KARDAN N.V.
AMSTERDAM, THE NETHERLANDS

Financial Statements
For the year ended December 31, 2006

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## CONSOLIDATED BALANCE SHEET

**A s s e t s**

| | Note | **December 31, 2006** | December 31, 2005 |
|---|---|---|---|
| | | USD'000 | USD'000 |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 45,929 | 30,023 |
| Real estate under construction | 8 | 248,379 | 155,966 |
| Investment properties | 9 | 840,706 | 759,548 |
| Intangible assets | 10 | 153,400 | 86,415 |
| Investments in associates | 11 | 142,796 | 92,773 |
| Available-for-sale financial assets | 12 | 73,106 | 45,609 |
| Long-term loans and receivables | 13 | 128,703 | 59,309 |
| Deferred acquisition costs (insurance companies) | 14 | 8,333 | 12,485 |
| Deferred income tax assets | 48 | 5,778 | 5,506 |
| | | 1,647,130 | 1,247,634 |
| **Current assets** | | | |
| Inventories and contract work and buildings inventory in progress | 15 | 210,949 | 69,769 |
| Current maturities of long-term loans and receivables | 13 | 123,963 | 75,657 |
| Loans to bank customers | 16 | 159,126 | - |
| Trade receivables | 17 | 55,522 | 31,208 |
| VAT and income tax receivables | | 21,318 | 19,786 |
| Other receivables and prepayments | 18 | 57,694 | 66,072 |
| Insurance receivables | 19 | 15,460 | 17,909 |
| Reinsurance assets | 20 | 20,982 | 16,762 |
| Short-term investments | 21 | 79,578 | 48,661 |
| Cash and cash equivalents | 22 | 538,075 | 185,974 |
| | | 1,282,667 | 531,798 |
| **Total assets** | | 2,929,797 | 1,779,432 |

*The accompanying notes are an integral part of these financial statements.*

## Equity and liabilities

| | Note | **December 31, 2006** | December 31, 2005 |
|---|---|---|---|
| | | USD'000 | USD'000 |
| **Equity attributable to equity holders of the parent** | | | |
| Issued and paid-in capital | 23 | 20,982 | 15,717 |
| Share premium | | 203,011 | 92,670 |
| Property revaluation reserve | | 79,473 | 53,945 |
| Revaluation reserve, other | | 596 | (2,444) |
| Foreign currency translation reserve | | 13,562 | (5,736) |
| Retained earnings | | 33,676 | 6,765 |
| | | 351,300 | 160,917 |
| **Minority interests** | | 646,417 | 353,361 |
| **Total equity** | | 997,717 | 514,278 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 25 | 619,747 | 584,433 |
| Other long term liabilities | 26 | 6,169 | 12,636 |
| Warrants and options | 27 | 176,697 | 39,713 |
| Convertible debentures | 28 | 57,270 | 93,870 |
| Debentures | 29 | 106,015 | 101,350 |
| Insurance contracts liabilities | 30 | 110,956 | 119,176 |
| Deferred income tax liabilities | 48 | 82,409 | 46,285 |
| Accrued severance pay, net | 31 | 1,765 | 1,386 |
| | | 1,161,028 | 998,849 |
| **Current liabilities** | | | |
| Due to customers for contract work | | 8,588 | 5,267 |
| Advances from customers in respect of contracts | | 12,848 | 21,519 |
| Banking customers accounts | 32 | 187,719 | - |
| Other payables and accrued expenses | 33 | 140,219 | 70,159 |
| Income tax payables | | 35,987 | 21,919 |
| Trade payables | 34 | 76,132 | 36,007 |
| Interest-bearing loans and borrowings | 35 | 309,559 | 111,434 |
| | | 771,052 | 266,305 |
| **Total liabilities** | | 1,932,080 | 1,265,154 |
| **Total equity and liabilities** | | 2,929,797 | 1,779,432 |

## CONSOLIDATED INCOME STATEMENT

| | Note | **December 31, 2006** | December 31, 2005 |
|---|---|---|---|
| | | USD'000 | USD'000 |
| **Revenues** | | | |
| Sales and services | 37 | 62,385 | 55,923 |
| Contract revenues | | 81,244 | 61,656 |
| Insurance activities | 38 | 76,238 | 112,993 |
| Lending and fiduciary activities | 39 | 31,299 | 12,293 |
| Rental revenues | | 90,213 | 71,590 |
| Equity in net earnings of associated companies | 11 | 8,837 | 10,089 |
| Management fees | | 1,550 | 1,684 |
| Gain on issuance of shares in associated companies and subsidiaries to third parties | | 63,624 | 18,569 |
| Adjustment to fair value of investment properties | 9 | 260,984 | 152,317 |
| Gain on disposal of assets and other income | 40 | 24,321 | 61,912 |
| | | 700,695 | 559,026 |
| **Expenses** | | | |
| Cost of sales and services | 41 | 51,218 | 46,005 |
| Contract costs | | 61,248 | 42,958 |
| Operating expenses of insurance activities | 42 | 78,797 | 111,085 |
| Operating expenses of lending and fiduciary activities | 39 | 26,771 | 9,822 |
| Costs of rental operations | | 25,657 | 20,334 |
| Selling and marketing expenses | 43 | 18,511 | 14,204 |
| General and administration expenses | 44 | 39,239 | 30,153 |
| Share based payments | 24 | 16,511 | 2,537 |
| Financing expenses | 46 | 157,476 | 79,164 |
| Financing income | 46 | (34,383) | (10,292) |
| Other expenses | 47 | 8,082 | 5,613 |
| | | 449,127 | 351,583 |
| **Net profit before income taxes** | | 251,568 | 207,443 |
| Income taxes | 48 | 57,207 | 38,781 |
| **Net profit for the year** | | 194,361 | 168,662 |
| Attributable to: | | | |
| Equity holders | | 50,671 | 52,613 |
| Minority interest holders | | 143,690 | 116,049 |
| | | 194,361 | 168,662 |
| Earnings per share | | | |
| Basic | 49 | 0.67 | 0.82 |
| Diluted | 49 | 0.57 | 0.78 |

*The accompanying notes are an integral part of these financial statements*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | *Attributable to equity holders of the parent* | | | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Issued and paid-in capital | Share premium | Property revaluation reserve | Revaluation reserve, other | Foreign currency translation reserve | Retained earnings | Total | | |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **Balance as of January 1, 2005** | 16,922 | 75,644 | 17,633 | (614) | 4,482 | (9,720) | 104,347 | 351,031 | 455,378 |
| Currency translation differences | – | – | – | 1,782 | (13,111) | – | (11,329) | (13,096) | (24,425) |
| Change due to issuance of shares in subsidiaries/acquisition of subsidiaries | – | – | – | – | – | – | – | (98,766) | (98,766) |
| Change in unrealized revaluation reserve | – | – | 184 | (100) | – | – | 84 | (581) | (497) |
| Realisation of revaluation reserve | – | – | – | (3,512) | 603 | – | (2,909) | 364 | (2,545) |
| Share base payment | – | 977 | – | – | – | – | 977 | 1,560 | 2,537 |
| Total income and expense for the year recognized directly in equity | – | 977 | 184 | (1,830) | (12,508) | – | (13,177) | (110,519) | (123,696) |
| Net profit for the period | – | – | – | – | – | 52,613 | 52,613 | 116,049 | 168,662 |
| Total income /expense for the year | – | 977 | 184 | (1,830) | (12,508) | 52,613 | 39,436 | 5,530 | 44,966 |
| Issuance of shares (from exercise of warrants, options and conversion of debentures) | 1,071 | 15,885 | – | – | – | – | 16,956 | – | 16,956 |
| Sale of shares held by subsidiary | 14 | 164 | – | – | – | – | 178 | – | 178 |
| Dividend distributed by subsidiaries | – | – | – | – | – | – | – | (3,200) | (3,200) |
| Reclassification according to statutory requirements (*) | (2,290) | – | 36,128 | – | 2,290 | (36,128) | – | – | – |
| **Balance as of December 31, 2005** | 15,717 | 92,670 | 53,945 | (2,444) | (5,736) | 6,765 | 160,917 | 353,361 | 514,278 |

*Adjusted to conform with 2006 presentation*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

| | *Attributable to equity holders of the parent* | | | | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Issued and paid-in capital | Share premium | Property revaluation reserve | Revaluation reserve, other | Foreign currency translation reserve | Retained earnings | Total | | |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **Balance as of January 1, 2006** | 15,717 | 92,670 | 53,945 | (2,444) | (5,736) | 6,765 | 160,917 | 353,361 | 514,278 |
| Currency translation differences | – | – | – | – | 25,020 | – | 25,020 | 17,103 | 42,123 |
| Change in fair value of hedge instrument (net of tax – USD 146 thousand) | – | – | – | 242 | – | – | 242 | 327 | 569 |
| Change due to issuance of shares in subsidiaries/acquisition of subsidiaries (**) | – | – | – | – | – | – | – | 128,964 | 128,964 |
| Change in unrealized revaluation reserve | – | – | 2,735 | (938) | – | – | 1,797 | 324 | 2,121 |
| Share base payment | – | 548 | – | – | – | – | 548 | 5,301 | 5,849 |
| Put options granted to minority shareholders in subsidiaries | – | – | – | – | – | (967) | (967) | (2,391) | (3,358) |
| Total income and expense for the year recognized directly in equity | – | 548 | 2,735 | (696) | 25,020 | (967) | 26,640 | 149,628 | 176,268 |
| Net profit for the period | – | – | – | - | - | 50,671 | 50,671 | 143,690 | 194,361 |
| Total income /expense for the year | – | 548 | 2,735 | (696) | 25,020 | 49,704 | 77,311 | 293,318 | 370,629 |
| Issuance of shares | 2,887 | 98,837 | – | – | – | – | 101,724 | – | 101,724 |
| Exercise of warrants and options | 392 | 9,590 | – | – | – | – | 9,982 | – | 9,982 |
| Sale of shares held by subsidiary | – | 1,366 | – | – | – | – | 1,366 | – | 1,366 |
| Dividend distributed by subsidiaries | – | – | – | – | – | – | – | (262) | (262) |
| Reclassification according to statutory requirements (*) | 1,986 | – | 22,793 | 3,736 | (5,722) | (22,793) | – | – | – |
| **Balance as of December 31, 2006** | 20,982 | 203,011 | 79,473 | 596 | 13,562 | 33,676 | 351,300 | 646,417 | 997,717 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

*(*) In accordance with the Dutch law, part of the retained earnings is restricted for distribution, following the regulations to maintain a revaluation reserve in respect of real estate unrealized fair value adjustments.*

*(**) The movement includes changes in minority interests following various transactions during 2006. These transactions primarily include:*

- *Increase due to capital increase in GTC SA and exercise of management options (see Notes 6(B)C; 24(B)4);*
- *Increase due to exercise of options and conversion of debentures of GTC RE (see Note 6(B)G);*
- *Decrease due to acquisition of minority shareholders in TBIH (see Note 6(B)H);*
- *Increase due to capital increase in Kardan Israel (see Note 6(B)L).*

*The accompanying notes are an integral part of these financial statements.*

**CONSOLIDATED CASH FLOW STATEMENT**
**For the year ended December 31**

| | **2006** | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| **Cash flow from operating activities** | | |
| Net profit before taxes on income | 251,568 | 207,443 |
| **Adjustment to reconcile net profit (loss) to net cash** | | |
| Charges/ (credits) to profit/loss not affecting operating cash flows: | | |
| • Equity earnings of associated companies | (8,837) | (10,089) |
| • Dividend received from associated companies | 4,309 | 6,845 |
| • Gain on issuance of shares in associated companies and subsidiaries to third parties, net | (63,624) | (18,569) |
| • Gain on disposal of investments in companies, property, plant and equipment and investment properties, net | (20,124) | (50,743) |
| • Impairment of investments | – | 3,935 |
| • Share based payment | 6,156 | 2,537 |
| • Depreciation and amortization | 5,502 | 6,942 |
| • Fair value adjustments of investment properties | (260,984) | (152,317) |
| • Exchange differences, net | 48,449 | (23,836) |
| • Change in fair value of options | 103,768 | 31,216 |
| • Decrease (increase) in fair value of securities held for trading, net | 2,861 | (1,308) |
| • Decrease (increase) in fair value of hedge instrument | (2,171) | – |
| • Increase in accrued severance pay, net | 226 | (181) |
| Adjusted net profit | 67,099 | 1,875 |
| **Changes in operating assets and liabilities** | | |
| • Change in insurance provisions and deferred acquisition costs, net | 14,217 | 19,138 |
| • Change in outstanding insurance premiums, reinsurance receivables and insurance companies | (9,565) | (6,324) |
| • Change in trade and other receivables | (2,634) | (17,970) |
| • Change in inventories and in contract work in progress, net of advances from customers | (69,461) | (8,433) |
| • Change in trade and other payables | 180,023 | 6,520 |
| Net cash generated from (used in) operations | 179,679 | (5,194) |
| Income taxes paid | (4,754) | (3,948) |
| **Net cash provided by (used in) operating activities** | 174,925 | (9,142) |

**CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**
**For the year ended December 31**

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| **Cash flow from investing activities** | | |
| Acquisition of property, plant and equipment and investment properties | (173,257) | (129,628) |
| Investments in companies and partnerships | (80,172) | (161,674) |
| Collecting (granting) of loans to associated companies, net | (22,217) | (9,772) |
| Proceeds from disposal of property, plant and equipment and investment properties | 280,950 | 26,797 |
| Granting of long-term loans | (445,681) | (116,233) |
| Collecting of long-term loans and receivables | 315,242 | 59,659 |
| Change in short-term investments | (53,563) | (27,125) |
| Acquisition of newly-consolidated subsidiaries, net of cash acquired (see A below) | (68,445) | (4,613) |
| Increase in cash resulting from sale of investments in formerly consolidated subsidiaries (see B below) | 55,764 | 40,864 |
| Increase in cash resulting from sale of investments in formerly proportionately consolidated subsidiaries (see C below) | 25,736 | 15,267 |
| Change in deferred brokerage fees | (1,467) | (1,748) |
| Income taxes paid | 3,810 | – |
| Change in other assets | (120) | (3,180) |
| **Net cash used in investing activities** | (163,420) | (311,386) |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from exercise of warrants of issuance of Company's shares | 102,116 | 3,584 |
| Proceeds from issuance of shares to minority shareholders of subsidiaries, net | 160,423 | 9,357 |
| Treasury shares sold | 1,366 | 350 |
| Dividend to minority shareholders in subsidiaries | (262) | (3,397) |
| Issuance of debentures | 5,244 | 127,752 |
| Issuance of warrants in subsidiaries | – | 306 |
| Repayment of debentures | (41,151) | (31,173) |
| Receipts of long-term loans | 330,335 | 305,533 |
| Repayment of long-term loans | (214,255) | (111,398) |
| Costs related to issuance of debt and shares | (3,261) | (2,230) |
| Change in deposits from tenants | (967) | 723 |
| Purchase of option rights | (2,887) | – |
| Change in short-term loans and borrowings, net | (18,380) | (2,598) |
| **Net cash provided by financing activities** | 318,321 | 296,086 |

**CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**
**For the year ended December 31**

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| **Foreign exchange differences relating to cash and cash equivalents** | 22,275 | 5,821 |
| **Increase (decrease) in cash and cash equivalents** | 352,101 | (17,898) |
| **Cash and cash equivalents at the beginning of the period** | 185,974 | 203,872 |
| **Cash and cash equivalents at the end of the period** | 538,075 | 185,974 |

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

Assets and liabilities of subsidiaries as of date of consolidation:

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| Cash | 9,713 | 4,273 |
| Working capital (excluding cash) | (93,714) | 6,807 |
| Non-current assets | (41,454) | (20,578) |
| Goodwill on acquisition | (21,224) | (6,358) |
| Non-current liabilities | 47,542 | 9,388 |
| Minority interest | 3,583 | (2,418) |
| Total purchase price | (95,554) | (8,886) |
| Cash of subsidiaries acquired | 9,713 | 4,273 |
| Payable on account of investment | 2,540 | – |
| Reclassification from investment in associates | 14,855 | – |
| Cash used in acquisition, net of cash acquired | (68,445) | (4,613) |

**CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**
**For the year ended December 31**

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| **B. Increase in cash resulting from sale of investment in formerly consolidated subsidiary** | | |
| Cash | 5,310 | 32,097 |
| Working capital (excluding cash) | (36,747) | (39,890) |
| Non-current assets | 105,037 | 80,934 |
| Non-current liabilities | (44,612) | (29,841) |
| Minority interest | (674) | (4,088) |
| Gain on disposal of investments | 22,082 | 55,670 |
| Total consideration | 50,397 | 94,882 |
| Cash of subsidiary which ceased to be consolidated | 5,310 | (32,097) |
| Tax expenses in the period | – | 3,847 |
| Change in capital reserves | (1,758) | 738 |
| Other receivables from disposal of investments | 1,815 | (26,506) |
| Cash flows from disposal, net of cash disposed | 55,764 | 40,864 |
| **C. Increase in cash resulting from sale of investment in formerly proportionately consolidated subsidiary** | | |
| Cash | 20,225 | 7,046 |
| Working capital (excluding cash) | (52,829) | (844) |
| Non-current assets | (2,742) | 39,948 |
| Non-current liabilities | (22,451) | (32,011) |
| Minority interest | (10,024) | (3,381) |
| Gain on disposal of investments | – | 11,555 |
| Total consideration | (67,821) | 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 | 25,736 | 15,267 |
| **Material non-cash transactions** | | |
| Purchase of real estate under construction against payable | 21,766 | 11,837 |
| Conversion of debentures into subsidiary's shares | 21,671 | – |
| Conversion of debentures into Company's shares | 9,590 | 7,806 |

*The accompanying notes are an integral part of these financial statements.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT'S
**December 31, 2006**

## 1. GENERAL

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 which is engaged in the development of real estate, insurance and pension, infrastructure, technology and communications and trading in consumer goods through its subsidiaries, joint ventures and associated companies.
The Company and its subsidiaries are referred to hereinafter as 'the Group'.

The total number of employees in the Company and its subsidiaries was 7,980 as of December 31, 2006 and (December 31, 2005 - 6,120).

The registered office address of the Company is located at Prins Hendriklaan 52, Amsterdam, The Netherlands.

These financial statements were authorized for issuance by the management board on March 30, 2007.

These financial statements are not meant to be statutory financial statements of Kardan N.V. The statutory financial statements will differ from these financial statements as directors' report will also have to be included.

## 2. BASIS OF PREPARATION

### Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments, and available-for-sale financial assets that have been measured at fair value. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand (USD'000) except when otherwise indicated.

In order to present comparative figures in line with 2006, the following items were reclassified:
*Balance sheet* – Advances from buyers of USD 10,861 thousand as of December 31, 2005 were reclassified from "buildings inventory in progress" to "other payables and accrued expenses";
*Income statement* – Result of lending and fiduciary activities of USD 2,471 thousand for the year ended December 31, 2005 which was presented as part of financing income on a net basis in 2005, is now presented separately and accordingly USD 12,293 thousand was reclassified to revenues and USD 9,822 thousand was reclassified to operating expenses of lending and fiduciary activities.

### Statement of compliance
The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU.

The differences between IFRS and IFRS adopted by the EU only relate to IAS 39 and are as follows:

a) In the 2004 annotation, the fair value option for liabilities at initial recognition has been carved out (IAS39-34b). However, in 2005 the IASB changed IAS 39, allowing fair valuing liabilities but only if certain conditions are met, it is

i) fair valuing liabilities would remove inconsistencies in the balance sheet (9B i)

ii) a group of assets and liabilities are together managed and its performance is measured on the basis of fair value (9B ii)

iii) an instrument includes an embedded derivative (11A).

Accordingly, the EU carve out has been withdrawn.

b) IAS 39 paragraph 84 does not allow hedge accounting of a portfolio of core deposits. The EU has carved out this restriction.

These differences do not affect the Company.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31 each year. The financial statements of the subsidiaries are prepared for the same reporting year (December 31) as the parent company, using consistent accounting policies.

All intra group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions that are recognised in assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

**Changes in accounting policies**

The accounting policies adopted are consistent with those of previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

- IAS 1 "Presentation of Financial Statements";
- IAS 19 *Amendment - Employee Benefits (*)*
- IAS 21 *Amendment – The Effects of Changes in Foreign Exchange Rates*
- IAS 39 *Amendments – Financial Instruments: Recognition and Measurement*
- IFRIC 4 *Determining whether an Arrangement contains a Lease*

- IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds (*)*
- IFRIC 6 *Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (*)*

(*) Not applicable to the Group due to nature of activities

The principal effects of these changes are as follows:

IAS 21 *The Effects of Changes in Foreign Exchange Rates*
As of January 1, 2006 the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from monetary item that forms part of the Group's net investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change had no impact as at December 31, 2006 or December 31, 2005.

