach six months. The financial statements include a provision in respect of the proportionate eligibility period accrued in respect thereof by the balance-sheet date.
- (5) Employment contracts signed with a group of executives entitle them under certain conditions of early termination to receive a grant equaling three months' pay. The Company has no intention of terminating these executives and, therefore, no provision has been recorded in respect of this grant.

NOTE 13 - CAPITAL NOTES

Consolidated and Company:

| <u>December 31</u> | |
|---------------------------|-------------|
| <u>2004</u> | <u>2003</u> |
| <u>(NIS in thousands)</u> | |

| | | |
|---|--------------|--------------|
| The Tel Aviv Stock Exchange Clearing House Ltd. | <u>2,600</u> | <u>2,600</u> |
|---|--------------|--------------|

Conditions

- A. The capital notes were issued for loans that the Company received from the Tel-Aviv Stock Exchange Clearing House Ltd. ("the Clearing House"). The capital notes are unlinked and bear interest at a rate not to exceed 30% of the increase in the CPI. The rate of interest has not yet been determined. The loan period is automatically extended each year.
- B. Within the scope of examining a change in the Clearinghouse's structure there may be redemption of Capital notes (see Note 14I).

NOTE 14 - CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

- A. The Tel Aviv Stock Exchange Clearing House Ltd. ("CH") established a risk fund, which – at December 31, 2004 - amounted to NIS 280 million ("m").

Each member must deposit with the CH, as stipulated in the CH bylaws, securities equaling at least 50% of his share in the risk fund. At December 31, 2004 those securities totaled NIS 142m. In respect of a member in the fund for whom no such securities had been provided, a guarantee has been given by the member in favor of the CH, as stipulated in the bylaws.

Should a member fail to meet his obligations towards the CH, as stipulated in the bylaws, the CH would be entitled to sell the securities and exercise the guarantees provided by him to the risk fund, as stipulated in the bylaws. Should a realization of the member's securities or guarantees, in whole or in part, not be possible for any reason or if such sale by the CH is insufficient for settling the member's liabilities towards it, the CH will then sell the securities and exercise the guarantees provided by the other members to the risk fund, proportionately to each member's share in the risk fund.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 14 - CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (Cont.)

A. (Cont.)

The risk fund balance is revised each March, on the basis of the daily average volume of clearing, as defined in the CH bylaws, for the calendar year ended immediately prior to the revision date, but in no event, will such amount be less than NIS 150m. The share of each member in the risk fund will be determined on each March 1st, in relation to the volume of clearing of the member during the calendar year ended immediately prior to the revision date as compared with the clearing volume of all members (other than The Bank of Israel) during the same period, as defined in the CH bylaws.

On March 1, 2005 the risk fund was established at NIS 426m.

Starting May 15, 2005 will come into effect the change in the system governing the securities provided by CH members. According to the new arrangement, the members will now provide the CH government debentures out of their nostro account as guarantee for fulfilling all their membership duties and in order to secure the member's share in the risk fund. These debentures will then be deposited in accounts of the CH and/or securities given in cash will be deposited with banks' accounts. The CH members will lien in favor of the CH all the assets and rights in the securities accounts, as noted above – all in accordance with the CH bylaws. The new system as described above will replace the existing one, which is in effect until May 14, 2005 in accordance with the CH bylaws.

- B.** The Maof Clearinghouse Ltd. had - at December 31, 2004 – a risk fund totaling NIS 705m. This amount is updated quarterly in accordance with the rules established in this company's bylaws. The MCH members provide security for ensuring their part in the risk fund. On April 15, 2005 this risk fund amounted to NIS 816m.
- C.** MCH members are obligated to pay any financial charge stemming from MAOF transactions, as stipulated in the bylaws. Each member's commitment relates to all transactions carried out under his responsibility, as determined by the bylaws of the MCH bylaws. At December 31, 2004, these liabilities of all members amounted to NIS 2,072m.
- D.** The system governing the security provided by the MCH members to MCH changed starting April 1, 2004 in accordance with the MCH bylaws. According to the new set up, the MCH members will now provide the MCH as security to fulfill the member's share in the risk fund (as noted in paragraph B above and in respect of Maof transactions, as indicated in paragraph C above) their owned government debentures which are deposited in the TASE Clearing House Ltd. accounts and/ or cash deposited in banks accounts. The MCH members pledged in favor of the MCH all the assets and rights in the noted accounts – all in accordance with the MCH bylaws. The total securities deposited in the above accounts at December 31, 2004 amounted to NIS 7,394m.

