

**THE TEL-AVIV STOCK EXCHANGE LTD.**

**FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2005**

**THE TEL-AVIV STOCK EXCHANGE LTD.**

**FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2005**

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## 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, 2005 and 2004 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, 2005. 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, 2005 and 2004, 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, 2005, in conformity with generally accepted accounting principles. . Moreover, in our opinion, the financial statements referred to above are prepared in accordance with the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

As explained in Note 2(a) the financial statements for reporting periods subsequent to December 31, 2004 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.

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**Brightman Almagor & Co.**  
**Certified Public Accountants**

Tel Aviv, Israel  
April 6, 2006

**Audit • Tax • Consulting • Financial Advisory.**

Member of  
**Deloitte Touche Tohmatsu**

**THE TEL-AVIV STOCK EXCHANGE LTD.**

**BALANCE SHEETS**  
(NIS in thousands)

	Note	Consolidated		Company	
		December 31,		December 31,	
		2005	2004	2005	2004
		Reported	Amounts	Reported	Amounts
<b>Current assets</b>					
Cash and cash equivalents	3	17,264	16,479	12,372	12,034
Marketable securities	4	152,304	109,981	98,821	70,041
Trade accounts receivable	5	1,087	1,867	1,087	1,867
Receivables and other current assets	6	8,572	5,939	10,816	7,721
		<u>179,227</u>	<u>134,266</u>	<u>123,096</u>	<u>91,663</u>
<b>Investments</b>					
Subsidiary	7	-	-	51,892	40,162
Affiliate	8	4,137	4,148	4,137	4,148
		<u>4,137</u>	<u>4,148</u>	<u>56,029</u>	<u>44,310</u>
<b>Fixed assets</b>					
Cost	9	125,124	111,005	125,124	111,005
Less: accumulated depreciation		101,740	92,647	101,740	92,647
		<u>23,384</u>	<u>18,358</u>	<u>23,384</u>	<u>18,358</u>
		<u>206,748</u>	<u>156,772</u>	<u>202,509</u>	<u>154,331</u>
<b>Current liabilities</b>					
Trade accounts payable	10	7,002	4,834	7,002	4,834
Payables and other current liabilities	11	27,592	20,381	23,353	17,940
Capital notes	13	2,600	-	2,600	-
		<u>37,194</u>	<u>25,215</u>	<u>32,955</u>	<u>22,774</u>
<b>Long-term liabilities</b>					
Accrued severance pay, net	12	3,897	4,125	3,897	4,125
Capital notes	13	-	2,600	-	2,600
		<u>3,897</u>	<u>6,725</u>	<u>3,897</u>	<u>6,725</u>
<b>Contingent liabilities and special commitments</b>					
	14				
<b>Shareholders' equity</b>					
		<u>165,657</u>	<u>124,832</u>	<u>165,657</u>	<u>124,832</u>
		<u>206,748</u>	<u>156,772</u>	<u>202,509</u>	<u>154,331</u>

**Prof. Yair E. Orgler**  
Chairman of the Board

**Saul Bronfeld**  
CEO and Director

**Joseph Treister**  
Senior Vice President  
Administration and Finance

Tel Aviv, April 6, 2006

**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		
		2005	2004	2003
		Reported Amounts	Reported Amounts	Adjusted Amounts
<b>Revenues from services</b>				
Trading and clearing commissions		114,723	95,340	77,565
Securities registration and annual fees		28,575	20,726	13,419
Clearing House services for the TASE members and for public companies		12,788	10,150	7,258
Presentation of trade as well as other data		20,442	16,980	14,767
Other		1,741	967	998
		<u>178,269</u>	<u>144,163</u>	<u>114,007</u>
<b>Cost of revenues</b>				
Salaries and social benefits	15	69,443	62,685	56,633
Prior years' wages		1,825	3,002	339
Special severance pay		716	1,120	2,941
IT and communication expenses		11,705	11,794	10,242
Rent, municipal taxes and building maintenance		9,121	8,015	7,627
General and administrative expenses		10,765	8,963	7,695
Fee to Israeli Securities Authority		7,306	7,243	8,492
Depreciation		10,267	8,870	8,519
Premiums in respect of the Ma'of Risk Fund		8,725	7,706	6,769
		<u>129,873</u>	<u>119,398</u>	<u>109,257</u>
<b>Operating income before net financing</b>		48,396	24,765	4,750
Financing income, net	17	<u>12,618</u>	<u>7,864</u>	<u>15,474</u>
<b>Operating income after net financing</b>		61,014	32,629	20,224
Other income, net		<u>87</u>	<u>114</u>	<u>2</u>
<b>Pre-tax income</b>		61,101	32,743	20,226
Income taxes	18	<u>20,522</u>	<u>12,090</u>	<u>3,395</u>
<b>Income after income taxes</b>		40,579	20,653	16,831
Company's share in earnings of investees, net		<u>246</u>	<u>225</u>	<u>264</u>
<b>Net income for the year</b>		<u>40,825</u>	<u>20,878</u>	<u>17,095</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		
		2005	2004	2003
		Reported Amounts	Reported Amounts	Adjusted Amounts
<b>Revenues from services</b>				
Trading and clearing commissions		62,593	53,073	39,765
Securities registration and annual fees		28,575	20,726	13,419
Clearing House services for the TASE members and for public companies		12,761	10,121	7,232
Presentation of trade as well as other data		20,442	16,980	14,767
Other		1,741	967	998
		<u>126,112</u>	<u>101,867</u>	<u>76,181</u>
<b>Cost of revenues</b>				
Salaries and social benefits	15	69,443	62,685	56,633
Prior years' wages		1,825	3,002	339
Special severance pay		716	1,120	2,941
IT and communication expenses		11,705	11,794	10,242
Rent, municipal taxes and building maintenance		9,121	8,015	7,627
General and administrative expenses		10,763	8,962	7,694
Fee to Israeli Securities Authority		7,306	7,243	8,492
Depreciation		10,267	8,870	8,519
		<u>121,146</u>	<u>111,691</u>	<u>102,487</u>
Participation in expenses by the Ma'of Clearing House Ltd.	16	<u>(30,985)</u>	<u>(28,149)</u>	<u>(29,525)</u>
		<u>90,161</u>	<u>83,542</u>	<u>72,962</u>
<b>Operating income before net financing</b>		35,951	18,325	3,219
Financing income, net	17	<u>8,131</u>	<u>5,004</u>	<u>9,755</u>
<b>Operating income after net financing</b>		44,082	23,329	12,974
Other income, net		<u>85</u>	<u>114</u>	<u>2</u>
<b>Pre-tax income</b>		44,167	23,443	12,976
Income taxes	18	<u>15,318</u>	<u>9,399</u>	<u>2,205</u>
<b>Income after income taxes</b>		28,849	14,044	10,771
Company's share in earnings of investees, net		<u>11,976</u>	<u>6,834</u>	<u>6,324</u>
<b>Net income for the year</b>		<u>40,825</u>	<u>20,878</u>	<u>17,095</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)**