IAS 39 *Financial Instruments: Recognition and Measurement Amendment for financial guarantee contracts* (issued August 2005) and IFRS 4 *Insurance contracts* –For periods beginning on or after January 1, 2006 an entity is required to account for a financial guarantee under IAS 39, unless it elects to apply IFRS 4. The latter should be applied only when the entity previously asserted explicitly that it regards such contracts as insurance contracts and it used accounting specifically applicable to insurance contracts. Financial guarantees accounted for under IAS 39 are initially recognized at fair value and subsequently measured at the higher of the amount determined under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization under IAS 18 *Revenue*.. Comparative information for previous periods should be restated.

*Amendment for hedges of forecast intragroup transactions* (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction an that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

*Amendment for the fair value option* (issued June 2005) – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, hence the amendment did not have an effect on the financial statements.

IFRIC 4 *Determining Whether an Arrangement contains a Lease*
The Group adopted IFRIC Interpretation 4 as of January 1, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had an impact on the Group as at December 31, 2006 or December 31, 2005.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

**Judgments**

In the process of applying the Group's accounting policies, management has made no material judgments apart from those involving estimations as described below.

**Estimates and assumptions**

The preparation of the financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities disclosed in the notes as at balance sheet date as well as reported income and expenses for the period.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present values of those cash flows. The carrying amount of Goodwill as at December 31. 2006 was USD 135.million thousand, of which USD 37.7 million is allocated to real estate under construction. Where Goodwill is paid in compensation for future project development profit the goodwill is reduced commensurate with the amount of development profits subsequently realised. Goodwill amounting to approximately USD 94.8 million is allocated to financial services activities.

*Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profit will be available against which the losses can be utilised. Management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with future tax planning strategies.

*Fair value of equity instruments*

Fair value of equity instruments, primarily Put options granted to minority shareholders, employee options, phantom options and equity components of convertible debentures, have been valued, in most cases, by independent external valuers, using applicable valuation models, or based on the value of the respective companies as assigned in transactions with third parties. The valuations are necessarily based on certain assumptions, and hence they are subject to uncertainty. The fair value of such equity instruments as of December 31, 2006 was approximately USD 171 million (2005 – USD 34 million).

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. INTEREST IN JOINT VENTURES

The Group has interest in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group recognised its interest in the joint venture using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items in the consolidated financial statements on a line-by-line basis. The financial statements of the joint venture are prepared for the same reporting year (December 31) as the parent company using consistent accounting policies.

The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

### B. FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in USD, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity and for which the hedge accounting requirements are met. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recorded through equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

As at the reporting date, the assets and liabilities of the subsidiaries are translated into the presentation currency of the Company at rate of exchange ruling at the balance sheet date and their income statements are translated at weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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 |
|---|---|---|---|
| December 31, 2006 | 1.32 | 4.225 | 109.9 |
| December 31, 2005 | 1.18 | 4.603 | 110.0 |
| Change in 2006 | 11.9% | (8.2)% | (0.1)% |
| Change in 2005 | (15.1)% | 6.8% | 2.4% |

Following changes of the functional currencies of various Group companies, as of January 1, 2007 the Company has changed its functional currency from USD to EUR.

**C. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, which do not qualify as investment property, are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. Land is not depreciated.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is computed from the moment the asset is ready for use on a straight-line basis over the following estimated useful lives of the assets:

| | |
|---|---|
| Software | 3 years |
| (Office) Equipment | 5-10 years |
| Vehicles | 2-7 years |
| Buildings | 25-50 years |
| Land improvement | 5 years |

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of tangible fixed assets.

Any item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

**D. REAL ESTATE UNDER CONSTRUCTION**

Real estate under construction is presented at cost which does not exceed its net realizable value.

The direct costs paid to subcontractors for construction are capitalized into construction in progress under tangible fixed assets. Capitalized costs also include interest during the construction period, planning and design costs, construction overheads and other related costs.

Construction in progress is not depreciated until such time as the relevant assets are completed and are ready for use.

Amounts paid for leased land for the purpose of developing and constructing an investment properties are classified as construction in progress.

**E. INVESTMENT PROPERTIES**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property.

Investment properties are subsequently stated at fair value according to the fair value model, which reflects market conditions at the balance date. Gains or losses arising from a change in the fair value of the investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

**F. CONTRACT WORK AND BUILDING INVENTORY IN PROGRESS**

Costs relating to the construction of the residential properties and other projects are included as inventory as follows:

i costs incurred relating to phases of the project not available for sale; and
ii costs incurred relating to units unsold associated with a phase of the project that is available for sale.

Such costs include:

i leasehold rights for land, construction costs paid to subcontractors for the construction of housing units; and
ii capitalized costs which include borrowing costs (see loan note), planning and design costs, construction overheads and other related costs.

## G. MERCHANDISE INVENTORIES

Merchandise inventories are stated at the lower of purchase cost or net realizable value, cost being determined by the “first-in, first-out” method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

## H. BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the purchase accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group’s primary or the Group’s secondary reporting format determined in accordance with IAS 14 *Segment Reporting*.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

The carrying value of goodwill is annually tested for impairment or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable.

## I. OTHER INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The costs incurred to originate an operating lease (mainly brokers' fees) and incentives provided to lessees to enter into the agreement for rental space are, in so far as related to properties not yet qualifying as investment properties, deferred and, until the date of revaluation of the related investment property to each fair value. Before the revaluation, such costs are included within other non-current assets.

The carrying value of intangible assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

**J. INVESTMENT IN ASSOCIATES**

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.
Under the equity method, the investment in associates is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable in the statement of changes in equity.
The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

**K. IMPAIRMENT OF NON-FINANCIAL ASSETS**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried

at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.
Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

**L. INVESTMENTS AND OTHER FINANCIAL ASSETS**

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*
Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'.
Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss as part of the financing income or expenses.

*Held-to-maturity investments*
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method.
Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

**M. CASH AND CASH EQUIVALENTS**

Cash and short term deposits in the balance sheet comprise cash at banks and at hand and short term deposits with an original maturity of three months or less. Unless otherwise disclosed, cash is unrestricted and is considered to have very limited fair value risk, if any.

**N. INSURANCE RECEIVABLES**

Insurance receivables are recognised when due and measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

**O. IMPAIRMENT OF FINANCIAL ASSETS**

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

*Assets carried at amortised cost*
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

*Assets carried at cost*
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been

incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

*Available-for-sale financial assets*
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

**P. TREASURY SHARES**

Treasury shares are presented in the balance sheet as a deduction from shareholders' equity. No gain or loss is recognized in the profit and loss statement on the sales, issuance, or cancellation of treasury shares.

Consideration received is presented in the financial statements as a change in shareholders' equity.

Shares purchased by subsidiaries are accounted for as treasury shares.

**Q. CONVERTIBLE DEBENTURES**

Convertible debentures which contain both a liability and an equity element are separated into two components on initial issuance and each is accounted for separately. The portion of the proceeds allocated to the liability component is determined based on the present value of the debentures' cash outflows using a market rate for an equivalent non-convertible bond. The remainder of the proceeds is allocated to the equity component. Issue costs are apportioned between the liability and the equity components of the convertible debentures based on the respective carrying amounts of the liability and equity components on the issuance date.

After initial recognition, the liability component is subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount on settlement.

After initial recognition, the equity component is measured according to IAS 39 and is presented at fair value. Gains or losses are recognized in profit or loss.

**R. DEBENTURES**

Debentures are initially recognized at fair value net of costs associated with issuance of the debentures. Amortized cost is calculated by taking into account any discount or premium on the consideration and using the effective interest method.

The proceeds received in consideration for the issuance of debentures and detachable warrants are allocated between the debentures and warrants based on their relative fair value.

**S. INTEREST BEARING LOANS AND BORROWINGS**

All loans are initially recognized at fair value, being the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortized cost. Amortized cost is calculated by taking into account premiums paid at initiation of the loans and using the effective interest method.
Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

Borrowing costs are accrued and expensed in the period in which they are incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

**T. INSURANCE LIABILITIES**

*Insurance contracts liabilities*

Life insurance contracts liabilities
The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

Insurance contracts with fixed and guaranteed terms
A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and policy administration expenses, based on the valuation assumptions used. The liability is based on assumptions as to morality, persistency, investment income and maintenance expenses that are established at the time the contract is issued.

General insurance contracts liabilities
General business contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of general insurance claims, particularly in respect of liability business, therefore the ultimate cost of which cannot be known with certainty at the balance sheet date.

Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the income statement in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

Liability adequacy test
At each balance sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the income statement by establishing an unexpired risk provision.

*Product classification*

Insurance contracts
Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependant on both the probability of an insured event and the magnitude of its potential effect. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

**U. DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES**

*Financial assets*
A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass through arrangement; and
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from the asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Financial liabilities*
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

**V. PROVISIONS**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

**W. SHARE-BASED PAYMENT TRANSACTIONS**

Employees and consultants of the Group receive remuneration in the form of share-based payment transactions, whereby employees (or consultants) render services as consideration for equity instruments (‘equity settled transactions’). In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured at the fair value of issued instrument. For cash-settled transactions, the liability is measured at each reporting date until settlement.

*Equity-settled transactions*
The cost of equity-settled transactions with employees (or consultants) is measured by reference to the fair value at the date at which they were granted. In most cases, the fair value is determined by an external valuer using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees (or consultants) become fully entitled to the award (‘the vesting date’). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.
Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employees as measured at the date of modification.

*Cash-settled transactions*

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until vesting with recognition of corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

**X. LEASES**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Group as a lessee*
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

*Group as a lessor*
Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

**Y. REVENUE RECOGNITION**

*General*
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*
Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

*Contract revenues*
Revenue from work performed under a contract is recognized by reference to the stage of completion when this can be measured reliably. The stage of completion is measured based on engineering estimates. When the contract outcome cannot be estimated reliably, revenue is

recognized only to the extent of the expenses recognized that are recoverable. In the period in which it is determined that a loss will result from the performance of the contract, the entire amount of the estimated ultimate loss is charged against income.

*Rental income*
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. Costs of rental operations are recorded in the same period as rental income is recognised. The aggregate cost of rental incentives are recognised as a reduction of rental income over the lease term on a straight line basis.

*Sale of apartments*
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues comprise amounts received or receivable, net of Value Added Tax and discounts.
Revenue from the sale of houses and apartments is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and when the revenue can be measured reliably. The risks and rewards are considered as transferred to the buyer when the houses or apartments have been substantially constructed, accepted by the customer and the full amount resulting from the sale agreement was paid by the buyer.

The costs related to the real estate development incurred during the construction period are capitalised in inventory.

*Rendering of services (including management fees)*
Revenues from services are recognized as the services are provided when the outcome of such transactions can be estimated reliably.

Revenues from managing pension funds are recognised upon the receipt of member contributions. Contributions to the pension funds are recorded when received. The fee for management of pension funds are recorded on an accrual basis.

*Investment income*
Interest income is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate (the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset). Interest income includes the amortisation of any discount or premium. Investment income also includes dividends, which are included on the date the shares become quoted ex dividend.

*Income from insurance*

Premium income
Premiums from life insurance contracts are recognised as revenue when payable by the policyholders. For single premium business this is the date from which the policy is effective. For regular premium contracts, receivables are recorded at the date when payments are due.

For non life business premiums written are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage.

Estimates of premiums written as at the balance sheet date but not yet received, are assessed based on estimates from underwriting or past experience and are included in premiums earned.

**Z. INSURANCE BUSINESS**

Life Insurance Business

a. Premiums, including savings, are accounted for on an accrual basis. Accrued premiums include premiums for this line of business which are outstanding for up to one year.
b. Surrenders are accounted for when paid.
c. Death claims include estimates of claims which occurred up until balance sheet date.
d. Life assurance reserve and the reinsurers' share therein, are determined on the basis of annual actuarial valuations computed by the subsidiaries' actuary, consistent with the previous year. In the calculation of the reserve, the actuary uses the same interest rates and mortality tables used by the subsidiaries in determining the insurance tariffs of the various insurance reserves.
e. Acquisition costs are deferred by the "DAC" method According to the principles, the DAC includes agent's commissions and other expenses related to the acquisition of new policies, including a part of administrative and general expenses. According to these principles the DAC is amortized in equal parts during the policy period but not over more than 15 years. Deferred acquisition costs relating to cancelled policies are charged to income at cancellation date.
f. Profit from life assurance business is determined out of the surplus resulting from the annual actuarial valuation of the reserve.

General Insurance Business

a. The underwriting results for general insurance business are determined on an annual basis.
b. Premiums are accounted for on an accrual basis.
c. The premium reserve and the reinsurers' share in reinsurance receivables are calculated on a daily basis.
d. The portion of commissions and other acquisition costs, relating to the unearned premium, is carried forward as deferred acquisition costs. These deferred expenses are calculated according to the actual rates, although in many cases rates that are lower than the actual rates were used due to low premiums that based on past experience were insufficient to cover the claims and the actual costs.
e. Claims comprise the settlement and handling cost of paid and outstanding claims arising from events occurring in the reporting year and adjustments to outstanding claims reserves established in prior years. Any such adjustments are currently reflected in earnings.
f. Outstanding claims are included on the basis of actuarial valuations or case by case estimate if higher.
g. Business from other insurance companies and underwriting agencies are included to the extent such results are reported in statements received by the balance sheet date.
h. Investment income, including the inflationary restatement of non-monetary items (mainly fixed assets, investments in investees and shareholders' equity) is charged to

general insurance business and the profit and loss statement based on the ratio of the investments relating to insurance liabilities and equity and other liabilities.

Income from investments relating exclusively to insurance liabilities is recorded in general insurance transactions.

Reinsurance

a. The reinsurers' shares in insurance reserves and outstanding claims are presented separately in the balance sheet, net of an allowance for doubtful or bad debts, based on management's estimate.
b. The reinsurers' liabilities to the subsidiaries do not release the subsidiaries from their obligation to their policyholders insured under the insurance policies. A reinsurer who will not fulfil his future obligations under the reinsurance treaties may cause the Group losses in the future.
c. Accounting policy regarding reinsurance strategy - In order to reduce the insurance risks the company utilises a reinsurance program. The majority of reinsurance business ceded is placed on a quota share/ excess (in aviation line of business the company writes business only with facultative cover with no significant retention) of loss basis with retention limits varying by product line and territory (see separate table per line of business in Note 14). Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. Reinsurance is placed with high rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each year end, management performs assessment of creditworthiness of reinsurers to update reinsurance purchase strategy and ascertaining suitable allowance for impairment of reinsurance assets.

**AA. TAXES**

*Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

*Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary difference, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be used except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority and expected to settle net or simultaneously..

**BB.FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES**

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.
For financial instruments where there is no active market, the estimated fair value is determined by the Company by using valuation models.
If the fair value can not be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

The Company has judged that the fair value of some of the balance sheet items does not differ significantly from their current carrying amounts. This is valid for cash items, receivables from banks, customers' loans, and other negotiated receivables and liabilities. The Company believes that the current carrying amount of these assets and liabilities approaches their fair value, especially when they are short-term or their interest rates are changing together with the change in the current market conditions.

**CC. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING**

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability;
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or
- Hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

*Fair value hedges*
Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.
For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.
For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.
Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.
When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is

recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.
The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

*Cash flow hedges*
Cash flow hedges are a hedge of the exposure to variability in cash flow that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.
Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.
If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

*Hedges of a net investment*
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to profit or loss.

**DD. PUT OPTION GRANTED TO MINORITY SHAREHOLDERS**

The Group has granted to several key executives an option (Put Option) to sell any or all of their shares in certain subsidiaries within a certain period.

The Group recognises a financial liability under the above contracts at their fair value. The minority interest herein is presented as a financial liability.

Cost of re-measurement of the financial liability is accounted for through the profit and loss account.

**EE.FUTURE CHANGES IN ACCOUNTING POLICIES**

There are other changes in International Financial Reporting Standards, which should be applied in the annual period commencing on or after January 1, 2007, but earlier application are encouraged:

- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*
- IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 8 *Operating Segments*
- IAS 1 *Presentation of Financial Statements*

The amendments have been analysed by the Company. The standards, which come into force after 2007, will not impact on the financial data presented in these financial statements. However, as the result of implementation of IFRS 7 in the year beginning January 1, 2007 the disclosures on financial instruments as well as on risk policies of the Company will change.

## 5. SEGMENT INFORMATION

### A. GENERAL

The Group's operating businesses are organized and managed separately. Each segment represents a strategic business unit that offers different products and serves different markets. Since the Group's risks and rates of return are affected predominantly by differences in the products and services produced, the primary segments are deemed to be business segments.

*The Real Estate segment* - The Company, through its subsidiaries owns investment properties and is involved in development of office, shopping centres and residential projects in Central and Eastern Europe and Israel.

*The Financial Services segment* - The Company through its subsidiaries is active in Bulgaria, Romania, Slovakia, Croatia, Serbia, Georgia, Russia and Ukraine. The activity is focused on financial services including the management of pension funds, insurance and reinsurance and lending activities.

*The Infrastructure segment* - The Company, through a subsidiary, provides engineering, consulting and design services. The Company undertakes projects in Latin America, Eastern Europe, Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

*The Automotive & Consumer Goods segment* - The Company through its subsidiaries is active in the import and marketing of consumer products and the Company's equity in earnings of an associated company which imports and markets automobiles.

*The Communications and Technology segment* - The Company, through its subsidiaries, focused in recent years on start-up companies, directly and through venture capital funds, as well as investments in companies which supply network data services, satellite and cable T.V., software products and information technology solutions.

**For the year ended December 31, 2006**

| | Real Estate | Financial Services | Infrastructure | Automotive & Consumer Goods | Communications & Technology | Other | Total |
|---|---|---|---|---|---|---|---|
| Segment revenues | 445,699 | 130,126 | 81,249 | 27,609 | 10,168 | 5,844 | 700,695 |
| Segment results | 353,572 | 6,875 | 3,257 | 6,422 | 8,282 | 3,297 | 381,705 |
| Unallocated expenses | | | | | | | (7,044) |
| Profit from operations | | | | | | | 374,661 |
| Financing expenses, net | | | | | | | (123,093) |
| Taxes on income | | | | | | | (57,207) |
| **Net profit for the year** | | | | | | | **194,361** |
| Minority interests | | | | | | | 143,690 |
| Equity holders | | | | | | | 50,671 |
| **As of December 31, 2006** | | | | | | | |
| Allocated assets | 1,804,815 | 708,819 | 69,880 | 65,444 | 58,483 | 3,241 | 2,710,682 |
| Unallocated assets | | | | | | | 219,115 |
| Total assets | | | | | | | 2,929,797 |
| Allocated liabilities | 162,150 | 476,566 | 36,530 | 15,101 | 992 | 1,849 | 693,188 |
| Unallocated liabilities | | | | | | | 1,238,892 |
| Total liabilities | | | | | | | 1,932,080 |
| Capital expenditure | 172,470 | 51,899 | 825 | 19 | 27,226 | 989 | 253,428 |
| Depreciation and amortization | 424 | 3,590 | 1,251 | 49 | 14 | 173 | 5,502 |

**For the year ended December 31, 2005**

| | Real Estate | Financial Services | Infrastructure | Automotive & Consumer Goods | Communications & Technology | Other | Total |
|---|---|---|---|---|---|---|---|
| Segment revenues | 256,325 | 195,455 | 62,041 | 26,404 | 11,622 | 7,179 | 559,026 |
| Segment results | 195,609 | 58,972 | 5,142 | 8,796 | 10,388 | 4,906 | 283,813 |
| Unallocated expenses | | | | | | | (7,498) |
| Profit from operations | | | | | | | 276,315 |
| Financing expenses, net | | | | | | | (68,872) |
| Taxes on income | | | | | | | (38,781) |
| **Net Profit for the year** | | | | | | | **168,662** |
| Minority interests | | | | | | | 116,049 |
| Equity holders | | | | | | | 52,613 |
| **As of December 31, 2005** | | | | | | | |
| Allocated assets | 1,185,402 | 273,283 | 57,002 | 45,880 | 27,921 | 39,591 | 1,629,079 |
| Unallocated assets | | | | | | | 150,353 |
| Total assets | | | | | | | 1,779,432 |
| Allocated liabilities | 62,383 | 163,255 | 37,633 | 5,105 | 1,161 | 1,356 | 270,883 |
| Unallocated liabilities | | | | | | | 983,410 |
| Total liabilities | | | | | | | 1,254,293 |
| Capital expenditure | 270,784 | 26,480 | 2,364 | 101 | 3,213 | 287 | 303,229 |
| Depreciation and amortization | 1,427 | 2,408 | 1,875 | 64 | 121 | 626 | 6,521 |

**C. SECONDARY SEGMENT INFORMATION – GEOGRAPHICAL SEGMENTS**

(1) Revenues by Geographical Markets (according to location of customers):

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Central & Eastern Europe | 584,002 | 471,237 |
| China | 7,973 | 783 |
| Israel | 78,584 | 72,517 |
| Other | 30,136 | 14,489 |
| | 700,695 | 559,026 |

(2) Carrying value of assets and cost of acquisition of long-term assets by Geographical Areas (according to location of assets):

| | **Segment Assets** | | **Capital expenditures** | |
|---|---|---|---|---|
| | **December 31, 2006** | December 31, 2005 | **December 31, 2006** | December 31, 2005 |
| | USD'000 | USD'000 | USD'000 | USD'000 |
| Europe (mainly Central & Eastern Europe) | 2,419,139 | 1,140,008 | 223,530 | 297,221 |
| China | 23,207 | 5,597 | 303 | 42 |
| Israel | 249,460 | 480,090 | 28,774 | 5,966 |
| Other | 18,876 | 3,384 | 821 | - |
| Total allocated assets | 2,710,682 | 1,629,079 | 253,428 | 303,229 |
| Unallocated assets | 219,115 | 150,353 | | |
| | 2,929,797 | 1,779,432 | | |

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis.

Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, and taxes currently payable and accrued liabilities.

## 6. BUSINESS COMBINATIONS AND INVESTMENT IN SUBSIDIARIES AND JOINT VENTURES

A. The consolidated financial statements include the financial statements of the Company, its subsidiaries and its joint ventures. Following is a list of the Company's principal subsidiaries and joint ventures.

| Holding Company | Name of Subsidiary or Joint Venture | Country of incorporation | % equity interest as of December 31 | | |
|---|---|---|---|---|---|
| | | | **2006** | 2005 | |
| Kardan N.V. | Kardan Israel Ltd. | Israel | 78.0 | 80.5 | Subsidiary |
| | Kardan Financial Services B.V. | Netherlands | 55.1 | 88.2 | Subsidiary |
| | GTC Real Estate N.V. | Netherlands | 61.4 (*) | 69.1(*) | Subsidiary |
| | Tahal Group B.V. | Netherlands | 100 | 100 | Subsidiary |
| Kardan Israel Ltd. | Kardan Real Estate Enterprise and Development Ltd | Israel | 100 | 100 | Subsidiary |
| | Kardan Motors Ltd. | Israel | 100 | 100 | Subsidiary |
| | Kardan Technologies Ltd. | Israel | 60.7 | 56.4 | Subsidiary |
| | Kardan Communications Ltd. | Israel | 100 | 100 | Subsidiary |
| Tahal Group B.V. | Israel Water Planning Ltd. | Israel | 100 | 100 | Subsidiary |
| Kardan Real Estate Enterprise and Development Ltd. | Sofir Construction Ltd. | Israel | 50 | 50 | Joint venture |
| Kardan Motors Ltd. | Taldan Motors Ltd. | Israel | 90 | 90 | Subsidiary |
| | S.F.D.I. Ltd. | Israel | 100 | 100 | Subsidiary |
| Israel Water Planning Ltd. | IWP Engineers and Consultants Ltd. | Israel | 100 | 100 | Subsidiary |
| Kardan Financial Services B.V. | TBIH Financial Services Group N.V. | Netherlands | 74.8 | 58.2 | Joint venture |

(*) Effective holding percentage

| Holding Company | Name of Subsidiary or Joint Venture | Country of incorporation | % equity interest as of December 31 | | |
|---|---|---|---|---|---|
| | | | **2006** | 2005 | |
| TBIH Financial Services Group N.V. | TBI Bulgaria AD | Bulgaria | 87.7 | 56.8 | Subsidiary |
| | Dunav – TBI AD Belgrade | Serbia | - | 51 | Subsidiary |
| | TBIF Financial Services B.V. | Netherlands | 89.4 | 100 | Subsidiary |
| | Helios Insurance Company Ltd. | Croatia | 100 | 70.2 | Subsidiary |
| | Georgian Insurance Pension Holding Ltd. | Georgia | 61 | 51 | Subsidiary |
| | Alpha Insurance & Reinsurance Broker Limited | Gibraltar | 85 | 85 | Subsidiary |
| | Hannover Re (Guernsey) PCC Limited – Cell TBIH | Guernsey | 100 | 100 | Subsidiary |
| | TBI (RUSS) LLC | Russia | 100 | 100 | Subsidiary |
| | UPIH B.V. | Netherlands | 50 | 100 | Subsidiary |
| TBI Bulgaria AD and subsidiaries | Doverie Pension Fund A.D. | Bulgaria | 92 | 91.8 | Subsidiary |
| | TBI AD | Bulgaria | 100 | 100 | Subsidiary |
| | Bulstrad Insurance & Reinsurance AD | Bulgaria | 97.3 | 97.3 | Subsidiary |
| | European Insurance & Reinsurance Brokers Limited | United Kingdom | 85 | 85 | Subsidiary |
| | Bulstrad DSK Life | Bulgaria | 90.9 | 90.9 | Subsidiary |
| | Bulstrad Health Insurance AD | Bulgaria | 100 | 100 | Subsidiary |
| | TBIF Bulgaria AD | Bulgaria | 100 | 100 | Subsidiary |
| TBIF Financial Services B.V. | TBI Leasing AD (**) | Bulgaria | 100 | 90 | Subsidiary |
| | TBI Credit EAD (**) | Bulgaria | 100 | 100 | Subsidiary |
| | TBI Asset Management AD (**) | Bulgaria | 100 | 100 | Subsidiary |
| | TBI Invest AD (**) | Bulgaria | 100 | 100 | Subsidiary |
| | HypoCredit AD | Bulgaria | 50 | 50 | Subsidiary |
| | TBI Leasing SA | Romania | 100 | 100 | Subsidiary |
| | Sympatia Finance o.c.p | Slovakia | 100 | 100 | Subsidiary |
| | Stockbroker a.d. | Serbia | - | 78.5 | Subsidiary |
| | TBIF Financial Services GmbH | Austria | 100 | 100 | Subsidiary |
| | TBI Leasing d.o.o | Serbia | - | 100 | Subsidiary |
| | Regional Credit Bank | Russia | 77.8 (*) | - | Subsidiary |
| | VA Bank | Ukraine | 48.7 | - | Joint venture |
| | TBIH Russian Funds LLC | Russia | 100 | 50 | Joint venture |
| UPIH B.V. | VAB Pension | Ukraine | 100 | 100 | Subsidiary |
| | VAB Insurance | Ukraine | 90 | - | Subsidiary |

| Holding Company | Name of Subsidiary or Joint Venture | Country of incorporation | % equity interest as of December 31 | | |
|---|---|---|---|---|---|
| | | | **2006** | 2005 | |
| TBI (RUSS) LLC and subsidiaries | NPF Victoria Fund | Russia | 100 | 100 | Subsidiary |
| | TBIH-IMS RUS | Russia | 100 | 100 | Subsidiary |
| | Standard Reserve Insurance | Russia | - | 50.01 | Subsidiary |
| | So Vita | Russia | - | 63.6 | Subsidiary |
| | Arka Finance | Russia | 50 | 50 | Joint venture |
| | Arka Insurance | Russia | 100 | - | Joint venture |
| GTC Real Estate N.V. | GTC International B.V. (*) | Netherlands | - | 97.1 | Subsidiary |
| | GTC Real Estate Asia Ltd. | Hong Kong | 100 | 100 | Subsidiary |
| | GTC Investment B.V. | Netherlands | 46.25 | 48.8 | Joint venture |
| | Globe Trade Centre S.A. | Poland | 46.4 | 50.7 | Subsidiary |
| Globe Trade Centre S.A. | GTC Hungary Real Estate Development Company Ltd. | Hungary | 97.5 | 97.5 | Subsidiary |
| | GTC Real Estate Investments Romania B.V. | Netherlands | 94.6 | 94.6 | Subsidiary |
| | GTC Real Estate Investments Serbia B.V. | Netherlands | 97.5 | 97.5 | Subsidiary |
| | GTC Real Estate Investments Croatia B.V. | Netherlands | 97.2 | 97.2 | Subsidiary |
| | GTC Real Estate Investments Slovakia B.V. | Netherlands | 95.0 | - | Subsidiary |
| | GTC Real Estate Investments Ukraine B.V. | Netherlands | 85.5 | - | Subsidiary |
| GTC Real Estate Asia Ltd. | GTC Real Estate China Ltd. | Hong Kong | 100 | 100 | Subsidiary |
| | Shenyang Real Estate Development Ltd. | China | 50 | 50 | Joint venture |
| GTC Investment B.V. | Blitz Portfolio GmbH | Germany | 85 | 85 | Subsidiary |
| | Durango Switzerland B.V. | Netherlands | 80 | - | Subsidiary |

(*) GTC International B.V. was merged with GTC RE effective January 1, 2006.

**B. Transactions in 2006**

**Real Estate**

A. In April 2006 GTC Investments B.V. (‘GTC Investments’) has signed an agreement for the acquisition of an 80% stake in Durango Switzerland B.V. which company subsequently 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 77.2 million) including acquisition costs. Approximately CHF 80 million (USD 65.3 million) of the total consideration will be financed through a bank loan. GTC Investments is consolidating the results of Durango Switzerland B.V. as of the date of acquisition, whereby goodwill paid is allocated to the fair value of the investment properties.

B. GTC RE and Mr. Alroy signed a consulting agreement according to which Mr. Alroy will provide the Company with services in relation with its investment in GTC Investments B.V. In consideration for the consulting services the parties agreed as follows:
   - GTC RE will transfer to Alroy 450 shares in GTC Investments constituting 2.5% of the share capital of GTC Investments in consideration for their nominal value;
   - The shares will vest in three annual equal tranches starting in November 2005;
   - GTC RE will assign to Alroy shareholders’ loans granted to GTC Investments and will advance future loans on behalf of Alroy to GTC Investments;

   In addition GTC RE granted to Mr. Alroy a Put Option to sell to GTC RE any or all of his shares in GTC Investments. The Put Option can be exercised in whole or in part during a 12 months period commencing upon the later of five years from the effective date (being November 29, 2005) or the date Mr. Alroy ceased to provide consulting services to GTC RE. The exercise price of the option shall be the fair value of the shares transferred as of the date of exercise of the option, and shall be paid in cash or in shares at the discretion of GTC RE.

   In July 2006 the 450 shares have been transferred to Mr. Alroy. As a result GTC RE’s interest in GTC Investments was reduced to 46.25%.

   GTC RE has agreed with one of its directors, who is also a director of the Company, holding 1.25% in GTC Investments that GTC RE will finance shareholders’ loans equal to 80% of the financing the director has to provide to GTC Investments. The director will provide 20% of such financing from his own resources. Further, GTC RE has granted the director a Put Option to sell his shares in GTC Investments to GTC RE. The Put Option can be exercised upon a change in control over GTC Investments and during a 12 months period commencing in November 2010, or the date the director ceased to provide services to GTC Investments. The exercise price of the option shall be the fair value of the shares transferred as of the date of exercise of the option, and shall be paid in cash or in shares at the discretion of GTC RE.

C. On March 24, 2006 GTC S.A. successfully completed the issuance of 17,120,000 new shares at a price of PLN 28.5 per share (USD 8.74). 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). As of December 31, 2006 the Company has a 28.5% indirect interest in GTC S.A.

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. as the Company has the right to nominate the majority of the Supervisory Board members, including the Chairman, who has a casting vote.

D. 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. Following the completion of the transaction, GTC S.A. proportionately consolidates the financial statements of Galeria Kazimierz.

GTC S.A.'s interest in the sold subsidiary as at transaction date comprised the following:

| | **April 28, 2006** |
|---|---|
| | USD'000 |
| Non-current assets | 176,326 |
| Current assets (other than cash) | 5,473 |
| Cash | 2,653 |
| Long-term liabilities | (96,126) |
| Current liabilities | (8,660) |
| **Net assets** | 79,666 |

E. During 2006 GTC S.A. and its subsidiaries have acquired several subsidiaries in Romania, Serbia, Hungary and Croatia in relation with real estate developments in these countries. The acquisition of these newly consolidated subsidiaries comprised the following identifiable assets and liabilities as at the acquisition date:

| | USD'000 |
|---|---|
| Real estate under construction | 23,181 |
| Investment properties | 2,506 |
| Inventories | 26,339 |
| Current assets | 679 |
| Minority interests | (1) |
| Long-term liabilities | (6,255) |
| Current liabilities | (748) |
| **Total purchase price** | 45,701 |
| Less – cash in subsidiaries acquired | (129) |
| | 45,572 |

F. During 2006 the Company and third parties exercised options and converted convertible debentures into shares of GTC RE. The exercise price paid by the Company amounted to approximately USD 1.9 million. In addition the Company has acquired on TASE approximately 654 thousand shares of GTC RE in consideration of USD 4.2 million. As a result the Company's interest in GTC RE was reduced from 69.1% to 61.38% and the Company recognised a gain of approximately USD 8.2 million.

G. During 2006 the Company purchased NIS 89,725,149 par value convertible debentures of GTC RE in consideration for approximately USD 38 million. As a result and in accordance with IAS 32, the Company recorded a loss of USD 6 million. Through this purchase, the Company believes it will be able to increase its holding in GTC RE at an attractive price, which will result in higher profits in the future.

**Financial Services**

H. 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 has set-off the gain from dilution of its holding in KFS 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.

I. 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 initially hold 100% of TBIH, which will be diluted to 40% as a result of the above-mentioned transaction. 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.

J. 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 increased from 9.6% to 49%.

Following the receipt of all regulatory approvals, TBIF and the current controlling shareholders hold jointly about 98% of the shares of VA Bank in equal parts.

The excess of cost over the net fair value of the identifiable assets amounted to approximately USD 29.6 million (EUR 22.5 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.

K. 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.

**Kardan Israel**

L. In December 2006 Kardan Israel has issued 2,076,125 ordinary shares to institutional investors in Israel in consideration of approximately NIS 30 million (USD 7.1 million). As a result the Company's interest in Kardan Israel was reduced from 80.12% to 77.98% and the Company recognised a gain of approximately USD 3.3 million.

**C. Investment in joint ventures**

Following are main balance sheet and profit and loss items of companies and joint ventures consolidated by the proportionate consolidation method as presented in these consolidated financial statements:

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Current assets | 237,271 | 24,748 |
| Non-current assets, net | 872,870 | 202,141 |
| | 1,110,141 | 226,889 |
| Current liabilities | 507,616 | 19,812 |
| Non-current liabilities | 307,589 | 82,892 |
| | 815,205 | 102,704 |

| | **2006** | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Revenues | 211,332 | 53,142 |
| Expenses | 150,594 | 20,103 |

D. The Group's investments in subsidiaries whose shares are publicly-traded:

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Kardan Technologies | | |
| Carrying value | 6,897 | 4,612 |
| Market value | 7,113 | 4,020 |
| GTC RE | | |
| Carrying value | 154,681 | 166,947 |
| Market value | 484,172 | 91,935 |
| Kardan Israel | | |
| Carrying value | 94,637 | 76,498 |
| Market value | 202,568 | 131,855 |

In addition, GTC RE holds a 46.4% stake in GTC S.A. for which the relevant information as follows:

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| GTC S.A. | | |
| Carrying value | 273,797 | 182,905 |
| Market value | 860,398 | 385,482 |

## 7. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land and buildings | Plant and equipment | Motor vehicles | Office furniture and equipment | Leasehold improve-ments | Total |
|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **Cost** | | | | | | |
| Balance at January 1, 2005 | 41,455 | 20,510 | 7,629 | 6,365 | 449 | 76,408 |
| Additions (1) | 824 | 2,867 | 1,428 | 1,848 | 322 | 7,289 |
| Disposals (2) | (17,993) | (4,450) | (5,105) | (2,317) | (511) | (30,376) |
| Exchange differences | (2,472) | (563) | (258) | (929) | (23) | (4,245) |
| Balance at December 31, 2005 | 21,814 | 18,364 | 3,694 | 4,967 | 237 | 49,076 |
| **Cost** | | | | | | |
| Balance at January 1, 2006 | 21,814 | 18,364 | 3,694 | 4,967 | 237 | 49,076 |
| Additions (1) | 11,784 | 8,307 | 3,109 | 2,258 | 119 | 25,578 |
| Disposals (2) | (1,044) | (3,693) | (754) | (987) | (112) | (6,590) |
| Exchange differences | (1,221) | 543 | 219 | 458 | 33 | 32 |
| Balance at December 31, 2006 | 31,333 | 23,521 | 6,268 | 6,695 | 277 | 68,095 |
| **Accumulated depreciation** | | | | | | |
| Balance at January 1, 2005 | 2,345 | 13,879 | 4,062 | 3,691 | 211 | 24,188 |
| Depreciation for the year (1) | 610 | 2,484 | 917 | 798 | 18 | 4,827 |
| Eliminated on disposals (2) | (1,872) | (3,263) | (3,011) | (1,061) | – | (9,207) |
| Exchange differences | (50) | (30) | (29) | (625) | (21) | (755) |
| Balance at December 31, 2005 | 1,033 | 13,070 | 1,939 | 2,803 | 208 | 19,053 |
| **Accumulated depreciation** | | | | | | |
| Balance at January 1, 2006 | 1,033 | 13,070 | 1,939 | 2,803 | 208 | 19,053 |
| Depreciation for the year (1) | 623 | 4,204 | 1,023 | 1,254 | 17 | 7,121 |
| Eliminated on disposals (2) | (455) | (3,031) | (452) | (152) | (158) | (4,246) |
| Exchange differences | (175) | 171 | 88 | 140 | 16 | 239 |
| Balance at December 31, 2006 | 1,026 | 14,414 | 2,598 | 4,045 | 83 | 22,166 |
| **Net book value** | | | | | | |
| December 31, 2005 | 20,781 | 5,294 | 1,755 | 2,164 | 29 | 30,023 |
| **Net book value** | | | | | | |
| December 31, 2006 | 30,307 | 9,108 | 3,670 | 2,644 | 193 | 45,929 |

(1) Includes additions resulting from newly consolidated subsidiaries: December 31, 2006 cost – USD 9,259 thousand; accumulated depreciation – USD 2,306 thousand. (2005: cost – USD 1,998 thousand; accumulated depreciation – USD 802 thousand).

(2) Includes disposals resulting from deconsolidation of subsidiaries: December 31, 2006 cost – USD 1,515 thousand; accumulated depreciation – USD 434 thousand (2005: cost – USD 28,505 thousand; accumulated depreciation – USD 8,139 thousand).

Land and buildings include owner occupied property with a net book value of December 31, 2006 USD 8,606 (2005: USD 7,493) thousand under a lease whose term is 49 years ending in 2044 with an option for additional 49 years. The balance constitutes mainly property of insurance companies.

Buildings include revaluation amounting to USD 3,029 thousand as of December 31, 2006 (December 31, 2005 – USD 3,096 thousand).

Liens – see Note 36

## 8. REAL ESTATE UNDER CONSTRUCTION

Real Estate under construction relates to development of investment properties. Movements are as follows.

| | **2006** | 2005 |
|---|---|---|
| | USD’000 | USD’000 |
| Carrying value as of January 1 | 155,966 | 182,203 |
| Acquisition of subsidiaries | 23,181 | – |
| Additions | 163,812 | 126,201 |
| Disposals | (2,190) | (179) |
| Transfers to investment properties and inventory | (98,665) | (132,715) |
| Foreign exchange differences | 6,275 | (19,544) |
| Carrying value as of December 31 | 248,379 | 155,966 |

Borrowing costs capitalised to real estate under reconstruction amounted to USD 4,918 thousand (2005: USD 5,128 thousand)

As of December 31, 2006 and 2005, real estate under construction includes land in projects in various development stages, as follows:

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD’000 | USD’000 |
| Freehold land | 73,600 | 22,391 |
| Leasehold land | 77,972 | 31,379 |
| Total | 151,572 | 53,770 |

The value of leasehold land principally relates to lease payments made in advance.

## 9. INVESTMENT PROPERTIES

| | **2006** | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Carrying value as of January 1 | 759,548 | 462,913 |
| Capitalized subsequent expenditure and transfers from real estate under construction | 144,607 | 140,534 |
| Additions of newly proportionally consolidated subsidiary | 2,506 | 62,030 |
| Disposal of previously consolidated subsidiary | (5,472) | (601) |
| Investment property sold | (369,443) | (42,474) |
| Adjustment to fair value (*) | 262,024 | 152,317 |
| Foreign currency translation differences | 41,579 | (20,846) |
| Deferred brokerage fees | 5,357 | 5,675 |
| Carrying value as of December 31 | 840,706 | 759,548 |

Includes:

| | | |
|---|---|---|
| Investment properties on freehold land | 263,100 | 57,622 |
| Investment properties on leasehold land | 577,606 | 701,926 |
| | 840,706 | 759,548 |

(*) The 2006 adjustment of fair value includes USD 2,810 thousand related to revaluation of disposed fixed assets. In addition, adjustment to fair value of USD 1,040 thousand is included in the income statement under revenues of insurance activities.

