



## PRESS RELEASE

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# KARDAN HALF YEAR RESULTS 2006 *Continued Growth*

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### Highlights first half 2006:

- Net profit up 28% to USD 38.3 million
- Strategic investment in Financial Services
- Expansion of real estate operations, three new countries entered
- Shareholders Equity doubled as a result of successful equity offering (USD 105 million, EUR 83 million) and net profit
- Growth in total assets of 43% from USD 1,768.6 million year end 2005 to USD 2,525.5 million at the end of June 2006

### Key figures

	30 June 2006	31 December 2005	Change (%)
Total assets (USD 1,000)	2,525.5	1,768.6	42.8%
Shareholders' equity (USD 1,000)	324.2	160.9	101.5%
Equity per share (USD)	4.07	2.42	68.2%

  

	First half 2006	First half 2005	
Total Revenues (USD 1,000)	365.5	242.0	51.0%
Net profit attributable to equity holders (USD 1,000)	38.3	29.9	28.1%

  

Net result per share – fully diluted (USD)	0.52	0.43	20.9%
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“The good performance of this first half year reflects the continued growth our group has enjoyed as a result of our strategy in combination with favourable market conditions. Thanks to the large interest from institutional investors in our story and track record, the secondary equity offering has been very successful. We see this as a vote of confidence for our current strategy and execution thereof.” according to Mr. Ickovics of the Management Board of Kardan N.V.

### Financial overview

International investment company **Kardan N.V.** (Kardan) reports a **net profit** of USD 38.3 million for the first six months of 2006, compared to a net profit of USD 29.9 million for the same period in 2005, an increase of 28%.



<b>Net profit attributable to equity holders</b> (x USD million)	<b>H1 2006</b>	<b>H1 2005</b>
<b>Main businesses</b>		
Real Estate	50.8	7.1
Financial Services	3.7	9.8
Infrastructure	0.3	1.4
<b>Other businesses</b>		
Automotive & Consumer Goods	1.4	4.8
Communications & Technology	0.3	5.2
<b>Other</b>	(18.2)	1.6
<b>Total</b>	<b>38.3</b>	<b>29.9</b>

The above table shows the contribution of each of the businesses to the results of Kardan. As profits attributable to minority shareholders have already been deducted, these figures do not represent the full net profit realized in each segment, and therefore cannot be compared to the figures presented in the review of the separate business. In that review, all figures are presented before minority interest and thus represent 100% of the results of each sector.

The increase in results for the first six months versus the same period in 2005 is mainly from the Real Estate activities. The most important contributors to the growth were (i) revaluation gains from investment properties in the real estate segment (ii) equity gains from GTC SA capital increase, and (iii) the overall expansion of the Group's activities. Results from the financial services segment show a decrease, mainly due to changes in structure and ownership. Other, which represents corporate activities, resulted in a loss primarily due to revaluation of options, as further described.

Kardan increased its **total H1 2006 revenues** by 51.0% to USD 365.5 million (H1 2005: USD 242.0 million). Main operations (Real Estate, Financial Services and Infrastructure), which showed a growth of 65.1%, contributed USD 351.6 million to the half year revenues (H1 2005: USD 213.0 million). Revenues of the other businesses (Automotive & Consumer Goods and Communications & Technology) decreased to USD 12.7 million (H1 2005: USD 23.2 million). In H1 2005 these revenues included a one-time USD 14 million gain from the positive outcome of the E-Trade arbitration.

**Total operating results** of the main businesses increased sharply and amounted to USD 209.1 million (H1 2005: USD 81.2 million). The operating results from the other sectors decreased to USD 3.4 million (H1 2005: USD 14.6 million). Corporate activities (including other investments) accounted for a loss of USD 4.9 million in the first six months of 2006 (H1 2005: a loss of USD 0.1 million). In H1 2005 the corporate activities included a dilution gain of USD 4.8 million as result from listing of Kardan Israel in May 2005. Due to the significant rise in operating result of the main businesses, **total operating result** more than doubled and amounted to USD 207.6 million for the first half, compared to USD 95.8 million in the same period last year.



