

## KARDAN: SUSTAINED POSITIVE TREND IN THIRD QUARTER 2006

- Growth in total assets and shareholders' equity continues in third quarter
- Total operating result up 33.4% to USD 144.2 million in third quarter
- Real Estate activity expands: 17 new real estate sites acquired, and several projects completed in CEE since January, while one major project was acquired in China
- Increase of holdings in retail lending and asset management operations to capitalize on strong growth opportunities

Key figures	30 Sept. 2006	31 Dec. 2005	Change (%)
Total assets (x USD million)	2,702.7	1,768.6	52.8%
Shareholders' equity (x USD million)	337.7	160.9	109.9%
Return on Equity	4.24	2.42	75.2%
Net Debt / (Net Cash) (x USD million) *	(8)	78	

\* The definition of Net Debt as presented in this press release is broadened to include, in addition to interest bearing loans and borrowings less cash and cash equivalents, also debentures and convertible debentures less interest bearing receivables

(x USD 1,000)	Q3 2006	Q3 2005	9M 2006	9M 2005
<b>Net profit attributable to equity holders*</b>	13,483	40,572	51,752	70,494
Of which:				
<b>Main businesses</b>				
Real Estate	2,911	3,608	53,779	10,681
Financial Services	7,483	38,555	11,192	48,320
Infrastructure	50	1,211	304	2,639
<b>Other businesses</b>	783	1,992	2,419	11,978
<b>Other (mainly corporate activities)</b>	2,256	(4,794)	(15,942)	(3,124)

\* 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.

“The positive first half of the year continued in the third quarter, with growth in total assets and shareholders equity, while operational performance improved compared to the third quarter last year. Our strategy to create platforms that will prosper from strong national economic growth works. In addition, the reorganization of our holdings in the financial services activities will allow Kardan to benefit from strong growth opportunities in these segments.” according to Mr. Ickovics of the Management Board of Kardan N.V.

## Financial overview

International investment company **Kardan N.V.** (Kardan) increased its **total third quarter 2006 revenues** by 29.5% to USD 221.9 million (Q3 2005: USD 171.4 million). Main operations (Real Estate, Financial Services and Infrastructure) grew by 32.3% and contributed USD 213.8 million to Kardan's revenues over the third quarter 2006 (Q3 2005: USD 161.6 million). The revenues include revaluation gains in the real estate segment of USD 119.4 million, compared to USD 46.6 million for the same period in 2005. Furthermore, the revenues in the third quarter 2005 included equity gains on disposal of assets, primarily from financial services activities, totalling USD 51.5 million, related to the sale of Omniasig and Tatry. In the third quarter of 2006, the equity gains in the financial services sector amounted to USD 12.2 million.

Total costs have decreased, mainly due to the sale of the Romanian insurance company Omniasig in 2005, which decreased operating expenses of the insurance activities. The increase in revenues, together with the lower costs, resulted in an increase of 33.4% of the **total operating result** to USD 144.2 million for the third quarter of 2006 (Q3 2005: USD 108.1 million). Main businesses contributed USD 143.1 million to the total operating result, an increase of 34.7% compared to USD 106.2 million in the third quarter of 2005.

**Financial expenses** for the third quarter of 2006 amounted to USD 45.8 million (Q3 2005: USD 17.3 million). The increase in financial expenses is attributable to the share price increases for Kardan and its listed group companies during the third quarter of 2006 and the corresponding appreciation of option rights to their fair values. This appreciation is required under IFRS and amounts to USD 25.2 million (Q3 2005: USD 7.3 million). **Taxes** for the third quarter of 2006 amounted to USD 28.2 million, compared to USD 9.0 million in the third quarter of 2005.

As a result of the higher financial expenses and taxes, total **net profit** for the third quarter of 2006 decreased to USD 70.2 million, compared to USD 81.8 million for the third quarter of 2005. The minorities' share in the profit increased due to a combination of higher results of the Real Estate segment and the dilution of Kardan's stake in GTC SA from a capital increase earlier this year. **Net profit attributable to equity holders** for the third quarter of 2006 decreased to USD 13.5 million (Q3 2005: USD 40.6 million). This represents a **net profit per share** of USD 0.16, compared to USD 0.53 for the third quarter of 2005.

