KARDAN N.V.
AMSTERDAM, THE NEDERLANDS

Condensed Interim Consolidated Financial Statements
As of June 30, 2006

CONTENTS

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

A s s e t s

	June 30, 2006	December 31, 2005
	$'000	$'000
Non-current assets		
Property, plant and equipment	36,636	30,023
Real Estate under construction	128,192	155,966
Investment properties	992,251	759,548
Intangible assets	110,565	86,415
Investment in associates	107,520	92,773
Available-for-sale financial assets	55,726	45,609
Long-term receivables	79,940	59,309
Deferred acquisition costs (insurance companies)	7,167	12,485
Deferred tax assets	5,125	5,506
	1,523,122	1,247,634
Current assets		
Inventories and contract work and nuldings inventory in progress	99,944	58,908
Current maturities of long-term loans and receivables	75,701	75,657
Loans to bank customers	133,924	-
Trade receivable	39,826	31,208
Other receivables and prepayments	52,430	85,858
Insurance premium receivables	16,939	17,909
Reinsurance premium receivables	20,972	16,762
Short-term investments	47,333	48,661
Cash and cash equivalents	467,309	185,974
	954,378	520,937
Assets held for sale	47,983	-
Total assets	2,525,483	1,768,571

The accompanying notes are an integral part of these financial statements

Equity and liabilities

	June 30, 2006	December 31, 2005
	$'000	$'000
Equity attributable to equity holders of the parent		
Issued capital	18,972	15,717
Share premium	201,424	92,670
Foreign currency translation reserve	9,072	(5,736)
Net unrealized gains and revaluation reserve	50,649	51,501
Retained earnings	44,067	6,765
	324,184	160,917
Minority Interest	570,389	353,361
Total equity	894,573	514,278
Non-current liabilities		
Interest-bearing loans and borrowings	726,151	584,433
Other long-term liabilities	5,498	12,636
Warrants and options	131,179	39,713
Convertible debentures	57,784	93,870
Debentures	107,723	101,350
Insurance provisions	106,459	119,176
Deferred income tax liabilities	71,355	46,285
Accrued severance pay, net	1,362	1,386
	1,207,511	998,849
Current liabilities		
Due to customers for contract work	11,124	5,267
Advance from customers in respect of contracts	13,737	21,519
Banking customers accounts	85,272	-
Other payables and accrued expenses	80,558	81,217
Trade payables	38,953	36,007
Interest-bearing loans and borrowings	145,972	111,434
	375,616	255,444
Liabilities held for sale	47,783	-
Total liabilities	1,630,910	1,254,293
Total equity and liabilities	2,525,483	1,768,571

The accompanying notes are an integral part of these financial statements

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

	Six months ended June 30,		Three months ended June 30,	
	2006	2005	**2006**	2005
	$'000	$'000	$'000	$'000
Revenues				
Sales and services	30,282	29,150	14,980	14,321
Contract revenues	38,211	28,179	22,448	13,915
Insurance activities	44,322	71,444	21,349	36,968
Financing activities	9,994	6,221	5,093	3,386
Rental revenues	42,852	32,355	22,062	17,635
Equity in net earnings of associated companies	2,856	5,556	604	2,320
Management fees	667	530	252	323
Gain on issuance of shares in associated companies and subsidiaries to third parties	47,823	17,636	(499)	10,531
Net adjustment to fair value of investment properties	138,336	41,114	38,539	(440)
Gain on disposal of assets and other income	10,124	9,832	9,507	743
	365,467	242,017	134,335	99,702
Expenses				
Cost of sales and services	23,948	21,838	11,789	8,576
Contract costs	28,238	19,716	16,790	9,349
Operating expenses of insurance activities	46,667	68,234	23,072	34,920
Costs of financing activities	8,226	4,313	4,362	2,237
Costs of rental operations	11,185	8,567	5,394	2,776
Selling and marketing expenses	8,623	6,805	4,477	3,810
General and administration expenses	29,905	16,436	18,788	6,371
Financing expenses	31,770	19,821	22,603	9,550
Financing income	(19,261)	(6,754)	(14,256)	(5,051)
Net adjustment to fair value of options	38,120	3,055	(415)	282
Other expenses, net	1,037	325	(38)	(164)
	208,458	162,356	92,566	72,656
Net profit before income taxes	157,009	79,661	41,769	27,046
Income taxes	31,950	13,518	11,360	4,682
Net profit for the year	125,059	66,143	30,409	22,364
Attributable to:				
Equity holders	38,269	29,922	7,777	17,012
Minority interest holders	86,790	36,221	22,632	5,352
	125,059	66,143	30,409	22,364
Earnings per share				
Basic	0.54	0.48	0.10	0.27
Diluted	0.52	0.43	0.02	0.25