KARDAN

**Financial expenses and taxes** for H1 2006 amounted to USD 50.6 million (H1 2005: USD 16.1 million) and USD 32.0 million (H1 2005: USD 13.5 million), respectively.

The significant increase of financial expenses was caused by the revaluation of options and warrants to their market value, as required by IFRS. As the share prices of Kardan and its other listed group companies rose during the first six months of 2006 the increased value of the options is reported as a loss. Kardan's share reached EUR 6.80 by 30 June 2006, in H1 2006 the total loss from such revaluation of options on Kardan shares amounted to USD 12.6 million. The loss from revaluation of options of group companies amounted to USD 25.5 million, totalling USD 38.1 million.

**Minority interest** holders' share in Kardan's profit amounted to USD 86.8 million in the first half of 2006 (H1 2005: USD 36.2 million). The minority interest primarily represents the interest of Kardan's partners in the subsidiaries of the Real Estate and Financial Services businesses. Minority's share in the profit increased as a result of higher results of the Real Estate segment as well as minority's larger stake in these activities.

Kardan realized a **net profit** attributable to equity holders of USD 38.3 million for the first half of 2006, compared to USD 29.9 million for the same period last year. This represents a **net profit per share** of USD 0.52, compared to a net profit per share of USD 0.43 for the first half of 2005.

In the second quarter of 2006 Kardan raised EUR 83 million from the issuance of 11,455,000 new shares. Kardan intends to use the proceeds for the further development of its activities, the consolidation of existing businesses and the continuing geographical expansion in emerging markets.

**Total assets** as of 30 June 2006 amounted to USD 2,525.5 million compared to USD 1,768.6 million as of 31 December 2005. The increase in total assets was mainly the result of: (i) the increase in investment properties as several projects were completed and re-valued to fair market value from USD 759.6 million at year end 2005 to USD 992.3 million at the end of the first half 2006, (ii) the increase in cash primarily from both the Kardan and GTC SA share issuance proceeds, as well as Austria's Wiener Städtische Insurance Group' investment in Kardan's financial services group KFS, and (iii) the investment in the Ukrainian bank by the financial services segment.

**Shareholders' equity** more than doubled in the first half to USD 324.2 million at 30 June 2006 (year end 2005: USD 160.9 million).

Kardan's **net debt position** amounted to USD 15.3 million as at 30 June 2006. As per 30 June 2006 Kardan's solvency ratio was 35% and Return on Equity was 11.8%.

In the first half of 2006 **total net cash flows** increased by USD 287.4 million. The cash flows used in operating activities amounted to USD 30.8 million, compared to USD 5.6 million net cash provided by operating activities in the first half of 2005. Cash used in investing activities amounted to USD 65.3 million (H1 2005: USD 104.3 million). Kardan generated USD 380.4 million from financing activities, compared to USD 127.3 million the previous year.



## **Second Quarter**

Second quarter revenues amounted to USD 134.3 million compared to USD 99.7 million for the second quarter of last year. Operational results for the second quarter of 2006 amounted to USD 49.7 million (Q2 2005: USD 31.8 million).

Net profit for the second quarter of 2006 amounted to USD 7.8 million compared to USD 17.0 million in Q2 2005. The decrease in net profit is a result of higher revaluation losses of options and warrants and the sale of subsidiaries in the financial services segment in August 2005.

## **Management**

During the AGM in June, Mr. Alain Ickovics was appointed to the Board of Management. The Board of Management now consists of, Mrs. Einat Gabber, Mr. Alain Ickovics, Mr. Zach Rubin and Mr. Alon Shlank.

## **Review of main operations<sup>1</sup>**

### Real Estate

Revenues from the Real Estate activities in the first half of 2006 amounted to USD 252.1 million, compared to USD 89.2 million in the same period last year. Revenues in the second quarter amounted to USD 74.2 million. The real estate segment contributed an operational profit of USD 205.1 million in the first half of 2006 (H1 2005: USD 62.3 million).

