THE TEL-AVIV STOCK EXCHANGE LTD.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2006

Contents

Deloitte.

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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, 2006 and 2005 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, 2006. 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, 2006 and 2005, 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, 2006, 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 as of dates and for reporting periods are presented in reported amounts, in accordance with accounting standards established by the Israeli Accounting Standards Board.

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Brightman Almagor & Co.
Certified Public Accountants

Tel Aviv, Israel
April 25, 2007

THE TEL-AVIV STOCK EXCHANGE LTD
BALANCE SHEETS
(NIS in thousands)

		Consolidated		Company	
		December 31,		December 31,	
	Note	2006	(*)2005	2006	2005
Current assets					
Cash and cash equivalents	3	26,145	17,264	16,548	12,372
Marketable securities	4	171,535	152,304	87,206	98,821
Trade accounts receivable	5	1,420	1,087	1,420	1,087
Receivables with respect to open derivative positions	6	329,499	-	-	-
Assets with respect to securities that were not transferred to the Stock Exchange Clearing House on a timely basis	7	143,001	-	-	-
Receivables and other current assets	8	11,299	8,572	10,215	10,816
		682,899	179,227	115,389	123,096
Investments					
Subsidiaries	9	-	-	91,779	51,892
Affiliate	10	4,089	4,137	4,089	4,137
		4,089	4,137	95,868	56,029
Other assets	9	492	-	-	-
Fixed assets	11				
Cost		139,862	125,124	139,862	125,124
Less: accumulated depreciation		109,066	101,740	109,066	101,740
		30,796	23,384	30,796	23,384
		718,276	206,748	242,053	202,509
Current liabilities					
Trade accounts payable	12	10,942	7,002	10,942	7,002
Payables with respect to open derivative positions	6	329,499	-	-	-
Liabilities with respect to securities that were not transferred to the Stock Exchange Clearing House on a timely basis	7	143,001	-	-	-
Payables and other current liabilities	13	26,425	27,592	22,702	23,353
Capital notes	15	-	2,600	-	2,600
		509,867	37,194	33,644	32,955
Long-term liabilities					
Accrued severance pay, net	14	5,167	3,897	5,167	3,897
Contingent liabilities and special commitments	16				
Shareholders' equity		203,242	165,657	203,242	165,657
		718,276	206,748	242,053	202,509

(*) In the matter of initial implementation accounting standard No. 22 commencing January 1, 2006 and its effect on the balance sheets – see Notes 6 and 7**.**

Saul Bronfeld	**Ester Lebanon**	**Joseph Treister**
Chairman of the Board	**CEO and Director**	**Senior Vice President Administration and Finance**

Tel Aviv, April 25 , 2007

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

THE TEL-AVIV STOCK EXCHANGE LTD
Approval date of the financial statements
CONSOLIDATED STATEMENTS OF OPERATIONS
(NIS in thousands)

	Note	Year ended December 31 2006	2005	2004
Revenues from services				
Trading and clearing commissions		112,553	114,723	95,340
Securities registration and annual fees		34,896	28,575	20,726
Clearing House services for the TASE members and for public companies		15,228	12,788	10,150
Presentation of trade as well as other data		24,762	20,442	16,980
Other		3,143	1,741	967
		190,582	178,269	144,163
Cost of revenues				
Salaries and social benefits	17	81,666	71,984	66,807
IT and communication expenses		15,528	11,705	11,794
Rent, municipal taxes and building maintenance		9,462	9,121	8,015
General and administrative expenses		13,678	10,765	8,963
Fee to Israeli Securities Authority		7,078	7,306	7,243
Depreciation		11,026	10,267	8,870
Premiums in respect of the Ma'of Risk Fund		8,085	8,725	7,706
		146,523	129,873	119,398
Operating income before net financing		44,059	48,396	24,765
Financing income, net	19	11,360	12,618	7,864
Operating income after net financing		55,419	61,014	32,629
Other income(expenses), net		(53)	87	114
Pre-tax income		55,366	61,101	32,743
Income taxes	20	18,011	20,522	12,090
Income after income taxes		37,355	40,579	20,653
Company's share in earnings of investees, net		230	246	225
Net income for the year		37,585	40,825	20,878

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 2006	2005	2004
Revenues from services				
Trading and clearing commissions		67,259	62,593	53,073
Securities registration and annual fees		34,896	28,575	20,726
Clearing House services for the TASE members and for public companies		15,198	12,761	10,121
Presentation of trade as well as other data		24,762	20,442	16,980
Other		3,050	1,741	967
		145,165	126,112	101,867
Cost of revenues				
Salaries and social benefits	17	81,666	71,984	66,807
IT and communication expenses		15,528	11,705	11,794
Rent, municipal taxes and building maintenance		9,462	9,121	8,015
General and administrative expenses		13,677	10,763	8,962
Fee to Israeli Securities Authority		7,078	7,306	7,243
Depreciation		11,026	10,267	8,870
		138,437	121,146	111,691
Participation in expenses by the Ma'of Clearing House Ltd.	18	(28,547)	(30,985)	(28,149)
		109,890	90,161	83,542
Operating income before net financing		35,275	35,951	18,325
Financing income, net	19	6,918	8,131	5,004
Operating income after net financing		42,193	44,082	23,329
Other income (expenses), net		(53)	85	114
Pre-tax income		42,140	44,167	23,443
Income taxes	20	14,050	15,318	9,399
Income after income taxes		28,090	28,849	14,044
Company's share in earnings of investees, net		9,495	11,976	6,834
Net income for the year		37,585	40,825	20,878

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)

	Capital Reserve	Retained Earnings	Total
Balance - January 1, 2004	3,200	100,754	103,954
Changes in 2004:			
Erosion of capital notes			
Net income for the year	-	20,878	20,878
Balance January 1, 2005	3,200	121,632	124,832
Changes in 2005:			
Net income for the year	-	40,825	40,825
Balance January 1, 2006	3,200	162,457	165,657
Changes in 2006:			
Net income for the year	-	37,585	37,585
Balance December 31, 2006	3,200	200,042	203,242

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 6	**2 0 0 5**	**2 0 0 4**
CASH FLOWS - OPERATING ACTIVITIES			
Net income for the year	37,585	40,825	20,878
Adjustments required to present cash flows provided by operating activities (Appendix A)	7,328	7,979	10,993
Net cash provided by operating activities	44,913	48,804	31,871
CASH FLOWS - INVESTING ACTIVITIES			
Additions to fixed assets	(18,684)	(15,410)	(9,008)
Proceeds from disposition of fixed assets	193	204	246
Purchase of marketable securities	(123,291)	(127,079)	(106,842)
Proceeds from the disposition of marketable securities	108,408	94,009	77,589
Dividends received from an affiliate	278	257	308
Purchase of an initially consolidated subsidiary (Appendix B)	(336)	-	-
Net cash used in investing activities	(33,432)	(48,019)	(37,707)
Cash Flows - Financing Activities			
Capital note repayment	(2,600)	-	-
Net cash used in financing activities	(2,600)	-	-
Increase (decrease) in cash and cash equivalents	8,881	785	(5,836)
Cash and cash equivalents at beginning of year	17,264	16,479	22,315
Cash and cash equivalents at end of year	26.145	17,264	16,479