E. Indemnification of officers

The Company is obliged to indemnify its officers as well as the CH officers while the Maof Clearing House is obliged to indemnify its own officers. The total indemnification amount for all the officers, cumulatively, based on the issued indemnification certificates in respect of at least one incident outlined therein shall not exceed \$20m. The total indemnification amount for all the Tel Aviv Stock Exchange Clearing House officers, cumulatively, based on the issued indemnification certificates in respect of at least one incident outlined therein shall not exceed NIS 50m. The total indemnification amount for all the Maof Clearing House officers, cumulatively, based on the issued indemnification certificates in respect of at least one incident outlined therein shall not exceed NIS 75m. The indemnification is subject to the provisions of Chapter III, Section 6 of the Companies Law.

- F.** A lawsuit was filed against the Company in August 2000 for NIS 17m (as of the claim's filing date) by a company that had requested to register for trade, together with 13 of its shareholders, alleging damages caused by the Company's refusal, at the beginning of 1994, to enable the registration of the plaintiff company's shares based on their prospectus and the delays resulting from it.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 14 - CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (Cont.)

F. (Cont.)

In December 2003 the Tel Aviv District Court rejected the claim and in February 2004 the plaintiffs appealed to the Supreme Court. During 2004 the parties submitted their argument summaries.

It is the opinion of the Company's legal counsel that due to the unprecedented nature of these allegations it is not possible, at this stage, to assess the outcome of the appeal; nevertheless, Company management believes that the amount claimed and any related potential ramifications are covered by insurance and, therefore, no provision has been recorded in the financial statements in respect thereof.

G. Exemption granted to officers

The Company's General Meeting resolved, subject to the provisions of the Companies Law, to exempt its directors and the other officers from responsibility in respect of any damage caused due to breach of their prudence responsibility towards the Company.

The General Meeting of the Tel Aviv Stock Exchange Clearing House resolved, subject to the provisions of the Companies Law, to exempt its directors and the other officers from responsibility in respect of any damage caused due to breach of their prudence responsibility towards the Tel Aviv Stock Exchange Clearing House.

The General Meeting of the Maof Clearing House resolved, subject to the provisions of the Companies Law, to exempt its directors and the other officers from responsibility in respect of any damage caused due to breach of their prudence responsibility towards the Maof Clearing House.

H. Providing a line of credit to the CH by the Company

The Company's General Meeting approved in January 2004 the granting of a loan to the Company's Clearing House ("CH"), in the event the CH would require it for meeting its obligations. It was also resolved to empower a board committee to establish the loan granting date as well as amount, that should not exceed NIS 50m. The loan will be provided at an interest rate equaling that charged by the Bank of Israel to the banks, unless otherwise agreed upon between the Company and the CH. The loan referred to above was not granted between the certification date (January 2004) and the approval date of the financial statements.

I. In March 2005 the TASE board of directors reviewed the proposal for turning the Tel Aviv Stock Exchange Clearing House Ltd. ("CH") from a limited company with no share capital into a company having share capital. Furthermore, the TASE board also reviewed a proposed change in ownership so that the CH turns from a company consisting of members into a company owned by the TASE. The TASE board supported the proposal to turn the CH from a limited company with no share capital into a company limited by shares, a move that is expected, among other things, to create an infrastructure enabling the change in ownership over the CH, so that it turns from a company whose members are TASE members into a company wholly owned by the TASE, all in accordance with the stages and principles presented to the board of directors. The TASE board notified the CH of its approval and support of the execution of this arrangement in accordance with the terms of the program presented to it and empowered the CH management to take all necessary actions to implement the above decisions. The arrangement program between the CH and its members, within the framework of which the CH will turn from a limited company with no share capital into a company with share capital, will be carried out in accordance with Section 350 of the Companies Law, and is subject to the approval of the CH General Meetings and the court.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 15 – ADDITIONAL DETAILS PERTAINING TO COST OF SALES

A. Salaries and social benefits (Including Prior Years)

1. The 2003 expenses reflect an amortization of wages and social benefits associated with the development of computing systems in an amount of NIS 1.7m (2002 – NIS 2.2m). No expenses were capitalized during 2004.
2. In September 2004 the Company signed a wage agreement for 2003, which included an update of various benefits and grants. The 2004 wage cost includes the effect of this wage agreement, including its impact on accrued severance pay.