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						Minority	Total
	Issued and paid-in capital	Share premium	Net unrealized gains and revaluation reserve	Foreign currency translation reserve	Retained earnings	Total	interests	equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at January 1, 2005	16,922	75,644	17,019	4,482	(9,720)	104,347	351,031	455,378
Change in fair value of hedge instrument	-	-	(60)	-	-	(60)	(199)	(259)
Currency translation differences	-	-	-	(12,457)	-	(12,457)	(16,046)	(28,503)
Change due to issuance of shares in subsidiaries/acquisition of subsidiaries	-	-	-	-	-	-	3,261	3,261
Profit/ (loss) from marketable securities	-	-	(725)	-	-	(725)	(2,421)	(3,146)
Realization of capital reserves	-	-	(513)	603	-	90	-	90
Total income and expense for the period recognized directly in equity	-	-	(1,298)	(11,854)	-	(13,152)	(15,405)	(28,557)
Net profit for the period	-	-	-	-	29,922	29,922	36,221	66,143
Total income /expense for the period	-	-	(1,298)	(11,854)	29,922	16,770	20,816	37,586
Issuance of shares (from exercise of warrant, options and conversion of debentures)	302	2,976	-	-	-	3,278	-	3,278
Share based payment	-	567	-	-	-	567	960	1,527
Dividend distributed	-	-	-	-	-	-	(3,200)	(3,200)
Balance at June 30, 2005	17,224	79,187	15,721	(7,372)	20,202	124,962	369,607	494,569

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CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent						Minority	Total
	Issued and paid-in capital	Share premium	Net unrealized gains and revaluatio n reserve	Foreign currency translatio n reserve	Retained earnings	Total	interests	equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at January 1, 2006	15,717	92,670	51,501	(5,736)	6,765	160,917	353,361	514,278
Change in fair value of hedge instrument	-	-	150	-	-	150	240	390
Currency translation differences	-	-	-	14,808	-	14,808	12,425	27,233
Change due to issuance of shares in subsidiaries/acquisition of subsidiaries	-	-	-	-	-	-	116,846	116,846
Profit/ (loss) from marketable securities	-	-	(1,002)	-	-	(1,002)	-	(1,002)
Put option granted to minority shareholders in subsidiaries	-	-	-	-	(967)	(967)	(2,391)	(3,358)
Total income and expense for the period recognized directly in equity	-	-	(852)	14,808	(967)	12,989	127,120	140,109
Net profit for the period	-	-	-	-	38,269	38,269	(*) 88,410	126,679
Total income /expense for the period	-	-	(852)	14,808	37,302	51,258	215,530	266,788
Issuance of shares	2,887	99,613	-	-	-	102,500	-	102,500
Exercise of warrants	368	8,847	-	-	-	9,215	-	9,215
Sale of shares held by subsidiary	-	294	-	-	-	294	-	294
Share based payment	-	-	-	-	-	-	1,498	1,498
Balance at June 30, 2006	18,972	201,424	50,649	9,072	44,067	324,184	570,389	894,573

(*) Additional loss of USD 1,620 thousand was reclassified to other receivables

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CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT
For the six months ended

	June 30, 2006	June 30, 2005
	$'000	$'000
Cash flow from operating activities		
Net profit before taxes on income	157,009	79,661
Adjustment to reconcile net loss to net cash		
Charges/(credits) to profit not affecting operating cash flows:		
• Equity earning of associated companies	(2,856)	(5,556)
• Dividend received from associated companies	1,435	3,833
• Gain on issuance of shares in associated companies and subsidiaries to third parties, net	(47,806)	(18,239)
• Gain on disposal of investments in companies, property, plant and equipment and investment properties, net	(5,646)	(28)
• Impairment of investments	-	325
• Share based payment and share appreciation rights	1,498	1,527
• Depreciation and amortization	1,473	4,055
• Fair value adjustments of investment properties	(138,336)	(41,114)
• Exchange differences, net	13,137	6,027
• Change in fair value of options and share appreciation rights	42,685	2,124
• Decrease (increase) in fair value of securities held for trading and hedge instruments, net	(3,930)	(118)
• Increase in accrued severance pay, net	(142)	(177)
Adjusted net profit	18,520	32,320
Changes in operating assets and liabilities		
• Change in insurance provisions and deferred acquisition costs, net	16,702	(4,371)
• Change in outstanding insurance premiums, reinsurance receivables and insurance companies	(13,057)	21,586
• Change in trade and other receivables	(1,069)	(24,014)
• Change in inventories and in contract work in progress, net of advances from customers	(18,337)	826
• Change in trade and other payables	(18,205)	(17,531)
• Change in long-term payables	323	-
Net cash (used in) generated from operations	(15,123)	8,816
Interest paid	(14,974)	-
Income taxes paid	(694)	(3,246)
Net cash (used in) provided by operating activities	(30,791)	5,570