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,		
	2006	**2005**	**2004**
Appendix A - Adjustments required to present cash flows provided by operating activities:			
Income and expense not involving cash flows:			
Depreciation	11,026	10,267	8,870
Gain from realization of marketable securities	(4,348)	(9,254)	(3,796)
Capital loss (gain) from disposition of fixed assets	53	(86)	(114)
Share in earnings of an affiliate	(230)	(246)	(225)
Deferred income taxes	480	140	-
Increase (decrease) in accrued severance pay, net	1,270	(228)	1,290
	8,251	593	6,025
Changes in assets and liabilities:			
Increase in trade accounts receivable and receivables and other current assets	(2,921)	(1,853)	(1,206)
Increase in receivables with respect to open derivative positions	(329,499)	-	-
Increase in assets with respect to securities that were not transferred to the Stock Exchange Clearing House on a timely basis	(143,001)	-	-
Increase in trade accounts payable	3,940	2,168	1,491
Increase in payables with respect to open derivative positions	329,499	-	-
Increase in liabilities with respect to securities that were not transferred to the Stock Exchange Clearing House on a timely basis	143,001	-	-
Increase (decrease) in payables and other current liabilities	(1,942)	7,071	4,683
	(923)	7,386	4,968
	7,328	7,979	10,993

Appendix B - Purchase of an initially consolidated subsidiary:

Net working capital (excluding cash and cash equivalents)	156
Goodwill created on the acquisition	(492)
	(336)

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 6	**2 0 0 5**	**2 0 0 4**
CASH FLOWS - OPERATING ACTIVITIES			
Net income for the year	37,585	40,825	20,878
Adjustments required to present cash flows provided by operating activities (Appendix A)	3,606	(1,850)	3,079
Net cash provided by operating activities	41,191	38,975	23,957
CASH FLOWS - INVESTING ACTIVITIES			
Additions to fixed assets	(18,684)	(15,410)	(9,008)
Proceeds from disposition of fixed assets	193	204	246
Purchase of marketable securities	(84,358)	(88,144)	(80,464)
Proceeds from the disposition of marketable securities	98,777	64,456	61,691
Dividends received from an affiliate	278	257	308
Purchase of an initially consolidated subsidiary	(30,621)	-	-
Net cash used in investing activities	(34,415)	(38,637)	(27,227)
Cash Flows - Financing Activities			
Capital note repayment	(2,600)	-	-
Net cash used in financing activities	(2,600)	-	-
Increase (decrease) in cash and cash equivalents	4,176	338	(3,270)
Cash and cash equivalents at beginning of year	12,372	12,034	15,304
Cash and cash equivalents at end of year	16,548	12,372	12,034

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,		
	2006	2005	2004
Appendix A - Adjustments required to present cash flows provided by operating activities:			
Income and expense items not involving cash flows:			
Depreciation	11,026	10,267	8,870
Capital loss (gains) from disposition of fixed assets	53	(86)	(114)
Gain from realization of marketable securities	(2,805)	(5,093)	(2,352)
Company's share in earnings of a subsidiary	(9,265)	(11,730)	(6,609)
Company's equity in earnings of an affiliate	(230)	(246)	(225)
Deferred income taxes	480	140	-
Increase (decrease) in accrued severance pay, net	1,270	(228)	1,290
	529	(6,976)	860
Changes in assets and liabilities:			
Increase in trade accounts receivable and receivables and other current assets	268	(2,315)	(3,184)
Increase in trade accounts payable	3,940	2,168	1,491
Increase (decrease) in payables and other current liabilities	(1,131)	5,273	3,912
	3,077	5,126	2,219
	3,606	(1,850)	3,079

The accompanying notes are an integral part of 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. ("TASE CLEARING HOUSE) is wholly owned by the TASE since September 2006 and is mainly dealing with securities clearance, other than derivatives.
The Ma’of Clearing House Ltd. (MA'OF CLEARING HOUSE) is wholly owned by the TASE and it is mostly engaged in issuance of options and forward contracts (derivatives) and rendering clearance services for these derivatives.

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 or TASE - the Tel-Aviv Stock Exchange Ltd.

The Group - the Company and its investees. A list of the Group companies is presented in Notes 9 and 10.
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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

A. 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) On January 1, 2004, Israeli Accounting Standard No. 12 "Cessation of Financial Statements Adjustment" ("Standard No. 12") went into effect.

Following the initial implementation of Standard No. 12, commencing January 1, 2004, the Company ceased the presentation of its financial statements based on the changes in the general purchasing power of the Israeli currency. Effective with the Interim Financial Statements as of January 1, 2004, the Company’s financial statements are prepared and presented in Reported amounts.

The amounts of non- monetary items express their cost in Reported amounts and do not necessarily represent realization value or up to date economic value.

(3) Method for determining the Reported amounts in the 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 value on December 31, 2003, plus amounts in nominal values added subsequently and net of amounts subsequently deducted in respect thereof.
- 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 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.

B. Principles of consolidation

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Cash and cash equivalents

Cash and cash equivalents include deposits with financial institutions for immediate withdrawal and short-term deposits unrestricted as to use, the redemption date of which does not exceed three months from the date of deposit.

D. Marketable securities

The marketable securities which management intends to sell in the short term are presented as current assets at market value prevailing on the balance-sheet date. Changes in the value of marketable securities are allocated to operations.

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. Receivables for open positions with respect to derivatives and assets resulting from securities that were not transferred to the stock exchange Clearing House on a timely basis

These balances were presented in accordance with their fair values as of the balance sheet date. See Notes 6 and 7 below for further details.

G. 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).

H. 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:

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

See below in Note 2(P) as to the issuance of Accounting Standard No. 27, Fixed Assets.

(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.
See below in Note 2(P) as to the issuance of Accounting Standard No. 30, Intangible Assets.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

I. Other assets

Goodwill created on the acquisition of an investee-

Commencing from January 1, 2006, the Company is implementing Accounting Standard No. 20 (Amended), “Accounting Treatment of Goodwill and Other Intangibles upon the Acquisition of an Investee" (hereafter- "the Standard" or "the new Standard").
According to the new Standard, the excess of acquisition cost of an investee over the share of the Company of the fair value of identifiable assets, including intangibles, net of the fair value of identifiable liabilities (after tax allocation) at acquisition, constitutes goodwill. Goodwill will not be amortized, as was required by the principles that were in force prior to the effective date of the Standard, but will be examined once a year or more frequently, should there be an indication of impairment of value of goodwill.

Should negative goodwill be created upon acquisition, it would be recognized as a gain and immediately be included in operations as of that date.

J. Income taxes

The Company and subsidiaries perform the allocation of taxes with respect to temporary differences between the value of assets and liabilities in the financial statements and their tax basis, and with respect to deductible tax benefits whose realization is anticipated. The deferred income taxes are computed at the tax rates expected upon realization, as known as of the balance-sheet date.

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.

K. Fair value of financial instruments

The fair value of the financial instruments is based upon the prices established in the framework of the trading on the Stock Exchange as of the balance sheet date. In a case in which no trading has taken place in a particular instrument as of the balance sheet date, the Company makes use of valuation techniques according to accepted economic models for valuing derivatives that are accompanied by assumptions based upon the current economic conditions at each balance sheet date.

L. Offset of financial instruments

Financial assets and liabilities are presented in the balance sheet at a net amount only when the Company has the legal, enforceable right to offset, and there also is the intention to settle the asset and the liability on a net basis or to simultaneously realize the asset and pay off the liability.

M. Revenue recognition

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Impairment of value of tangible and intangible assets, excluding goodwill

At each balance sheet date, the Group examines the book value of its tangible and intangible assets for the purpose of determining whether there are any indications that point towards losses from impairment of value of these assets. Should there be any such indications, the recoverable amount of the asset is estimated for the purpose of determining the amount of the loss from impairment of value that was created, if at all. If it is not possible to estimate the recoverable value of an individual asset, the Group estimates the recoverable value of the cash- generating unit to which the asset is relevant. Shared assets are also allocated to individual cash generating units to the extent that a reasonable and consistent basis can be identified for such allotment. Should allocating the shared assets to individual cash generating units on the above basis not be feasible, the shared assets are allocated to the smallest groups of cash generating units as to which a reasonable and consistent basis for allocation can be identified.