B. Fee to Israeli Securities Authority

The Securities Regulations (Annual Fee)(Revision), 2001 were corrected in 2001 and, accordingly, it was established that the Company had to pay the Securities Authority an annual fee of NIS 8m, linked to the CPI of December 2000. As for 2001 – these regulations established the fee at NIS 2.03m.

The Securities Regulations (Annual Fee) (Temporary Provision), 2002 established in 2002 that the annual fee would equal 88% of the amount established therein.

According to the Securities Regulations (Annual Fee) (Temporary Provision), 2002 (Amendment), 2004, it was established in 2004 that the annual fee would equal 85% of the amount established in therein.

NOTE 16 - PARTICIPATION IN EXPENSES BY THE MAOF CLEARING HOUSE LTD.

The participation of the Maof Clearing House Ltd. in the expenses of the Company is calculated in relation to the revenues of each company pursuant to an agreement between the two entities.

NOTE 17 - FINANCING INCOME (EXPENSES), NET

| | Consolidated | | | Company | | |
|---|-------------------------------|---------------|----------------|-------------------------------|--------------|----------------|
| | Year ended December 31 | | | Year ended December 31 | | |
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Gains (losses) from marketable securities | 3,776 | 11,492 | (9,405) | 2,334 | 7,784 | (5,635) |
| Others, net | 4,088 | 3,982 | 3,731 | 2,670 | 1,971 | 2,173 |
| | <u>7,864</u> | <u>15,474</u> | <u>(5,674)</u> | <u>5,004</u> | <u>9,755</u> | <u>(3,462)</u> |

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 18 - INCOME TAXES

| | <u>Consolidated</u> | | | <u>Company</u> | | |
|------------------------|-------------------------------|--------------|--------------|-------------------------------|--------------|--------------|
| | <u>Year ended December 31</u> | | | <u>Year ended December 31</u> | | |
| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
| A. Income taxes | | | | | | |
| Current taxes | 11,618 | 3,330 | 5,331 | 8,950 | 2,140 | 3,549 |
| Prior years' taxes | 472 | 65 | (395) | 449 | 65 | - |
| | <u>12,090</u> | <u>3,395</u> | <u>4,936</u> | <u>9,399</u> | <u>2,205</u> | <u>3,549</u> |

B. Relevant tax laws

The Company and subsidiary are subject to The Income Tax Law (Inflationary Adjustments), 1985.

C. Tax assessments

The Company and its subsidiary have received final tax assessments up to, and including, the 2000 tax -year.

D. At December 31, 2004 a subsidiary had carry-forward tax losses of NIS 0.8m stemming from securities.

E. According to the Income Tax Ordinance (Amendment No. 140) the corporate tax rate will gradually be reduced (from 36%) to 35% in 2004 down to 30% in 2007. Management believes that this amendment has no material effect on the Company's 2004 annual financial statements.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 19 - BALANCES OF AND TRANSACTIONS WITH RELATED PARTIES

A. Balances (1):

Composition consolidated and company:

| | December 31, | |
|---|---------------------|-------------|
| | 2004 | 2003 |
| The Tel-Aviv Stock Exchange Clearing House Ltd. | (15) | (33) |
| The Stock Exchange Offices Ltd. | (95) | 36 |
| | (110) | 3 |
| Company only: | | |
| Maof Clearing House Ltd. | 1,782 | (111) |

B. Capital notes consolidated and company:

| | | |
|---|---------|---------|
| The Tel-Aviv Stock Exchange Clearing House Ltd. (2) | (2,600) | (2,600) |
|---|---------|---------|

(1) The balances are unlinked and non-interest bearing.

(2) The capital notes are unlinked and bear interest not to exceed 30% of rate of increase in the CPI.