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CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONT.)

	June 30, 2006	June 30, 2005
	$'000	$'000
Cash flow from investing activities		
Acquisition of property, plant and equipment and investment properties, net	(55,249)	(67,306)
Investments in companies and partnerships	(33,306)	(1,945)
Collecting (granting) of loans to associated companies, net	1,317	(1,378)
Lease origination costs	(112)	(833)
Proceeds from disposal of property, plant and equipment and investment properties	-	378
Granting of long-term loans	(51,828)	(42,433)
Collecting of long-term loans and receivables	29,176	21,530
Change in short-term investments	(6,800)	(28,266)
Acquisition of newly-consolidated subsidiaries, net of cash acquired (see A below)	(37,316)	712
Increase in cash resulting from sale of investments in formerly consolidated subsidiaries (see B below)	47,299	-
Increase in cash resulting from sale of investments in formerly proportionately consolidated subsidiaries (see C below)	30,080	15,268
Income tax paid	11,808	-
Change in other assets	(328)	-
Net cash used in investing activities	(65,258)	(104,273)
Cash flows from financing activities		
Proceeds from exercise of warrants and issuance of Company's shares	102,868	3,022
Proceeds from issuance of shares to minority shareholders of subsidiaries, net	152,450	6,999
Proceeds from exercise of warrants to convertible debentures of subsidiary, net	-	3,278
Treasury shares sold	294	-
Dividend to minority shareholders in subsidiaries	-	(3,200)
Issuance of debentures	2,382	83,946
Change in deposits from tenants	285	200
Repayment of debentures	(22,673)	(20,503)
Receipts of long-term loans	189,099	117,501
Repayment of long-term loans	(36,438)	(48,026)
Costs related to issuance of debt and shares	(361)	-
Purchase of option rights	(588)	-
Change in short-term loans and borrowings, net	(6,888)	(15,907)
Net cash provided by financing activities	380,430	127,310

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CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONT.)

	June 30, 2006	June 30, 2005
	$'000	$'000
Foreign exchange differences relating to cash and cash equivalents	3,060	1,491
Increase in cash and cash equivalents	287,441	30,098
Cash and cash equivalents at the beginning of the period	185,974	203,872
Cash in disposal group	6,106	-
Cash and cash equivalents at end of the period	467,309	233,970

A. Acquisition of newly-consolidated subsidiaries, net of cash acquired

Assets and liabilities of subsidiaries as of date of consolidation:

Working capital (including cash)	(24,660)	4,454
Non-current assets	(29,691)	(501)
Goodwill on acquisition	(17,289)	(3,605)
Non-current liabilities	7,214	-
Minority interest	428	(1,985)
Total purchase price	(63,997)	(1,637)
Cash of subsidiaries acquired	9,286	2,349
Payable on account of investment	2,540	-
Reclassification from investment in associates	14,855	-
Cash used in acquisition, net of cash acquired	(37,316)	712

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CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONT.)

	June 30, 2006	June 30, 2005
	$'000	$'000
B. Increase in cash resulting from sale of investment in formerly consolidated subsidiary		
Working capital (including cash)	1,850	-
Non-current assets	88,163	-
Non-current liabilities	(41,240)	-
Gain on disposal of investments	1,672	-
Total consideration	50,445	-
Cash of subsidiary which ceased to be consolidated	(1,326)	-
Change in capital reserves	(1,820)	-
Cash flows from disposal, net of cash disposed	47,299	-
C. Increase in cash resulting from sale of investment in formerly proportionately consolidated subsidiary		
Working capital (including cash)	(22,411)	6,202
Non-current assets	13,936	39,948
Goodwill	(16,429)	-
Non-current liabilities	(28,548)	(32,011)
Minority interest	(10,024)	(3,381)
Gain on disposal of investments	-	11,555
Total consideration	(63,477)	22,313
Cash of subsidiary which ceased to be consolidated	20,225	(7,046)
Payable on account of investment	69,246	-
Release of long-term payable	4,085	-
Cash flows from disposal, net of cash disposed	30,080	15,267
Material non-cash transactions		
Purchase of real estate under construction against payable	15,291	999
Conversion of debentures into Company's shares	8,847	-
Asquisition of shares in subsidiary against issuance of shares of another subsidiary	-	1,922