The recoverable amount is the higher of the sales price of the asset, less selling costs, and of its utility value. In estimating utility value, an approximation of future cash flows is discounted to their present value, using a pre- tax discount rate which reflects the current market estimates of the value of money over time and the specific risks for the asset for which the estimate of future cash flows has not been adjusted.

If the carrying value of the asset (or of the cash generating unit) exceeds recoverable amount, the book value of the asset (or of the cash generating unit) is reduced to its recoverable amount. The impairment loss is recognized immediately to operations.

If an impairment loss that was recognized in previous periods is reversed, the book value of the asset (or of the cash generating unit) will be restored back to the estimate of the up to date recoverable value but not to exceed the book value of the asset (or of the cash generating unit) that would have existed, had a related impairment loss not been recognized in prior periods. The reversal of the loss from impairment of value is immediately recognized to operations.

O. Impairment in value of investment in an affiliate

At each balance sheet date, the Company assesses whether there are indications that convey an impairment of value in its investments in affiliate. Where there has been impairment in value of a particular asset of an affiliate in relation to its cost, including adjustments of fair value made by the Company upon acquisition, the Company recognizes the impairment of value with respect to that asset prior to evaluating the impairment in value of the investment in the affiliate as a whole. In the case in which the value of the investment in the affiliate in the accounts exceeds its recoverable value, the Company recognizes a loss from impairment in value of such investment.
A loss from impairment of value included in the investment account that was recognized in the past, will be reversed only when there has been a change in the estimates which served in determining the recoverable amount, from the date as of which the last loss from impairment of value was recognized, while evaluating the investment in its entirety.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. New accounting standard in the pre-implementation period

Accounting Standard No. 29 - Adoption of International Financial Reporting Standards

In July 2006 the Israeli Accounting Standards Board published Accounting Standard No.29 "Adoption of International Financial Reporting Standards" - IFRS. (hereafter – "The standard" or "Standard 29").

The standard establishes that the financial statements of an entity subject to the Securities Law and its reporting requirements, other than foreign corporations defined therein, will be prepared for the reporting periods starting January 1, 2008, in accordance with the IFRS and their related clarifications published by the International Accounting Standards Board. Standard No. 29 enables the applicable entities to prepare their financial statements prior to January 1, 2008, starting the financial statements published subsequent to July 31, 2006.

Although Standard No.29 is not applied on the company, still the standard allows entities that are not subject to the Israeli Securities Law to prepare their financial statements in accordance with the IFRS starting the financial statements published subsequent to July 31, 2006.

The group's management examines effect of the transition to IFRS, yet to this stage, is unable to estimate the extent of such conversion on the Company's financial position and results of operations.

Accounting Standard No. 27 – Fixed Assets

During September 2006, the Israeli Accounting Standards Board published Accounting Standard Number 27, "Fixed Assets" (hereafter- "the Standard"), which stipulates the accounting treatment of fixed assets, including the recognition of assets, determining their value in the accounts and the depreciation expenses and losses from impairment of value which will be recognized with respect to them. Additionally, the Standard states the disclosure that is necessary in the financial statements in connection with the fixed assets of an entity.

Among other things, the Standard stipulates the following:

An item of fixed assets will be measured at the time of initial recognition at cost which includes, in addition to the purchase price of the asset, all of the costs which can be directly attributed to bringing that item to the location and condition necessary in order to enable it to operate in the manner intended by management. In addition, the cost is composed of the initial estimate of the costs to dismantle and remove the item and to restore the location of the item as to which the entity had an obligation when the item was acquired, or as the result of using it over a specific period other than for the purpose of producing inventory during that same period.

After initial recognition, the Standard permits the entity to select whether to implement measurement of fixed assets as part of its accounting policies either by the cost method or the revaluation method, as long as this policy is implemented for all items of fixed assets from the same group.

- Under the cost method, an item of fixed assets is presented at its cost, less accumulated depreciation and less cumulative losses from impairment of value.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. New accounting standard in the pre-implementation period (Cont.)

Accounting Standard No. 27 – Fixed Assets (Cont.)

- Under the revaluation method, an item of fixed assets, the fair value of which can be determined in a reliable manner, will be presented at a revalued amount, equivalent to its fair value on the date of the revaluation, less depreciation accumulated thereafter, and less cumulative losses from impairment of value. Revaluations will be carried out on a regular basis which is sufficient to assure that book value is not materially different from the value which would have been determined at fair value as of the balance sheet date. If an item of fixed assets is revalued, the entire group of fixed assets to which the asset pertains must be revalued. Should the book value of an asset increase as the result of a revaluation, the increase is to be recorded directly to shareholders' equity, under the heading of Revaluation Surplus. At the same time, the increase will be recognized in operating results up to the amount by which it cancels a decrease which resulted from a revaluation of that same asset which had previously been recognized in operating results. If the book value of the asset decreases as the result of a revaluation, the decrease will be recognized in operating results. Nevertheless, the decrease will be recorded directly to shareholders' equity under the heading of Revaluation Surplus, up to the amount for which a credit balance connected to such asset exists in Revaluation Surplus.

Each part of a fixed asset that has a cost which is significant in relation to the total cost of the item should be depreciated separately. In addition, the method of depreciation used for an asset should, at a minimum, be reviewed as of the end of each fiscal year and, should a substantial change have taken place in the pattern of utilization of the anticipated future economic benefits incorporated in the asset, the method should be changed in order to reflect the changed pattern. Such change should be treated as a change in accounting estimate.

In accordance with the provisions of the Standard, this Standard will apply to financial statements which relate to periods commencing on January 1, 2007 and thereafter, and will be applied in the manner of retroactive implementation, except as stated below:

For an entity which, as of January 1, 2007, selects the revaluation method as its accounting policy with respect to a group of fixed assets, the difference between the revalued book value of the asset as of that date and its cost, represents the Revaluation Surplus on that date.

During the month of January 2007, the Israeli Accounting Standards Board published a proposal for Accounting Standard Number 28, an amendment of the transitional provisions in Accounting Standard Number 27, "Fixed Assets" (hereafter-"Proposed Standard 28").

For purposes of the transition to implementation of Standard 27, the Proposed Standard permits the entity which intends to adopt one or more of the exemptions stipulated by International Financial Reporting Standard Number 1 as it applies to fixed assets, in the financial statements for periods commencing on January 1, 2008, to implement them on January 1, 2007.

According to these exemptions, the entity is permitted to present items of fixed assets on the transition date at their fair value as an alternative to their cost ("deemed cost").

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. New accounting standard in the pre-implementation period (Cont.)

Accounting Standard No. 27 – Fixed Assets (Cont.)

Additionally, it was stipulated that an entity which selects fair value as deemed cost, will not restate comparative information but will disclose this fact, as well as the fair value as of January 1, 2007 of each item which was so treated.

The Company is assessing Standard 27, including the choice between the cost method and the revaluation method, as well as the Proposed Standard 28 for measuring part of the items of its fixed assets at fair value as deemed cost. It is unable, at this stage, to approximate the effect of implementation of the Standard and Proposed Standard 28, on its financial condition and results of operations.

It should be stated that the software costs presented in these financial statements in the framework of fixed assets will be treated, commencing from the year 2007, as per Accounting Standard No. 30, the principles of which are itemized below.

Accounting Standard No. 23 – Accounting Treatment of Transactions between an Entity and its Controlling Shareholder

During December 2006, the IASB issued Accounting Standard No. 23 – Accounting Treatment of Transactions between an Entity and its Controlling Shareholder (hereafter- "the Standard"). The Standard is obligatory for entities that are subject to the Securities Law, 1968.