On August 11, 2006 GTC S.A. has agreed on terms for the sale of the office complex Mokotow Business Park in Warsaw, in consideration for approximately USD 281.2 million. The transaction was completed on December 1, 2006.

As of December 31, 2006 investment properties primarily include the following:

| Country | Property | Total rentable/saleable space (sq.m) | Details |
|---|---|---|---|
| Poland | Galeria Kazimierz (100% of area) (*) | 36,200 | Shopping centre in Krakow |
| | Galeria Mokotow (100% of area) (*) | 62,100 | Shopping centre in Warsaw |
| | Galileo | 10,300 | Office building in Krakow |
| | Globis Poznan | 13,000 | Office building in Poznan |
| | Topaz office building | 11,000 | Office building in Warsaw |
| Hungary | Centre Point I | 18,600 | Office building in Budapest |
| | Centre Point II | 23,000 | Office building in Budapest |
| Romania | America House | 26,000 | Office building in Bucharest |
| Serbia | GTC House | 13,500 | Office building in Belgrade |
| Germany | Blitz portfolio | 55,300 | 7 office buildings in Germany |
| Switzerland | Swiss portfolio | 50,500 | 9 office buildings in Switzerland |

(*) Operated through joint venture

Investment properties of the Group are presented based on the fair value model.
Appraisal of investment properties by independent valuers is based on their market value periodically or estimated by discounting future cash flows.

Deferred brokerage fees and rental revenues either arose subsequent to appraisal or were simultaneously written off as these fees were deemed to be included in the uplift to the fair value.

Revenues and costs of rental operations are presented in Note 5. Costs of rental operations comprise direct operating expenses (including repairs and maintenance) from investment properties that generate rental income during the year. All investment properties, except those related to the acquisition of the newly proportionate consolidated subsidiary, generated rental income during the year.

In 2006 the construction of the following assets was completed:
Topaz office building in Warsaw, America House office building in Bucharest, and Center Point II in Budapest.

Securities for long term loans from banks are by way of pledges over buildings and land.

## 10. INTANGIBLE ASSETS

| | Goodwill | Other | Total |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Cost at January 1, 2005 net of accumulated amortization | 50,494 | 2,286 | 52,780 |
| Additions | 43,008 | 563 | 43,571 |
| Decreases due to disposals of investments | (9,373) | (170) | (9,543) |
| Amortization charge for the year | – | (393) | (393) |
| Cost at December 31, 2005 net of accumulated amortization | 84,129 | 2,286 | 86,415 |
| At January 1, 2005 | | | |
| Cost | 62,353 | 8,522 | 70,875 |
| Less – Accumulated amortization | 11,859 | 2,085 | 13,944 |
| | 50,494 | 6,437 | 56,931 |
| At December 31, 2005 | | | |
| Cost | 95,988 | 4,764 | 100,752 |
| Less – Accumulated amortization | 11,859 | 2,478 | 14,337 |
| | 84,129 | 2,286 | 86,415 |
| Cost at January 1, 2006 net of accumulated amortization | 84,129 | 2,286 | 86,415 |
| Additions | 59,666 | 16,472 | 76,138 |
| Change due to disposal and acquisition of investments | (7,050) | 206 | (6,844) |
| Decrease due to completion of projects and revaluation of assets (*) | (7,062) | - | (7,062) |
| Amortization charge for the year | - | (668) | (668) |
| Foreign currency exchange differences | 5,333 | 88 | 5,421 |
| Cost at December 31, 2006 net of accumulated amortization | 135,016 | 18,384 | 153,400 |
| At January 1, 2006 | | | |
| Cost | 95,988 | 4,764 | 100,752 |
| Less - Accumulated amortization | 11,859 | 2,478 | 14,337 |
| | 84,129 | 2,286 | 86,415 |
| At December 31, 2006 | | | |
| Cost | 135,079 | 19,347 | 154,426 |
| Less - Accumulated amortization | 63 | 963 | 1,026 |
| | 135,016 | 18,384 | 153,400 |

(*) Transferred to investment property

Goodwill on the acquisition of companies in the insurance and pension sectors until March 31, 2004 was amortized by the straight-line method over periods of ten or fifteen years. Goodwill on the acquisition of other subsidiaries until March 31, 2004 was amortized using the straight-line method over periods of five or ten years. Goodwill arising on business combinations of subsidiaries after March 31, 2004 is not amortized. As from 1 January 2005, the date of adoption of IFRS 3, goodwill was no longer amortised but is now subject to annual impairment testing.

The additions in 2006 amounting to approximately USD 60 million mainly relates to goodwill resulted from acquisition of minority shareholders in TBIH, investment in VA Bank and other subsidiaries in the financial service group.

Goodwill amounting to approximately USD 43 million was created in 2005 and mainly resulted from the buy-out of minority shareholders in GTC and acquisition of other subsidiaries.

Other intangible assets primarily relate to the customer base of acquired companies, brand names of acquired companies, banking licenses and costs incurred to originate operating leases.

Goodwill acquired through business combinations have been allocated to the relevant cash-generating units, in each reportable segments, and is primarily allocated to anticipated future profits from development projects.

The recoverable amount of the goodwill has been determined based on the values used for valuations of each reportable segment, according to methods and assumptions applicable for such segment. The Company annually assesses impairment.

As of December 31, 2006 goodwill is allocated to groups of cash-generating units as follows:

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| GTC RE and its subsidiaries | 37,716 | 44,155 |
| KFS and its subsidiaries | 94,750 | 37,464 |
| Tahal Group and its subsidiaries | 2,550 | 2,510 |
| | 135,016 | 84,129 |

## 11. INVESTMENTS IN ASSOCIATES

A. Principal associates

| Holding Company | Name of Company | % of ownership and control by the holding company as of December 31, 2006 | December 31, 2005 | Country |
|---|---|---|---|---|
| Taldan Motors Ltd. | Universal Motors Israel Ltd. | 45 | 45 | Israel |
| Kardan Communications Ltd | Lidan Investment Agencies (1994) Ltd. | 49 | 49 | Israel |
| | R.R. Satellite Communication Ltd. | 24.6 | 32.5 | Israel |
| | I.V.P. Ivory Video Productions Ltd. | 51.8 | 40 | Israel |
| | Teledata Networks Ltd. | 37.5 | 37.5 | Israel |
| | Unicell Advanced Cellular Solutions Ltd. | 29 | 29 | Israel |
| Kardan Technologies Ltd. | Concord Venture 1 | 6.6 | 6.4 | Israel |
| | Formula Vision Portfolio Holdings Limited Partnership | 49 | - | Israel |
| Kardan Israel Ltd. | Ocif Nichsey Emed | 30 | - | Israel |
| | Avis Israel | 1.4 | - | Israel |
| Kardan Real Estate Enterprise and Development Ltd | Holyland Park Ltd | 30 | 30 | Israel |
| Globe Trade Centre S.A. | Lighthouse Holdings Ltd. S.A | 31.6 | 31.6 | Luxembourg |
| | Vokovice BCP Holding S.A. | 31.6 | 31.6 | Luxembourg |
| | Holesovice Residential Holding S.A. | 31.6 | 31.6 | Luxembourg |
| | CID Holding S.A. | 31.6 | 31.6 | Luxembourg |
| TBIH Financial Services Group N.V. | Ereste d.o.o | 29 | 29 | Croatia |
| | Kredit Export Bank | 14.96 | 14.96 | Serbia |
| | Omniasig Life | 49.99 | 49.99 | Romania |

B. Composition:

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| **Name of associated company** | USD'000 | USD'000 |
| Universal Motors Israel Ltd. | 38,146 | 33,537 |
| Lidan Investment Agencies (1994) Ltd. | 7,401 | 8,184 |
| Holyland Park Ltd. | 8,827 | 7,329 |
| Associates of Globe Trade Centre S.A. | 32,735 | 14,710 |
| R.R. Satellite | 15,519 | 3,562 |
| Unicell | 1,740 | - |
| Ocif Nichsey Emed | 6,670 | - |
| Avis Israel | 1,130 | - |
| Concord | 1,307 | - |
| Formula Vision Portfolio Holdings Limited Partnership | 21,185 | - |
| Erste d.o.o | 4,078 | 3,586 |
| Kredit Export Bank | - | 1,192 |
| Va Bank | - | 14,552 |
| Omniasig Life | 2,786 | 2,442 |
| Others | 1,272 | 3,679 |
| | 142,796 | 92,773 |

Comprised of:

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Equity investments in associates | 88,119 | 50,892 |
| Loans | 54,677 | 41,881 |
| | 142,796 | 92,773 |

C. Movement in the equity investments in associates is as follows:

| | **2006** | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Balance as per January 1. | 50,892 | 44,057 |
| Additions, net | 29,132 | 4,694 |
| Equity earnings | 8,837 | 10,089 |
| Dividend distributed | (4,056) | (6,845) |
| Currency translation | 3,314 | (1,103) |
| Balance as per December 31. | 88,119 | 50,892 |

D. Loans:

The investment in associated companies includes loans as follows:

| | Interest rate (*) | **December 31, 2006** | December 31, 2005 |
|---|---|---|---|
| | | USD'000 | USD'000 |
| In NIS (linked to the CPI) (1) | 2.9 % | 31,245 | 21,724 |
| In EUR (2) | 5.42 % | 23,125 | 11,066 |
| In USD | 6.54 % | 307 | 9,091 |
| | | 54,677 | 41,881 |

(*) Average as of December 31, 2006

(1) As of December 31, 2006, an amount of USD 10,729 thousand bears variable interest at the rate of 8.0 % (as of December 31, 2005 an amount of USD 8,903 thousand bears variable interest at the rate of 8 %) and an amount of USD 684 thousand bears fixed interest rate of 5%. The balance of the loans does not bear interest.

(2) As of December 31, 2006 the balance bears interest at a variable rate of 85% of Euribor +2% (as of December 31, 2005 – same).

As the loans bear variable interest rates linked to currency in which the loans are denominated, the loans balance approximates their fair value. Maturity dates of the loans have not been determined yet.

The movement in loans granted to associates is as follows:

| | **2006** | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Balance as per January 1. | 41,881 | 35,050 |
| Additional loans granted, net | 12,796 | 6,831 |
| Balance as per December 31. | 54,677 | 41,881 |

E. Goodwill arising on acquisition of associated companies

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Cost | 4,993 | 6,621 |
| Less – accumulated amortization | 956 | 726 |
| | 4,037 | 5,895 |

These goodwill amounts are included in the carrying amount of the equity investments in associates.

F. Additional information

1. 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 recognized a gain of approximately USD 8 million. The market value of the investment in RRSat as of December 31, 2006 was USD 42,876 thousand, and the carrying value was USD 12,413 thousand.

2. During 2006 Kardan Technologies and Kardan Communications invested approximately USD 21 million in various companies engaged in the technologies and communication field. These investments are accounted for under the equity method or at cost.

3. 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.

4. The Company indirectly holds 2.3% of the shares of DBS Satellite Services (1998) Ltd. ('DBS') through an investment in associate. As of December 31, 2006 the balance of the investment of the Company in DBS amounts to USD 8.4 million net of a provision for impairment losses of USD 5.7 million (of which USD 1.5 million was recorded in 2006). The auditors of DBS draw attention in their auditors' report on the financial statements of DBS to the financial position of DBS, According to management of DBS, it is likely that the financing required by DBS to continue to operate for the coming year will be arranged. According to the management, the recoverable amount of the investment in DBS is not lower than the carrying value of the investment. This estimate is based, inter alia, on an independent valuation that was prepared for the Company. According to the said valuation, the value of DBS is between USD 331 million and USD 379 million.

## 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

A. Composition

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Financial investments of insurance companies (1) | 51,837 | 36,045 |
| Investments in unlisted companies and venture capital funds (2) | 21,269 | 9,564 |
| | 73,106 | 45,609 |

(1) These mainly constitute investments in marketable debentures of Eastern European states that are guaranteed by the governments of those states.

(2) Investments in unlisted companies and venture capital funds are carried at cost less a provision for any impairment.

## 13. LONG-TERM LOANS AND RECEIVABLES

A. Composition

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Reinsures deposits | 647 | 611 |
| In USD | 51,446 | 19,636 |
| In EUR | 86,063 | 87,139 |
| In NIS | 2,426 | 8,362 |
| In other currencies | 119,851 | 18,481 |
| | 260,433 | 134,229 |
| Less – current maturities | 123,963 | 75,657 |
| | 136,470 | 58,572 |
| Capital note issued by related party | 895 | 737 |
| Provision for doubtful debts | (8,662) | – |
| | 128,703 | 59,309 |

As of December 31, 2006 long-term loans and receivables include:

(1) Loans in the amount of USD 15,808 thousand granted to minority shareholders in subsidiaries against a lien on their shares in that subsidiary. The loans are primarily in EUR and bear annual interest of EURIBOR +3%. Repayment date has not yet been determined.

(2) Loans in the amount of USD 7,137 thousand granted by insurance companies, mainly in or linked to EUR, and bearing variable interest rate of EURIBOR + 4% - 8%. The loans are secured by life assurance policies, bank guaranties and real estate.

(3) Loans in the amount of USD 28,812 thousand represent the proportionate share of the Group's loans granted to joint ventures.

(4) Receivables in respect of the activities of subsidiaries in the financial services segment in the amount of USD 171,400 thousand (2005 – USD 86,575 thousand) which are included at the net present value of the future minimum payments. Most of the loans are secured by various collaterals. The above amount represents loans to thousands debtors.

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Financial leases (*) | 55,847 | 41,128 |
| Consumer credits | 109,037 | 41,617 |
| Mortgages | 6,516 | 3,830 |
| | 171,400 | 86,575 |
| Under one year | 114,205 | 47,858 |
| Over one year | 57,195 | 38,717 |
| | 171,400 | 86,575 |

(*) Net investment in financial leases:

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Not later than one year | 28,191 | 24,592 |
| Later than one year and not later than five years | 41,974 | 24,898 |
| Later than five years | 1,474 | 437 |
| Gross receivables from financial leases | 71,639 | 49,927 |
| Less – gross earnings allocated to future periods | (15,621) | (8,658) |
| Less - allowance for impairment losses | (171) | (141) |
| Net investment in financial leases | 55,847 | 41,128 |
| Not more than one year | 20,884 | 17,941 |
| Later than one year and not later than five years | 33,794 | 22,899 |
| Later than five years | 1,169 | 288 |
| | 55,847 | 41,128 |

(5) Capital note in the amount of NIS 6,520 thousand par value (USD 1,543 thousand), was issued by a related party. The capital note does not bear interest and is repayable in December 2011. The capital note is included at its present value computed at an annual discount rate of 11.5%.

B. Maturities

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| First year – current maturities | 123,963 | 75,657 |
| Second year | 31,263 | 20,182 |
| Third year | 18,863 | 20,836 |
| Fourth year | 8,987 | 5,003 |
| Fifth year and thereafter | 19,743 | 3,590 |
| Not yet determined | 57,614 | 8,961 |
| | 260,433 | 134,229 |

## 14. DEFERRED ACQUISITION COSTS

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Life assurance | 3,809 | 2,898 |
| General insurance | 4,524 | 9,587 |
| | 8,333 | 12,485 |

Movement in deferred acquisition costs relating to life assurance:

| | **2006** | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Balance as per January 1. | 2,898 | 6,754 |
| Additions for the period, net | 1,006 | 2,254 |
| Depreciation - fluent | (206) | (246) |
| Depreciation – due to cancellation | (92) | (96) |
| Disposal for companies deconsolidated | (164) | (4,076) |
| Currency translation | 367 | (1,692) |
| Balance as per December 31. | 3,809 | 2,898 |

## 15. INVENTORIES AND CONTRACT WORK AND BUILDINGS INVENTORY IN PROGRESS

A. Composition

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Building inventory in progress, net of customer advances | 200,988 | 60,429 |
| Contract work in progress | 5,144 | 5,885 |
| Merchandise inventories | 4,817 | 3,455 |
| | 210,949 | 69,769 |

B. Additional information

(1) Building inventory in progress, net of customer advances

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Cost of buildings inventory in process | 272,202 | 132,437 |
| Less – costs charged to income statement | 67,162 | 67,883 |
| repayment of commitment regarding construction services | 4,052 | 3,504 |
| provision for losses | – | 621 |
| | 200,988 | 60,429 |

The above primarily relates to construction of residential projects in Poland, Hungary, Romania, China and Israel as undertaken GTC S.A., GTC China and Kardan Real Estate.

(2) Contract work in progress

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Contract costs incurred | 220,256 | 204,992 |
| Recognized profits | 68,105 | 73,305 |
| | 288,361 | 278,297 |
| Progress billings | (291,805) | (277,679) |
| | (3,444) | 618 |
| Presented in balance sheet as follows: | | |
| Current assets – Contract work in progress | 5,144 | 5,885 |
| Current liabilities – Due to customers for contract work | (8,588) | (5,267) |
| | (3,444) | 618 |

The above details relate to contract works performed by Tahal Group B.V. ('Tahal'). Tahal is engaged in providing engineering and planning services in the fields of water, sewage and agriculture.

## 16. LOANS TO BANK CUSTOMERS

A. Composition

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Loans and advances to individuals: | | |
| Direct customer loans | 16,927 | – |
| Mortgage loans | 11,300 | – |
| Other loans and advances by banks | 3,671 | – |
| Credit cards | 1,263 | – |
| | 33,161 | – |
| Corporate loans | 110,921 | – |
| Loans and advance to banks | 19,014 | – |
| Total loans and advances gross | 163,096 | – |
| Less - allowance for impairment losses | (3,970) | – |
| | 159,126 | – |

B. Maturities

| | **December 31, 2006** |
|---|---|
| | USD'000 |
| Up to 3 months | 26,456 |
| From 3 to 6 months | 4,660 |
| From 6 to 9 months | 4,602 |
| From 9 to 12 months | 15,106 |
| From 1 to 2 years | 23,051 |
| From 2 to 5 years | 56,021 |
| Later than 5 years | 33,200 |
| | 163,096 |
| Less – allowance for impairment losses | (3,970) |
| | 159,126 |

## 17. TRADE RECEIVABLES

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Trade receivables | 43,341 | 25,337 |
| Checks and credit card receivables | 12,342 | 7,033 |
| | 55,683 | 32,370 |
| Less – allowance for doubtful accounts | 161 | 1,162 |
| | 55,522 | 31,208 |

Accounts receivable as included under current assets mature within one year.

## 18. OTHER RECEIVABLES AND PREPAYMENTS

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Advances to suppliers | 6,599 | 10,377 |
| Prepaid expenses and income receivable | 29,993 | 18,568 |
| Other receivables in insurance companies | 6,387 | 2,024 |
| Income receivable – disposal of subsidiaries | 9,709 | 26,505 |
| Other | 5,006 | 8,598 |
| | 56,694 | 66,072 |

## 19. INSURANCE RECEIVABLES

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| General insurance | 20,061 | 22,738 |
| Less – allowance for doubtful accounts | (6,044) | (5,420) |
| | 14,017 | 17,318 |
| Life insurance | 1,443 | 591 |
| | 15,460 | 17,909 |

The above amounts include outstanding receivables by a subsidiary on a Bulgarian airline company in the approximate amount of USD 9 million relating to life insurance policies in the years 1994 – 1997. As of December 31, 2006 the subsidiary provided for all outstanding balances.