C. Transactions with related parties:

| | Year ended December 31 | | |
|--|-------------------------------|-------------|-------------|
| | 2004 | 2003 | 2002 |
| Composition consolidated and company: | | | |
| Salaries and related expenses to the General Manager and Chairman of the Board | (3,153) | (*) (2,974) | (2,946) |
| Rental fees to The Stock Exchange Offices House Ltd. | (2,780) | (2,772) | (4,632) |
| Company only: | | | |
| Participation in expenses by the Maof Clearing House Ltd (**) | 28,149 | 29,525 | 35,415 |

(*) Includes NIS 339 thousand in respect of previous years - see Note 12B (4).

(**) See Note 16.

D. As for providing a credit line to the Tel-Aviv Stock Exchange clearing House Ltd. – see Note 14H.

E. As for the proposal to change the ownership structure of the TASE Clearinghouse Ltd. – see Note 14I.

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 20 - NOMINAL FINANCIAL STATEMENT DATA – COMPANY

| A. Balance sheets | December 31, | |
|--|---------------------------|----------------|
| | 2 0 0 4 | 2 0 0 3 |
| | (NIS in thousands) | |
| Current assets | | |
| Cash and cash equivalents | 12,034 | 15,304 |
| Marketable securities | 70,041 | 48,916 |
| Trade accounts receivable | 1,867 | 1,289 |
| Receivables and other current assets | 7,721 | 5,115 |
| | 91,663 | 70,624 |
| Investments | | |
| Subsidiary | 40,162 | 33,553 |
| Affiliate | 3,361 | 3,395 |
| | 43,523 | 36,948 |
| Fixed assets, net | 18,279 | 18,084 |
| | 153,465 | 125,656 |
| Current liabilities | | |
| Trade accounts payable | 4,834 | 3,343 |
| Payables and other current liabilities | 17,940 | 14,028 |
| | 22,774 | 17,371 |
| Long-term liabilities | | |
| Accrued severance pay, net | 4,125 | 2,835 |
| Capital notes | 2,600 | 2,600 |
| | 6,725 | 5,435 |
| Shareholders' equity | 123,966 | 102,850 |
| | 153,465 | 125,656 |

**THE TEL-AVIV STOCK EXCHANGE LTD.
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 20 - NOMINAL FINANCIAL STATEMENT DATA – COMPANY (Cont.)

B. Statements of operation:

| | Year ended December 31 | | |
|---|-------------------------------|----------------|----------------|
| | 2004 | 2003 | 2002 |
| | (NIS in thousands) | | |
| Revenues | | | |
| Trading and clearing commissions | 53,073 | 40,338 | 42,348 |
| Securities registration and annual fees | 20,726 | 13,936 | 12,772 |
| Clearinghouse services for the TASE members and for public companies | 10,121 | 7,012 | 5,147 |
| Presentation of trade as well as other data | 16,980 | 14,980 | 14,478 |
| Other | 967 | 1,013 | 851 |
| | <u>101,867</u> | <u>77,279</u> | <u>75,596</u> |
| Cost of revenues | | | |
| Salaries and employee benefits | 62,685 | 57,454 | 61,915 |
| Prior years wages | 3,002 | 339 | 715 |
| Special severance pay | 1,120 | 2,941 | 950 |
| IT and communication expenses | 11,794 | 10,390 | 9,572 |
| Rent, municipal taxes and building maintenance | 8,015 | 7,737 | 9,558 |
| General and administrative expenses | 8,962 | 7,805 | 7,172 |
| Fee to Israeli Securities Authority | 7,243 | 8,614 | 7,388 |
| Depreciation | 8,695 | 8,108 | 7,141 |
| | <u>111,516</u> | <u>103,388</u> | <u>104,411</u> |
| Participation in expenses by the Maof Clearing House Ltd. | (28,149) | (29,942) | (35,591) |
| | <u>83,367</u> | <u>73,446</u> | <u>68,820</u> |
| Operating income (loss) before net financing | 18,500 | 3,833 | 6,776 |
| Financing income (expenses), net | 5,004 | 8,947 | (713) |
| Operating income after net financing | 23,504 | 12,780 | 6,063 |
| Other income, net | 128 | 3 | 68 |
| Pre-tax income | 23,632 | 12,783 | 6,131 |
| Income taxes | 9,399 | 2,205 | 3,570 |
| Income after income taxes | 14,233 | 10,578 | 2,561 |
| Company's share in earnings of investees, net | 6,883 | 5,826 | 1,992 |
| Net income for the year | <u>21,116</u> | <u>16,404</u> | <u>4,553</u> |