The Standard stipulates the accounting treatment for transactions carried out between an entity and its controlling shareholder which pertain to asset transfers, assuming liabilities, indemnification and waiver, as well as loans. The Standard does not apply to a business combination transaction under common control.

The Standard provides that the valuation basis of transactions carried out between an entity and its controlling shareholder is fair value; the place for transactions with the character of owners' investments and distributions to owners is in shareholders’ equity and these should not be included in the operating results of the controlled entity; differences between the consideration determined in transactions between an entity and its controlling shareholder and fair value of those transactions will be recorded to shareholders' equity. Current and deferred taxes that relate to items recorded to shareholders' equity with respect to transactions with controlling shareholders shall also be recorded directly to shareholders' equity.

The Standard shall apply to all transactions taking place between an entity and its controlling shareholder that are carried out subsequent to January 1, 2007, and also to a loan granted to or received from a controlling shareholder prior to the abovementioned effective date of the Standard, commencing from the date of the Standard.

At this stage, the Company's management is assessing the effect of the Standard on its financial statements, but is unable to approximate the effect of implementing the Standard on its financial condition and results of operations.

P. New accounting standard in the pre-implementation period (Cont.)

Accounting Standard No. 30 - Intangible Assets

During March 2007, the Israel Accounting Standards Board issued Accounting Standard No. 30, “Intangible Assets” (hereafter- "the Standard), which prescribes the accounting treatment for intangible assets that are not covered by other accounting standards, and also stipulates the disclosure requirements for intangible assets in the financial statements.

An intangible asset is a non- monetary asset, is identifiable, and lacks physical substance. The requirement for identification is intended for the purpose of differentiation between it and between goodwill.

The criteria for the ability to recognize an intangible asset are complied with when that asset:

(A) May be separated, namely, it may perceptively be separated or divided and sold, transferred, made subject to the granting a license for use, leased or exchanged, separately or together with a connected contract, connected asset or connected liability, or;

(B) Is derived from contractual rights or from other legal rights, without bringing into account whether these rights are transferable or can be separately perceptively, either from other rights or from other liabilities.

According to the Standard, an entity shall recognize an intangible asset if, and only if, it is probable that the projected economic benefits in the future that may be attributed to the asset will be derived by the entity and that the cost of the asset is capable of being measured on a reliable basis.

An intangible asset that is eligible for recognition as an asset will be measured initially at cost.

An intangible asset arising from research (or from the development stage of an in house project) shall not be recognized. Any expenditure for such research will be recognized as an expense when incurred. On the other hand, an intangible asset arising from development (or from the development stage of an in house project) shall only be recognized if the entity can prove compliance with the criteria detailed in the Standard.

An expenditure related to an intangible item which was initially recognized as an expense may not be recognized as part of the cost of an intangible asset at a later date.

Subsequent to initial recognition, measurement will be according to the cost model. Under this model, an intangible asset shall be carried at its cost, less any accumulated amortization and accumulated impairment losses.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Cont.)

P. New accounting standard in the pre-implementation period (Cont.)

Accounting Standard No. 30 - Intangible Assets (Cont.)

An intangible asset with a definite useful life will be amortized over its useful life, subject to a review for impairment of value. An intangible asset with an indefinite useful life shall not be amortized. Instead, it should be tested for impairment at least once a year, or more frequently, in the presence of circumstances indicating a possible impairment in the value of such asset.

This Standard is applicable to financial statements for annual periods commencing on January 1, 2007 or thereafter, except as stated below
At this stage, the Company's management is unable to approximate the effect of implementing the Standard on its financial condition and results of operations.

Q. 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		
2006	4.225	116.93
2005	4.603	117.04
2004	4.308	114.32
	%	**%**
Changes in year ended December 31		
2006	(8.21)	(0.09)
2005	6.84	2.37
2004	(1.62)	1.21

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

(NIS in thousands)

NOTE 3 - CASH AND CASH EQUIVALENTS

		Consolidated		Company	
		December 31,		December 31,	
	Interest rate	2006	2005	2006	2005
Composition:					
Cash on hand and in banks		1,697	890	1,433	885
Bank deposits – unlinked (NIS)	3.4%-3.25%	24,448	16,374	15,115	11,487
		26,145	17,264	16,548	12,372

NOTE 4 - MARKETABLE SECURITIES

	Consolidated		Company	
	December 31,		December 31,	
	2006	2005	2006	2005
Composition:				
Shares	29,532	27,063	15,256	17,662
Corporate debentures linked to foreign currency	2,311	2,501	321	1,306
Convertible debentures	307	573	80	573
Government bonds and other debentures	139,385	122,167	71,549	79,280
	171,535	152,304	87,206	98,821

NOTE 5 - TRADE ACCOUNTS RECEIVABLE

	Consolidated and Company	
	December 31,	
	2006	2005
Composition:		
Outstanding amounts	1,477	1,134
Post-dated checks receivable	-	31
	1,477	1,165
Less: allowance for doubtful accounts	57	78
	1,420	1,087

NOTE 6 - RECEIVABLES AND PAYABLES WITH RESPECT TO OPEN DERIVATIVE POSITIONS

Commencing on January 1, 2006, Accounting Standard No. 22 of The Israeli Accounting Standards Board became effective regarding "Financial Instruments, Disclosure and Presentation". Upon this standard becoming effective, for the first time, receivable and payable balances with respect to open derivative positions are included in the financial statements. In accordance with the standard, the balances in the balance sheet as of December 31, 2005 were not adjusted retrospectively.

Additional information with regard to these balances and the relevant collateral:

A. The amount of the assets expresses the monetary value of the total debts of the members of the MAOF Clearing House to the MAOF Clearing House. The amount of the liabilities expresses the monetary value of all the liabilities of the MAOF Clearing House to the members of the MAOF Clearing House.

   These balances are calculated on the basis of the amount of the debts of the members of the MAOF Clearing House towards the MAOF Clearing House- with regard to the assets, and the amount of the liabilities of the Clearing House towards the members- with regard to the liabilities, after offsetting the receivables and the payables derived from the open positions of the member as of the same expiration date.

   The amount reflected in these financial statements does not include the right of offset with regard to different expiration dates.

B. In accordance with the by- laws of the MAOF Clearing House Ltd., in the case of the insolvency of a member and in additional cases as itemized in the by laws of the MAOF Clearing House, the MAOF Clearing House has the right to offset every debt owed to it by a member, of every type and category, including with respect to positions with different expiration dates, against any debt of the MAOF Clearing House against that same member.

   The fair value of the assets and liabilities that are derived from the open positions of all members of the MAOF Clearing House, which also takes into account the offset of charges and credits resulting from the member's open positions with different expiration dates, is NIS 249 million.

C. The expiration dates of the derivatives issued by the MAOF Clearing House through the balance sheet date are up to the end of the year 2007.

D. The MAOF Clearing House has a Risk Fund having an amount of NIS 802 million as of December 31, 2006. The amount of the Risk Fund is updated every quarter in accordance with the rules determined in the by- laws of the MAOF Clearing House.

   The share of each member is determined according to the relationship between the average amount of the securities that he was required to place at the disposal of the Clearing House during the quarter and the amount of all of the securities which the members have been demanded to provide to the Clearing House during the quarter, multiplied by the amount of the Risk Fund, but not less than NIS 5 million, all as stipulated in the by- laws of the MAOF Clearing House.

   On January 15, 2007, the size of the Risk Fund was set at NIS 875 million.

NOTE 6 - RECEIVABLES AND PAYABLES WITH RESPECT TO OPEN DERIVATIVE POSITIONS (Cont.)