## 20. REINSURANCE ASSETS

A. Composition:

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Provision for outstanding claims - reinsured | 6,556 | 9,530 |
| Provision for unearned premiums - reinsured | 8,472 | 5,567 |
| Other reinsurance receivables | 5,954 | 1,665 |
| | 20,982 | 16,762 |

B. Summary of the main reinsurance treaties in the Group per subsidiary

**(B) Summary of the main reinsurance treaties in the company per subsidiary**

*(1) Bulstrad – Bulgaria*

| Line of business | Treaty currency | Type of Treaty | Maximum exposure per claim (retention) in '000 | Limit of reinsurance cover in '000 |
|---|---|---|---|---|
| Green card | EUR | Excess of Loss | EUR 400 | Unlimited |
| Property catastrophe | EUR | Excess of Loss | EUR 300 | EUR 15,000 |
| Property fire and natural perils | EUR | Surplus | EUR 300 | EUR 12,900 |
| Marine | USD | Excess of Loss | USD 250 | USD 6,000 |
| Liability | EUR | Excess of Loss | EUR 100 | EUR 2,000 |
| Cargo | USD | Excess of Loss | USD 150 | USD 12,000 |
| Motor TPL | EUR | Excess of Loss | EUR 100 | - |

*(2) Helios - Croatia*

| Line of business | Treaty currency | Type of Treaty | Maximum exposure per claim (retention) in '000 | Limit of reinsurance cover in '000 |
|---|---|---|---|---|
| Motor TPL | EUR | Excess of Loss | EUR 250 | EUR 4,200 |
| Motor Casco | EUR | Quota share | EUR 162 | EUR 320 |
| Marine and cargo | EUR | Quota share | EUR 75 | EUR 2,025 |
| CAT XL FIRE | EUR | Excess of Loss | EUR 162 | EUR 400 |
| Earthquake | EUR | Excess of Loss | EUR 715 | EUR 11,000 |
| Liability | EUR | QS and Surplus | EUR 100 | EUR 800 |
| Life | EUR | Excess of Loss | EUR 125 | EUR 1,375 |

*(3) GPIH - Georgia*

| Line of business | Treaty currency | Type of Treaty | Maximum exposure per claim (retention) in '000 | Limit of reinsurance cover in '000 |
|---|---|---|---|---|
| Motor TPL | USD | Quota share | USD 150 | USD 350 |
| Motor Casco | USD | Quota share | USD 28 | USD 66 |
| Marine and cargo | USD | Excess of Loss | USD 30 | USD 970 |
| Property | USD | Excess of Loss | USD 70 | USD 930 |
| Life | USD | Quota share | USD 25 | USD 475 |
| Liability | USD | Excess of Loss | USD 30 | USD 930 |
| Property | USD | Excess of Loss | USD 70 | USD 930 |
| Personal accident | USD | Quota share | USD 150 | USD 350 |

## 21. SHORT-TERM INVESTMENS

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Bank deposits in NIS | 3,893 | 658 |
| Bank deposits in EUR | 9,133 | 9,385 |
| Bank deposits in USD | 6,684 | – |
| Bank deposits in other currencies | 8,452 | 8,137 |
| Restricted bank deposits | 50,137 | 27,820 |
| Securities held for trading | 1,279 | 489 |
| Investment in participating units in NIS | – | 2,172 |
| | 79,578 | 48,661 |

Restricted short-term deposits can be used for permitted purposes as determined in the loan agreements. An amount of USD 3,240 thousand relates to funds deposited in escrow accounts until completion of certain transactions (mainly acquisition of land).

## 22. CASH AND CASH EQUIVALENTS

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Cash at bank and in hand | 60,600 | 62,128 |
| Short-term deposits | 477,475 | 123,846 |
| | 538,075 | 185,974 |

The Group's joint venture VA Bank is required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the National Bank of Ukraine ('NBU') (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2006 was UAH 72,075 thousand (USD 14,980 thousand). The Bank meets the NBU obligatory reserve requirements of UAH 60,163 thousand (USD 11,914 thousand) as at December 31, 2006. (*) The amounts represent 100% of VA Bank reserve requirements. The Company has a 24% indirect interest in VA Bank.

In addition, although the subsidiaries owning the cash balances can, with the exception of the above, use it without restrictions, the cash balances cannot be freely transferred across the Group. The cash balance which is owned by the Company, on a stand alone basis, amounts to approximately USD 28 million as of December 31, 2006.

## 23. SHARE CAPITAL

A. Composition

| | December 31, 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. Issuance and exercise of warrants and options

(1) 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.

(2) During 2006 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. Subsequent to the balance sheet date additional 716,650 warrants route 1 were exercised into 566,657 ordinary shares of the Company. Following this exercise, the outstanding balance of warrants rout 1 amounts to 2,703,213.

(3) During 2006, 2006 Kardan Israel sold 164,948 ordinary shares of the Company that it held in consideration for USD 1,366 thousand. The sale was recorded as an increase of share premium in the Company's equity. As of December 31, 2006 Kardan Israel does not hold any shares of the Company.

## 24. SHARE-BASED PAYMENTS

A. The expense recognised during the year is shown in the following table:

| | **2006** | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Expense arising from equity-settled share-based payment transactions of subsidiaries | 5,608 | 2,537 |
| Expense arising from equity-settled share-based payment transactions of the Company | 548 | – |
| Expense arising from cash-settled share-based payment transactions | 10,355 | – |
| | 16,511 | 2,537 |

B. Option plans:

The share-based payment option plans granted by the Group to its employees and directors are described below. During the years 2005 and 2006 the option plans were not modified or cancelled.

**The Company**

(1) 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 (of which 716,927 options were granted to members of the management board) 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 total value of the options at date of grant was estimated at approximately USD 5.6 million. This economic value was computed by an independent external valuer. For details regarding the main input used to determine the value, please refer to section C below.

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

**GTC RE and its subsidiaries**

(2) In July 2005, the management and supervisory board of GTC RE approved an employee option plan. According to the option plan, GTC RE will grant to employees of the parent company and subsidiaries of GTC RE, without consideration, 280,000 options exercisable to up to 280,000 ordinary shares of GTC RE each having par value of EUR 0.20. The exercise price of each option equals to NIS 8.80 adjusted to the changes in the Israeli CPI.

The options can be exercised in two ways: (1) payment of the full exercise price and receiving the whole number of shares derived from the number of options exercised; or (2) not to pay the exercise price but to be entitled to number of shares reflecting only the benefit component inherent in the options. The options can be exercised during the earliest of a period of 4 years from the determining date or 90 following the termination of the employment relationship between the Company and the employees. Each employee shall be entitled to exercise half of the options granted after 1 year from the determining date and to exercise the remaining options after 2 years from the determining date. The options were granted on October 12, 2005.

The fair value of the options as of the date of grant was estimated at approximately USD 423 thousand.

(3) On July 11, 2006 GTC RE has granted additional 40,000 employee options to the chairman of its supervisory board. The options have the same terms as the employees options granted in October 2005. The fair value of the options as of the date of grant is estimated at approximately USD 160 thousand.

(4) As described in Note 6B, GTC RE granted to Mr. Alroy a Put Option to sell to GTC RE any or all of his shares in GTC Investments. The Put Option can be exercised in whole or in part during a 12 months period commencing upon the later of five years from the effective date (being November 29, 2005) or the date Alroy ceased to provide consulting services to GTC RE. The exercise price of the option shall be the fair value of the shares transferred as of the date of exercise of the option, and shall be paid in cash or in shares at the discretion of GTC RE.

GTC RE estimated the fair value of this option as of December 31, 2006 at USD 413 thousand, and recorded such cost in the income statement.

(5) In March 2006, GTC S.A. has granted certain key management personnel a total of 2,000,000 “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 22.5 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 2.8 per option. The settlement of the Phantom Shares (cash or equity) is at the discretion of the shareholders of GTC S.A.

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

(6) In addition the Supervisory Board of GTC S.A. has granted certain key management personnel the right to purchase 210,000 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.

(7) On June 26, 2006 the chairman of the Supervisory Board of GTC S.A. exercised 1,179,170 subscription warrants at a price of PLN 0.1 each and 83,960 subscription warrants at a price of PLN 4.282 each. The remaining 224,820 subscription warrants expired and will not be exercised. As a result, 1,263,130 shares were issued and the Company's interest was diluted from 46.7% to 46.4% and the Company recorded an equity loss of approximately USD 2.4 million.

Subsequent to the balance sheet date, in January 2007 the chairman has exercised additional 1,341,450 subscription warrants into shares of GTC S.A. and the remaining 146,500 subscription warrants expired. As a result, the Company's interest in GTC S.A. was further diluted to 46.1%.

(8) On May 1, 2006 GTC S.A. has entered into agreement with the chairman of its supervisory board and AYRAD, a company under his control (together 'AYRAD). The agreement supersedes the agreement between GTC RE (as a successor of GTC International B.V.) and AYRAD 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, AYRAD or a company under his control is entitled to acquire shares in such subsidiary in an amount equal to 5% of the combined holding of GTC S.A. and AYRAD.
iii. GTC S.A. granted AYRAD 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 AYRAD's relationship with such subsidiary. AYRAD 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 12.4 million as of December 31, 2006. The impact on the Company's net profit for the year 2006 amounted to USD 9 million and is included 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 the financial liability will be accounted for through the income statement.

The fair value of the Put Option has been determined by an independent valuer as of December 31, 2006.

The main assumptions applied in determining the fair value of the financial liability were as follows:
Investment properties were stated at their fair value as included in the financial statements.
Projects in development stage were estimated using the residual value method to arrive at the respective fair value.
Projects not yet in development stage were estimated using the comparable value method to arrive at respective fair value.

**TBIH and its subsidiaries**

(9) TBIH authorized the issuance of up to 36,097 shares constituting 5% of its share capital, for the benefit of employees and consultants of TBIH, upon the exercise of options granted under TBIH's stock option plan. As of December 31, 2006, TBIH granted options representing 23,344 shares, all of which were vested. 19,198 options have an exercise price of EUR 122.95 per share and 4,146 options have an exercise price of EUR 236.05 per share, in each case, increased by notional interest at the rate of LIBOR + 2% from January 1, 2003 and January 11, 2005, respectively, and are exercisable for 5 years following vesting, subject to the terms of the stock option plan.
In the event that TBIH issues additional shares (other than incentive shares and conversion of debt), the option holders will receive additional options in order to maintain their percentage post-exercise shareholdings, with an exercise price equal to the issuance price plus notional interest thereon through the date of exercise at the rate of LIBOR + 2%. In the event of a change in the effective control of TBIH, the optionees shall be entitled to sell their interests in TBIH to TBIH or its subsidiaries.
In the framework of the reorganization transaction (see Note 6) the TBIH options will be swapped into shares in KFS upon the closing of the deal.

(10) In connection with an investment in TBIH in January 2005, TBIH granted options to brokers to purchase up to 5,345 shares. During 2006 all of the broker options have been bought back from the brokers in consideration of EUR 0.656 million.

(11) In September 2006 Cavebrook Services LLC ('Cavebrook') exercised its option to purchase from TBIH 15% of its shares in TBIF for consideration of EUR 10.8 million. As a result, TBIH's interest in TBIF was reduced to 89.81% and TBIH recorded a loss of EUR 1.1 million.

(12) TBIF granted options to a senior manager of to purchase shares representing up to 1.5% of TBIF. The exercise price is based on a TBIF valuation of EUR 179 million plus interest, through the date of exercise, at the rate of LIBOR + 3%. The option vests 1% on 1.10.2009 and an additional 0.25% on 1.10.2010 and 1.10.2011 and is exercisable through 180 days following termination of the employment by TBIF. At the date of granting of the option the exercise price was higher than the value of the TBIF.

(13) TBIF granted options to a senior manager of TBI Credit and TBI Leasing in Bulgaria to purchase shares representing up to 2.5% of each of the companies. The exercise price is based on a company valuation of EUR 9.25 million and EUR 3.1 million for TBI Credit and TBI Leasing, respectively, plus interest, through the date of exercise, at the rate of LIBOR + 3%. The exercise price is adjustable to capital increases and dividends. There is an anti dilution mechanism that allows the manager not to participate in capital increases of up to EUR 11 million and EUR 4 million for TBI Credit and TBI Leasing, respectively. The option vests in five equal portions on January 1 of each year from 2006 to 2010, provided that the optionee will continue in his position, or 30 days after the termination of his position. The fair value of the options in TBI Credit and TBI Leasing was estimated at EUR 430 thousand (USD 566 thousand).

(14) TBIF granted options to a senior manager of TBI Leasing SA, to purchase shares representing up to 5% in TBI Leasing SA. The exercise price is TBIF's average per share investment plus interest, through the date of exercise, at the rate of LIBOR + 3%. The option vests 3% on March 2005, 1% on March 2006, and 1% on March 2007, and is exercisable through 30 days following termination of the employment by TBI Leasing.
During the last quarter 2006 the senior manager exercised 40% of the options in consideration of a 2% stake in TBI Leasing SA. The fair value of the options as of the date of grant was estimated at approximately EUR 178 thousand (USD 234 thoysand)..

(15) TBIH and TBIF have granted various options to senior managers in the subsidiaries: TBI Asset Management EAD, TBI Invest EAD, TBI Leasing SA, Helios and TBIH RUS LLC. All these options were granted prior to November 7, 2002 and accordingly are not accounted for as share-based payment transaction under IFRS 2.

**Kardan Israel**

(16) In July 2005 Kardan Israel granted to its employees 460,000 options exercisable into ordinary shares of Kardan Israel. The exercise price of each option amounts to NIS 9.18 (linked to CIP). The economic value of each option was NIS 0.5. Kardan Israel did not record costs related to share-based payment transactions as at grant date the options were fully vested.

(17) In September 2006 Kardan RE signed an agreement with the chairman of its Board of Directors, according to which the chairman will receive an option to purchase 6% of the shares of Kardan RE or any other company that will hold all the real estate activities of the Group in Israel. The shares can be acquired in consideration of 90% of the book value of the relevant company at its date of incorporation. The right to exercise the option covers a period of 3 years. The parties are entitled to convert the option to a "phantom option". The value of the option at date of grant was estimated at approximately USD 0.9 million.

(18) Kardan Israel is negotiating with two employees in its 100% subsidiary Kardan Communication regarding the grant of options to acquire shares of Kardan Communication. Currently, the parties have not agreed the terms of the option, however, Kardan Israel estimates that the value of the benefit will amount to approximately USD 1 million.
Further, Kardan Israel agreed with the employees the it will entitle to grant the employees its own listed shares. The option will be exercisable at grant.

C. Additional information regarding employees options granted by the Company

**Movement in the year**
The following table illustrates the number and weighted average exercise prices ('WAEP') of, and movement in, share options issued by the Company during the year:

| | **2006** | |
|---|---|---|
| | No. | WAEP |
| | | EUR |
| Outstanding at January 1 | – | |
| Granted during the year | 1,099,327 | 8.568 |
| Outstanding at December 31 | 1,099,327 | |
| Exercisable at December 31 | – | |

The following table lists the inputs to the models used to determine the fair value of the equity-settled share-based payments:

| | **2006** |
|---|---|
| Expected volatility (%) | 31% |
| Risk-free interest rate (%) | 4% |
| Expected life of options (years) | 5.0 |
| Weighted average share price (NIS) | 51.5 |
| Model used | Merton and adjusted Black & Scholtes |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

## 25. INTEREST BEARING LOANS AND BORROWINGS

A. Composition

| | Interest Rate (1) % | **December 31, 2006** | December 31, 2005 |
|---|---|---|---|
| | | USD'000 | USD'000 |
| Banks | | | |
| In USD | 7.03% | 84,292 | 279,001 |
| In EUR | 6.32% | 505,347 | 297,436 |
| In NIS | 6.70% | 19,690 | 5,990 |
| In NIS (linked to CPI) | 5.16% | 15,206 | 15,136 |
| Linked to other currencies (2) | 3.70% | 57,554 | 20,361 |
| Others – mainly in USD | 6.0% | 120,280 | 17,941 |
| | | 802,369 | 635,865 |
| Less - Deferred debt issuance costs | | 3,947 | 6,229 |
| - Current maturities | | 178,065 | 44,642 |
| - Minority interest in shareholders' deficiency of subsidiaries (3) | | 610 | 561 |
| | | 619,747 | 584,433 |

(1) Weighted average annual interest rate as of December 31, 2006.
(2) Mainly in Hungarian Forint
(3) Shareholders' deficiency was financed by long-term loans of minority shareholders, included in the above balance.

B. Maturities

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| First year – current maturities | 178,065 | 44,642 |
| Second year | 56,391 | 104,033 |
| Third year | 80,420 | 55,543 |
| Fourth year | 39,884 | 60,499 |
| Thereafter | 440,559 | 363,632 |
| Not yet determined | 7,050 | 7,519 |
| | 802,369 | 635,865 |

C. Collateral – see Note 36.

D. Additional information

- The average effective interest rate on the Group's loans in 2006 was 6.15% (2005 – 5.62%).
- The fair value of loans bearing fixed interest rates is higher than the value at amortized cost presented in these financial statements (see Note 50).
- Substantially all investment properties and construction in progress have been pledged to secure long term loans from banks. The fair value of these assets exceeds the carrying value of the related loans.

## 26. OTHER LONG TERM LIABILITIES

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Deposits from tenants | 1,938 | 3,513 |
| Payable on account of land lease (1) | 3,555 | 1,102 |
| Provision for preferred return on investment | – | 7,413 |
| Other | 676 | 608 |
| | 6,169 | 12,636 |

(1) On December 6, 2004 a subsidiary in Serbia signed an Agreement with the Land Agency for the building and construction land, Belgrade for the lease of state-owned construction land in New Belgrade, with the purpose of development of a business-commercial building. The Leased Building Plot is leased to the subsidiary for a finite period of 99 (ninety nine) years, commencing upon coming into force of this Agreement. During 2006 the subsidiary paid the remaining liability.

In 2006 another Serbian subsidiary concluded a lease agreement with the Land Agency for the building and construction land, Belgrade for the lease of certain land plots located in New Belgrade. The Leased Building Plots are leased to the subsidiary for a finite period of 99 years, commencing upon coming into force of this Agreement. Both lease and compensation fees are payable to the Agency.
The total lease liability amounts to USD 8.4 million, payable in 6 instalments. The first lease payment was made in March 2006. The lease payments are linked to the retail price index published by the City Bureau of Statistics and Information. According to the Agreement, the subsidiary is entitled to accelerate payment of outstanding instalments and to receive a 30% discount on the remainder of the liability. Based on this provision, and according to the intention to use this right, the liability is presented in the balance sheet at the discounted balance.

## 27. WARRANTS AND OPTIONS

| | Balance at December 31, 2006 | **December 31, 2006** | December 31, 2005 |
|---|---|---|---|
| | No. of options | USD'000 | USD'000 |
| Options to Company's shares: | | | |
| Phantom options granted to banks and financial institutions [(1)] | | – | 462 |
| Options granted in connection with subsidiary's borrowings [(2)] | 3,419,863 | 35,232 | 14,992 |
| Equity component of 2001B debentures of Kardan Israel | | – | 1,287 |
| | | 35,232 | 16,741 |
| Options to Group companies' shares | | | |
| Listed warrants series 2 and 3 of GTC RE [(3)] | | – | 5,086 |
| Equity component of 2004 and 2005 debentures of GTC RE [(3)] | 13,549,170 | 43,790 | 15,158 |
| Listed warrants series 1 of Kardan Israel | 2,000,000 | 5,914 | 841 |
| Options to TBIH's shares [(4)] | | – | 1,888 |
| Put options – KFS Group [(5)] | | 78,959 | – |
| Put options – GTC Group [(6)] | | 12,802 | – |
| | | 141,465 | 22,972 |
| | | 176,697 | 39,713 |

(1) See Note 23

(2) See Note 36

(3) In 2004 GTC RE issued warrants and convertible debentures. In accordance with IAS 32 and IAS 39, the warrants (series 2 and 3) and the equity component of the convertible debentures are presented at their fair value, but due to the foreign currency element of the debentures, the equity component is presented as a liability rather than equity. The fair value of these securities was calculated by an independent valuer, using models and methods applicable for such calculations and types of securities. The value of warrants 2 and 3 was calculated based on the number of outstanding warrants and the market price on TASE as of each cut-off date. The balance as of December 31, 2006 solely relates to the fair value of equity component of convertible debentures, as the warrants expired in September 2006.

(4) In connection with loans amounting to USD 15 million, TBIH granted options to Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V. ('FMO'), to purchase up to 12,215 shares of TBIH according to a variable exercise price which is based on a company valuation of USD 220- 180 million in different periods until August 17, 2010.

TBIH can repurchase this option for USD 1 million through March 31, 2006, and for USD 2 million thereafter. During 2006 all of the FMO options have been bought back from FMO for consideration of USD 5.25 million.

(5) This balance refers to the following Put options:

- An amount of approximately USD 7.1 million refers to Put option granted to minority shareholder in TBIF. As of December 31, 2006 Cavebrook holds a 10.62% interest in TBIF. Within the framework of the share purchase agreement, TBIH has granted Cavebrook a Put option. According to the agreement, Cavebrook shall have the option to sell its 10.62% stake in TBIF to the Company provided that neither (i) shares of TBIF are listed for trading on a stock exchange, nor (ii) TBIF remains controlled by TBIH and shares of TBIH are listed for trading on a stock exchange.
The shares will vest in three equal portions on 30th June of each of the years 2008, 2009, and 2010. The Exercise price will be determined by agreement among the TBIH and Cavebrook. If the parties fail to reach such agreement the exercise price will be determined according to a valuation reflected from the most recent transaction (within the past 12 months), and if that is not applicable, by a valuation by a qualified entity to be mutually agreed upon.

- An amount of approximately USD 71.9 million relates to Put option granted by KFS to minority shareholders in TBIH as described in Note 6B.

(6) This balance includes the Put options referred to in Note 24B.