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL - STATEMENTS
June 30, 2006

1. Corporate information

Kardan N.V. ('the Company') having its legal seat in Amsterdam, The Netherlands, was incorporated on May 2, 2003, and acts as an investment company engaged in development of real estate, insurance and pension, infrastructure, technology and communications and consumer goods through its subsidiaries and associated companies. The registered office address of the Company is located at Prins Hendriklaan 52, Amsterdam.
The Company's shares are traded on the Euronext Amsterdam and on the Tel Aviv Stock Exchange ('TASE').

2. Basis of presentation and preparation

Basis of preparation

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 as defined by the International Accounting Standards Board to be used for the preparation of the interim consolidated financial statements.

The condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year 2005.

For the consolidated financial statements for the period ended on June 30, 2006 the Company applied the same accounting principles and methods of computation as compared with the consolidated financial statements for the year 2005.

Changes in accounting standards

With effect from January 1, 2006, the IASB revised existing International Accounting Standards and published the following standards and interpretations:

- IAS 1 "Presentation of Financial Statements";
- IAS 19 "Employees Benefits";
- IAS 21 "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 "Financial Instruments: Recognition and Measurement";
- IFRS 6 "Exploration for and Evaluation of Mineral Resources";
- IFRIC 4 "Determining Whether an Arrangement Contains a Lease";
- IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds"; and
- IFRIC 6 "Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment".

The Company reviewed the new standards and the changes to the existing standards and estimates that they do not have a significant impact of the Company's condensed interim consolidated financial statements as of June 30, 2006.

In addition, the IASB also issued new standards and interpretations which will be effective in subsequent financial years as follows:

- IFRS 7 “Financial Instruments: Disclosures”;
- IFRIC 7 “Financial Reporting in Hyperinflationary Economies”;
- IFRIC 8 “Scope of IFRS 2”;
- IFRIC 9 “Reassessment of Embedded Derivatives”; and
- IFRIC 10 “Interim Financial Report and Impairment”.

The Company estimates that the implementation of the new standards will not have a material impact on its financial position and results in the future. The adoption of IFRS 7 could result in a change in the disclosure of financial instruments in the year beginning on January 1, 2007.

In July 2006 the IFRIC published a clarification to IAS 32 with respect to puts and forwards held by minority interests. Accordingly, a parent must recognise a financial liability when it has an obligation to pay cash in the future to purchase the minority’s shares, even if the payment is conditional on the option being exercised by the holder. After initial recognition any liability to which IFRS 3 is not applied will be accounted for in accordance with IAS 39. The parent will reclassify the liability to equity if a put expires unexercised.
The Company has accounted for put options in accordance with the above-mentioned guidance.

Following are the representative exchange rates of the EUR and NIS in relation to the USD and the Israeli Consumer Price Index (CPI) in points:

	EUR	**NIS**	**CPI**
June 30, 2006	0.787	4.440	187.9
June 30, 2005	0.823	4.574	181.6
December 31, 2005	0.848	4.603	185.1
Change in June 2006 (6 months)	(7.2%)	(3.5%)	1.5%
Change in June 2006 (3 months)	(4.5%)	(4.8%)	1.0%
Change in June 2005 (6 months)	12.1%	6.2%	0.6%
Change in June 2005 (3 months)	6.6%	4.9%	1.1%
Change in 2005	15.1%	6.8%	2.4%

