KARDAN N.V.
AMSTERDAM, THE NEDERLANDS

Condensed Interim Consolidated Financial Statements
As of September 30, 2006

CONTENTS

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

A s s e t s

	September 30, 2006	December 31, 2005
	$'000	$'000
Non-current assets		
Property, plant and equipment	38,396	30,023
Real Estate under construction	172,386	155,966
Investment properties	824,167	759,548
Intangible assets	144,483	86,415
Investment in associates	115,605	92,773
Available-for-sale financial assets	62,141	45,609
Long-term receivables	159,884	59,309
Deferred acquisition costs (insurance companies)	7,148	12,485
Deferred tax assets	5,032	5,506
	1,529,242	1,247,634
Current assets		
Inventories and contract work and buildings inventory in progress	128,136	58,908
Current maturities of long-term loans and receivables	20,976	75,657
Loans to bank customers	157,755	-
Trade receivable	41,377	31,208
Other receivables and prepayments	61,783	85,858
Insurance premium receivables	16,200	17,909
Reinsurance premium receivables	19,852	16,762
Short-term investments	59,602	48,661
Cash and cash equivalents	381,556	185,974
	887,237	520,937
Assets held for sale	286,200	-
Total assets	2,702,679	1,768,571

The accompanying notes are an integral part of these financial statements

E q u i t y   a n d   l i a b i l i t i e s

	September 30, 2006	December 31, 2005
	$'000	$'000
Equity attributable to equity holders of the parent		
Issued capital	18,996	15,717
Share premium	202,336	92,670
Foreign currency translation reserve	7,854	(5,736)
Net unrealized gains and revaluation reserve	50,983	51,501
Retained earnings	57,550	6,765
	337,719	160,917
Minority Interest	623,551	353,361
Total equity	961,270	514,278
Non-current liabilities		
Interest-bearing loans and borrowings	720,989	584,433
Other long-term liabilities	6,944	12,636
Warrants and options	152,753	39,713
Convertible debentures	58,567	93,870
Debentures	110,496	101,350
Insurance provisions	106,110	119,176
Deferred income tax liabilities	98,091	46,285
Accrued severance pay, net	1,648	1,386
	1,255,598	998,849
Current liabilities		
Due to customers for contract work	11,975	5,267
Advance from customers in respect of contracts	10,876	21,519
Banking customers accounts	99,769	-
Other payables and accrued expenses	109,844	81,217
Trade payables	39,682	36,007
Interest-bearing loans and borrowings	212,264	111,434
	484,410	255,444
Liabilities held for sale	1,401	-
Total liabilities	1,741,409	1,254,293
Total equity and liabilities	2,702,679	1,768,571

The accompanying notes are an integral part of these financial statements

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

	Nine months ended September 30,		Three months ended September 30,	
	2006	2005	**2006**	2005
	$'000	$'000	$'000	$'000
Revenues				
Sales and services	46,534	41,162	16,252	12,012
Contract revenues	59,206	45,461	20,995	17,282
Insurance activities	58,103	89,397	13,781	17,953
Financing activities	19,222	9,415	9,228	3,194
Rental revenues	66,052	50,558	23,200	18,203
Equity in net earnings of associated companies	7,830	9,648	4,974	4,092
Management fees	927	844	260	314
Gain on issuance of shares in associated companies and subsidiaries to third parties	49,441	17,839	1,618	203
Net adjustment to fair value of investment properties	257,748	87,741	119,412	46,627
Gain on disposal of assets and other income	22,325	61,327	12,201	51,495
	587,388	413,392	221,921	171,375
Expenses				
Cost of sales and services	36,921	31,998	12,973	10,160
Contract costs	44,630	31,416	16,392	11,700
Operating expenses of insurance activities	60,444	86,815	13,777	18,581
Costs of financing activities	16,932	6,721	8,706	2,408
Costs of rental operations	17,651	14,260	6,466	5,693
Selling and marketing expenses	12,031	10,621	3,408	3,816
General and administration expenses	41,663	24,691	11,758	8,255
Financing expenses	58,663	41,722	26,893	21,901
Financing income	(25,549)	(18,600)	(6,288)	(11,846)
Net adjustment to fair value of options	63,343	10,321	25,223	7,266
Other expenses, net	5,230	2,997	4,193	2,672
	331,959	242,962	123,501	80,606
Net profit before income taxes	255,429	170,430	98,420	90,769
Income taxes	60, 178	22,523	28,228	9,005
Net profit for the year	195,251	147,907	70,192	81,764
Attributable to:				
Equity holders	51,752	70,494	13,483	40,572
Minority interest holders	143,499	77,413	56,709	41,192
	195,251	147,907	70,192	81,764
Earnings per share				
Basic	0.70	1.12	0.17	0.64
Diluted	0.68	0.95	0.16	0.53

