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AMSTERDAM, THE NETHERLANDS

Condensed Interim Consolidated Financial Statements  
As of September 30, 2007

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**CONDENSED INTERIM CONSOLIDATED BALANCE SHEET****A s s e t s**

	<b>September 30,</b>		December
	<b>2007</b>	2006	31, 2006
	€'000	€'000	€'000
<b>Non-current assets</b>			
Property, plant and equipment	72,847	30,329	34,874
Real estate under construction	294,727	136,166	188,595
Investment properties	824,619	651,001	638,349
Intangible assets	280,428	114,126	116,477
Investment in associates	129,730	91,315	108,425
Available-for-sale financial assets	68,529	49,085	55,509
Loans to bank customers	261,391	44,453	82,234
Long-term loans and receivables	204,895	126,291	97,724
Deferred acquisition costs (insurance companies)	5,999	5,646	6,327
Deferred income tax assets	6,857	3,975	4,387
	<u>2,150,022</u>	<u>1,252,387</u>	<u>1,332,901</u>
<b>Current assets</b>			
Inventories and contract work and buildings inventory in progress	245,392	101,212	160,174
Current maturities of long-term loans and receivables	159,080	16,569	94,125
Loans to bank customers	93,807	80,156	38,591
Trade receivables	68,120	32,683	42,158
VAT and income tax receivables	28,605	12,950	16,187
Insurance premiums receivables	32,887	12,796	11,739
Reinsurance receivables and insurance companies	32,195	15,681	15,932
Other receivables and prepayments	82,463	35,852	43,807
Short-term investments	50,446	47,079	60,424
Cash and cash equivalents	809,261	301,387	408,561
	<u>1,602,256</u>	<u>656,365</u>	<u>891,698</u>
Assets held for sale	-	226,066	-
<b>Total assets</b>	<u><u>3,752,278</u></u>	<u><u>2,134,818</u></u>	<u><u>2,224,599</u></u>

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

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

	<b>September 30,</b>	December
	<b>2007</b>	31,
	2006	2006
	€'000	€'000
<b>Equity attributable to equity holders of the parent</b>		
Issued and paid-in capital	16,175	15,937
Share premium	169,471	165,854
Foreign currency translation reserve	1,071	(5,305)
Property revaluation reserve	83,817	89,337
Revaluation reserve, other	(5,160)	214
Retained earnings	21,536	3,422
	<u>286,910</u>	<u>266,761</u>
Minority Interest	<u>636,295</u>	<u>492,536</u>
<b>Total equity</b>	<b>923,205</b>	<b>757,565</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	893,918	569,502
Banking customers accounts	131,961	4,556
Other long-term liabilities	5,766	5,485
Warrants and options	178,706	120,658
Convertible debentures	40,277	46,261
Other debentures	613,572	87,280
Insurance provisions	124,473	83,815
Deferred income tax liabilities	97,370	77,481
Accrued severance pay, net	1,392	1,302
	<u>2,087,435</u>	<u>996,340</u>
<b>Current liabilities</b>		
Advances from customers in respect of contracts	19,679	18,050
Banking customers accounts	280,478	74,250
Income tax payable	7,668	5,857
Trade payables	63,605	31,344
Interest-bearing loans and borrowings	191,410	167,665
Other payables and accrued expenses	178,798	80,908
	<u>741,638</u>	<u>378,074</u>
Liabilities held for sale	<u>-</u>	<u>1,107</u>
<b>Total liabilities</b>	<b>2,829,073</b>	<b>1,467,034</b>
<b>Total equity and liabilities</b>	<b>2,134,818</b>	<b>2,224,599</b>