	<u>Capital Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance - January 1, 2003</b>	3,249	83,659	86,908
Changes in 2003 (Adjusted amounts):			
Erosion of capital notes	(49)	-	(49)
Net income for the year	<u>-</u>	<u>17,095</u>	<u>17,095</u>
<b>Balance January 1, 2004</b>	3,200	100,754	103,954
Changes in 2004 (Reported amounts):			
Net income for the year	<u>-</u>	<u>20,878</u>	<u>20,878</u>
<b>Balance January 1, 2005</b>	3,200	121,632	124,832
Changes in 2005 (Reported amounts):			
Net income for the year	<u>-</u>	<u>40,825</u>	<u>40,825</u>
<b>Balance December 31, 2005</b>	<u><u>3,200</u></u>	<u><u>162,457</u></u>	<u><u>165,657</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)

	<b>Year ended December 31,</b>		
	<b>2 0 0 5</b>	<b>2 0 0 4</b>	<b>2 0 0 3</b>
	<b>Reported Amounts</b>	<b>Reported Amounts</b>	<b>Adjusted Amounts</b>
<b>CASH FLOWS - OPERATING ACTIVITIES</b>			
Net income (loss) for the year	40,825	20,878	17,095
Adjustments required to present cash flows provided by operating activities (Appendix A)	<u>7,979</u>	<u>10,993</u>	<u>(3,773)</u>
<b>Net cash provided by operating activities</b>	<u>48,804</u>	<u>31,871</u>	<u>13,322</u>
<b>CASH FLOWS - INVESTING ACTIVITIES</b>			
Additions to fixed assets	(15,410)	(9,008)	(4,262)
Proceeds from disposition of fixed assets	204	246	2
Purchase of marketable securities	(127,079)	(106,842)	(90,857)
Proceeds from the disposition of marketable securities	94,009	77,589	92,781
Dividends received from an affiliate	257	308	167
Investment in an affiliate	<u>-</u>	<u>-</u>	<u>(288)</u>
<b>Net cash used in investing activities</b>	<u>(48,019)</u>	<u>(37,707)</u>	<u>(2,457)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	785	(5,836)	10,865
<b>Cash and cash equivalents at beginning of year</b>	<u>16,479</u>	<u>22,315</u>	<u>11,450</u>
<b>Cash and cash equivalents at end of year</b>	<u>17,264</u>	<u>16,479</u>	<u>22,315</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)

	<b>Year ended December 31,</b>		
	<b>2 0 0 5</b>	<b>2 0 0 4</b>	<b>2 0 0 3</b>
	<b>Reported Amounts</b>	<b>Reported Amounts</b>	<b>Adjusted Amounts</b>
<b>Appendix A - Adjustments required to present cash flows provided by operating activities:</b>			
<b>Income and expense not involving cash flows:</b>			
Depreciation	10,267	8,870	8,519
Gain from realization of marketable securities	(9,254)	(3,796)	(11,456)
Capital gain from disposition of fixed assets	(86)	(114)	(2)
Share in earnings of an affiliate	(246)	(225)	(264)
Deferred income taxes	140	-	-
Increase (decrease) in accrued severance pay, net	(228)	1,290	(1,481)
	593	6,025	(4,684)
<b>Changes in assets and liabilities:</b>			
Increase in trade accounts receivable and receivables and other current assets	(1,853)	(1,206)	(569)
Increase (decrease) in trade accounts payable	2,168	1,491	(1,631)
Increase in payables and other current liabilities	7,071	4,683	3,111
	7,386	4,968	911
	7,979	10,993	(3,773)