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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	-	-	97	-	-	97	296	393
Currency translation differences	-	-	-	(12,686)	-	(12,686)	(15,508)	(28,194)
Change due to issuance of shares in subsidiaries/acquisition of subsidiaries	-	-	-	-	-	-	(5,072)	(5,072)
Profit/ (loss) from marketable securities	-	-	630	-	-	630	1,856	2,486
Realization of capital reserves	-	-	(1,653)	603	-	(1,050)	-	(1,050)
Total income and expense for the period recognized directly in equity	-	-	(926)	(12,083)	-	(13,009)	(18,428)	(31,437)
Net profit for the period	-	-	-	-	70,494	70,494	77,413	147,907
Total income /expense for the period	-	-	(926)	(12,083)	70,494	57,485	58,985	116,470
Issuance of shares (from exercise of warrant, options and conversion of debentures)	342	3,570	-	-	-	3,912	-	3,912
Share based payment	-	660	-	-	-	660	1,251	1,911
Dividend distributed	-	-	-	-	-	-	(3,200)	(3,200)
Balance at September 30, 2005	17,264	79,874	16,093	(7,601)	60,774	166,404	408,067	574,471

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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 revaluation reserve	Foreign currency translation 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	-	-	220	-	-	220	284	504
Currency translation differences	-	-	-	13,590	-	13,590	5,822	19,412
Change due to issuance of shares in subsidiaries/acquisition of subsidiaries	-	-	-	-	-	-	120,456	120,456
Profit/ (loss) from marketable securities	-	-	(738)	-	-	(738)	(423)	(1,161)
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	-	-	(518)	13,590	(967)	12,105	123,748	135,853
Net profit for the period	-	-	-	-	51,752	51,752	145,142(*)	196,894
Total income /expense for the period	-	-	(518)	13,590	50,785	63,857	268,890	332,747
Issuance of shares	2,887	98,837	-	-	-	101,724	-	101,724
Exercise of warrants	392	9,590	-	-	-	9,982	-	9,982
Sale of shares held by subsidiary	-	1,239	-	-	-	1,239	-	1,239
Share based payment	-	-	-	-	-	-	1,300	1,300
Balance at September 30, 2006	18,996	202,336	50,983	7,854	57,550	337,719	623,551	961,270

(*) Additional loss of USD [1.646] thousand was reclassified to other receivables

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CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT
For the nine months ended