## 28. CONVERTIBLE DEBENTURES

| | Par value as of December 31, 2006 | Balance as of December 31, 2006, net | Balance as of December 31, 2005, net | Interest rate | Linkage basis | Maturities principal | Conversion rate |
|---|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | USD'000 | | | | |
| Conversion to the Company shares: | | | | | | | |
| Kardan Israel – (series B) | | – | 2,069 | .5.85% | In NIS linked to CPI | 2006 | (1) |
| Kardan Israel– (June 2005) – conversion to Kardan Israel shares | 37,027 | 35,663 | 37,773 | 6% | In NIS linked to CPI | 2010 | (2) |
| GTC RE – (series A) – conversion to GTC RE shares | 23,606 | 22,965 | 59,104 | 6% | In NIS linked to CPI | 2009 | (3) |
| | | 58,628 | 98,946 | | | | |
| Less – current maturities | | - | (2,069) | | | | |
| Debentures issuance expenses | | (1,358) | (3,007) | | | | |
| | | 57,270 | 93,870 | | | | |

(1) Each USD 3.7 par value is convertible into one ordinary share of EUR 0.20 par value of the Company

(2) Each USD 2.6 par value is convertible into one ordinary share of NIS 1 par value of Kardan Israel. The market value of the debentures as of December 31, 2006 was approximately USD 46 million.

(3) Each USD 3.8 par value is convertible into one ordinary share of EUR 0.20 par value of GTC RE. The market value of the debentures as of December 31, 2006 was approximately USD 69 million.

B. Maturities

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| First year – current maturities | – | 2,069 |
| Second year | – | – |
| Third year | 22,965 | – |
| Fourth year | 35,663 | 59,104 |
| Fifth year | – | 37,773 |
| Total | 58,628 | 98,946 |

C Collateral – see Note 36.

## 29. DEBENTURES

| | Par value as of December 31, 2006 | Balance as of December 31, 2006, net | Balance as of December 31, 2005, net | Interest rate | Linkage basis | Maturities principal |
|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | USD'000 | | | |
| Kardan NV – issued in 2005 | 26,035 | 26,667 | 24,515 | 6.6% | In NIS – linked to CPI | 2010 |
| Kardan Israel – issued in 2005 | 11,834 | 12,043 | 11,076 | 6.4% | In NIS – | 2009 |
| | 11,834 | 12,043 | 11,075 | 5.5% | linked to CPI | |
| Kardan Israel – issued in 2003 | 23,669 | 23,660 | 21,596 | 6.2% | In NIS – linked to CPI | 2008 |
| Kardan RE – issued in 2003 | 14,392 | 14,328 | 13,043 | 6.5% | In NIS – linked to CPI | 2008 |
| Debentures issued by proportionately consolidated companies | | 29,980 | 24,659 | 7.3% | In EUR or linked to EUR | 2007 - 2011 |
| | | 118,721 | 105,964 | | | |
| Less – current maturities | | (12,465) | (3,924) | | | |
| Debentures issuance expenses | | (241) | (690) | | | |
| | | 106,015 | 101,350 | | | |

B. Maturities

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| First year – current maturities | 12,465 | 3,924 |
| Second year | 48,187 | 10,816 |
| Third year | 29,137 | 44,557 |
| Fourth year | 26,667 | 22,151 |
| Fifth year | 2,265 | 24,516 |
| Total | 118,721 | 105,964 |

C. Collateral – see Note 36.

## 30. INSURANCE CONTRACTS LIABILITIES

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Life insurance | | |
| Assurance reserves | 41,970 | 34,609 |
| Outstanding claims | 1,862 | 1,187 |
| Total life insurance | 43,832 | 35,796 |
| General insurance | | |
| Unearned premium reserves | 27,183 | 42,610 |
| Outstanding claims | 39,941 | 40,770 |
| Total general insurance | 67,124 | 83,380 |
| Total provisions and outstanding claims | 110,956 | 119,176 |

A. Issuance contract and deferred acquisition costs in general assurance

(1) The methods for determining various types of insurance liabilities and deferred acquisition costs

The reserve for unexpired risks and outstanding claims, including reinsurers' share in the reserve and in the outstanding claims, and deferred acquisition costs in general insurance were calculated according to generally accepted actuarial methods according to the actuaries' discretion.

The Company calculated the reserves using principles consistent with the previous year.

- **Reserves for unexpired risks (unearned premium reserve)**

  The reserve for unexpired risks is based on written premium and is calculated on a proportional basis in respect of the unexpired term of the policy for which premium has been received.

- **Provision for outstanding claims**

  Valuation of the outstanding claims:

  Gross outstanding claims and outstanding claims net of reinsurers' share thereof, are calculated by actuaries in the lines of business that have relatively long tails and/or enough data to allow the application of actuarial-statistical methods. These lines are generally the Motor lines (including Casco, Third Party Liability and Green Card) and the Personal Accident line. The methods used include the usual actuarial methods such as the chain ladder, the average payment per claim method, and in some cases the expected loss ratio method is applied in order to ensure reasonable estimations when the statistical method fails. The actuaries carry out estimations using data regarding claims payments, numbers of claims reported and case-reserves. The estimates allow for IBNR, IBNER, expected subrogation and direct claims handling expenses. See below for more details.

  For other lines of business, due to the absence of statistical effect the actuarial model was not applied and the outstanding claims in these branches are included for known outstanding claims that include an appropriate provision for settlement and handling expenses. This provision is based mainly on an individual valuation for each claim according to the opinion obtained from the legal advisors and the Company's experts that handle the claims. A provision for IBNR is added for these lines according to local regulations. This IBNR provision is not material due to the short-tail nature of these lines.

- **Deferred acquisition costs**

  The portion of the commission and other acquisition costs, relating to unearned insurance premiums on retention, are carried forward to the next reporting periods as deferred acquisition costs. These are calculated according to the actual commission rates.

**(2)** The assumptions and models used for determining the provisions

**Reserve for unexpired risks**

The above mentioned "Reserve for unexpired risks" in principle is not calculated according to an actuarial method and does not depend on any assumptions, but rather it constitutes an unearned premium balance.

**Provision for outstanding claims**

For the sake of valuating outstanding claims, the actuarial models detailed below have been used in conjunction with various assumptions:

- Chain ladder: this method is based on the development of historical claims (development of payments and/or development of amount of claims, development of the number of claims, etc.), in order to valuate the anticipated development of existing and future claims. The use of this method is mainly suitable after a sufficient period since the event occurred or the policy is written, when there is enough information from the existing claims in order to valuate the total anticipated claims.
- Bornhuetter-Ferguson (or modified version thereof): this method combines early estimates known in the Company or class of business, and additional estimates based on the claims themselves. The early estimates utilize premiums and loss ratio for evaluating the total claims. The second estimate utilizes actual claims experience based on other methods (such as chain ladder). The combined claims valuation weighs the two estimates while a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use of this method is mainly suitable for the recent period where there is not enough information from the claims or when talking about a new business or one with insufficient historical information.
- The average payment per claim: at times, as in the Bomhuetter-Ferguson method, when the claims experience in the last periods is insufficient, the historical average method is utilized. In this method the provision is calculated based on the forecast of the number of claims (chain ladder method) and historical average claim size.

The selection of a suitable actuarial method for each insurance branch, and for each underwriting/calendar year is determined by considering the compatibility of the method for the respective case and there is also a combination between the various methods.

For some lines of business claims are discounted (e.g. Motor TPL and Green Card), for other lines of business claims are not discounted due to the fact that most claims are settled within a very short period of time and very few claims remain outstanding for more than 2 of 3 years.

There were no material changes to assumptions or models used compared to last year.

There are no material assumptions made in determining the outstanding claims provisions, other than the general broad-based assumptions that past experience regarding claims reporting and settlement patterns will be repeated in the future (except in specific cases where the actuaries determined otherwise). All other assumptions only exist on a claim-by-claim basis, regarding issues such as the probability of winning a claim dispute. None of these claims are of a material level on their own.

(3) Composition of gross outstanding claims in general insurance

| **December 31,2006** | **Statistics line of business** | | **Non-Statistics line of business** | | |
|---|---|---|---|---|---|
| Line of business | Actuarial estimation of outstanding claims | Additions to the actuarial estimation | Estimation of claims department | Additions - IBNR | Total |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Total motor lines of business | 29,927 | 13 | – | – | 29,927 |
| Marine & Cargo | – | – | 629 | – | 629 |
| Property | – | – | 2,156 | – | 2,156 |
| Aviation | – | – | 942 | – | 942 |
| Other | – | – | 4,874 | 1,400 | 6,274 |
| Total | 29,927 | 13 | 8,601 | 1,400 | 39,941 |

| December 31, 2005 | **Statistics line of business** | | **Non-Statistics line of business** | | |
|---|---|---|---|---|---|
| Line of business | Actuarial estimation of outstanding claims | Additions to the actuarial estimation | Estimation of claims department | Additions - IBNR | Total |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Total motor lines of business | 29,358 | – | – | – | 29,358 |
| Marine & Cargo | – | – | 3,568 | – | 3,568 |
| Property | – | – | 2,249 | – | 2,249 |
| Aviation | – | – | 258 | – | 258 |
| Other | | | 3,814 | 1,523 | 5,337 |
| Total | 29,358 | – | 9,889 | 1,523 | 40,770 |

(4) Movement of outstanding claims in general insurance

| | **2006** | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Balance at January 1, | 40,770 | 47,300 |
| Additions for newly consolidated companies | 378 | 4,476 |
| Disposals for companies deconsolidated and decrease in proportionately consolidated investment | (7,815) | (21,439) |
| Claims incurred in the current accident year | 24,934 | 47,678 |
| Movement on claims incurred in prior accident years | 7,544 | (3,766) |
| Claims paid during the year | (30,758) | (39,559) |
| Foreign exchange adjustment | 4,888 | 6,079 |

| | | |
|---|---|---|
| Balance at December 31 | 39,941 | 40,770 |

(5) Claim development table

| Accident year | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Total |
|---|---|---|---|---|---|---|---|
| Claims paid (cumulative): | | | | | | | |
| At the end of the year | 10,515 | 10,495 | 9,795 | 10,542 | 14,410 | 19,257 | 75,014 |
| 1 year later | 17,394 | 17,024 | 16,061 | 17,042 | 22,284 | – | 89,805 |
| 2 years later | 20,342 | 19,800 | 18,102 | 20,090 | – | – | 78,334 |
| 3 years later | 21,665 | 21,474 | 19,505 | – | – | – | 62,644 |
| 4 years later | 22,373 | 22,932 | – | – | – | – | 45,305 |
| 5 years later | 23,076 | – | – | – | – | – | 23,076 |
| Estimate of ultimate Claims costs (paid +outstanding) | | | | | | | |
| At the end of the year | 23,839 | 26,920 | 22,339 | 22,465 | 25,747 | 33,307 | 154,617 |
| 1 year later | 25,193 | 25,285 | 22,456 | 24,427 | 28,776 | – | 126,137 |
| 2 years later | 24,900 | 25,384 | 23,080 | 25,033 | – | – | 98,397 |
| 3 years later | 25,584 | 24,732 | 23,982 | – | – | – | 74,298 |
| 4 years later | 25,228 | 26,052 | – | – | – | – | 51,280 |
| 5 years later | 26,044 | – | – | – | – | – | 26,044 |
| Surplus (shortage) in original estimation | (2,205) | 868 | (1,643) | (2,568) | (3,029) | – | |
| % of deviation | -9.25% | 3.22% | -7.35% | -11.43% | -11.76% | | |
| **Current estimate of cumulative claims** | 26,044 | 26,052 | 23,982 | 25,033 | 28,776 | 33,307 | 163,194 |
| Current payments to date | 23,076 | 22,932 | 19,505 | 20,090 | 22,284 | 19,257 | 127,144 |
| Liability recognised in the balance sheet | 2,968 | 3,120 | 4,477 | 4,943 | 6,492 | 14,050 | 36,050 |
| Liability in respect of prior years | | – | – | – | – | – | 4,994 |
| Liability in respect of newly consolidated companies | | – | – | – | – | – | 200 |
| **Total gross outstanding claims included in the balance sheet** | | | | | | | **41,244** |

(*) The amounts in the table above are presented in EUR and represent 100% of the claims of TBIH motor line of business.

B. Insurance liabilities and differed acquisition costs in life assurance

(1) The methods for determining various types of insurance liabilities and deferred acquisition costs

The Company holds reserves in respect of its insurance liabilities in accordance with each country's regulations, generally accepted accounting principles and actuarial methods. The Company calculates the reserves in accordance to the data of the respective cover, such as: the age of the insured, the time length of the coverage, type of insurance, amount of insurance etc.

The Company computed the reserves consistently with the basis of the previous year.

For "Endowment" ("Conventional") type policies - traditional products combining the savings component with an insurance component, and pure risk products (mainly term insurance) a mathematical reserve is computed. In addition, reserves are computed for IBNR claims, unearned premiums and participation in investment income. Reserves for these products are computed by the Company's actuary according to the methods described below.

The methods for determining this reserve, relevant to the types of reserve and various products, are as follows:

- The vast majority of the mathematical reserve is for traditional products with a savings component (mainly the "Endowment" product) and pure risk products with fixed premium (mainly term insurance). This reserve is computed for each coverage as a capitalization of the cash flows for anticipated claims, net of anticipated future premiums. This calculation is based on the assumptions that the products were priced, including interest rate (hereunder – tariff interest), mortality or morbidity table. This is done by a theoretical calculation known as "net premium reserve", whereby instead of directly taking expenses and commissions into account, the calculation is based on "net premium" which does not include the loading for commission and expenses, based on the calculation assumptions. The interest rates for capitalization are between 3.0% and 6.0%.

- In addition to this reserve, for traditional products participating in investment income, a reserve is also computed in respect of the balance of the actual accumulated bonus. The bonus reflects the gap between the actual yield and the interest as per tariff. Note that investment participation for the company's products is not on a discretionary basis, but rather according to set formulae in the products' terms and conditions, or according to local regulations.

- Reserves for unearned premium are calculated where premium is received in advance. This is particularly the case for short term life term. The reserve is calculated on a proportional basis in respect of the unexpired term of the policy for which premium has been received.

- The reserve for IBNR (incurred but not yet reported claims) is calculated based on past experience or as a reasonable percentage of premium where past experience is not available.

- The reserve for group insurance is comprised from a reserve for unearned premium, provision for participation in profits, a reserve for IBNR, and a provision for future losses if required.

**Outstanding Claims -** Outstanding claims are provided for on a case-by-case basis for all reported but not-yet-paid claims.

**Liability Adequacy -** The Company's actuaries consider each year, if the total reserve, net of deferred acquisition costs, is sufficient to cover the future anticipated cash flows: premiums net of claims, commissions and maintenance expenses for the policies in force, under reasonable assumptions. If the liability is not adequate then the size of the DAC is written off (in respect of prior periods) or limited (in respect of the current period's new DAC).

(2) The manner of determining the assumptions used for calculating actuarial type reserves

The assumptions used for calculating actuarial type reserves are determined as follows:

- In most cases the interest rate used for calculating the reserve for each policy is the pricing rate of interest used for that policy. In some cases, where the pricing rate of interest is considered to be too high for it to be supportable by expected future investment returns, the interest rates were reduced.
- The mortality and morbidity rates are identical to the rates used for determining the tariff duly approved by the local regulator.
- The company's actuaries consider all assumptions in terms of reasonability and prudence in relation to their expectations.

(3) Movement in Life assurance reserve

| | **2006** | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Balance at January 1, | 34,609 | 49,868 |
| Disposals for companies deconsolidated and decrease in proportionately consolidated investment | (1,700) | (19,249) |
| Additions from premium received | 7,681 | 12,643 |
| Claims and surrenders | (3,244) | (3,866) |
| Investment income and exchange differences | 4,624 | (4,787) |
| Balance at December 31 | 41,970 | 34,609 |

C. Changes in assumptions and actuarial models and their affect on the provisions

There were no material changes in assumptions or reserving methods compared to the previous year, except for the decrease of the discount rate from 4.75% to 4.5% in the life insurance business of Helios (Croatia).

D. Summary of main terms and conditions of the major products

**Non-Life Insurance**

a. Casco - These are policies for up to one year, covering property damage from accidents and theft of motor vehicles. Damage is limited to the value of the vehicle.
b. Motor TPL - These are compulsory policies, for up to one year, covering third-party property and bodily-injury damage, resulting from accidents caused by the insured. Damage is limited according to local regulations, with the limits being very low compared to Western European standards.
c. Green Card - These are policies for short periods, up to one year at the most, covering third-party property and bodily-injury damage, resulting from accidents caused by the insured while driving in a foreign country. The damage is limited according to the limits in the country where the accident occurs. Conditions of the coverage are regulated by international laws and agreements.
d. General Property - These are policies for one year normally, covering physical damage to properties such as houses, buildings, machinery and other equipment.

**Life and Health Insurance**

a. Term Insurance - This product pays out a guaranteed pre-determined sum-insured on the death of the insured, in return for a single or monthly premium. Most of these products are sold to people who take credit from another financial institution and are required by that institution to buy Life Insurance to pay back the loan if the person dies. Therefore most of these policies are for relatively short terms, such as 3 years, but they vary from between 1 and 20 years.
b. Endowments - These are traditional products that combined savings and Life Insurance. Premiums are paid regularly during the term of the policy, which varies between 10 and 30 years in most cases. At the end of the term, or on death, if earlier, the insured will get the guaranteed sum-insured specified when buying the policy. In addition, most of these policies participate in investment returns earned by the company in excess of the built-in interest rate used to price the product.
c. Accidental Death and Injury - These are products that are sold on their own (usually for only 1 year, as personal accident insurance) or as a supplementary benefit to an Endowment. They pay out the sum insured on accidental death and/or severe injuries caused by accident, and sometimes pay certain smaller sums for such things as a daily hospital benefit.

E. Risks and Sensitivities

**Non-Life Insurance**

The main risks faced by the company are an increase in the number of accidents or thefts, and changes to the legal environment regarding bodily injury claims in the countries where company provides third-party coverage (including Green Card). The following table provides an indication of the sensitivity of profits to these risks:

| Hypothetical change in risk factor | Effect on 2006 profit before tax of the change |
| --- | --- |

| | |
|---|---|
| 10% increase in accidents and theft | EUR 5.5 million less profit |
| 10% increase in legal awards for bodily injury | EUR 1.3 million less profit |

**Life Insurance**

The main risks faced by the company are lower than expected investment returns, and higher mortality due to natural and accidental causes. The following table provides an indication of the sensitivity of profits to these risks:

| Hypothetical change in risk factor | Effect on 2006 profit (before tax) of the change |
|---|---|
| Investment return being lower by 1% during the year | EUR 0.7 million |
| Decrease of 1% in interest rate used for calculating reserves | EUR 3.6 million |
| 10% increase in mortality and injuries from all causes | EUR 0.2 million |

## 31. ACCRUED SEVERANCE PAY, NET

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Accrued severance pay | 1,886 | 1,476 |
| Less - deposits | 121 | 90 |
| | 1,765 | 1,386 |

The obligation of Group companies in Israel to make severance payments to their employees is covered primarily by deposits with pension funds and insurance companies. The amounts deposited at in the funds and the insurance companies are not under the control or management of Group companies, and accordingly, neither those amounts nor the corresponding liabilities for severance pay are reflected in the balance sheet. The amounts with the severance pay fund include profits accumulated to balance sheet date. The amounts deposited may be withdrawn only after fulfilment of the obligations under the Severance Pay Law. The obligation of Group companies for severance payment to employees not covered by the aforementioned deposits is presented in the balance sheet as stated above.