3. Segment information

	Real estate $'000	Financial services $'000	Infrastructure $'000	Automotive & Consumer goods $'000	Communications & technology $'000	Other $'000	Adjustments (1) $'000	Total (2) $'000
For the six months ended June 30, 2006								
Segment Revenues	252,136	61,186	38,280	11,646	1,102	1,117	-	365,467
Segment Results	205,149	1,713	2,245	2,574	813	(295)	(4,561)	207,638
For the three months ended June 30, 2006								
Segment Revenues	74,209	31,767	22,455	4,458	867	579	-	134,335
Segment Results	47,379	2,233	1,540	139	707	54	(2,351)	49,701
For the six months ended June 30, 2005								
Segment Revenues	89,173	95,558	28,290	13,386	9,795	5,815	-	242,017
Segment Results	62,292	17,090	1,830	5,557	9,057	4,479	(4,522)	95,783
For the three months ended June 30, 2005								
Segment Revenues	25,346	48,278	13,985	6,172	548	5,373	-	99,702
Segment Results	16,186	7,541	1,281	2,572	282	4,743	(778)	31,827

(1) Unallocated expenses

(2) Excludes financing income and expenses

4. Share capital

A. Composition

	June 30, 2006		December 31, 2005	
	Authorized	Issued and Paid-in	Authorized	Issued and Paid-in
	Number of shares		Number of shares	
Ordinary shares with nominal value of EUR 0.20 each	225,000,000	79,564,021	225,000,000	66,615,480

B. Changes in share capital:

During the period in review the holders of warrants route 1 and other options of the Company exercised their warrants into 1,493,541 ordinary shares of the Company. As a result the share capital and share premium of the Company increased by USD 368 thousand and USD 8,847 thousand, respectively.

In May 2006, the Company completed a share offering to investors in Europe. The Company issued 11,455,000 ordinary shares and raised EUR 83 million. The offering contributed USD 103 million to the Company's equity after fees, costs and expenses.

In May 2006 Kardan Israel sold 28,511 ordinary shares of the Company that it held in consideration for USD 294 thousand. Following the sale Kardan Israel holds 136,487 ordinary shares of the Company. The amount is presented as an addition to the Company's share premium.

5. Significant transactions

<u>Real Estate</u>

A. In March 2006 GTC S.A. successfully completed the issuance of 1,712,000 new shares at a price of PLN 285 per share (USD 87.4). The newly issued shares constitute approximately 7.9% of the share capital of GTC S.A. As a result of the issuance the Company's indirect holding in GTC S.A. was reduced to 29.8% and the Company recorded a gain of approximately USD 41.5 million (USD 26.1 million after minority interests).

B. In March 2006, GTC S.A. has granted certain key management personnel a total of 200,000 "Phantom Shares" that may be exercised in several tranches during the years 2007-2010 (subject to vesting period). The Phantom Shares grant the entitled persons a right for a settlement from GTC S.A. in the amount equal to the difference between the average closing price for GTC S.A.'s shares on the Warsaw Stock Exchange during the 30–day period prior to the date of delivery of the exercise notice and PLN 225 per share (adjustable for dividend). GTC S.A. may alternatively settle in the form of cash. As of the granting date the average fair value of the share options amounts to USD 28 per option. The settlement of the Phantom Shares (cash or equity) is in the discretion of the shareholders of GTC S.A.

   Phantom Shares expenses have been provided for assuming equity payments will be made in accordance with IFRS 2.

   In addition the Supervisory Board of GTC S.A. has granted certain employees the right to purchase 21,000 GTC S.A.'s shares for their nominal value in two equal tranches in May 2006 and 2007. The vesting conditions for all share-based payments require from the persons entitled to those instruments to remain as key management personnel.

   The total share-based payment expenses are presented on the face of the income statement.

   Following the granting of such options the Company's indirect interest in GTC S.A. under assumption of full dilution, is expected to decrease to 28.3%.

   The Company continues to consolidate the financial statements of GTC S.A. in its financial statements as it considers having effective control over the operations of GTC S.A.

C. On May 1, 2006 GTC S.A. has entered into agreement with the chairman of its supervisory board, Mr. Alroy and AYRAD, a company under his control (together 'Alroy'). The agreement supersedes the agreement between the Company (as a successor of GTC International B.V.) and Alroy dated March 8, 2004. Following are the main changes in the new agreement:

   i. The mechanism for calculation of annual bonus
   ii. In the event that GTC S.A. undertakes any investment through a new subsidiary, Alroy is entitled to acquire shares in such subsidiary in an amount equal to 5% of the combined holding of GTC S.A.
   iii. GTC S.A. granted Alroy a Put Option to sell to GTC S.A. any or all of his shares in GTC S.A.'s subsidiaries within 12 months following the termination of Alroy's relationship with such subsidiary. Alroy granted GTC S.A. a Call

Option to buy any or all of his shares in such subsidiaries within 30 days following the expiration of the above-mentioned Put Option. The exercise price of the options shall be the fair value of the shares being transferred, as of the date of the Put or Call exercise notice.