During the first half of 2006, GTC SA completed 3 new office buildings in Bucharest, Warsaw and Budapest. The revaluation of these buildings to their fair market value amounted to USD 138.3 million and is included in the segment revenues.

The accelerated growth is illustrated by the numerous new projects GTC SA has lately been involved in. During the first half year office and retail projects were started in three new CEE countries: Slovakia, Bulgaria and Moldova. Additional land plots were acquired in Romania and Serbia. In Croatia GTC SA intends to develop a luxurious residential complex. Furthermore, in Switzerland GTC RE acquired a real estate portfolio through its group company GTC Investments B.V.

After record profits in 2005, GTC SA was included in the GPPR 250 index, comprising the 250 leading and most liquid property companies worldwide. GTC Poland is the only CEE listed company to be included in the GPR 250 index. Furthermore, GTC SA was voted the Best Developer of 2005 in the Europaproperty SEE Real Estate Awards.

During the first quarter of 2006, GTC SA successfully completed a capital increase, the proceeds of which will be used to finance its accelerated growth. This capital increase resulted in a USD 41.5 million gain for Kardan NV.

Kardan currently holds an interest of 62.8% in GTC RE. As per 30 June 2006 the market capitalization of GTC RE was USD 397 million. In May and June, Kardan purchased convertible debentures in GTC RE for an amount of USD 22.7 million, through which Kardan will be able to further increase its holdings in GTC RE. The market capitalization of GTC SA was USD 1.8 billion as per 30 June 2006. Kardan holds an indirect interest of 29.7 % in GTC SA.

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<sup>1</sup> All figures in the review of operations are presented before minority interests



GTC RE's net debt position as per 30 June 2006 amounted to USD 150 million.

#### Financial Services

Revenues from financial services amounted to USD 31.8 million for the second quarter of 2006, bringing first half revenues to USD 61.2 million (H1 2005: USD 95.6 million). Operational results decreased from USD 17.1 million for the first half of 2005 to USD 1.7 million in the same period this year. This decrease is primarily the result of the sale of the Romanian insurance company Omniasig, and the pension fund VSP Tatry in August last year. In addition, Kardan's share in the results of the Financial Services activities was reduced to 41.2% following the investment of WS in KFS in April this year as further described below.

The lending activities contributed USD 1.8 million to operational profits for the first half year compared to USD 1.9 million for the same period in 2005. During the second quarter the Financial Services segment increased its investment in VA Bank in the Ukraine reaching a 49% stake. This investment contributed USD 133.9 million to Kardan's total assets.

The pension fund activities generated an operational loss of USD 0.8 million (H1 2005: loss of USD 0.3 million). This loss is mainly caused by investments incurred to acquire new members to the pension funds which are expensed in the current period and can not be capitalized under IFRS.

The insurance activities generated an operational loss of USD 2.4 million for the first half of 2006 (H1 2005: USD 3.2 million profit). The loss of the insurance activities is a result of investments made in new insurance companies which will contribute profits in the future. In addition, the sale of the insurance company Omniasig last year, resulted in decreased results of the insurance operations.

The investments in a Serbian pension fund and asset management company were sold in May, for a consideration of EUR 4.9 million.

The agreement that was signed with WS in November 2005 for an equity investment in the financial services sector was completed in the second quarter of this year. Subsequently, Kardan (through KFS, the holding company through which Kardan holds its interest in TBIH) completed a transaction with minority shareholders in TBIH, to purchase an additional 13.94%.

These transactions reflect a valuation of EUR 340 million for TBIH and EUR 176 million for KFS (pre-transaction). After the period under review, however, Kardan announced a change in its holdings in the financial services segment. Following that transaction, Kardan will effectively hold 80% in the retail and lending activities and 35.8% in the insurance and pension activities. This latest transaction reflects a value of EUR 204 million to KFS. As a result of this transaction Kardan will increase its interest in KFS from 55.1% to 89.5%. Kardan and WS intend to cooperate in pursuing further opportunities in the financial services sector with a focus on insurance related activities in the CEE countries.

KFS net cash position as per 30 June 2006 amounted to USD 0.9 million.