E. The members of the MAOF Clearing House provide the MAOF Clearing House with securities for the Risk Fund of the MAOF Clearing House. The members of the MAOF Clearing House also provide the MAOF Clearing House with securities for transactions in derivatives that are executed by them or under their responsibility. The securities include government bonds, which are deposited in special accounts of the Stock Exchange Clearing House, and/ or cash which is deposited in bank accounts. The members of the MAOF Clearing House have pledged all of the assets and rights in such accounts in favor of the MAOF Clearing House, all as stipulated in the by- laws of the MAOF Clearing House.

The total securities deposited in these accounts as of December 31, 2006 with respect to the aforesaid amounted to NIS 8,570 million.

NOTE 7 - ASSETS AND LIABILITIES WITH RESPECT TO SECURITIES THAT WERE NOT TRANSFERRED TO THE STOCK EXCHANGE CLEARING HOUSE ON A TIMELY BASIS

Commencing on January 1, 2006, Accounting Standard No. 22 of The Israeli Accounting Standards Board became effective regarding "Financial Instruments, Disclosure and Presentation". Upon this standard becoming effective, for the first time, receivable and payable balances with respect to securities that were not transferred to the Stock Exchange Clearing House on a timely basis are included in the financial statements. In accordance with the standard, the balances in the balance sheet as of December 31, 2005 were not adjusted retrospectively.

Additional information with regard to these balances and the relevant collateral:

A. The amounts in this section express the amount of the monetary value of the securities that were sold on the Stock Exchange or in the EURO MTS system (an European trading system in which the bonds of the State of Israel are traded), which are under the responsibility of the Stock Exchange Clearing House (being a Central Counter Party) and are not found in the clearing accounts of a member of the Clearing House on the date stipulated in the by- laws as the date of their transfer to the member who purchased them.

B. Cash with a monetary value of NIS 159 million was deposited into the bank accounts of the Clearing House in order to secure the aforementioned obligations of the members of the Clearing House.

C. The Stock Exchange Clearing House has a Risk Fund having an amount of NIS 622 million as of December 31, 2006. The amount of the Risk Fund is updated on March 1 of every year on the basis of the daily average clearing volume, as defined in the by- laws of the Clearing House, for the calendar year that ended prior to the time of the update, and, in any event, the Risk Fund may not be below the amount of NIS 150 million. The share in the Risk Fund of each member is determined on March 1 of each year according to the relationship between the clearing volume of the member during the calendar year that ended prior to the time of the update and between the amount of the clearance volume of all of the members (excluding the Bank of Israel) for the same period, all as stipulated in the by- laws of the Clearing House.

On March 1, 2007, the size of the Risk Fund was set at NIS 942 million.

(NIS in thousands)

NOTE 7 - ASSETS AND LIABILITIES WITH RESPECT TO SECURITIES THAT WERE NOT TRANSFERRED TO THE STOCK EXCHANGE CLEARING HOUSE ON A TIMELY BASIS (Cont.)

In the event that a member of the Clearing House does not comply with his obligations towards the Clearing House, as stipulated in the by- laws, the Clearing House is permitted to realize the securities given by him to the Risk Fund, as stipulated in the by- laws of the Clearing House. Should it not be possible to realize the securities of the member, in whole or in part, for any reason, or their realization by the Clearing House as aforementioned, was inadequate to cover the obligations of the member towards it, the Clearing House may realize the securities given by the other members of the Clearing House to the Risk Fund, on a relative basis to the share of each member in the Risk Fund.

The members of the Clearing House provide the Clearing House as security for the aforementioned Risk Fund, with their government bonds, which are deposited in special accounts of the Stock Exchange Clearing House, and/ or with cash which is deposited in bank accounts of the Clearing House. The members of the Clearing House have pledged all of the assets and rights in such accounts in favor of the Clearing House, all as stipulated in the by- laws of the Clearing House.

The total securities deposited in these accounts as of December 31, 2006 amounted to NIS 732 million.

NOTE 8 - RECEIVABLES AND OTHER CURRENT ASSETS

	Consolidated		Company	
	December 31,		December 31,	
Composition:	**2006**	**2005**	**2006**	**2005**
Income receivable	3,630	2,126	3,472	2,126
Prepaid expenses	765	2,600	765	2,600
Subsidiary	-	-	1,298	2,244
Governmental Institutions	-	779	-	779
Payments for income taxes less provisions	4,101	-	2,023	-
Advances and loans to employees (*)	2,516	2,725	2,516	2,725
Stock -exchange members	-	274	-	274
Other	287	68	141	68
	11,299	8,572	10,215	10,816

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

NOTE 9 - INVESTMENT IN A SUBSIDIARY

	Company	
	December 31,	
A. Composition:	**2006**	**2005**
Ma'of Clearing House Ltd and The TASE Clearing House Ltd . - wholly owned and controlled:		
Cost of investment	41,027	10,405
Retained earnings	50,752	41,487
	91,779	51,892

NOTE 9 - INVESTMENT IN A SUBSIDIARY (Cont.)

B. Additional information:

1. The principal business of the MAOF Clearing House is the issuance of options and futures contracts ("derivatives") and the rendering of clearance services for these derivatives.
The principal business of the Stock Exchange Clearing House is the clearance of securities, excluding derivatives, and the rendering of the services of a central depository for securities.

2. During the month of March 2005, the Board of Directors of the Company discussed a proposal to convert the Stock Exchange Clearing House from a limited liability corporation with no share capital into a company with share capital, and to change the ownership structure of the Clearing House so that the company will change from a company, the members of which are members of the Clearing House, to a company owned by the Stock Exchange.

During the year of 2005, the Board of Directors and the General Meeting of the Stock Exchange and of the Stock Exchange Clearing House approved the carrying out of the arrangement, pursuant to the terms of the program of the arrangement that was presented to them.

During the month of August 2006, the approval of the courts was received for the program of the arrangement between the Stock Exchange Clearing House and its members, in the context of which the Clearing House was converted from a limited liability corporation with no share capital into a company with share capital, this in accordance with Section 350 of The Companies Law.

During the month of September 2006, the Company acquired the shares of the Stock Exchange Clearing House from the various members of the Stock Exchange in consideration of the amount of NIS 622 thousand, and thus was converted to a company wholly owned by the Company. Following such acquisition, goodwill of approximately NIS 492 thousand was created, and it is being presented with other assets. Furthermore, in December 2006, the Company invested an additional amount of NIS 30 million in the share capital of the Stock Exchange Clearing House.

3. The making available of a credit line for the Stock Exchange Clearing House by the Stock Exchange

The General Meeting of the Stock Exchange, during the month of January 2004, approved the granting of a loan to the Stock Exchange Clearing House, in case the Stock Exchange Clearing House should need same in order to meet its liabilities. It was also decided to authorize a committee of the Board of Directors to determine the timing of giving the loan and also to establish the amount of the loan, not to exceed NIS 50 million. The loan will be made available at interest equivalent to the rate of interest collected by the Bank of Israel from the banks, except if it will be agreed otherwise between the Stock Exchange and the Clearing House. Since the approval was given during the month of January 2004 and through the date of approving the financial statements, no loan as aforesaid has been granted.