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 5	2 0 0 4	2 0 0 3
	Reported Amounts	Reported Amounts	Adjusted Amounts
<b>CASH FLOWS - OPERATING ACTIVITIES</b>			
Net income for the year	40,825	20,878	17,095
Adjustments required to present cash flows provided by operating activities (Appendix A)	(1,850)	3,079	(6,583)
<b>Net cash provided by operating activities</b>	38,975	23,957	10,512
<b>CASH FLOWS - INVESTING ACTIVITIES</b>			
Additions to fixed assets	(15,410)	(9,008)	(4,262)
Proceeds from disposition of fixed assets	204	246	2
Purchase of marketable securities	(88,144)	(80,464)	(69,886)
Proceeds from the disposition of marketable securities	64,456	61,691	74,251
Dividends received from an affiliate	257	308	167
Investment in an affiliate	-	-	(288)
<b>Net cash used in investing activities</b>	(38,637)	(27,227)	(16)
<b>Increase (decrease) in cash and cash equivalents</b>	338	(3,270)	10,496
<b>Cash and cash equivalents at beginning of year</b>	12,034	15,304	4,808
<b>Cash and cash equivalents at end of year</b>	12,372	12,034	15,304

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)

	<b>Year ended December 31,</b>		
	<b>2 0 0 5</b>	<b>2 0 0 4</b>	<b>2 0 0 3</b>
	<b>Reported Amounts</b>	<b>Reported Amounts</b>	<b>Adjusted Amounts</b>
<b>Appendix A - Adjustments required to present cash flows provided by operating activities:</b>			
<b>Income and expense items not involving cash flows:</b>			
Depreciation	10,267	8,870	8,519
Capital gains from disposition of fixed assets	(86)	(114)	(2)
Gain from realization of marketable securities	(5,093)	(2,352)	(7,784)
Company's share in losses (earnings) of a subsidiary	(11,730)	(6,609)	(6,060)
Company's equity in earnings of an affiliate	(246)	(225)	(264)
Increase (decrease) in accrued severance pay, net	(228)	1,290	(1,481)
	(7,116)	860	(7,072)
<b>Changes in assets and liabilities:</b>			
Increase in trade accounts receivable and receivables and other current assets	(2,315)	(3,184)	(754)
Increase (decrease) in trade accounts payable	2,168	1,491	(1,631)
Increase in payables and other current liabilities	5,413	3,912	2,874
	5,266	2,219	489
	(1,850)	3,079	(6,583)

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 ("TASE"), which is a company limited by the guarantee of its members, was incorporated in 1953 and since then engaged in running a securities stock exchange.  
The TASE Clearing House Ltd. is mainly dealing with securities clearance, other than derivatives (also see Note 14i below).  
The Ma'of Clearing House Ltd. is wholly owned by the TASE and it is mostly engaged in issuance of derivatives (options and forward contracts) traded on the TASE and clearance of derivative transaction on the TASE.
- B.** The Company's financial statements are prepared in accordance with the Israeli Securities Regulations (Preparing Annual Financial Statements), 1993.
- C.** The financial statements represent a translation into English (from original Hebrew financial statements).

**D. 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.

**Interested parties**- as defined in the Israeli Securities Regulations (Preparation of Annual Financial Statements), 1993.

**CPI** - the Israeli official consumer-price index.

**Dollar (or "\$")** - the US dollar.

**E. 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 accompanying notes are an integral part of the financial statements.

**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 company'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 adjusted values of non-monetary assets do not necessarily represent net realizable or real economic value, but strictly the original values adjusted for changes in the purchasing power of the Israeli currency up to December 2003.

(3) Method for determining the reported amounts in the annual 2004 and 2005 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) were 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 accompanying notes are an integral part of the financial statements.

**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.)**

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

- 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.

**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.

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

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**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
Leasehold improvements (mainly the visitors' center)	10-33

(2) According to the American Statement of Position NO. 98-1, certain costs related to internal software development have been capitalized starting 2001 and amortized over three years.

**h. Income taxes**

The Company 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 Company's subsidiary records deferred income taxes in respect of temporary differences between the value of assets and liabilities in the financial statements and for tax purposes, at rates expected to be in effect upon realization, as known on the balance-sheet date.

**i. Revenue recognition**

The Group records its income from services over the period rendered.

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

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**j. 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:

	<b>Exchange rate (NIS/\$)</b>	<b>CPI</b>
<b>December 31</b>		
2005	4.60	117.04
2004	4.30	114.32
2003	4.37	112.95
	<b>%</b>	<b>%</b>
<b>Changes in year ended December 31</b>		
2005	6.84	2.37
2004	(1.62)	1.21
2003	(7.56)	(1.88)

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

**k. 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 accompanying notes are an integral part of the financial statements.



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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**I. Impairment in the value of an investment in an affiliate**

Whenever there are any signs indicating that the value of its investment in an affiliate might have been impaired, the Company examines at each balance-sheet date the recoverable value of a given asset in an affiliate in relation to its cost, including the adjustments made in fair value at acquisition, the Company recognizes a loss from impairment in the value of an asset before examining the impairment of that asset as a whole. When the investment's book value exceeds the investment's recoverable value, the Company recognizes a loss from impairment in the value of that asset, with the loss first allocated to goodwill and then to the investment account balance

**M. New accounting standards**

***Accounting Standard No. 25 - Revenues***

In February 2006, the Israeli Accounting Standards Board approved for publication Accounting Standard No. 25, "Revenues" (the "Standard").

This Standard establishes the requirements for recognition criteria, measurement, disclosure and presentation of revenues arising from sale of goods, rendering of services and from the use by others of entity assets yielding interest, royalties and dividends.

This Standard prescribes that revenue shall be measured at the fair value of the consideration received or receivable.

The Standard is effective for financial statements for periods commencing January 1, 2006 or thereafter.