The Company considers the combination of existing shares and the put options thereon to be share appreciation rights and recognized a financial liability under the above contract at its fair value, amounting to USD 13 million as of June 30, 2006. The impact on the Company's net profit for the six month period ended on June 30, 2006 amounted to USD 9.6 million, classifies as personnel expenses, and is included in the general and administrative expenses in the Company's consolidated income statement. An amount of USD 3.4 million was charged directly to the Group's equity.

Any subsequent re-measurement of financial liability will be accounted for through the profit and loss account.

The main assumptions applied in determining the fair value of the financial liability were as follows:

In determining the fair value of the financial liability management have estimated the expected fair value of each project taking into account the current development of the project using market information and management judgment based on past experience within all subsidiaries in which Alroy has a minority shareholding.

Buildings classified as investment properties were valued based on recent valuations of the assets carried out by an independent valuer.
Projects under construction, designated for commercial projects and land plots were revalued based on market information, using the management's assessment, taking into consideration the current stage of the project.
Residential projects were revalued based on the capitalization of the estimated future profits from each specific project.

D. During the first six months of 2006 the Group completed the construction of America House, a 26,000 sq.m class A office building located in the centre of Bucharest, Topaz building, an 11,000 sq.m office building in Warsaw, and Center Point II, a 23,000 sq.m office building in Budapest. The value of the buildings was adjusted to their fair values, which substantially comprise the fair value adjustments in the reported period.

E. In December 2005 GTC S.A. has signed a conditional preliminary share purchase agreement for the sale of 50% in the subsidiary holding Galeria Kazimierz shopping centre. On April 28, 2006 the final share purchase agreement was concluded between the parties and the transaction was completed. As of June 30, 2006 the assets and liabilities of the subsidiary are proportionately consolidated. As a result, the Company recognized a gain of USD 1.7 million (before income taxes and minority interests).

F. In April 2006 a Group company has signed an agreement for the acquisition of an 80% interest in Durango Switzerland B.V. which purchased a real estate portfolio comprising 9 office properties in Switzerland. The properties are quality office buildings situated in major cities throughout Switzerland: Bern, Zurich, Fribourg, Neuchatel and others. The majority of the properties are let to Swisscom. The total consideration for the real estate portfolio amounts to approximately CHF 96.4 million (USD 73 million) including acquisition costs. Approximately CHF 80 million (USD 61.7 million) of the total consideration will be financed through a bank loan.

G. In June 2006 Ocif Emed Properties Ltd. (‘the Joint Company’) has acquired 50% of the shares of Emed Real Estate Development and Investments Ltd. (‘Emed’) in consideration for USD 79 million.

The Joint Company is 30% held by Kardan Israel. Kardan Israel’s stake in financing the investment amounted to USD 24 million. The excess of cost over the carrying value of the investment resulted from transaction amounted to USD 59 million, of which Kardan Israel’s stake is 30%.

Emed is engaged in real estate activities in Israel and also holds a 54% equity stake in Dan Vehicle and Transportation Ltd., which is active in the fields of car rental and operational leasing.

H. During the first six months of 2006 certain warrants issued by GTC RE were exercised and certain debentures were converted into ordinary shares of GTC RE. As a result the Company’s direct and indirect interest in GTC RE decreased from 69.1% to 61.9% and the Company realized a dilution gain of approximately USD 6.4 million.

Subsequent to the balance sheet date and until the date of these financial statements the Company purchased 654 thousand of GTC RE shares in consideration of USD 4.2 million and additional warrants were exercised and debentures were converted. The Company’s interest in GTC RE increased to 62.8%. The Company estimates that the changes in holding will not have a significant impact on its financial results.

I. During the second quarter of 2006 the Company purchased NIS 54,112,450 par value convertible debentures of GTC RE in consideration for approximately USD 22.7 million.

In accordance with IAS 32, the Company accounted for the purchase, at consolidated level, as early repayment of the debentures and recorded a USD 3.8 thousand loss from early repayment.

Subsequent to the balance sheet date the Company purchased additional NIS 34,207,928 par value of GTC RE debentures in consideration for USD 14.7 million.