	September 30, 2006	September 30, 2005
	$'000	$'000
Cash flow from operating activities		
Net profit before taxes on income	255,429	170,430
Adjustment to reconcile net profit to net cash		
Charges/(credits) to profit not affecting operating cash flows:		
• Equity earning of associated companies	(7,829)	(9,848)
• Dividend received from associated companies	1,758	6,364
• Gain on issuance of shares in associated companies and subsidiaries to third parties, net	(48,732)	(17,839)
• Gain on disposal of investments in companies, property, plant and equipment and investment properties, net	(18,614)	(49,231)
• Impairment of investments	-	322
• Share based payment and share appreciation rights	1,300	1,911
• Depreciation and amortization	2,891	5,346
• Fair value adjustments of investment properties	(257,748)	(87,741)
• Exchange differences, net	16,230	(1,570)
• Change in fair value of options and share appreciation rights	79,505	11,636
• Decrease (increase) in fair value of securities held for trading and hedge instruments, net	(1,665)	(211)
• Increase in accrued severance pay, net	129	(187)
Adjusted net profit	22,654	29,382
Changes in operating assets and liabilities		
• Change in insurance provisions and deferred acquisition costs, net	13,161	(6,425)
• Change in outstanding insurance premiums, reinsurance receivables and insurance companies	(11,625)	17,859
• Change in trade and other receivables	21,669	(14,556)
• Change in inventories and in contract work in progress, net of advances from customers	(53,037)	(6,486)
• Change in trade and other payables	68,475	(14,313)
• Change in other assets	(289)	-
Net cash (used in) generated from operations	61,008	5,661
Interest paid	(19,974)	-
Income taxes paid	(1,470)	(3,794)
Net cash provided by operating activities	39,564	1,867

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CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONT.)

	September 30, 2006	September 30, 2005
	$'000	$'000
Cash flow from investing activities		
Acquisition of property, plant and equipment and investment properties, net	(152,343)	(91,428)
Investments in companies and partnerships	(52,059)	(10,890)
Collecting (granting) of loans to associated companies, net	(23,763)	(930)
Lease origination costs	(616)	-
Proceeds from disposal of property, plant and equipment and investment properties	265	996
Granting of long-term loans	(110,773)	(59,701)
Collecting of long-term loans and receivables	37,787	26,406
Change in short-term investments	(12,086)	(50,236)
Acquisition of newly-consolidated subsidiaries, net of cash acquired (see A below)	(39,882)	712
Increase in cash resulting from sale of investments in formerly consolidated subsidiaries (see B below)	56,176	54,924
Increase in cash resulting from sale of investments in formerly proportionately consolidated subsidiaries (see C below)	39,237	15,267
Income tax paid	(11,702)	-
Change in other assets	(434)	-
Net cash used in investing activities	(270,193)	(114,880)
Cash flows from financing activities		
Proceeds from exercise of warrants and issuance of Company's shares	102,116	3,278
Proceeds from issuance of shares to minority shareholders of subsidiaries, net	152,205	6,899
Treasury shares sold	1,239	-
Dividend to minority shareholders in subsidiaries	-	(3,200)
Issuance of debentures	2,382	128,118
Change in deposits from tenants	(373)	-
Repayment of debentures	(39,024)	(20,033)
Receipts of long-term loans	234,525	163,192
Repayment of long-term loans	(69,762)	(79,716)
Costs related to issuance of debt and shares	(378)	(986)
Purchase of option rights	(2,623)	-
Change in short-term loans and borrowings, net	33,154	(12,048)
Net cash provided by financing activities	413,461	185,504

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CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONT.)

	September 30, 2006	September 30, 2005
	$'000	$'000
Foreign exchange differences relating to cash and cash equivalents	12,750	11,479
Increase in cash and cash equivalents	195,582	83,970
Cash and cash equivalents at the beginning of the period	185,974	203,872
Cash and cash equivalents at end of the period	381,556	287,842

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

Assets and liabilities of subsidiaries as of date of consolidation:

Working capital (including cash)	(26,608)	4,454
Non-current assets	(37,995)	(501)
Goodwill on acquisition	(17,289)	(3,605)
Non-current liabilities	14,901	-
Minority interest	428	(1,985)
Total purchase price	(66,563)	(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	(39,882)	712

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CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONT.)