Assets and liabilities included in the financial statements as of December 31, 2005 in different amounts from those who were presented if the standard's guidelines were applied will be adjusted on January 1, 2006 to the amounts to be recognized in accordance with the Standard's guidelines. The results of the initial adoption of the Standard as at January 1, 2006 shall be accounted for by the cumulative effect of a change in accounting method.

The effect of this standard on the financial statements of the group is not expected to be material.

***Standard No. 22 - Financial instruments: disclosure and presentation***

In July 2005, the Israeli Accounting Standards Board approved for publication accounting standard No. 22 ("Financial instruments: disclosure and presentation"), establishing the requirements for presentation of financial instruments in the financial statements and identifies the information that should be disclosed about them.

The presentation requirements deal with the classification of financial instruments as financial assets, financial liabilities or equity instruments. It also deals with the

Classification of related interest, dividends, losses and gains and to the circumstances under which financial assets and liabilities are to be offset.

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

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

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**M. New accounting standards (Cont.)**

*Standard No. 22 - Financial instruments: disclosure and presentation (Cont.)*

This standard requires disclosure of information relating to factors affecting the amount, timing and certainty of the entity's future cash flows relating to financial instruments and accounting policy implemented in respect of these instruments.

This standard also requires disclosure of information about the nature and the extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them, and management's policies for controlling those risks.

This standard is effective for financial statements covering periods beginning on January 1, 2006 or thereafter.

The effect of this standard on the financial statements of the group is not expected to be material.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

	Interest rate	Consolidated		Company	
		December 31,		December 31,	
		2005	2004	2005	2004
		Reported Amounts		Reported Amounts	
<b>Composition:</b>					
Cash on hand and in banks		890	2,169	885	962
Bank deposits - unlinked	3.4%-3.25%	16,374	14,310	11,487	11,072
		<u>17,264</u>	<u>16,479</u>	<u>12,372</u>	<u>12,034</u>

**NOTE 4 - MARKETABLE SECURITIES**

	Consolidated		Company	
	December 31,		December 31,	
	2005	2004	2005	2004
	Reported Amounts		Reported Amounts	
<b>Composition:</b>				
Shares	27,063	17,522	17,662	10,967
Corporate debentures linked to foreign currency	2,501	-	1,306	-
Convertible debentures	573	649	573	629
Government bonds and other debentures	122,167	91,810	79,280	58,445
	<u>152,304</u>	<u>109,981</u>	<u>98,821</u>	<u>70,041</u>

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

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

**NOTE 5 - TRADE ACCOUNTS RECEIVABLE**

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>Reported Amounts</b>	
<b>Composition consolidated and Company:</b>		
Outstanding amounts	1,134	2,062
Post-dated checks receivable	31	25
	1,165	2,087
Less: allowance for doubtful accounts	78	220
	1,087	1,867

**NOTE 6 - RECEIVABLES AND OTHER CURRENT ASSETS**

	<b>Consolidated</b>		<b>Company</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>Reported Amounts</b>		<b>Reported Amounts</b>	
<b>Composition:</b>				
Income receivable	2,126	1,186	2,126	1,186
Prepaid expenses	2,600	1,884	2,600	1,884
Subsidiary	-	-	2,244	1,782
Institutions	779	338	779	338
Advances and loans to employees (*)	2,725	2,223	2,725	2,223
Stock -exchange members	274	233	274	233
Other	68	75	68	75
	8,572	5,939	10,816	7,721

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

**NOTE 7 - INVESTMENT IN A SUBSIDIARY**

	<b>Company</b>	
	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>Reported Amounts</b>	
<b>Composition:</b>		
Ma'of Clearing House Ltd. - wholly owned and controlled:		
Cost of investment	10,405	10,405
Retained earnings	41,487	29,757
	51,892	40,162

The Ma'of Clearing House provides clearing services for options and futures contracts ("derivatives").

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

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

**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 :

	<b>Consolidated and Company</b>	
	<b>December 31,</b>	
	<b>2 0 0 5</b>	<b>2 0 0 4</b>
	<b>Reported Amounts</b>	
Cost	7,285	7,285
Earnings accumulated since acquisition, net	2,976	2,694
Dividends received	(5,748)	(5,491)
Accumulated amortization	(376)	(340)
Total	4,137	4,148

- C.** The investment includes the excess of cost over net book value at acquisition as follow :

	<b>Consolidated and Company</b>	
	<b>December 31,</b>	
	<b>2 0 0 5</b>	<b>2 0 0 4</b>
	<b>Reported Amounts</b>	
Original amount	1,166	1,166
Accumulated amortization	(376)	(340)
	790	826

**D. Dividend declared subsequent to balance-sheet date**

Subsequent to the balance sheet date, SOL declared a dividend of NIS 2.7 million. The Company's share of the dividend is NIS 278 thousand.

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

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

**NOTE 9 - FIXED ASSETS**

**A. Composition:**

	<b>Consolidated and company</b>				<b>T o t a l</b>
	<b>Computers systems (hardware &amp; software) &amp; auxiliary equipment</b>	<b>Equipment &amp; systems</b>	<b>Motor vehicles</b>	<b>Leasehold improvements (mainly visitors center) (**)</b>	
	<b>Reported Amounts</b>				
<b>Cost</b>					
Balance - January 1, 2005	93,852	9,341	787	7,025	111,005
Additions during year (*)	14,159	511	261	479	15,410
Disposals during year	891	-	400	-	1,291
Balance - December 31, 2005	107,120	9,852	648	7,504	125,124
<b>Accumulated depreciation</b>					
Balance - January 1, 2005	79,854	9,202	457	3,134	92,647
Depreciation for year	8,978	293	111	885	10,267
Disposals	891	-	283	-	1,174
Balance - December 31, 2005	87,941	9,495	285	4,019	101,740
<b>Net book value</b>					
December 31, 2005	19,179	357	363	3,485	23,384
December 31, 2004	13,998	139	330	3,891	18,358

(\*) Includes wages and social benefits totaling NIS 2.7m, which has been capitalized during the reported period (no such costs were capitalized last year - also see Note 2.g(2)).