Financial Services

J. In April 2006 the Company completed a transaction according to which Wiener Stadtische Versicgerurg AG (‘WS’) purchased by way of allocation and acquisition, approximately 40% of the share capital of KFS. Within five years from the date of the transaction, WS may increase its percentage shareholding in KFS to 50%, through the purchase of additional shares and through capital increases.

In January 2006, KFS signed an agreement with the minority shareholders in TBIH according to which KFS will purchase from the minority shareholders additional shares of TBIH, according to TBIH’s value as reflected in the abovementioned transaction between KFS and WS. According to the agreement KFS will purchase, in the first stage, approximately 13.94% of TBIH’s shares in consideration of approximately EUR 47.4 million. The transaction was completed in April 2006.

In addition, the agreement arranges for PUT and CALL options for the purchase of the remaining shares in TBIH over a period of two years. The exercise price for each option is EUR 47.4 million, increased by 5% per annum.

Following the completion of both transactions the Company holds approximately 55% of KFS’s shares; and KFS holds approximately 75% of TBIH’s shares. Upon exercise of the PUT and CALL options KFS will hold 100% of TBIH.

Subsequent to the balance sheet date, in July 2006, KFS signed a new agreement with the minority shareholders in TBIH, according to which KFS will acquire their remaining shares in TBIH immediately upon receipt of all necessary regulatory approvals for a purchase price of approximately EUR 96.3 million.

The Company and KFS accounted for the PUT option granted to the minority shareholders as a financial liability which fair value equals to the agreed purchase price, and accordingly the financial statements of TBIH are consolidated on a 100% basis, with no minority interest.

As part of the transaction in KFS shares, the shareholders signed a joint control agreement. Accordingly and following the investment in KFS the Company consolidates the financial statements of KFS using the proportionate consolidation method starting from the second quarter of 2006.

As the indirect effective interest of the Company in TBIH will not change significantly following the completion of both transactions, the Company estimates that the expected gain from dilution of its holding in KFS would be set-off against the goodwill to be recognized from the acquisition of the minority shares in TBIH.

The excess of cost over the carrying value of the investment in TBIH amounted to approximately USD 57.7 million was off-set against the unrecognised gain of USD 39.7 million, and is presented as goodwill.

Subsequent to balance sheet date the Company and KFS concluded other agreements with WS (see note 6B).

K. In October 2005 TBIF signed a series of agreements for the purchase of up to 50% of Joint Stock Company Vseukrainsky Aktsionerny Bank (‘VA Bank’), a Ukrainian bank.

In March 2006 TBIF subscribed for newly issued shares in a capital increase, investing USD 42.5 million, as a result of which its stake in VA Bank will increase to 49%. Following the receipt of all regulatory approvals, TBIF and the current controlling shareholders hold about 98% of the shares of VA Bank in equal parts.

The excess of cost over the carrying value of the investment amounted to approximately USD 16.4 million (EUR 23.4 million for TBIF) and is presented as goodwill.

TBIF has formal contractual arrangements with the other shareholders in VA Bank which allow it to exercise joint control. The assets and liabilities of VA Bank have been consolidated using the proportional consolidation method for the first time on June 30, 2006.

L. Following management decision to refocus its holdings in the Russian insurance market, the assets and liabilities of TBIH’s Russian insurance operations are presented as assets and liabilities held-for-sale. Subsequent to the balance sheet date, TBIH has sold its investment in these companies (see Note 6D).

6. Subsequent events

A. Subsequent to the balance sheet date, in August 2006 GTC S.A. has agreed on terms for the sale of its interest in the subsidiaries holding the office complex Mokotow Business Park in Warsaw, in consideration for USD 287.5 million. The completion of the transaction is subject to certain conditions precedent and is expected no later than March 31, 2007. The completion of the transaction is expected to generate a gain of approximately USD 9 million to the Company

B. Subsequent to the balance sheet date, in August 2006, the Company has signed an agreement with Wiener Stadtische Versicherung AG Vienna Insurance Group ('WS'), its partner in KFS (see Note 5J). According to the agreement, the Company will increase its interest in KFS from 55.1% to 89.5%, by acquiring WS' 40% stake in KFS. The remaining 10.5% is held by managers and employees.

   It was further agreed between the parties that WS will acquire a 60% direct stake in TBIH, with the remaining 40% held by KFS. TBIH will focus exclusively on the insurance and pension business. TBIH will remain under the joint control of KFS and WS (subject to certain conditions) until December 2010.