### Infrastructure

Revenues for the second quarter of 2006 in the infrastructure sector amounted to USD 22.5 million, and USD 38.3 million for H1 2006 (H1 2005: USD 28.3 million). This increase is mainly caused by timing of revenue recognition of infrastructure projects. The segment showed an operational profit of USD 2.2 million for the reported period compared to USD 1.8 million for first half of 2005.

During the first half year, Tahal won two new projects in Venezuela for the national water company. Tahal has a 20% share in the projects, which are valued at USD 40 million each.

The order book as of 30 June 2006 is USD 161 million.

Tahal is 100% owned by Kardan and engages in engineering and implementation projects mainly in the fields of water resources and water supply.

### **Other operations**

The revenues of the other operations decreased from USD 23.2 million to USD 12.7 million. Other operations contributed USD 3.4 million to operational profits (H1 2005: USD 14.6 million).

### **Outlook**

Kardan believes the positive developments during the first half of this year will strongly contribute to the growth of the Group going forward. The recent increase of our holdings in the lending and banking operations will allow us to further increase our focus on these high growth activities. We believe our real estate operations are on track to continue their accelerated growth while capitalizing on the strong pipeline of projects.

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### **About Kardan**

Kardan is an international investment company with a focus on three sectors: Real Estate, Financial Services and Infrastructure. Kardan is primarily active in Central and Eastern Europe, where it conducts most of its activities. Kardan holds controlling interests in its main businesses and is actively involved in the definition and implementation of their strategy. Total assets per December 31, 2005 amounted to USD 1,769 million, with revenues of USD 547 million. The number of employees engaged by the group is approximately 6,100 as of December 31, 2005. Kardan is listed on Euronext Amsterdam and the Tel-Aviv Stock Exchange.

The condensed interim financial statements according to IFRS including reconciliation to Israeli GAAP can be found on the website of Kardan at [www.kardan.com](http://www.kardan.com).

Enclosed:

- P&L (drawn up according to IFRS)
- Balance sheet (drawn up according to IFRS)

### **For further information please contact:**

Citigate First Financial

Floor van Maaren      phone +31 (0) 20 575 40 78 / mobile +31 (0)6 29 59 77 46

Uneke Dekkers        phone +31 (0) 20 575 40 21 / mobile +31(0)6 50 26 16 26

## Condensed profit & loss account

(x USD 1,000,=)

UNAUDITED

	H1 2006	H1 2005
<b>Net Revenues</b>	365.467	242.017
Expenses	-153.268	-141.712
<b>Results from operations</b>	212.199	100.305
Unallocated expenses	-4.561	-4.522
Financing result	-50.629	-16.122
<b>Income / loss before taxes</b>	157.009	79.661
Taxes on income	-31.950	-13.518
<b>Income / loss after taxes</b>	125.059	66.143
Minority interest	-86.790	-36.221
<b>Net income (loss)</b>	38.269	29.922

## Condensed Balance Sheet

(x USD 1,000,=)

	30 June 2006 unaudited	31 Dec. 2005 audited
<b>ASSETS</b>		
<b>Non-current assets</b>	1.523.122	1.247.634
<b>Current assets</b>	487.069	334.963
<b>Cash and cash equivalents</b>	467.309	185.974
<b>Assets held for sale</b>	47.983	0
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	<b>2.525.483</b>	<b>1.768.571</b>
	=====	=====
<b>EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>	324.184	160.917
<b>Minority interest</b>	570.389	353.361
<b>Non-current liabilities</b>	1.207.511	998.849
<b>Current liabilities</b>	375.616	255.444
<b>Liabilities held for sale</b>	47.783	0
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	<b>2.525.483</b>	<b>1.768.571</b>
	=====	=====

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### Note to the accounts:

Amounts were translated into USD as follows:

- Assets, liabilities and equity items are translated at the closing rates existing at the date of each balance sheet presented.
- Income and expense items and equity transactions are translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates.
- Equity items other than the net profit or loss were translated at the closing rate existing at the date of each balance sheet presented.
- All exchange differences resulting from the above-mentioned translation are recognized directly in equity.