(\*\*) Includes electronic equipment and computers.

**NOTE 10 - TRADE ACCOUNTS PAYABLE**

	<b>December 31,</b>	
	<b>2 0 0 5</b>	<b>2 0 0 4</b>
	<b>Reported Amounts</b>	
<b>Composition Consolidated and Company:</b>		
Open accounts	6,959	4,571
Post-dated checks	43	263
	7,002	4,834

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

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

**NOTE 11 - PAYABLES AND OTHER CURRENT LIABILITIES**

	<b>Consolidated</b>		<b>Company</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>Reported Amounts</b>		<b>Reported Amounts</b>	
Wages and social benefits (1)	15,097	10,437	15,097	10,437
Tax authorities	1,879	1,577	1,879	1,577
Provision for income taxes, net of advances	7,073	5,740	5,638	5,072
Deferred income taxes	140	-	-	-
Related parties	-	(*) 15	-	(*) 15
Affiliate	-	(*) 95	-	(*) 95
Deferred income	369	343	369	343
Accrued expenses	340	401	340	401
Payables with regard to Ma'of Risk fund	2,664	1,762	-	-
Others	30	11	30	-
	<u>27,592</u>	<u>20,381</u>	<u>23,353</u>	<u>17,940</u>
(1) Includes:				
Vacation accrual	<u>5,640</u>	<u>4,941</u>	<u>5,640</u>	<u>4,941</u>
Accrued severance pay, net	<u>900</u>	<u>1,072</u>	<u>900</u>	<u>1,072</u>

(\*) Reclassified.

**NOTE 12 - ACCRUED SEVERANCE PAY, NET**

**A. Composition consolidated and company:**

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>Reported Amounts</b>	
Severance -pay obligations	14,970	13,901
Less: amounts funded	<u>(13,096)</u>	<u>(11,616)</u>
	1,874	2,285
Pension liabilities	<u>2,023</u>	<u>1,840</u>
	<u>3,897</u>	<u>4,125</u>

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

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

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

**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.

In March 2006, following the departure of its current chairman, the board decided to appoint the CEO as chairman of the board effective June 2006. His remuneration for this post has not yet been determined nor has it yet been resolved what the effective date of his present employment contract would be, as outlined above.

- (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 his employment contract of 1996 the chairman of the board is entitled at the end of his employment term (May 2006) to receive a special vacation grant equaling six months' pay. The financial statements include provision in respect thereof until 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.

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

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

**NOTE 13 - CAPITAL NOTES**

	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Composition Consolidated and Company:</b>	<b>Reported Amounts</b>	
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 non interest bearing.
- B. Within the proceedings to change the structure of the Tel Aviv Stock Exchange Clearing House Ltd. (see Note 14i), capital notes were redeemed on January 1, 2006, and thus presented within current liabilities.

**NOTE 14 - CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS**

- A. The Tel Aviv Stock Exchange Clearing House Ltd. (“the Clearing House”) has a risk fund totaling - on December 31, 2005 - NIS 426m, an amount that is updated each March 1 on the basis of the average daily cleared amount, as defined in the Clearing House’s bylaws, in calendar year ended before the update. This fund should, in any event, not be lower than NIS 150m. Each member’s share in the risks fund is determined on March 1 of each year based on the ratio of his clearing volume in a calendar year ended just before the update and the total clearing of all members (except the Bank of Israel) in that given period, in accordance with the Clearing House’s bylaws.

The members deposit in the Clearing House securities for maintaining their share in the risks fund, which - on March 1, 2006 - amounted to NIS 617m.

Should any member in the Clearing House not meet his obligations, as prescribed by the bylaws, the Clearing House may be entitled to realize the noted securities and, should this option not be available, in whole or in part for any reason or if the amounts provided are insufficient to cover the member’s liabilities to the Clearing House, it will realize the securities provided by the other members proportionately to each member’s share in the risks fund.

Starting May 15, 2005 the securities provided by the members are now required to be government debentures placed in their Clearing House accounts and/or cash, placed in their bank accounts. The members have pledged in favor of the Clearing House all of the assets and rights in accounts noted above, in accordance with the bylaws.

On December 31, 2005 these deposited securities amounted to NIS 558m.

- B. The Ma’of Clearing House Ltd. had - on December 31, 2005 - a risk fund totaling NIS 1,066m. This amount is updated quarterly in accordance with the rules established in this company’s bylaws. The Ma’of Clearing House members provide security for ensuring their part in the risk fund. On January 15, 2006 this risk fund amounted to NIS 875m.