## 32. BANKING CUSTOMERS ACCOUNTS

A. Composition

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Due to banks: | | |
| Demand deposits | 862 | – |
| Term deposits-current | 3,945 | – |
| | 4,807 | – |
| Loans and advances-current | 49,765 | – |
| Loans and advances-non current | 1,334 | – |
| | 51,099 | – |
| | 55,906 | – |
| Due to customers: | | |
| Demand deposits | 32,959 | – |
| Term deposits-current | 41,140 | – |
| Term deposits-non current | 57,714 | – |
| | 131,813 | – |
| | 187,719 | – |

B. Maturities

| | **December 31, 2006** |
|---|---|
| | USD'000 |
| Demand | 2,856 |
| Up to 3 months | 76,401 |
| From 3 to 6 months | 13,028 |
| From 6 to 9 months | 2,678 |
| From 9 to 12 months | 22,959 |
| From 1 to 2 years | 57,362 |
| From 2 to 5 years | 597 |
| Later than 5 years | 11,838 |
| | 187,719 |

## 33. OTHER PAYABLES AND ACCRUED EXPENSES

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Accrued expenses | 42,486 | 19,131 |
| Premium in advance | 2,116 | 1,867 |
| Amounts owed on account of reinsurance | 39 | 37 |
| Amounts owed on account of direct insurance | 10,186 | 4,761 |
| Payroll and related expenses | 5,142 | 3,976 |
| Advances from customers | 41,254 | 15,539 |
| Unearned revenues | 1,114 | 886 |
| Associated companies | – | 4,984 |
| Current maturities of long-term liabilities | 4,822 | – |
| Payable on acquisition of subsidiary | 16,897 | – |
| Other | 16,163 | 18,978 |
| | 140,219 | 70,159 |

## 34. TRADE PAYABLES

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Trade payables | 75,739 | 35,818 |
| Checks payables | 393 | 189 |
| | 76,132 | 36,007 |

## 35. INTEREST-BEARING LOANS AND BORROWINGS

| | Weighted average annual interest rate (*) % | **December 31, 2006** | December 31, 2005 |
|---|---|---|---|
| | | USD'000 | USD'000 |
| Short-term credit from banks - | | | |
| In NIS | 5.48% | 34,781 | 19,429 |
| In USD | 6.60% | 4,529 | 8,515 |
| In or linked to EUR | 6.88% | 24,277 | 16,517 |
| In NIS (linked to CPI) | | – | 1,008 |
| In other currencies | 18.39% | 50,306 | 12,352 |
| Short-term credit from related party | | 642 | 2,978 |
| Short term credit from others | | 4,494 | – |
| | | 119,029 | 60,799 |
| Current maturities of long-term liabilities | | | |
| Loans | | 178,065 | 44,642 |
| Debentures | | 12,465 | 5,993 |
| | | 309,559 | 111,434 |

(*) As of December 31, 2006

Collateral – see Note 36

## 36. LIENS, CONTINGENT LIABILITIES AND COMMITMENTS

### A. Liens and Collaterals

(1) In connection with loan agreements signed with banks and financial institutions for loans amounting to approximately USD 90.8 million the Company has undertaken to maintain certain financial covenants and has pledged certain assets, as follows:

a. First rank pledge over a total of 28,238,801 shares of GTC RE;
b. First rank pledge over a total of NIS 76,317,017 par value of convertible debentures of GTC RE held by the Company;
c. Maintain control over GTC RE;
d. Maintaining equity to balance sheet ratio at 25%-30% (according to Israeli GAAP).
e. Shareholders' equity will not be less than USD 98 million;
f. Pledge over the Company's holding in KFS;
g. Commitment not to pledge any TBIH's shares other than certain events pre-described by the lender;
h. Prior approval of one of the lenders for any change in control, reorganization, capital reduction or de-listing.

As of December 31, 2006 the Company meets the abovementioned requirements.

(2) To secure the repayment of debentures and convertible debentures Kardan Israel pledged assets and rights as follows:

a. With respect to 2003 debentures amounting to USD 20.9 million as of December 31, 2006, a first rank pledge on 40% of the shares of Taldan Motors Ltd. ('Taldan');
b. With respect to 2003 debentures amounting to USD 3.3 million as of December 31, 2006, a first rank pledge on 5% of Taldan's shares and a pledged bank deposit amounting to the accrued interest of the debentures, such that both pledges will not be less than 125% of the balance of the related debentures;
c. With respect to 2006 debentures amounting to USD 24.2 million as of December 31, 2005, a first rank pledge on 45% of Taldan's shares.
d. With respect to 2003 debentures issued by Kardan RE amounting to USD 14.6 million as of December 31, 2006, a first rank pledge on 5.5% of GTC RE's shares.

(3) In addition, with respect to debentures amounting to USD 48.5 million as of December 31, 2006 Kardan Israel has undertaken to maintain certain financial covenants as follows:

a. Shareholders' equity will not be less than USD 50,254 thousand;
b. Equity to total assets ratio of Kardan Israel will not be less than 28%-30%;
c. With respect to 2003 debentures – the equity of Taldan will not decrease to less than USD 19.6 million;
d. With respect to 2005 debentures and 2005 debentures – Kardan Israel will not sell most of the shares in Universal Motors Israel Ltd. ('UMI') and it will not lose its right to sell General Motors vehicles; and it will not distribute dividends in amount higher than 50% of its profits in each of the years 2005-2009;
e. With respect to 2003 debentures issued by Kardan RE – GTC RE will not repay its loan to Kardan RE in amount exceeding 58.8% of the net profit of GTC RE. In addition, Kardan RE committed that in the event GTC RE will sell GTC S.A.'s shares,

Kardan RE will pledge in favour of the debenture holders a liquid deposit amounting to the outstanding balance of the debentures.

As of December 31, 2006 the Group companies meet the aforementioned requirements.

(4) With respect to a USD 50 million loan, GTC RE has committed toward the lender to maintain certain financial covenants regarding its equity, dividend distribution and others. As of December 31, 2006 GTC RE met its obligations.

Subsequent to the balance sheet date, in January 2007, GTC RE has fully repaid the loan.

(5) With respect to a USD 20 million loan, GTC RE has committed towards the lending party to maintain certain financial covenants including minimal shareholders' equity of USD 30 million (according to Israeli GAAP) and equity to balance sheet ratio of 14%. Furthermore, the Company has committed to obtain the lender's approval for capital reduction, dividend distribution and purchase of its own shares.
As of the date of these financial statements, GTC RE meets its obligations.

(6) In connection with a EUR 100 million credit facility, GTC RE has committed towards the lending bank to maintain certain financial covenants, including minimal shareholders' equity of USD 87 million (according to Israeli GAAP) and equity to balance sheet ratio of 28%. As of December 31, 2006 GTC RE has withdrawn approximately USD 40.3 million.
As of the date of these financial statements, GTC RE meets its obligations.

(7) In most cases, in its financing agreements with banks, the GTC Group undertakes to comply with certain financial covenants that are prescribed in those agreements, the principal elements of which are: maintaining a balance in a certain amount in the bank accounts, maintaining a certain ratio between the loan and the value of the project, maintaining certain ratios between the net revenues from the lease of the financed project and the amounts of the various expenses, such as interest and commissions, maintaining certain ratios between the net revenues from the financed project and the principal and interest that the borrowing company is required to pay for a period of a quarter. As of the date of these financial statements, the borrowing Group companies are fulfilling their liabilities in connection with the financial covenants.

(8) In respect of loans received by TBIH amounting to approximately USD 18 million, TBIH has undertaken not to lose its control over some of its subsidiaries and to maintain certain financial ratios regarding its leverage and liquidity. As of December 31, 2006 TBIH meets the required financial ratios.

(9) Certain subsidiaries recorded liens on their assets and their rights, in part or in full, as collateral for credit received from banks and from others, which credit amounted to approximately USD 620 million as of December 31, 2006.

## B. Guarantees

Following are the guarantees provided by the Company and its Group companies as of December 31:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | Limited in amount | Not limited in amount (*) | Limited in amount | Not limited in amount (*) |
| | USD'000 | USD'000 | USD'000 | USD'000 0 |
| In respect of: | | | | |
| - Subsidiaries | 138,284 | 4,409 | 88,911 | 4,023 |
| - Associated companies | 534 | 64,298 | 3,761 | 21,073 |
| | 138,818 | 68,347 | 92,672 | 25,096 |

(*) The amount of the guaranteed liabilities as of December 31

Also, subsidiaries provided bank guarantees in a total amount of approximately USD 62 million in favour of customers in respect of advances received for contracts and projects.

## C. Legal claims and Contingencies

(1) In 2004 the liquidator of Callis Soft S.A. ("Callis") filed a claim against the directors of Callis. Callis, a French company, is a 20% investment of Global E-nvestment Development (G.E.D.) B.V. ("GED"), a subsidiary of Kardan Technologies. The investment in Callis was written off in prior years.

The subject of the claim is the liability of the directors and officers of Callis to the excess of liabilities over assets in Callis, amounting to approximately EUR 14.9 million. According to the French law, the court can decide that directors and officers of a company under liquidation should cover the excess liabilities in case it was proven that certain actions taken by these directors and officers contributed to the capital deficiency of the company.

According to the legal advisors of GED, which served as a director of Callis, GED has grounds to contest the claim, and the chances that the Company will suffer any financial loss as a result of the claim against GED are considered remote.

(2) Subsidiaries have liabilities in respect of warranty for the quality of the services and the work which they perform. In order to cover these obligations, the subsidiaries are insured with liability insurance up to the amount of USD 10 million for each claim. Management of the subsidiaries believes based, among others, on estimates of the insurance companies and on prior experience, that the provisions included in the financial statements in respect of the claims filed against them in excess of the existing insurance coverage and in respect of the deductible portion of the insurance are sufficient.

**D. Commitments**

As of December 31, 2006 the Group has contractual commitments to invest in construction of real estate an amount of approximately USD 310 million.

In the normal course of banking business (VA Bank, Ukraine), the Group becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments involving varying degrees of credit risk are not reflected in the balance sheet. These include guarantees issued and similar commitments, letters of credit and unused lines of credit. As at December 31, 2006, the Group's proportional share in the nominal or contract amounts were USD 34.8 million and risk-weighted amounts were approximately USD 24 million.

**E. Contracted future rental income and costs**

The Group has entered into various operational lease contracts with tenants related to investment properties in Poland, Serbia, Romania, Croatia, Hungary, Germany and Switzerland. The aggregate amount of contracted future rental income amounts to approximately USD 614 million as of December 31, 2006, of which approximately 16% are due within one year and 38% are due after five years.

## 37. SALES AND SERVICES

| | For the year ended December 31, | |
|---|---|---|
| | **2006** | 2005 |
| | USD’000 | USD’000 |
| From sale of merchandise | 23,299 | 19,039 |
| From services provided | 2,317 | 1,494 |
| From management of pension funds | 4,026 | 5,996 |
| From selling apartments | 32,743 | 29,394 |
| | 62,385 | 55,923 |

## 38. REVENUES FROM INSURANCE ACTIVITIES

| | **For the year ended December 31, 2006** | | | For the year ended December 31, 2005 | | |
|---|---|---|---|---|---|---|
| | Life Insurance activities | General insurance activities | Total | Life insurance activities | General insurance activities | Total |
| | USD’000 | USD’000 | USD’00 0 | USD’00 0 | USD’000 | USD’00 0 |
| Income from premiums | 10,426 | 86,211 | 96,637 | 16,358 | 144,374 | 160,732 |
| Less - reinsurance | 360 | 19,380 | 19,740 | 1,162 | 20,617 | 21,779 |
| Income from premiums, net | 10,066 | 66,831 | 76,897 | 15,196 | 123,757 | 138,953 |
| Change in provisions, net of share of reinsurers | – | (6,732) | (6,732) | – | (32,737) | (32,737) |
| Income from investments | 2,561 | 3,512 | 6,073 | 3,841 | 2,936 | 6,777 |
| | 12,627 | 63,611 | 76,238 | 19,037 | 93,956 | 112,993 |

## 39. LENDING AND FIDUCIARY ACTIVITIES

| | For the year ended December 31, 2006 | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| **Revenues of lending and fiduciary activities** | | |
| Interest income | 33,682 | 11,430 |
| Finance costs | (21,122) | (4,634) |
| | 12,560 | 6,796 |
| Commission and service fees | 16,569 | 4,105 |
| Finance advisory and fiduciary fees | 2,170 | 1,392 |
| | 31,299 | 12,293 |
| **Operating expenses of lending and fiduciary activities** | | |
| Staff costs | 6,376 | 3,618 |
| Impairment losses | 7,824 | 55 |
| Other operating expenses | 12,571 | 6,199 |
| | 26,771 | 9,822 |

## 40. GAIN ON DISPOSAL OF ASSETS AND OTHER INCOME

| | For the year ended December 31, 2006 | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Gain on disposal of subsidiaries | 13,500 | 50,431 |
| Gain on disposal of associates | – | 450 |
| Gain on disposal of property, plant and equipment | 28 | 651 |
| Income/(loss) from insurance brokerage, net of expenses | – | 301 |
| Gain from arbitration | – | 9,625 |
| Gain from release of provision for preferred return | 4,085 | – |
| Other | 6,708 | 454 |
| | 24,321 | 61,912 |

A subsidiary of GTC S.A. received from the city council a decision approving an amount of overpaid property tax. The overpaid property tax will be refunded in cash until January 2008.
As a result of the above in 2006, USD 3,463 thousand was recognised within other income.

## 41. COST OF SALES AND SERVICES

| | For the year ended December 31, | |
|---|---|---|
| | **2006** | 2005 |
| | USD'000 | USD'000 |
| Cost of sale of merchandise | 17,366 | 14,529 |
| Cost of apartments sold | 27,274 | 23,386 |
| Cost of services | 1,010 | 1,182 |
| Expenses of managing pension funds | 5,568 | 6,908 |
| | 51,218 | 46,005 |

## 42. OPERATING EXPENSES OF INSURANCE ACTIVITIES

| | **For the year ended December 31, 2006** | | | For the year ended December 31, 2005 | | |
|---|---|---|---|---|---|---|
| | Life Insurance activities | General insurance activities | Total | Life insurance activities | General insurance activities | Total |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Claims paid and outstanding | 3,204 | 46,920 | 50,124 | 1,704 | 60,405 | 62,109 |
| Less - reinsurers | 129 | 3,207 | 3,336 | 157 | 3,899 | 4,056 |
| | 3,075 | 43,714 | 46,788 | 1,547 | 56,506 | 58,053 |
| Policies terminated | 1,082 | – | 1,082 | 3,216 | – | 3,216 |
| Increase in reserves less portion attributable to reinsurers | 4,683 | – | 4,683 | 9,027 | – | 9,027 |
| Commissions paid | 1,238 | 13,770 | 15,008 | 2,312 | 24,366 | 26,678 |
| Reinsurers' share of commissions | (121) | (2,097) | (2,218) | (312) | (2,187) | (2,499) |
| General, administrative and other expenses | 2,861 | 13,450 | 16,310 | 3,506 | 23,249 | 26,755 |
| Increase in deferred acquisition costs | (718) | (2,137) | (2,856) | (1,758) | (8,387) | (10,145) |
| | 3,260 | 22,985 | 26,244 | 3,748 | 37,041 | 40,789 |
| | 12,099 | 66,698 | 78,797 | 17,538 | 93,547 | 111,085 |

## 43. SELLING AND MARKETING EXPENSES

| | For the year ended December 31, | |
|---|---|---|
| | **2006** | 2005 |
| | USD'000 | USD'000 |
| Payroll and related expenses | 6,117 | 5,085 |
| Commissions | 2,050 | 742 |
| Marketing and advertising | 4,381 | 4,685 |
| Depreciation and amortization | 29 | 27 |
| Other | 5,934 | 3,665 |
| | 18,511 | 14,204 |

## 44. GENERAL AND ADMINISTRATIVE EXPENSES

| | For the year ended December 31, | |
|---|---|---|
| | **2006** | 2005 |
| | USD'000 | USD'000 |
| Payroll and related expenses | 11,967 | 8,695 |
| Management fees | 5,838 | 1,791 |
| Office maintenance | 3,919 | 5,957 |
| Professional fees | 7,957 | 6,400 |
| Bad and doubtful debts | 15 | (140) |
| Depreciation and amortization | 810 | 1,299 |
| Other | 8,733 | 6,151 |
| | 39,239 | 30,153 |

## 45. LABOUR COSTS

| | For the year ended December 31, 2006 | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| Wages and salaries | 40,991 | 32,089 |
| Pension expenses | 4,898 | 3,484 |
| Unemployment contributions | 2,052 | 1,926 |
| Other social expenses | 1,876 | 1,548 |
| | 48,917 | 39,047 |

Labour costs are included in the income statement under various expense categories.

## 46. FINANCING INCOME AND EXPENSES

| | For the year ended December 31, 2006 | 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| **Income** | | |
| Income from bank deposits | 11,293 | 6,967 |
| Income in respect of long-term loans and receivables | 1,102 | – |
| Income from securities held for trading | 3,010 | – |
| Gain on forward exchange contracts | 352 | – |
| Exchange differences | 15,564 | – |
| Other | 3,062 | 3,325 |
| Total financing income | 34,383 | 10,292 |
| **Expenses** | | |
| Long-term loans and borrowings | 44,493 | 26,552 |
| Change in fair value of options | 79,549 | 31,216 |
| Debentures and convertible debentures | 16,952 | 11,143 |
| Exchange differences | 10,127 | 6,741 |
| Loss on forward exchange contracts | – | 362 |
| Short term loans and borrowings | 2,271 | 711 |
| Other | 4,084 | 2,439 |
| Total financing expenses | 157,476 | 79,164 |
| | (123,093) | (68,872) |

The consolidated financing expenses in 2006 are net of borrowing costs amounting to USD 4,918 thousand (2005 - USD 5,128 thousand) which were capitalized as real estate under construction.

## 47. OTHER EXPENSES, NET

| | For the year ended December 31, | |
|---|---|---|
| | **2006** | 2005 |
| | USD'000 | USD'000 |
| Impairment of investments in associates | – | 4,435 |
| Impairment of assets | 212 | – |
| Impairment of available-for-sale investments | 5,750 | – |
| Loss on disposal of subsidiaries and associates | 867 | 125 |
| Other expenses, net | 1,253 | 1,053 |
| | 8,082 | 5,613 |

## 48. TAXES ON INCOME

A. Tax law applicable to the Group

The Group companies are subject to tax laws applicable in the states in which they operate.

B. Income tax expense

Tax presented in the consolidated income statement is broken down as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2006** | 2005 |
| | USD'000 | USD'000 |
| In respect of the year of accounts | | |
| Current | 28,321 | 8,402 |
| Tax in respect of prior years | (1,459) | 32 |
| Deferred | 30,345 | 30,411 |
| | 57,207 | 38,781 |

C. The reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate as follows:

| | For the year ended December 31, | |
|---|---|---|
| | **2006** | 2005 |
| | USD'000 | USD'000 |
| Accounting profit | 251,568 | 207,443 |
| Tax expense (tax benefit) computed at the weighted average taxable rate of 16% (2005 – 32%) | 44,845 | 66,382 |
| Tax effect on non deductible expenses, net | 13,144 | 10,527 |
| Tax effect of unrealized foreign currency | – | 4,688 |
| Increase (decrease) in tax expense (tax benefit) due to: | | |
| · Unrecognized tax losses | 18,228 | 30 |
| · Equity in net earnings of associated companies and gain on issuances of shares to third parties which are not taxable | (8,750) | (3,228) |
| · Utilisation of tax losses carried forwards | (360) | – |
| · Tax effect of unrealized foreign currency related to investment property | (6,361) | 4,688 |
| · Tax effect of revenues exempted from tax | (3,966) | (39,586) |
| · Effect of changes in tax rates | 1,885 | – |
| · Taxes in respect of prior years | (1,458) | (32) |
| | 57,207 | 38,781 |

D. Composition of deferred taxes

| | Consolidated balance sheet | | Movement for the year ended December 31, | |
|---|---|---|---|---|
| | | | **2006** | 2005 |
| | **December 31, 2006** | December 31, 2005 | Recorded in the income statement | |
| | USD’000 | USD’000 | USD’000 | USD’000 |
| Deferred income tax assets (deferred tax liabilities) in respect of: | | | | |
| Investment properties | (75,692) | (43,492) | (29,138) | (21,825) |
| Property, plant and equipment | 299 | 9,154 | (8,858) | 12,075 |
| Contract work in progress | (40) | (1,663) | 1,443 | (394) |
| Temporary differences relating to investment in investee companies | (1,343) | – | (1,875) | – |
| Financial instruments | (1,100) | (6,713) | 10,030 | (18,792) |
| Carry forward losses available for offset against future taxable income | 5,488 | 4,098 | (845) | (88) |
| Valuation allowance | (3,103) | (2,629) | (474) | 27 |
| Other | (1,140) | 466 | (1,628) | (1,414) |
| | (76,361) | (40,779) | (30,345) | (30,411) |

| Presented in balance sheet as follows: | | |
|---|---|---|
| Net deferred income tax liability | (82,409) | (46,285) |
| Net deferred income tax asset | 5,778 | 5,506 |
| | (76,361) | (40,779) |

Additional information:

Taking into consideration the structure of the Group, the tax base of some investment properties is higher than its original historic costs. These are not considered timing differences but give rise to future permanent differences. Accordingly no deferred tax liability is required on the difference between the tax base and historic costs of those assets.

Future benefit for the loss carry forwards and other deferred tax assets have been reflected in these consolidated financial statements to the extent that it is probable that taxable profits will be available when timing differences that gave rise to such deferred tax assets reverse.

GTC SA has contributed organized parts of its business, which comprises of certain office buildings, a shopping centre and associated assets and liabilities into certain subsidiaries. In accordance with local regulations, the contributed buildings were revalued as of the date of contribution. The revalued amounts form the tax base for these assets. Hence the deferred taxation liability relating to the accumulating timing differences until contribution date in connection with these investment properties was released. If the shares in these subsidiaries are sold, the cost that will be deductible for tax purposes will be based on the net historical cost of the contributed items prior to the revaluation and in such case the tax liability that would arise at that date is estimated at USD 42.5 million (2005 – USD 51 million). There is no present intention of selling the shares of these subsidiaries, and therefore no related liability was recognized.