(NIS in thousands)

NOTE 10 - 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

	Consolidated and Company	
	December 31,	
	2006	2005
Cost	7,285	7,285
Earnings accumulated since acquisition, net	3,241	2,976
Dividends received	(6,026)	(5,748)
Accumulated amortization	(411)	(376)
Total	4,089	4,137

C. Excess cost allocated to real estate:

	Consolidated and Company	
	December 31,	
	2006	2005
Original amount	1,166	1,166
Accumulated amortization	(411)	(376)
	755	790

D. 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.

(NIS in thousands)

NOTE 11 - FIXED ASSETS

A. Composition and Movement:

	Consolidated and company				
	Computers systems (hardware & software) & auxiliary equipment	Equipment & systems	Motor vehicles	Leasehold improvements (mainly visitors center) (2)	Total
Cost					
Balance - January 1, 2006	(*)109,044	9,852	648	(*) 5,580	125,124
Additions during year (1)	18,358	286	-	40	18,684
Disposals during year	(3,485)	(339)	(119)	(3)	(3,946)
Balance - December 31, 2006	123,917	9,799	529	5,617	139,862
Accumulated depreciation					
Balance - January 1, 2006	(*) 88,087	9,495	285	(*)3,873	101,740
Depreciation for year	10,177	272	95	482	11,026
Disposals	(3,293)	(299)	(105)	(3)	(3,700)
Balance - December 31, 2006	94,971	9,468	275	4,352	109,066
Net book value					
December 31, 2006	28,946	331	254	1,265	30,796
December 31, 2005	20,957	357	363	1,707	23,384

(1) Includes wages and social benefits totaling NIS 4.9 million, which has been capitalized during the reported period (last year -2.7 million) also see Note 2.H(2).

(2) Includes electronic equipment and computers.

(*) Reclassified.

NOTE 12 - TRADE ACCOUNTS PAYABLE

	December 31,	
	2006	2005
Composition Consolidated and Company:		
Open accounts	10,545	6,959
Post-dated checks	397	43
	10,942	7,002

(NIS in thousands)

NOTE 13 - PAYABLES AND OTHER CURRENT LIABILITIES

	Consolidated		Company	
	December 31,		December 31,	
	2006	2005	2006	2005
Wages and social benefits (1)	21,507	15,097	21,507	15,097
Governmental Institutions	715	1,879	715	1,879
Provision for income taxes, net of advances	291	7,073	-	5,638
Clearing House members- payables for interest	779	-	-	-
Payables with regard to Ma'of Risk Fund	2,006	2,664	-	-
Deferred income taxes	620	140	-	-
Deferred income	62	369	62	369
Other payables and accrued expenses	418	370	418	370
Others	27	-	-	-
	26,425	27,592	22,702	23,353
(1) Includes:				
Vacation accrual	6,590	5,640	6,590	5,640
Accrued severance pay, net	-	900	-	900

NOTE 14 - ACCRUED SEVERANCE PAY, NET

A. Composition consolidated and company:

	December 31,	
	2006	2005
Severance -pay obligations	18,059	14,970
Less: amounts funded	(14,869)	(13,096)
	3,190	1,874
Pension liabilities	1,977	2,023
	5,167	3,897

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 pension funds and the liabilities they cover are not presented in the financial statements since they are not under the Company’s custody.

NOTE 14 - ACCRUED SEVERANCE PAY, NET (Cont.)

B. Additional information (Cont.)

(2) Part of the employees of the Group companies are members of a pension fund. The severance pay and pensions deposits with respect to these employees are deposited on a current basis in their names, in accordance with collective agreements, in a manner which releases the Company from the obligation to pay severance pay at the time of termination of the employee- employer relationships. The amounts deposited as above are included as a current expense in the statement of operations and no additional provisions are included for those employees that should be presented with liabilities.

(3) During the month of March 2006, the Board of Directors of the Stock Exchange resolved to appoint the former deputy to the CEO as the CEO, effective from June 2006, and during the month of December 2006, an employment agreement was signed under which the CEO is entitled, upon termination of the period of employment in the year of 2011, to an additional severance grant to the extent of one salary for each year of employment in the Company as CEO, this over and above the current amounts at accepted rates that are being deposited on her behalf in managers' insurance programs, and also to a grant in an amount equivalent to three monthly salaries. A provision was registered in the financial statements with respect to the relative cumulative period of entitlement from the date of such agreement and through the balance sheet date, for the aforementioned severance grants. Under certain circumstances of the termination of employment, the CEO is entitled to the above severance grants even prior to termination of the period of employment.

(4) During the month of March 2006, the Board of Directors of the Stock Exchange decided to appoint the previous CEO as the Chairman of the Board of Directors, in effect from the month of June 2006, and during the month of December 2006, an employment agreement with the Chairman of the Board of Directors was signed for a period of 5 years.
Pursuant to the agreement, the Chairman of the Board of Directors is entitled, upon termination of employment, on the condition that it will not take place prior to November 7, 2007, (except under certain circumstances when there would be eligibility prior to that date), to an additional severance grant to the extent of his last salary as CEO of the Stock Exchange (as defined in the agreement) for each year of employment in the Company through the month of May 2006 (the time of the appointment as the Chairman of the Board of Directors). A provision was recorded in the financial statements with respect to the relative cumulative period of entitlement through the balance sheet date. Under certain circumstances of termination of employment, before the end of the employment period and subsequent to November 7, 2007, or at its end, the Chairman of the Board of Directors is entitled to special severance vacation of three months.

(5) 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.

(6) 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.

(NIS in thousands)

NOTE 15 - CAPITAL NOTES

Composition Consolidated and Company:	Consolidated and company December 31, 2006	2005
The Tel Aviv Stock Exchange Clearing House Ltd.	-	2,600

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 9(B)2), capital notes were redeemed on January 1, 2006, and thus presented within current liabilities.

NOTE 16 - CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

A. 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 lease 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.

B. 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.

During the month of February 2004, the plaintiffs filed an appeal with the Supreme Court. In the course of the year 2004, the parties presented a summary of allegations. During the month of February 2007, a discussion was held on the appeal before the Supreme Court. A ruling on the appeal has not yet been handed down.

According to the company's legal counsels estimation, it is hard to foresee the results of an appeal that will be discussed in the superior court of law, all the more so in an appeal like this that binds a few innovative cases that haven’t been decided yet in this instance.

NOTE 16 - CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (Cont.)

B. (Cont.)

According to the aforesaid, the company's management opinion, 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.

C. On April 10, 2006, a claim was filed against the Stock Exchange and against a registration company of a bank, along with a request to approve it as a class action.

The subject of the claim in summary is that, the allegation (denied) of the claimant that the malfunction and negligence of the Stock Exchange, the registration and the Securities Authority (which was not sued by it for the reasons specified in the claim) led to a situation in which the controlling interests in the Orline Promotion and Investment Company Ltd. (hereafter "Orline") succeeded in carrying out a complex fraudulent act, at the end of which, approximately 9.8 million fictitious shares, which deviated from the amount of the issued, paid and approved capital for registration on the Stock Exchange, was recorded for trading on the Stock Exchange and actually sold to the public. The claimant alleges (also denied) that the tradability of these shares on the Stock Exchange caused various damages to him and the other members of the group which he wishes to represent that he approximates in a total amount of approximately NIS 18 million, derived primarily from the "plunge" in the value of the Orline shares and in their suspension from trading on the Stock Exchange.

On July 31, 2006 (after receiving the appropriate extensions), the response of the Stock Exchange to the request for approval as a class action was filed (and on the same day, the reaction of the registration company was also filed). In its response, the Stock Exchange made reference to the fact that the actions of the controlling interests in Orline in connection with the aforementioned alleged fraudulent act, was (as yet) under investigation of the Israeli police and the Securities Authority, and therefore, at this stage, the essential facts of the matter were as yet unclear. Accordingly, the Stock Exchange made a number of preliminary allegations in its response, according to which the outcome of the claimant's request to approve the claim as a class action should be rejected outright, among other things, because what he stated "was based" upon "facts" extracted (entirely) from newspaper information with regard to the above investigation. Furthermore, the Stock Exchange claimed in its response that the allegations of the claimant do not establish a legal basis and justification against it, that the fundamentals of the injustices that are alleged against it (breach of an established obligation and negligence) did not take place under the circumstances of the matter, and that the damages claimed are denied, and were unquestionably not caused by it for purposes of the "class action" allegation- the Stock Exchange replied in its response that the complaint does not comply with the conditions required in order that it be approved as a class action.