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



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

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

- C.** Ma'of Clearing House members are obligated to pay financial charge stemming from Ma'of transactions, as stipulated in the bylaws. Each member's commitment relates to all transactions carried out under his responsibility. Against all liabilities relates to the Ma'of transactions, there is an opposite commitments (BACK TO BACK) from the Ma'of Clearing House toward her members. At December 31, 2005, these liabilities of all members amounted to NIS 1,677m according to the rules established in this company's bylaws. These liabilities contain a safety margins that enables the company to demand guarantee against these liabilities.
- D.** The members of the Ma'of Clearing House provide the latter with government debentures as security in respect of the risks funds (noted in item b above) and in respect of Ma'of transactions (noted in item c above). These debentures, and/or cash, are deposited in the Clearing House's bank accounts. The Clearing House members pledged in favor of the Ma'of Clearing House all the assets and rights in those accounts, as stipulated in the Ma'of Clearing House's bylaws. This deposited security amounted - on December 31, 2005 - to NIS 8,742m.

**E. Indemnification of officers**

The Company is obliged to indemnify its officers as well as the CH officers while the Ma'of 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 Ma'of 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.

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

Based on the advice of its legal counsels, the company has a strong case and good argument, and due to the intermission of the District Court, the company's chances are good. Company's Management believes that she is covered by right insurance policies and for the claiming sum. No provision has been recorded in respect thereof.

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

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

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

**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 Ma'of 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 Ma'of Clearing House.

**H. Providing a line of credit to the Clearing House 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 Tel Aviv Stock Exchange Board of Directors discussed a proposal to turn TASE Clearing House from a limited company with no share capital into a company with share capital and a change in its ownership structure so its members also become members in company which is owned by the stock exchange. During 2005 the Board of Directors and the General Meeting of the stock exchange as well as TASE Clearing House approved the arrangement based on the plan presented to them and, in August 2005, the court ratified the arrangement between TASE Clearing House and her members, within the framework of which TASE Clearing House turned from a limited entity without share capital into a company with share capital, in accordance with Section 350 of the Companies Law. The second phase of the plan is expected to take place during 2006, within the framework of which TASE Clearing House's ownership structure will change so that the stock exchange will buy from TASE Clearing House's shareholders their shares, subject to their consent, so that following this move TASE Clearing House will turn into a wholly owned subsidiary of the stock exchange.

**NOTE 15 - ADDITIONAL DETAILS PERTAINING TO COST OF SALES**

**Salaries and social benefits**

1. The 2005 expenses reflect an amortization of wages and social benefits associated with the development of computing systems in an amount of NIS 2.7m (2003 - NIS 1.7m). No expenses were capitalized during 2004.

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

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

**NOTE 15 - ADDITIONAL DETAILS PERTAINING TO COST OF SALES (Cont.)**

**Salaries and social benefits (Cont.)**

2. In July 2005 the Company signed a wage agreement for 2004-2005, which included an update of various benefits and grants. The 2005 wage cost includes the effect of this wage agreement, including its impact on accrued severance pay.

**NOTE 16 - PARTICIPATION IN EXPENSES BY THE MA'OF CLEARING HOUSE LTD.**

The participation of the Ma'of 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, NET**

	<b>Consolidated Year ended December 31, 2005</b>
	<b>Reported Amounts</b>
<b>Composition:</b>	
Short-term borrowings -	
Bank fees and commissions	(428)
Interest tax expenses	(213)
	(641)
Deposits, investments and others -	
Gain from marketable securities	12,306
Income from deposits	926
Income from interest of employees loans	27
	13,259
	12,618

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

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

**NOTE 17 - FINANCING INCOME, NET (Cont.)**

	<b>Consolidated Year ended December 31, 2005</b>
	<b>Reported Amounts</b>
<b>Composition:</b>	
Short-term borrowings -	
Bank fees and commissions	(265)
Interest tax expenses	(213)
	(478)
Deposits, investments and others -	
Gain from marketable securities	7,872
Income from deposits	710
Income from interest of employees loans	27
	8,609
	8,131

**NOTE 18 - INCOME TAXES**

**A. Income taxes**

	<b>Consolidated</b>			<b>Company</b>		
	<b>Year ended December 31,</b>			<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>Reported Amounts</b>	<b>Adjusted Amounts</b>	<b>Adjusted Amounts</b>	<b>Reported Amounts</b>	<b>Adjusted Amounts</b>	<b>Adjusted Amounts</b>
Current taxes	20,217	11,618	3,330	15,153	8,950	2,140
Prior years' taxes	165	472	65	165	449	65
Deferred taxes	140	-	-	-	-	-
	20,522	12,090	3,395	15,318	9,399	2,205

**B. Relevant tax laws**

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

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

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

**NOTE 18 - INCOME TAXES (Cont.)**

- C. The difference between the tax computed on taxable income based on ordinary tax rates and the provision for income taxes is explained below:

	<b>Consolidated</b>		
	<b>Year ended December 31,</b>		
	<b>2 0 0 5</b>	<b>2 0 0 4</b>	<b>2 0 0 3</b>
	<b>Reported Amounts</b>		<b>Adjusted Amounts</b>
Pre-tax income	61,101	32,743	20,226
Tax computed by the ordinary tax rate	20,774	11,460	7,281
<b><u>Increase (saving) in tax in respect of:</u></b>			
Income taxable at special rates	(298)	(279)	(112)
Losses and benefits in respect of which no deferred taxes have been recorded	(447)	185	(1,790)
Utilization of prior years' losses in respect of which no deferred taxes have been recorded	(270)	-	(2,115)
Disallowed expenses	517	446	219
Differences in definition of capital and assets	81	(194)	-
Tax in respect of prior years	165	472	65
Others	-	-	(153)
	20,522	12,090	3,395
Income taxes	20,522	12,090	3,395
	<b>Company</b>		
	<b>Year ended December 31,</b>		
	<b>2 0 0 5</b>	<b>2 0 0 4</b>	<b>2 0 0 3</b>
	<b>Reported Amounts</b>		<b>Adjusted Amounts</b>
Pre-tax income	44,167	23,443	12,976
Tax computed by the ordinary tax rate	15,017	8,205	4,671
<b><u>Increase (saving) in tax in respect of:</u></b>			
Income taxable at special rates	(192)	(206)	(53)
Losses and benefits in respect of which no deferred taxes have been recorded	(218)	691	(582)
Utilization of prior years' losses in respect of which no deferred taxes have been recorded	-	-	(2,115)
Disallowed expenses	517	446	219
Differences in definition of capital and assets	29	(186)	-
Tax in respect of prior years	165	449	65
	15,318	9,399	2,205
Income taxes	15,318	9,399	2,205