	September 30, 2006	September 30, 2005
	$'000	$'000
B. Increase in cash resulting from sale of investment in formerly consolidated subsidiary		
Working capital (including cash)	(28,493)	(18,953)
Non-current assets	108,934	41,399
Non-current liabilities	(41,240)	(1.066)
Minority interest	(521)	(4,088)
Gain on disposal of investments	14,491	55,669
Total consideration	53,171	72,962
Cash of subsidiary which ceased to be consolidated	4,763	(18,037)
Change in capital reserves	(1,758)	-
Cash flows from disposal, net of cash disposed	56,176	54,924
C. Increase in cash resulting from sale of investment in formerly proportionately consolidated subsidiary		
Working capital (including cash)	(22,412)	6,202
Non-current assets	13,936	39,948
Goodwill	(16,429)	-
Non-current liabilities	(19,390)	(32,011)
Minority interest	(10,024)	(3,381)
Gain on disposal of investments	-	11,555
Total consideration	(54,319)	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	39,237	15,267
Material non-cash transactions		
Purchase of real estate under construction against payable	13,272	13,345
Conversion of debentures into Company's shares	9,590	634
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
September 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 September 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 September 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**
September 30, 2006	0.790	4.302	186.5
September 30, 2005	0.832	4.598	184.2
December 31, 2005	0.848	4.603	185.1
Change in September 2006 (9 months)	(6.8)%	(6.5)%	0.8%
Change in September 2006 (3 months)	0.4%	(3.1)%	(0.7)%
Change in September 2005 (9 months)	13.4%	6.7%	1.9%
Change in September 2005 (3 months)	0.5%	0.5%	1.4%
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 nine months ended September 30, 2006								
Segment Revenues	409,605	96,521	59,314	18,987	1,234	1,727	-	587,388
Segment Results	340,312	8,966	2,950	3,978	804	(294)	(4,830)	351,886
For the three months ended September 30, 2006								
Segment Revenues	157,469	35,335	21,034	7,341	132	610	-	221,921
Segment Results	135,163	7,253	705	1,404	(9)	1	(269)	144,248
For the nine months ended September 30, 2005								
Segment Revenues	161,119	167,752	45,799	20,796	11,576	6,350	-	413,392
Segment Results	120,436	63,460	3,540	8,024	10,652	4,516	(6,755)	203,873
For the three months ended September 30, 2005								
Segment Revenues	71,946	72,194	17,509	7,410	1,781	535	-	171,375
Segment Results	58,144	46,370	1,710	2,467	1,595	37	(2,233)	108,090

(1) Unallocated expenses
(2) Excludes financing income and expenses

4. Share capital

A. Composition

	September 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	79,658,263	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 1,587,783 ordinary shares of the Company. As a result the share capital and share premium of the Company increased by USD 392 thousand and USD 9,590 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 102 million to the Company’s equity after fees, costs and expenses.

During the reporting period, 2006 Kardan Israel sold 150,090 ordinary shares of the Company that it held in consideration for USD 1,239 thousand. Subsequent to the balance sheet date Kardan Israel sold the balance of the Company’s shares it held in consideration for USD 152 thousand.

5. Significant transactions

Real Estate

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 24 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 14.2 million as of September 30, 2006. The impact on the Company's net profit for the nine month period ended on September 30, 2006 amounted to USD 10.8 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 nine 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 is included in the fair value adjustments in the reported period. The GTC Group revalues its investment property every third quarter.

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. Starting 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 27 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. 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 approximately USD 287 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. As of September 30, 2006 Mokotow Business Park and related liabilities were reclassified as assets and liabilities held for sale. The bank loans related to the assets will be repaid at closing.

I. During the first nine months of 2006 certain warrants issued by GTC RE were exercised and certain debentures were converted into ordinary shares of GTC RE. In addition, the Company purchased additional 654 thousand shares of GTC RE in consideration for USD 4.2 million. 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 7.5 million.

J. During the second and third quarters of 2006 the Company purchased NIS 87,725,149 par value convertible debentures of GTC RE in consideration for approximately USD 38 million.

As a result, and in line with IAS 32, the Company recorded a loss of USD 6 million, of which approximately USD 4 million originated in the second quarter of 2006.