   Following the completion of the transaction describe in Note 5F, KFS will hold 100% of TBIH. TBIH holds both the pension and insurance businesses, and an 89% interest in TBIF, which manages the retail lending and asset management activities. TBIF will be transferred from TBIH and put directly under KFS. The insurance and pension activities will remain within TBIH.

   The net effect of the transaction in terms of Kardan's holdings will be an increase in the retail lending activities from 49.3% to 80.0% and a decrease in its insurance and pension activities from 55.1% to 35.8%.

   In addition, TBIH has signed an agreement for the purchase of the minority interests (43.17%) in its Bulgarian subsidiary TBI Bulgaria AD ('TBIB'), for consideration of EUR 56 million. TBIB holds all of Kardan's financial services activities in Bulgaria. Following the acquisition, the retail lending and asset management activities will be transferred to TBIF, and subsequently TBIF will be transferred under KFS as described above.

   The transactions are subject to various conditions precedent, including regulatory approvals.

   The Company is evaluating the accounting implications of the above-mentioned transactions.

C. Subsequent to the balance sheet date additional warrants route 1 were exercised into 94,242 ordinary shares of the Company.

D. Subsequent to the balance sheet date, in August 2006, TBIH has signed an agreement to sell all of its holdings in two Russian insurance companies for a consideration of approximately USD 33 million. The transaction is expected to generate an equity gain of USD 16 million for the Company.

Other Information

As described in Note 2 to these condensed interim consolidated financial statements, the Company prepares financial statements in accordance with IAS 34 applicable to the preparation of interim financial statements. Since the Company's shares are traded on the Tel Aviv Stock Exchange, the Company also prepares financial statements published in Israel, in accordance with Israeli Generally Accepted Accounting Principles ('GAAP').

The significant differences between Israeli GAAP and IFRS that have an effect on the financial position and results of operations of the Company are identical to those differences described in Other Information to the consolidated financial statements for the year 2005, except as described below:

Following the adoption of new accounting standards in Israel, there will be no differences with respect to accounting for convertible debentures, earnings per share, goodwill amortization and share-based payment (for options granted after March 15, 2005).

The reconciliation between shareholders' equity, results of operations and total assets and liabilities of the Company in accordance with Israeli GAAP (as were published in Israel) and shareholders' equity, results of operations and total assets and liabilities of the Company in accordance with IFRS is as follows:

Profit and loss statement:

For the six months June 30, 2006

	IFRS	Reconciliation	Israeli GAAP
	$ '000	$ '000	$ '000
Net profit (attributable to equity holders)	38,269	3,353	41,622
Basic profit per share (USD)	0.54	0.04	0.58
Diluted profit per share (USD)	0.52	(0.04)	0.48

For the three months June 30, 2006

	IFRS	Reconciliation	Israeli GAAP
	$ '000	$ '000	$ '000
Net profit (attributable to equity holders)	7,777	(7,248)	529
Basic profit per share (USD)	0.10	(0.09)	0.01
Diluted profit per share (USD)	0.02	(0.02)	0.00

For the six months June 30, 2005

	IFRS	Reconciliation	Israeli GAAP
	$ '000	$ '000	$ '000
Net profit (attributable to equity holders)	29,922	(8,096)	21,826
Basic profit per share (USD)	0.48	(0.13)	0.35
Diluted profit per share (USD)	0.43	(0.10)	0.33

For the three months June 30, 2005

	IFRS	Reconciliation,	Israeli GAAP
	$ '000	$ '000	$ '000
Net profit (attributable to equity holders)	17,012	(3,273)	13,739
Basic profit per share (USD)	0.27	(0.05)	0.22
Diluted profit per share (USD)	0.25	(0.05)	0.20

Balance sheets:

As of June 30, 2006

	IFRS	Reconciliation	Israeli GAAP
	$ '000	$ '000	$ '000
Assets	2,525,483	(1,000,486)	1,524,997
Liabilities	1,630,910	(695,080)	935,830
Minority interests	570,389	(257,301)	313,088
Shareholders' equity	324,184	(48,105)	276,079

As of December 31, 2005

	IFRS	Reconciliation	Israeli GAAP
	$ '000	$ '000	$ '000
Assets	1,768,571	(604,015)	1,164,556
Liabilities	1,254,293	(379,464)	874,829
Minority interests	353,361	(184,244)	169,117
Shareholders' equity	160,917	(40,307)	120,610

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