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

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

**NOTE 18 - INCOME TAXES (Cont.)**

**D. Tax assessments**

The Company and its subsidiary have received final tax assessments up to, and including, the 2001 tax -year.

- E.** In July 25, 2005 the Knesset passed in second and third readings the Law for Amending the Income Tax Ordinance (No. 147), 2005, according to which the corporate tax rate of 34% is to be reduced gradually from 31% in 2006 to 25% in 2010. (Tax rate in the year's 2007, 2008 and 2009 will be 29%, 27%, and 26% congruently). According to the Company's estimation, this correction wasn't material on the Financial Statements of 2005.

**NOTE 19 - BALANCES OF AND TRANSACTIONS WITH RELATED PARTIES**

**A. Balances (1):**

**Consolidated and company:**

	<b>Consolidated</b>		<b>Company</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2 0 0 5</b>	<b>2 0 0 4</b>	<b>2 0 0 5</b>	<b>2 0 0 4</b>
<b>a. Balances with interested and related parties</b>				
<b>In current assets (1)</b>				
Cash and cash equivalents	3,411	3,769	3,411	3,769
Receivables and other current assets	-	-	2,244	1,782
<b>In investments:</b>				
In an affiliate	4,137	4148	4,137	4,148
In a subsidiary	-	-	51,892	40,162
<b>In current liabilities:</b>				
Payables and other current				
Liabilities - Ma'of Clearing members	2,664	1,762	-	-
Capital notes (2)	2,600	2,600	2,600	2,600

1. The balances are unlinked and non-interest bearing.
2. The capital notes are unlinked and non-interest bearing.

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

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

**NOTE 19 - BALANCES OF AND TRANSACTIONS WITH RELATED PARTIES (Cont.)**

	<u>Consolidated</u>			<u>Company</u>		
	<u>December 31,</u>			<u>December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>Reported</u>	<u>Reported</u>	<u>Adjusted</u>	<u>Reported</u>	<u>Reported</u>	<u>Adjusted</u>
	<u>Amounts</u>	<u>Amounts</u>	<u>Amounts</u>	<u>Amounts</u>	<u>Amounts</u>	<u>Amounts</u>
<b>B. Transactions with interested and related parties</b>						
<b>Revenues</b>						
Commissions from trade and clearing	86,342	72,443	72,667	54,095	46,274	34,299
Securities registration and annual fees	140	252	222	140	252	222
Clearing services for the Clearing House members and to public companies	131	95	152	114	77	138
Distribution of trade data as well as other data	8,470	6,660	5,342	8,470	6,660	5,342
Other	603	440	389	603	440	389
<b>Cost of revenues</b>						
Rental fees	2,804	2,780	2,812	2,804	2,780	2,812
Participation in expenses by the Ma'of Clearing House (*)	30,985	28,149	29,525	30,985	28,149	29,525

(\*) See Note 16.

**C. Benefits to interested parties**

	<u>Consolidated</u>		
	<u>December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>Reported</u>	<u>Reported</u>	<u>Adjusted</u>
	<u>Amounts</u>	<u>Amounts</u>	<u>Amounts</u>
Salary and social benefits to the CEO and Chairman of the Board	3,763	3,125	(*)2,974
Number of people	2	2	2
Fees of non-employed directors	183	182	229
Number of people	8	9	8

(\*) Includes NIS 339 thousand in respect of prior years -see Note 12b.4.

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

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

**NOTE 19 - BALANCES OF AND TRANSACTIONS WITH RELATED PARTIES (Cont.)**

**D. Additional information pertaining to interested parties:**

1. The Company and a subsidiary derived financing income and expenses from interested parties (banks and other stock-exchange members) during the ordinary course of business, stemming mostly from bank deposits, current bank accounts and management of securities portfolios.
2. As for the establishment of a credit line for the Tel Aviv Stock Exchange Clearing House Ltd. - see Note 14h.
3. As for the ownership change of Tel Aviv Stock Exchange Clearing House Ltd. - see Note 14i.