## Nine months

Total revenues in the first nine months of 2006 increased by 42.1% to USD 587.4 million, compared to USD 413.4 million for the same period last year. Operational results for the first nine months of 2006 increased by 72.6% to USD 351.9 million (same period 2005: USD 203.9 million). Net profit for the first nine months of 2006 amounted to USD 51.8 million, compared to USD 70.5 million for the same period last year.

## Group value and outlook

Total assets grew by 52.8% year to date, from USD 1.77 billion to USD 2.70 billion per 30 September 2006. 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 824.2 million at 30 September 2006, (ii) the increase in cash primarily from the Kardan and GTC SA share issuance proceeds, as well as Wiener Städtische (WS) investment in Kardan Financial Services B.V. (KFS), the holding company of Kardan's activities in the financial services sector and (iii) the investment in the Ukrainian bank by the financial services segment.

Kardan's operations are developing positively and the accomplishments of the business year to date will strongly contribute to the growth of the Group going forward. Management is confident about the prospects of the group as a whole. The real estate operations have shown record profits and the fourth quarter has started successfully with the signing of numerous new transactions. The reorganization of the holdings in the Financial Services segment will allow Kardan to further increase focus on the high growth potential in retail lending and asset management operations. The Infrastructure segment is developing positively: the recent investment in a Turkish joint venture for water supply and sewage treatment is a result of the increased focus towards owning and investing in the asset side of the infrastructure business.

## Divisional review<sup>1</sup>

### Real Estate

(x USD million)	Q3 2006	Q3 2005	Change (%)
Revenues	157.5	71.9	119.1%
Operational profit	135.2	58.1	132.7%

The increase in revenues and operational profit compared to the third quarter of last year is mainly due to revaluation gains and expansion of activities. The operational profit includes a gain from the revaluation of investment properties of USD 119.4 million (Q3 2005: USD 46.6 million). Excluding this revaluation, the revenues increased from USD 25.3 million to USD 38.1 million. GTC SA achieved record profits over the third quarter of 2006 and the pace of investment is gaining momentum. GTC SA has acquired 580,000 sq.m of net building rights year to date. In the third quarter, GTC SA, in a partnership with the European Bank for Reconstruction and Development, entered the Ukraine as the ninth country of operations.

In August 2006, GTC SA agreed on the terms for the sale of the Mokotow Business Park in Warsaw, for a consideration of approximately USD 287 million. This is part of GTC SA's strategy to rebalance its Polish property portfolio, divesting mature assets in Warsaw and accelerating the acquisition of new projects in other large Polish cities. The transaction is expected to be completed no later than the end of the first quarter of 2007.

During the third quarter of 2006, GTC Real Estate N.V. (GTC RE), together with its partner the Lucky Hope Group, won a governmental tender for the acquisition of a 42.3 hectare land site in Xianyang, China, to be developed into approximately 800,000 sq.m of residential and commercial space and a hotel. This was GTC RE's second project in China. After the period under review GTC RE, together with Lucky Hope Group, won a third tender for the acquisition of a site for a new project in Shenyang to be developed into approximately 378,500 sq.m of residential and commercial area. The Chinese projects total area under development amounts to approximately 1.36 million sq.m with a total investment of USD 400 million.

In the third quarter of 2006, Kardan continued purchasing convertible debentures in GTC RE for an amount of USD 15.3 million totalling USD 38 million in Q2 and Q3 2006. As a result, Kardan recognized an accounting loss of USD 6 million. This loss is included in Kardan's

<sup>1</sup> All figures in the review of operations are presented before minority interests thus represent 100% of the results of each sector and therefore cannot be compared to the figures presented in the table on the first page. In that table the contribution of each of the businesses to the results of Kardan is presented.

financial expenses. Kardan believes that through these acquisitions it will be able to further increase its holdings in GTC RE at an attractive price. Kardan holds an indirect interest of 28.7% in GTC SA.

GTC RE's net debt position as per 30 September 2006 amounted to USD 157 million.

### Financial Services

(x USD million)	Q3 2006	Q3 2005	Change (%)
Revenues	35.3	72.2	(51.1%)
Operational profit	7.3	46.4	(84.3%)

The revenues over the third quarter of 2006 can not be compared to the same period last year, as the third quarter of 2005 included the revenues of the Romanian insurance company Omniasig and the pension fund VSP Tatry, and the USD 41.6 million equity gain on the sale thereof.