On November 30, 2006, the claimant filed its reply to the response of the Stock Exchange and to the response of the registration company, in the context of which the claimant reacted in accordance with the contents of the above reactions and even added and/ or changed various allegations in a manner which, in the opinion of the legal counsel of the Stock Exchange, deviates from what is permissible by law at this stage.

NOTE 16 - CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (Cont.)

C. (Cont.)

Accordingly, on February 1, 2007, the Stock Exchange and the registration company filed a request with the court to expunge sections of the declaration of the claimant, from its request to approve the complaint as a class action and from its reply to the responses of the Stock Exchange and of the registration company (hereafter: "the request to expunge part of the allegations of the claimant").

On February 13, 2007, an initial preliminary hearing on the case took place in the Tel Aviv District Court. At the end of the hearing, it was resolved that the claimant must respond in writing to the request to expunge part of the allegations of the claimant, that the Stock Exchange be allowed to present a written request to amend its response in a manner that an additional allegation will be added (as was raised in its oral allegation during the hearing, the substance of which is that the Stock Exchange complies with the definition of an "authority" for purposes of the Class Actions Law- 2006, and as such, it is not at all feasible to be sued in a class action), and that, at this stage, this is still not a situation in which, essentially, a date should be set for a hearing of the request to recognize the claim as a class action.

In accordance with the decision at the end of this hearing-

On March 5, 2007, the reaction (opposition) of the claimant to the request to expunge part of the allegations of the claimant was presented, and the legal counsel of the Stock Exchange is currently preparing a reply to that reaction.

On that same day (March 5, 2007), the Stock Exchange filed a request with the court to add an allegation to its response to the request to approve the claim as a class action, in the context of which it was alleged that the Stock Exchange cannot be sued in a class action under the circumstances, inter alia, due to its status as an "authority", as that term is defined in Section 3(A) of the Class Actions Law- 2006. The response of the claimant and/ or the registration company to this request has not yet been presented.

In the estimation of the management of the Company, on the basis of the assessment of its legal counsel, since the proceeding is still in such an early stage, it is not possible, due to the nature of the matter, to foresee the outcome.
The management of the Company approximates that the amount of and motive for the claim is covered in an appropriate insurance policy. No provision for the claim described above was included in the financial statements.

D. 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.

NOTE 17 - ADDITIONAL DETAILS PERTAINING TO COST OF SALES

Salaries and social benefits :

1. The 2006 expenses reflect an amortization of wages and social benefits associated with the development of computing systems in an amount of NIS 4.9m (2005- NIS 2.7m no expenses were capitalized during 2004).

2. A wage agreement was signed during the month of January 2007 that includes an update of wages, various additional payments and bonuses. Additionally, there was a subsequent update of the salary of those employees with personal contracts and the payment of bonuses for 2006 was approved. The salary expenses for the year 2006 include the aforementioned wage updates, including the effect of the updates on the obligations with respect to employee- employer relationships.

NOTE 18 - 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 19 - FINANCING INCOME, NET

	Consolidated Year ended December 31, 2006	 2005
Composition:		
Short-term borrowing -		
Bank fees and commissions	(1,064)	(428)
Interest tax income (expenses)	2	(213)
	(1,062)	(641)
Deposits, investments and others -		
Gain from marketable securities	10,534	12,306
Income from deposits	1,861	926
Income from interest of employees loans	27	27
	12,422	13,259
	11,360	12,618

	Company Year ended December 31, 2006	 2005
Composition:		
Short-term borrowing -		
Bank fees and commissions	(786)	(265)
Interest tax expenses	-	(213)
	(786)	(478)
Deposits, investments and others -		
Gain from marketable securities	7,386	7,872
Income from deposits	291	710
Income from interest of employees loans	27	27
	7,704	8,609
	6,918	8,131

(NIS in thousands)

NOTE 20 - INCOME TAXES

A. Income tax expenses

	Consolidated			Company		
	Year ended December 31,			Year ended December 31,		
	2006	2005	2004	2006	2005	2004
Current taxes	17,529	20,217	11,618	14,050	15,153	8,950
Prior years' taxes	2	165	472	-	165	449
Deferred taxes	480	140	-	-	-	-
	18,011	20,522	12,090	14,050	15,318	9,399

B. Relevant tax laws

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

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

	Consolidated		
	Year ended December 31,		
	2006	2005	2004
Pre-tax income	55,366	61,101	32,743
Tax computed by the ordinary tax rate	17,163	20,774	11,460
Increase (saving) in tax in respect of:			
Income taxable at special rates (including capital gain or loss)	(348)	(298)	(279)
Losses and benefits in respect of which no deferred taxes have been recorded	801	(447)	185
Utilization of prior years' losses and benefits in respect of which no deferred taxes have been recorded	-	(270)	-
Disallowed expenses	512	517	446
Differences in definition of capital and assets	(72)	81	(194)
Tax in respect of prior years	2	165	472
Others	(47)	-	-
Income taxes	18,011	20,522	12,090

	Company		
	Year ended December 31,		
	2006	2005	2004
Pre-tax income	42,140	44,167	23,443
Tax computed by the ordinary tax rate	13,063	15,017	8,205
Increase (saving) in tax in respect of:			
Income taxable at special rates (including capital gain or loss)	(264)	(192)	(206)
Losses and benefits in respect of which no deferred taxes have been recorded	811	(218)	691
Utilization of prior years' losses and benefits in respect of which no deferred taxes have been recorded	-	-	-
Disallowed expenses	512	517	446
Differences in definition of capital and assets	(72)	29	(186)
Tax in respect of prior years	-	165	449
Income taxes	14,050	15,318	9,399

(NIS in thousands)

NOTE 20 - INCOME TAXES (Cont.)

D. Tax assessments

The Company and its subsidiary- Ma'of Clearing House Ltd and The TASE Clearing House Ltd have received final tax assessments up to, and including, the 2002 tax -year.

E. According to the Law for Amending the Income Tax Ordinance (No. 147), 2005, the current 34% corporate-tax rate would be gradually reduced commence 2006 (corporate tax rate of 31%) up to tax rate of 25% in 2010 (tax rate of 29%, 27% and 26% for the 2007, 2008 and 2009 tax-years, respectively).

NOTE 21 - BALANCES OF AND TRANSACTIONS WITH RELATED PARTIES

A. Balances with interested and related parties:

	Consolidated		Company	
	December 31,		December 31,	
	2006	2005	2006	2005
In current assets (1)				
Cash and cash equivalents	1,842	3,411	1,322	3,411
Receivables and other current assets	-	-	1,298	2,244
In investments:				
In an affiliate	4,089	4,137	4,089	4,137
In a subsidiary	-	-	91,779	51,892
In current liabilities:				
Payables and other current liabilities - Ma'of Clearing members	2,033	2,664	-	-
Capital notes (2)	-	2,600	-	2,600

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

B. Transactions with interested and related parties

	Consolidated			Company		
	December 31,			December 31,		
	2006	2005	2004	2006	2005	2004
Revenues						
Commissions from trade and clearing	90,839	86,342	72,443	61,657	54,095	46,274
Securities registration and annual fees	174	140	252	174	140	252
Clearing services for the Clearing House members (*)	4,449	4,363	3,847	4,449	4,346	3,829
Distribution of trade data as well as other data	9,932	8,470	6,660	9,932	8,470	6,660
Other	615	603	440	615	603	440
Cost of revenues						
Rental fees	2,885	2,804	2,780	2,885	2,804	2,780
Participation in expenses by the Ma'of Clearing House (**)	28,547	30,985	28,149	28,547	30,985	28,149

(*) Comparative figures where restated
(**) See Note 18.