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



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

**NOTE 20 - DISCLOSURE AND PRESENTATION OF FINANCIAL INSTRUMENTS**

**A. Linkage terms of monetary balances - December 31, 2005:**

	Linked to the CPI	Linked to foreign currency	Unlinked		Other	Total
			Interest- bearing	Non-interest bearing		
<b>Reported Amounts</b>						
<b>Consolidated balance sheet:</b>						
<b>Assets:</b>						
Cash and cash equivalents	-	-	16,374	890	-	17,264
Marketable securities	55,571	5,125	63,973	-	27,635	152,304
Trade accounts receivable	-	-	-	1,087	-	1,087
Receivables and other current assets	-	-	-	8,572	-	8,572
	<u>55,571</u>	<u>5,125</u>	<u>80,347</u>	<u>10,549</u>	<u>27,635</u>	<u>179,227</u>
<b>Liabilities:</b>						
Trade accounts payable	-	-	-	7,002	-	7,002
Payables and other current liabilities	8,952	-	-	18,640	-	27,592
Capital notes	-	-	-	2,600	-	2,600
Accrued severance pay	2,023	-	-	1,874	-	3,897
	<u>10,975</u>	<u>-</u>	<u>-</u>	<u>30,116</u>	<u>-</u>	<u>41,091</u>
<b>Excess assets over liabilities (excess liabilities over assets)</b>	<u>44,596</u>	<u>5,125</u>	<u>80,347</u>	<u>(19,567)</u>	<u>27,635</u>	<u>138,136</u>
<b>Company balance sheet:</b>						
<b>Assets:</b>						
Cash and cash equivalents	-	-	11,487	885	-	12,372
Marketable securities	35,024	2,938	42,625	-	18,234	98,821
Trade accounts receivable	-	-	-	1,087	-	1,087
Receivables and other current assets	-	-	-	10,816	-	10,816
	<u>35,024</u>	<u>2,938</u>	<u>54,112</u>	<u>12,788</u>	<u>18,234</u>	<u>123,096</u>
<b>Liabilities:</b>						
Trade accounts payable	-	-	-	7,002	-	7,002
Payables and other current liabilities	7,517	-	-	15,836	-	23,353
Capital notes	-	-	-	2,600	-	2,600
Accrued severance pay	2,023	-	-	1,874	-	3,897
	<u>9,540</u>	<u>-</u>	<u>-</u>	<u>27,312</u>	<u>-</u>	<u>36,852</u>
<b>Excess assets over liabilities (excess liabilities over assets)</b>	<u>25,484</u>	<u>2,938</u>	<u>54,112</u>	<u>(14,524)</u>	<u>18,234</u>	<u>86,244</u>

**B. Fair value of financial instruments**

The financial assets and liabilities of the Company and a subsidiary include cash and cash equivalents, securities, trade accounts receivable, receivables and other current assets as well as trade accounts payable. Due to their nature, the fair value of these items does not differ materially from their book value.

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

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

**NOTE 20 - DISCLOSURE AND PRESENTATION OF FINANCIAL INSTRUMENTS (Cont.)**

**C. Credit risk**

The Group's cash and cash equivalents as well as securities are mostly placed with banks and managed by their portfolio managers indiscriminately.

**NOTE 21 - NOMINAL FINANCIAL STATEMENT DATA FOR TAX PURPOSES - COMPANY**

<b>A. Balance sheets</b>	<b>December 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(NIS in thousands)</b>	
<b>Current assets</b>		
Cash and cash equivalents	12,372	12,034
Marketable securities	98,821	70,041
Trade accounts receivable	1,087	1,867
Receivables and other current assets	10,816	7,721
	123,096	91,663
<b>Investments</b>		
Subsidiary	51,888	40,162
Affiliate	3,400	3,361
	55,288	43,523
<b>Fixed assets, net</b>	23,370	18,279
	201,754	153,465
<b>Current liabilities</b>		
Trade accounts payable	7,002	4,834
Payables and other current liabilities	23,353	17,940
Capital note	2,600	-
	32,955	22,774
<b>Long-term liabilities</b>		
Accrued severance pay, net	3,897	4,125
Capital notes	-	2,600
	3,897	6,725
<b>Shareholders' equity</b>	164,902	123,966
	201,754	153,465

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

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

**NOTE 21 - NOMINAL FINANCIAL STATEMENT DATA FOR TAX PURPOSES - COMPANY  
(CONT.)**

**B. Statements of operation:**

	<b>Year ended December 31,</b>		
	<b>2 0 0 5</b>	<b>2 0 0 4</b>	<b>2 0 0 3</b>
	(NIS in thousands)		
<b>Revenues</b>			
Trading and clearing commissions	62,593	53,073	40,338
Securities registration and annual fees	28,575	20,726	13,936
Clearing House services for the TASE members and for public companies	12,761	10,121	7,012
Presentation of trade as well as other data	20,442	16,980	14,980
Other	1,741	967	1,013
	126,112	101,867	77,279
<b>Cost of revenues</b>			
Salaries and employee benefits	69,443	62,685	57,454
Prior years wages	1,825	3,002	339
Special severance pay	716	1,120	2,941
IT and communication expenses	11,705	11,794	10,390
Rent, municipal taxes and building maintenance	9,121	8,015	7,737
General and administrative expenses	10,763	8,962	7,805
Fee to Israeli Securities Authority	7,306	7,243	8,614
Depreciation	10,208	8,695	8,108
	121,087	111,516	103,388
Participation in expenses by the Ma'of Clearing House Ltd.	(30,985)	(28,149)	(29,942)
	90,102	83,367	73,446
<b>Operating income before net financing</b>	36,010	18,500	3,833
Financing income, net	8,131	5,004	8,947
<b>Operating income after net financing</b>	44,141	23,504	12,780
Other income, net	93	128	3
<b>Pre-tax income</b>	44,234	23,632	12,783
Income taxes	15,318	9,399	2,205
<b>Income after income taxes</b>	28,916	14,233	10,578
Company's share in earnings of investees, net	12,024	6,883	5,826
<b>Net income for the year</b>	40,940	21,116	16,404

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