In the third quarter of 2006, Kardan announced a change in its holdings in the financial services segment. Upon completion of a number of transactions with Wiener Städtische, Kardan will effectively hold 80% in the retail lending and asset management activities (TBIF Financial Services B.V.) and 35.8% in the insurance and pension activities (TBIH Financial Services Group N.V. (TBIH)). WS will hold 60% of the insurance and pension activities, which will remain under the joint control of Kardan and WS (subject to certain conditions) until December 2010. Kardan and WS intend to cooperate in pursuing further opportunities in insurance and pension activities in the CEE countries.

This reorganisation will allow Kardan to further increase its focus on the retail lending and asset management activities and capitalize on the strong growth opportunities in these segments.

This transaction reflects a value of EUR 204 million of KFS. Upon completion of the transactions with WS, Kardan will increase its interest in KFS from 55.1% to 89.5%.

Furthermore, during the third quarter of 2006, Kardan (through its subsidiary TBIH) sold its indirect minority interests in two Russian insurance companies. Kardan intends to pursue other opportunities in Russia that are more consistent with its strategy to hold majority stakes and play an active role in the management of its subsidiaries.

KFS' net cash position as per 30 September 2006 amounted to USD 1 million.

Taking into account KFS liability to purchase the remaining shares of the minority holders in TBIH (25%), as previously announced, KFS' net debt position amounts to USD 128 million.

### Infrastructure

(x USD million)	Q3 2006	Q3 2005	Change (%)
Revenues	21.0	17.5	20.0%
Operational profit	1.0	1.7	(41.2%)

The 2006 third quarter revenues have increased compared to the same period last year while the operational profits have decreased. This is mainly due to the timing of revenue recognition of projects and an increase in marketing costs.

After the period under review, Tahal Group B.V. (Tahal) entered a joint venture that will manage, operate and maintain municipal water and sewage networks in Turkey. The joint venture, Task A.S., has 35 year concession agreements for the management and operation of the water and sewage networks of two cities in Turkey, providing water to over 250,000 people.

This project is a result of the increased focus towards owning and investing in the assets side of the infrastructure business.

Tahal is 100% owned by Kardan. Tahal's net debt as per 30 September 2006 amounted to USD 2 million.

### **Other operations**

The revenues of the other operations (Automotive & Consumer Goods and Communications & Technologies) decreased from USD 9.2 million in the third quarter of 2005 to USD 7.5 million in the third quarter of 2006. Other operations contributed USD 1.4 million to operational profits (Q3 2006: USD 4.1 million).

Kardan's other operations are held through its 80.4% subsidiary, Kardan Israel. Kardan Israel's net debt position amounted to USD 40 million.

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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)

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**Condensed Balance Sheet**  
(x USD 1,000)

	<b>30 Sep. 2006</b> unaudited	<b>31 Dec. 2005</b> audited
<b>ASSETS</b>		
<b>Non-current assets</b>	1,529,242	1,247,634
<b>Current assets</b>	505,681	334,963
<b>Cash and cash equivalents</b>	381,556	185,974
<b>Assets held for sale</b>	286,200	0
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	<b>2,702,679</b>	<b>1,768,571</b>
	=====	=====
<b>LIABILITIES AND EQUITY</b>		
<b>Shareholders' equity</b>	337,719	160,917
<b>Minority interest</b>	623,551	353,361
<b>Non-current liabilities</b>	1,255,598	998,849
<b>Current liabilities</b>	484,410	255,444
<b>Liabilities held for sale</b>	1,401	0
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	<b>2,702,679</b>	<b>1,768,571</b>
	=====	=====

## Condensed profit & loss account

(x USD 1,000)

UNAUDITED

	9 Months 2006	9 Months 2005	Q3 2006	Q3 2005
<b>Net Revenues</b>	587,388	413,392	221,921	171,375
Expenses	230,672	202,764	77,404	61,052
<b>Results from operations</b>	356,716	210,628	144,517	110,323
Unallocated expenses	4,830	6,755	269	2,233
Financing result	96,457	33,443	45,828	17,321
<b>Income / loss before taxes</b>	255,429	170,430	98,420	90,769
Taxes on income	60,178	22,523	28,228	9,005
<b>Income / loss after taxes</b>	195,251	147,907	70,192	81,764
Minority interest	143,499	77,413	56,709	41,192
<b>Net income (loss)</b>	51,752	70,494	13,483	40,572

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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.