(NIS in thousands)

NOTE 21 - BALANCES OF AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

C. Benefits to interested parties

	Consolidated		
	December 31,		
	2006	2005	2004
Salary and social benefits to the CEO and Chairman of the Board	4,316	3,763	3,125
Number of people	(*)3	2	2
Fees of non-employed directors	386	183	182
Number of people	8	8	9

(*) As from June 1, 2006 the previous CEO of the stock exchange serves as the chairman of the Board of Directors , and as from that date a new CEO was appointed.

D. Additional information pertaining to interested parties:

1. The Company and the subsidiaries have financing income and expenses from transactions with interested parties that are banks and other Stock Exchange members, which result from transactions executed in the ordinary course of business. These amounts are, for the most part, derived from the placing of deposits with banks, administering current accounts and managing securities portfolios, and are included in the framework of "financing income, net".

2. As for the establishment of a credit line for the Tel Aviv Stock Exchange Clearing House Ltd. - see Note 9(B)3.

3. As for the ownership change of Tel Aviv Stock Exchange Clearing House Ltd. - see Note 9(B)2.

NOTE 22 - FINANCIAL INSTRUMENTS

A. Purposes and policies of risks management:

The Stock Exchange's operations expose it to risks connected with various financial instruments, and primarily, market risk and credit risk, as described below. According to the comprehensive risk management policy, the group is focused in activities to diminish into minimum the various risks that the group is exposed to in its activities.

Management of credit risks- as they relate to risks of the Clearing Houses- is executed by the director of trading and Clearing Houses, pursuant to the articles of association of the Stock Exchange and the by- laws of the Clearing Houses, and management of market risks is executed by the CFO of the Stock Exchange, all in accordance with the policies approved by the Board of Directors.

Market risk:

The Group has investments in marketable financial assets, and, principally, securities that are traded on the Stock Exchange. The Group has exposure due to changes in the fair value of these financial instruments as the result of changes in their market prices.

(NIS in thousands)

NOTE 22 - FINANCIAL INSTRUMENTS (Cont.)

A. Purposes and policies of risks management (Cont.):

Credit risk:

The operations of the Stock Exchange Clearing House and the MAOF Clearing House expose the Group to credit risks that are derived from the fact that a member of the Clearing House who is party to transactions executed on the Stock Exchange will be unable to abide by them.

In order to diminish these credit risks, law amendments have been enacted which are expressed by steps to increase the stability of the clearing houses. Moreover, the members of the clearing houses deposit collateral for the purpose of limiting the exposure of the Clearing Houses, and, in addition, risks funds were established in order to insure the Clearing Houses against non-compliance of the members with their obligations, as described in Notes 6 and 7 above.

B. Fair value of financial instruments

The financial instruments of the Group mainly include cash and cash equivalents, deposits, marketable securities, trade receivables, other current assets, trade payables, other current liabilities, receivables and payables with respect to securities not transferred to the Stock Exchange Clearing House on a timely basis, and assets and liabilities with respect to open derivative positions.
Due to their nature, the balances in the December 31, 2006 balance sheet of the Group's financial instruments are close to their fair value.

C. Linkage terms of monetary balances - December 31, 2006:

	Consolidated balance sheet:				
	Linked to the CPI	Linked to foreign currency	Unlinked: Interest-bearing	Unlinked: Non-interest bearing	Total
Assets:					
Cash and cash equivalents	-	-	-	26,145	26,145
Marketable securities	63,013	4,019	74,968	29,535	171,535
Trade accounts receivable	-	-	-	1,420	1,420
Receivables with respect to open MAOF positions	-	-	-	329,499	329,499
Assets derived from securities not transferred to the Stock Exchange Clearing House on a timely basis.	-	-	-	143,001	143,001
Receivables and other current assets	-	51	-	11,248	11,299
	63,013	4,070	74,968	540,848	682,899
Liabilities:					
Trade accounts payable	-	-	-	10,942	10,942
Payables with respect to open derivative positions	-	-	-	329,499	329,499
Liabilities with respect to securities not transferred to the Stock Exchange Clearing House on a timely basis.	-	-	-	143,001	143,001
Payables and other current liabilities	-	-	-	26,425	26,425
	-	-	-	509,867	509,867
Excess assets over liabilities (excess liabilities over assets)	63,013	4,070	74,968	30,981	173,032

(NIS in thousands)

NOTE 22 - FINANCIAL INSTRUMENTS (Cont.)

C. Linkage terms of monetary balances - December 31, 2006:

Company balance sheet:

	Linked to the CPI	Linked to foreign currency	Unlinked: Interest-bearing	Unlinked: Non-interest bearing	Total
Assets:					
Cash and cash equivalents	-	-	-	16,548	16,548
Marketable securities	29,153	2,536	40,261	15,256	87,206
Trade accounts receivable	-	-	-	1,420	1,420
Receivables and other current assets	-	-	-	10,556	10,556
	29,153	2,536	40,261	43,780	115,730
Liabilities:					
Trade accounts payable	-	-	-	10,942	10,942
Payables and other current liabilities	-	-	-	22,702	22,702
				33,644	33,644
Excess assets over liabilities (excess liabilities over assets)	29,153	2,536	40,261	10,136	82,086

NOTE 23 - NOMINAL FINANCIAL STATEMENT DATA FOR TAX PURPOSES - COMPANY

A. Balance sheets

	December 31, 2006	December 31, 2005
Current assets		
Cash and cash equivalents	16,548	12,372
Marketable securities	87,206	98,821
Trade accounts receivable	1,420	1,087
Receivables and other current assets	10,215	10,816
	115,389	123,096
Investments		
Subsidiary	91,777	51,888
Affiliate	3,401	3,400
	95,178	55,288
Fixed assets, net	30,773	23,370
	241,340	201,754
Current liabilities		
Trade accounts payable	10,942	7,002
Payables and other current liabilities	22,702	23,353
Capital note	-	2,600
	33,644	32,955
Long-term liabilities		
Accrued severance pay, net	5,167	3,897
Shareholders' equity	202,529	164,902
	241,340	201,754

(NIS in thousands)

NOTE 23 - NOMINAL FINANCIAL STATEMENT DATA FOR TAX PURPOSES - COMPANY (CONT.)

B. Statements of operation:

	Year ended December 31,		
	2006	2005	2004
Revenues			
Trading and clearing commissions	67,259	62,593	53,073
Securities registration and annual fees	34,896	28,575	20,726
Clearing House services for the TASE members and for public companies	15,198	12,761	10,121
Presentation of trade as well as other data	24,762	20,442	16,980
Other	3,050	1,741	967
	145,165	126,112	101,867
Cost of revenues			
Salaries and employees' benefits	81,666	71,984	66,807
IT and communication expenses	15,528	11,705	11,794
Rent, municipal taxes and building maintenance	9,462	9,121	8,015
General and administrative expenses	13,677	10,763	8,962
Fee to Israeli Securities Authority	7,078	7,306	7,243
Depreciation	11,035	10,208	8,695
	138,446	121,087	111,516
Participation in expenses by the Ma'of Clearing House Ltd.	(28,547)	(30,985)	(28,149)
	109,899	90,102	83,367
Operating income before net financing	35,266	36,010	18,500
Financing income, net	6,918	8,131	5,004
Operating income after net financing	42,184	44,141	23,504
Other income (expenses), net	(53)	93	128
Pre-tax income	42,131	44,234	23,632
Income taxes	14,050	15,318	9,399
Income after income taxes	28,081	28,916	14,233
Company's share in earnings of investees, net	9,544	12,024	6,883
Net income for the year	37,625	40,940	21,116