**E. Loss carry forwards and final tax assessments**

Deferred tax assets have not been recognized in respect of tax loss carry forwards amounting to approximately USD 94 million as they may not be used to offset taxable profits elsewhere in the Group and the losses are of subsidiaries that have generated losses for extended periods. These losses are available indefinitely for offset against future taxable profits of the companies in which the losses arose.
Kardan Israel received final tax assessments, or assessments deemed to be final, for tax years through 2001. Some of the principal subsidiaries have received final assessments or assessments deemed to be final, for tax years through 2001. For some of the subsidiaries, no final tax assessments have been issued since inception.

According to the Corporate Income Tax Act costs with regard to (indirect) foreign (non-EU) participation are non-deductible. GTC RE, upon the advice of its advisors, has decided to appeal against corporate tax assessments raised by the inspector of taxes with regards to the fiscal years 2001-2003 on the basis that the decision of the European Court of Justice (C-168/01), upon which the Dutch Supreme court amended the Corporate Income Tax Act should be extended to cover not only the EU and Economic European Area (EEA) but also countries who have association agreements with the EU based on article 56 EC (free movement of capital with third countries).

For the year 2001 the appeal has been made to the Tax Court, and for the years 2002 and 2003 at the Tax Authorities.

At present it is not possible to ascertain the outcome of the appeal against the corporate tax assessments raised by the Inspector of Taxes. Should GTC RE be successful in its appeal then it would be able to deduct USD 1,461 thousand for 2001, USD 899 thousand for 2002, and USD 4,623 thousand for 2003.

GTC RE's tax provision is based upon the assessments raised by the Inspector of taxes.

**F. Tax regulations in Eastern Europe**

Restrictive tax regulations exist in Eastern European countries regarding value added tax, company tax and national insurance (social security) payments. Since these regulations were enacted in recent years, they often include internal contradictions that cause problems in their interpretation. Differences in interpretation of the tax regulations between various tax related

entities and tax authorities, and the taxpayers cause numerous disputes. Arrangements regarding taxation and other areas of activity (such as foreign currency transactions) may be subject to supervision by the tax authorities and by other authorities that are empowered to levy material penalties including interest on the penalties. In these circumstances, business activity in Eastern European countries includes more serious tax risks than in countries with a more stable tax base. Eastern European countries do not have a formal procedure for determining the amount of the final tax. Tax arrangements may be audited at any time during a number of years. A risk exists that the tax authorities' interpretation of the tax legislation will be different from the interpretation of the subsidiaries in Eastern Europe, a fact that may affect the tax liability of those companies.

Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These frequent changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies. Tax settlements and other areas of activity (e.g. customs or foreign currency related issues) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in the Group's countries than in countries that have a more established taxation system.

### G. Special tax arrangement with the Income Tax Commissioner in Israel

On August 4, 2002, the Law for the Amendment of the Income Tax Ordinance (Amendment No. 132), 2002, was enacted in Israel. The Law states that commencing in 2003 income of companies from dividends and interest received from investee companies will be subject to tax in Israel even if the income was not received in Israel. Also, the Law states that, under certain circumstances, an Israeli resident that is a controlling shareholder in a foreign company, most of whose income is passive income (as defined in Section 2A of the Income Tax Ordinance) will be subject to tax (at the rate of 25%) on that income, as though it was distributed as a dividend to Israel, and eligible for a credit in respect of the foreign tax liability.

As a result of the aforementioned Law in April 2003 Kardan Israel reached a special tax arrangement with the Income Tax and Property Tax Commissioner ('the Commissioner'). According to the agreement, Kardan Ltd. will pay tax, at the rate of 5% of accumulated profits realized and of profits not yet realized ('increase in value profits') through December 31, 2002, of investee companies of Kardan Ltd. that are located outside of Israel. According to the arrangement, Kardan Israel will pay tax in the amount of approximately USD 2.7 million, of which USD 0.2 million constitutes 5% of Kardan Israel's share of the retained earnings for financial reporting purposes in Israel that are available for distribution ('arranged dividends'). The balance of USD 2.6 million constitutes 5% of the increase in value profits originating in foreign resident companies in which Kardan Ltd. has direct or indirect holdings and that hold assets in foreign countries ('the foreign assets'). Increase in value profits are profits arising from the difference between the carrying value of the foreign assets as recorded in the financial statements, and their fair value as of December 31, 2002.

The arrangement provides that Kardan Israel will not be subject to additional tax in respect of dividends received from the foreign resident investee companies up to the amount of the

arranged dividends and in respect of gains from the sale of the foreign assets up to the amount of the increase in value profits.

The tax obligation of Kardan Israel pursuant to the arrangement is payable commencing from May 2003 in 24 equal monthly instalments linked to the CPI plus interest in accordance with the Israel Income Tax Ordinance.

At the time of signing of the arrangement with the Commissioner, an associated company, Kardan Real Estate also signed an arrangement based on the same principles as the arrangement signed by Kardan Israel, pursuant to which Kardan Real Estate will pay taxes in the amount of USD 4.1 million.

## 49. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, adjusted for the effects of dilutive options and dilutive convertible debentures.

| The following reflects the income and share data used in the basic and diluted earnings per share computations: | **2006** | 2005 |
|---|---|---|
| Net profit (loss) attributable to ordinary equity holders of the parent (USD '000) | 50,671 | 52,613 |
| Effect of dilution of earnings of group companies | (7,315) | (2,510) |
| | 43,356 | 50,103 |
| Weighted average number of ordinary shares for basic earnings per share | 72,289,139 | 63,877,164 |
| Effect of dilution: | | |
| Shares options | 457,081 | - |
| Adjusted weighted average number of ordinary shares for diluted earnings per share | 75,746,221 | 63,877,164 |

The following equity instruments could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share for the year 2006 because they were anti-dilutive:

- 2001 debentures issued by Kardan Israel (see Note 27)
- Series 1 warrants issued by Kardan Israel (see Note 28)

In addition, employee options granted by the Company during 2006 were excluded as, in accordance with their vesting conditions, they have, as at December 31, 2006, a negative benefit rate and on that basis no shares would have been issued.

## 50. FINANCIAL INSTRUMENTS

Financial risk management:

The Group’s principal financial instruments, other than derivatives, comprise bank loans, debentures, convertible liabilities, financial leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group’s operations in a widely diversified way, attracting funds from different markets and investors. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swap and forward currency contracts. The purpose is to manage the currency and interest rate risks arising from the Group’s operations and its sources of finance.

The main risks arising from the Group’s financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board of management reviews and agrees policies for managing each of these risks and they are summarized below.

***Interest rate risk***
The Group’s exposure to market risk for changes in interest rates relates primarily to the Group’s long-term debt obligations. The Group’s policy is to manage its interest cost using a mix of fixed and variable rate debt. Interest rate risk management aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. Interest rate derivatives are used to align the loan portfolio with the intended risk profile. In order to manage the risk profile, the board of management discusses instruments to be used. Hedge accounting is only allowed if detailed requirements are met.

The Group has the following derivatives:

| Party | Loan hedged | Commence | Expiration date | Interest rate on bank loan (swapped) | Interest to be paid by the Company | Accounting treatment |
|---|---|---|---|---|---|---|
| Raiffaisen Bank | Loan from EBRD (GTC Serbia) | 8 May 2006 | 5 August 2011 | Floating | Fixed 3.85% | Directly to Equity |
| EUROHYPO | Loan from EUROHYPO (GTC Topaz office) | January 2006 | December 2007 | Floating | Cap 3.5% | Directly to Equity |
| | | January 2008 | December 2011 | | Collar 3.2%-4.1% | Profit and Loss |
| MKB | Loan from MKB (GTC Hungary) | April 2006 | January 2009 | Floating | Collar 3.41%-3.7% | Profit and Loss |
| | | February 2009 | January 2014 | | Collar 3.77%-4.15% | Profit and Loss |
| Aareal bank | Loan from Aareal (GTC Galeria Kazimierz) | April 2006 | March 2007 | Floating | Fixed 3.32% | Directly to Equity |
| | | April 2007 | March 2011 | | Collar 3.25%-5.5% | Profit and Loss |
| | | May2006 | May 2011 | | Fixed 3.92% | Directly to Equity |

Expired in the year:

| | | | | | | |
|---|---|---|---|---|---|---|
| Deutsche Bank | Loan from BPH Bank (GTC Mars) | December 2001 | July 2006 | Fixed | Floating | Profit and Loss |

Derivatives agreements related to GTC Serbia and GTC Hungary were signed during 2006.

The fair value of the above-mentioned derivatives amounts to an asset of USD 774 thousand as of December 31, 2006 (December 31, 2005 – a liability of USD 2,060 thousand).

The following table, that relates to VA Bank, proportionally consolidated bank in Ukraine, presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

**December 31, 2006**

| | UAH | USD | EUR | Other currencies |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Loans to banks | 7% | 5% | 3% | 0.1% |
| Loans to customers | 18% | 13% | 12% | - |
| Investments available for sale | 12% | - | - | - |
| | | | | |
| **LIABILITIES** | | | | |
| Loans and advances from banks | 7% | 7% | 4% | |
| Customer accounts (term deposits) | 13% | 9% | 8% | 2% |
| Customer accounts (demand deposits) | 2% | 1% | 1% | 1% |
| Debt securities issued | 13% | - | - | - |
| Subordinated debt | - | | - | - |

***Foreign currency risk***
Since the Group conducts business in a variety of countries, a significant part of its assets, liabilities and results is sensitive to currency movements. Subsidiaries that do not have the USD as functional currency generally have an equity position that reflects their risk profile. On the translation of the share in shareholders' equity, a translation gain or loss can arise because this position is not hedged. Regarding the other financing of these subsidiaries, the Group companies attempt to match the currency of the income with that of the costs and financing currency to minimize the foreign currency risk.

As of December 31, 2006 the Group has entered the following transactions:

- Forward transactions:
  Purchase USD 3,965 thousand in consideration for NIS 17,290 thousand;
  Purchase EUR 700 thousand in consideration for NIS 3,777 thousand
- Foreign currency options:
  Purchase NIS 103,750 thousand in consideration for USD 25,000 thousand.

The fair value of these transactions as of December 31, 2006 amounts to an asset of USD 44 thousand.

In addition, the Group has entered a forward transaction for the payment of NIS 100,000 thousand (USD 23,669 thousand) linked to the Israeli CPI against receipt of NIS 103,734 thousand (USD 24,552 thousand). The fair value of this transaction amounts to a liability of USD 797 thousand as of December 31, 2006.

***Currency exposure***
As of December 31, 2006 the Group has monetary assets in excess of monetary liabilities (monetary liabilities in excess of monetary assets) as follows (USD in millions):

| **December** | December |
|---|---|

| | **31, 2006** | 31, 2005 |
|---|---|---|
| In NIS | (94.1) | 19.4 |
| In NIS linked to the CPI | (124.4) | (202.3) |
| In EUR | (443.6) | (270.8) |
| In other currencies | (26.9) | (17.4) |

Some of the Group companies' measurement currency is a currency other than the USD. Accordingly, in such cases the Company's profit and loss statement will not be affected by the changes in the value of those currencies.

***Credit risk***

The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, derivative assets and non-current financial assets. The Group trades only with recognized, creditworthy third parties. The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, in respect of specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts is not significant.

Credit risks, or the risk of counter parties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk GTC periodically assesses the financial viability of customers.

The extent of the Group credit exposure is represented by aggregate balance of amounts receivable, reduced by the effects of netting arrangements with counter parties.

Concentration of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter parties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is broadly diversified along product and geographic lines, and transactions are entered into with diverse creditworthy counterparties, thereby mitigating any significant concentration of credit risk. The Company and its subsidiaries perform ongoing credit evaluations of their customers' financial condition and require collateral as deemed necessary.

***Liquidity risk***

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures and finance leases.

***Political risk***

The Group has significant business in Central and Eastern Europe and in Israel. Certain CEE countries are considered as emerging markets. These emerging markets have a different risk profile than Western European area. Political and economic changes in these regions can have consequences for the Group's activities there, as well as an impact on the results and financial positions of the Group. By close monitoring of these businesses the board of management intends to limit the risks of those changes.

***Insurance risk***

For detail description of the insurance risk please see Note 30 E.

***Fair value risks***

Investment properties are valued at fair market value and accordingly the Group is exposed to yield shifts.

The fair value of cash and cash equivalents, deposits, trade and other receivables, short term credit from banks and others, trade and other payables, and long term liabilities equals or is close to the carrying value.

The fair value of long term loans from banks and others bearing fixed interest is estimated to be higher than their carrying value by approximately USD 4 million. The fair value of long term loans from banks and others bearing variable interest rates equals or is close to their carrying value, as the interest such loans bear is not materially different than the current market interest rates applicable for similar loans.

The fair value of debentures and convertible debentures is estimated to be higher by approximately USD 13 million than their carrying value.

## 51. RELATED PARTIES DISCLOSURE

The Group has entered into a variety of transactions with its related parties. It enters into transactions in the normal course of business on an arm's-length basis. The sales and purchases from related parties are made at normal market prices. Outstanding balances relating to such sales and purchases at year-end are unsecured, interest free and settlement occurs in cash. Outstanding loans from related parties are unsecured and presented with accrued interest. The most significant of these balances and transactions are as follows:

(1) Balances

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| | USD'000 | USD'000 |
| **Assets** | | |
| Long-term loans and receivables | | |
| Associated companies | 54,676 | 33,364 |
| Capital note issued by a related party | 895 | 736 |
| **Liabilities** | | |
| Short-term credit from related party | 642 | 1,045 |

(2) Transactions

| | For the year ended December 31, | |
|---|---|---|
| | **2006** | 2005 |
| | USD'000 | USD'000 |
| Management fees from associated companies | 1,550 | 1,535 |
| Financing income from associated companies, net | 2,241 | 1,726 |
| Financing income/(expenses) from related parties, net | (60) | (58) |

(3) Remuneration to directors (1)

| | Options granted by the Company | For the year ended December 31, **2006** | 2005 |
|---|---|---|---|
| | No. of options | USD'000 | USD'000 |
| **Fees to Management Board:** | | | |
| H. Harel (2) | | – | 256 |
| B. Bremer | | – | 41 |
| A. Shlank | 179,232 | 170 | 146 |
| E. Gabber | 149,360 | 175 | 133 |
| Z. Rubin | 209,103 | 187 | 87 |
| A. Ickovics | 179,232 | 128 | – |
| **Fees to Supervisory Board (2):** | | | |
| J. Krant | | 30 | 24 |
| I. Fink | | 22 | 19 |
| H. Alster | | 6 | 19 |
| J. Pomrenze | | 23 | 21 |
| M.I. Groen | | 29 | 6 |
| A. Schnur | | 22 | – |
| K. Rechter | | 27 | – |
| H. Benjamins | | 5 | – |
| **Fees and salaries to shareholders employed by the Company:** | | | |
| Y. Grunfeld | | 366 | 366 |
| E. Rechter | | 320 | 309 |
| **Shares of the Company held by directors:** (directly and through companies under their control) | | 26.9% | 32.3% |

(1) Amounts paid directly by the Company and by Group companies.
(2) In 2005 until July 15, 2005

## 52. SUBSEQUENT EVENTS

1. Subsequent to the balance sheet date in January 2007 GTC RE has issued debentures to institutional investors in Israel in consideration of NIS 550 million (USD 130 million). The debentures are linked to the Israeli CPI and bear annual interest at a rate of 4.9%. The principal is repayable in 7 equal instalments during the years 2014 to 2020. The interest payments will be made annually.
   GTC RE intends to list the debentures for trade on the Tel Aviv Stock Exchange within 12 months from issuance. Until the listing will take place, GTC RE will pay the debenture holders additional interest of 0.5% per annum. In the event the debentures will not be listed for trade during the mentioned period, the debenture holders will have a right for early repayment.

2. Subsequent to the balance sheet date a Group company has signed a memorandum of understanding for the lease of a 460,000 sq.m. land in China in consideration of USD 55 million. The land will be used for residential development.

3. Subsequent to the balance sheet date, in February 2007 the Company has issued debentures to institutional investors in Israel in consideration of NIS 840 million (USD 200 million). The debentures are linked to the Israeli CPI and bear annual interest at a rate of 4.45%. The principal is repayable in 4 equal instalments during the years 2013 to 2016. The interest payments will be made annually.
   The Company intends to list the debentures for trade on the Tel Aviv Stock Exchange within 12 months from issuance. Until the listing will take place, the debenture holders are entitled to increased interest of 5.25% per annum. In the event the debentures will not be listed for trade during the mentioned period, the debenture holders will have a right for early repayment.

4. On February 21, 2007 TBIF signed a term sheet with the shareholders of a regional bank in Russia (the Bank) to merge TBIF's Russian lending operations with those of the Bank. Under the terms of the proposed transaction, TBIF will merge its lending operations in Russia with the activities of the Bank under a joint holding company. In addition, TBIF will increase the capital of the holding company by USD 39.5 million, through contribution of cash and receivables from its Russian lending operations
   Following the completion of the transaction, TBIF will have a 47% interest in the bank (indirectly, through the joint holding company) and 50% of the voting rights. TBIF will have the option to increase its shareholdings to 50%.

5. On March 16, 2007 TBIH signed a memorandum of understanding (MOU), whereby TBIH will purchase 60% of Sigma Albania (Sigma) an Albanian insurance company, for a consideration of EUR 12.9 million. The MOU includes the option for TBIH to purchase the remaining 40% stake in Sigma within the next four years. The final agreement and the closing of the transaction are subject to the receipt of certain regulatory approvals and the completion of due diligence.

6. On March 20, 2007 TBIH signed an agreement to purchase a 58.2% stake in Ray Sigorta A.Ş. (Ray Sigorta), a Turkish insurance company, for a consideration of USD 81.5 million. During the course of 2010 and 2011, the minority shareholder in Ray Sigorta will have the option to sell its remaining 20% holding in the company TBIH at the current transaction price increased by LIBOR. The remaining 21.8% Ray Sigorta shares are traded at the Istanbul Stock Exchange and it is expected that TBIH will be required to make a tender offer for these publicly listed shares. This would require an additional investment of up to USD 30.5 million. In addition, TBIH agreed to increase the capital of Ray Sigorta in the amounts necessary to meet the applicable regulatory requirements, which are estimated to range between USD 17 million and USD 30 million. The closing of the transaction is subject to due diligence and receipt of regulatory approvals.

# OTHER INFORMATION

## OTHER INFORMATION

As mentioned in Note 2 to the financial statements, the Company prepares financial statements in accordance with IFRS. Since the Company's shares are traded in the TASE, the Company prepares its financial statements that are published in Israel in accordance with Israeli Generally Accepted Accounting Principles ('GAAP').

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:

### Income statement:

For the year ended December 31, 2006

| | IFRS<br>USD '000 | Reconciliation<br>USD '000 | Israeli GAAP<br>USD '000 |
|---|---|---|---|
| Net profit (attributable to equity holders) | 50,671 | 31,422 | 82,093 |
| Basic profit per share (USD) | 0.67 | 0.42 | 1.09 |
| Diluted profit per share (USD) | 0.57 | 0.36 | 0.93 |

For the year ended December 31, 2005

| | IFRS<br>USD '000 | Reconciliation<br>USD '000 | Israeli GAAP<br>USD '000 |
|---|---|---|---|
| Net profit (attributable to equity holders) | 52,613 | 6,966 | 59,579 |
| Basic profit per share (USD) | 0.82 | 0.12 | 0.94 |
| Diluted profit per share (USD) | 0.78 | 0.10 | 0.88 |

### Balance sheets:

As of December 31, 2006

| | IFRS<br>USD '000 | Reconciliation<br>USD '000 | Israeli GAAP<br>USD '000 |
|---|---|---|---|
| Assets | 2,929,797 | (1,134,068) | 1,795,729 |
| Liabilities | 1,932,080 | (906,993) | 1,025,087 |
| Minority interests | 646,417 | (203,388) | 443,029 |
| Shareholders' equity | 351,300 | (23,687) | 327,613 |

As of December 31, 2005

| | IFRS | Reconciliation | Israeli GAAP |
|---|---|---|---|
| | USD '000 | USD '000 | USD '000 |
| Assets | 1,779,432 | (614,876) | 1,164,556 |
| Liabilities | 1,265,154 | (390,325) | 874,829 |
| Minority interests | 353,361 | (184,244) | 169,117 |
| Shareholders' equity | 160,917 | (40,307) | 120,610 |

######

To: Management and Shareholders of KARDAN N.V.

**AUDITOR'S REPORT**

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements for the year ended December 31, 2006 of KARDAN N.V., Amsterdam. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2006, the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's responsibility*
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union as summarized on pages 11 to 33 of these financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*
Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the consolidated financial statements give a true and fair view of the financial position of KARDAN N.V. as at December 31, 2006 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as summarized on pages 11 to 33 of these financial statements.

Apeldoorn, April 3, 2007

for Ernst & Young Accountants

Signed by A.J. Buisman