Through this purchase, the Company believes it will be able to increase its holdings in GTC RE at an attractive price, which will result in higher profits in the future.

<u>Financial Services</u>

K. 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.

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.

L. In August 2006, the Company has signed an agreement with WS, its partner in KFS. 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 5J, 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.

M. 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 a total of EUR 62 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.

N. In August 2006, TBIH has signed an agreement to sell all of its holdings in two Russian insurance companies and in its Serbian pension fund for a total consideration of approximately USD 39 million. The transaction has generated an equity gain of USD 12.5 million for the Company.

6. Subsequent events

A. Subsequent to the balance sheet date, in October 2006, the management board, the supervisory board and the general meeting of shareholders of the Company approved a stock option plan according to which the Company will grant to members of the management board, employees of the Company and employees of the Kardan Group, without consideration, 1,099,327 options exercisable to up to 1,099,327 ordinary shares of the Company each having par value of EUR 0.20 (subject to adjustments). The exercise price of each option equals to EUR 8.568 (NIS 46.512). The options can be exercised during a period of 5 years from the date of grant. One third of the options can be exercised one year following the date of grant, one third two years following the date of grant, and one third – three years from the date of grant.

Upon exercise of the options the supervisory board of the Company will determine whether to allocate the full number of shares deriving from exercise of the options or the number of shares reflecting only the benefit component inherent in the options, as calculated at the exercise date, or alternatively, the supervisory board may elect to pay that benefit in cash.

The economic value of each option granted to the members of the management board amounted to USD 4.6. This economic value was computed according to Black & Scholes option pricing model, taking into account the market price of the Company’s shares on the stock exchange at the date of approval of the plan (EUR 9.52 per share) and an annual standard deviation of 25%.

The Company intends to account for the options granted in accordance with IFRS 2, assuming equity payments will be affected.

B. Subsequent to the balance sheet date, in November 2006, the associated company R.R. Satellite Global Communications Network Ltd. (‘RRSat’) has completed the issuance and listing of 4,370,000 shares on the NASDAQ stock exchange. The Company held a 26.1% indirect interest in RRSat through its subsidiary Kardan Communications Ltd. Following the share issuance, the Company’s interest was reduced to 19.7%, and the Company expects to recognize a gain of approximately USD 8 million.

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 nine months September 30, 2006	IFRS	Reconciliation	Israeli GAAP
	$ '000	$ '000	$ '000
Net profit (attributable to equity holders)	51,752	(1,066)	50,686
Basic profit per share (USD)	0.70	(0.02)	0.68
Diluted profit per share (USD)	0.68	(0.07)	0.61

For the three months September 30, 2006	IFRS	Reconciliation	Israeli GAAP
	$ '000	$ '000	$ '000
Net profit (attributable to equity holders)	13,483	(5,191)	8,292
Basic profit per share (USD)	0.17	(0.07)	0.10
Diluted profit per share (USD)	0.16	(0.06)	0.10

For the nine months September 30, 2005	IFRS	Reconciliation	Israeli GAAP
	$ '000	$ '000	$ '000
Net profit (attributable to equity holders)	70,494	(9,081)	61,413
Basic profit per share (USD)	1.12	(0.14)	0.98
Diluted profit per share (USD)	0.95	(0.05)	0.90

For the three months September 30, 2005	IFRS	Reconciliation,	Israeli GAAP
	$ '000	$ '000	$ '000
Net profit (attributable to equity holders)	40,572	(1,165)	39,587
Basic profit per share (USD)	0.64	(0.02)	0.62
Diluted profit per share (USD)	0.53	0.05	0.58

Balance sheets:

As of September 30, 2006

	IFRS	Reconciliation	Israeli GAAP
	$ '000	$ '000	$ '000
Assets	2,702,679	(1,127,512)	1,575,167
Liabilities	1,741,409	(770,189)	971,223
Minority interests	623,551	(304,897)	318,654
Shareholders' equity	337,719	(52,429)	285,290

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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