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

**CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT**

	<b>Nine months ended</b>		<b>Three months ended</b>		<b>The year ended</b>
	<b>September 30,</b>		<b>September 30,</b>		<b>December 31</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	€'000	€'000	€'000	€'000	€'000
<b>Revenues</b>					
Sales and services	47,080	37,387	26,138	12,754	49,687
Contract revenues	54,799	47,428	19,971	16,476	64,529
Insurance activities	44,377	46,890	21,043	10,815	60,962
Banking and retail lending activities	46,452	15,365	16,090	7,242	24,736
Rental revenues	44,153	53,033	16,837	18,206	71,781
Equity in net earnings of associated companies	5,919	6,244	3,014	3,903	7,025
Management fees	1,894	749	979	204	1,232
Gain on issuance of shares in associated companies and subsidiaries to third parties	6,707	41,064	3,670	1,270	52,070
Adjustment to fair value of investment properties	220,577	207,087	118,735	94,322	209,544
Gain on disposal of assets and other income	37,227	17,644	7,330	9,575	19,193
Other financial income	35,594	20,428	19,150	4,934	27,283
	<u>544,779</u>	<u>493,319</u>	<u>252,957</u>	<u>179,701</u>	<u>588,042</u>
<b>Expenses</b>					
Cost of sales and services	34,163	29,663	18,009	10,182	40,757
Contract costs	44,495	35,730	18,834	12,864	48,625
Operating expenses of insurance activities	43,070	48,774	20,641	10,811	63,015
Costs of banking and lending activities	40,144	13,513	14,049	6,832	21,148
Costs of rental operations	10,144	14,178	4,119	5,074	20,390
Selling and marketing expenses	13,110	9,681	4,519	2,674	14,709
General and administration expenses	60,879	33,405	40,401	9,227	44,336
Other financing expenses	97,062	98,129	45,615	41,027	125,652
Other expenses, net	2,130	4,154	-	3,290	6,367
	<u>345,197</u>	<u>287,227</u>	<u>166,187</u>	<u>101,981</u>	<u>384,999</u>
<b>Net result before income taxes</b>	<u>199,582</u>	<u>206,092</u>	<u>86,770</u>	<u>77,720</u>	<u>203,043</u>
Income taxes	36,196	48,244	11,554	22,297	45,988
<b>Net result for the period</b>	<u>163,386</u>	<u>157,848</u>	<u>75,216</u>	<u>55,423</u>	<u>157,055</u>
Attributable to:					
Equity holders	34,277	42,053	222	10,647	41,081
Minority interest holders	129,109	115,795	74,994	44,776	115,974
	<u>163,386</u>	<u>157,848</u>	<u>75,216</u>	<u>55,423</u>	<u>157,055</u>
Earning (loss) per share:					
Basic	0.42	0.59	0.00	0.13	0.55
Diluted	0.42	0.46	(0.03)	0.13	0.47

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

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						Minority interests	Total equity	
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings			Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
<b>Balance at December 31, 2006</b>	17,445	166,378	65,111	214	(11,169)	28,761	266,740	490,825	757,565
Impact of change in functional currency	(1,513)	(12,232)	(4,767)	237	21,467	(3,192)	-	-	-
<b>Balance at January 1, 2007</b>	15,932	154,146	60,344	451	10,298	25,569	266,740	490,825	757,565
Adjustment due to restatement of subsidiary (see also note 6)	-	-	-	-	-	(5,429)	(5,429)	(1,533)	(6,962)
Change in fair value of hedge instrument	-	-	-	(4,621)	-	-	(4,621)	5	(4,616)
Change in unrealized revaluation reserve	-	-	-	(419)	-	-	(419)	-	(419)
Release of capital reserves	-	-	-	(571)	(939)	-	(1,510)	-	(1,510)
Currency translation differences	-	-	-	-	(8,288)	-	(8,288)	(6,291)	(14,579)
Total income and expense for the period recognized directly in equity	-	-	-	(5,611)	(9,227)	-	(14,838)	(6,286)	(21,124)
Net result for the period	-	-	-	-	-	34,277	34,277	129,109	163,386
Total income /expense for the period	-	-	-	(5,611)	(9,227)	34,277	19,439	122,823	142,262
Share based payments	-	1,669	-	-	-	-	1,669	2,253	3,922
Issuance and sale of shares in subsidiaries	-	-	-	-	-	-	-	19,860	19,860
Purchase of shares in consolidated companies from minority shareholders	-	-	-	-	-	-	-	2,230	2,230
Exercise of warrants into Company's shares	243	13,656	-	-	-	-	13,899	-	13,899
Dividend distributed	-	-	-	-	-	(9,408)	(9,408)	-	(9,408)
Dividend to minority shareholders	-	-	-	-	-	-	-	(163)	(163)
Reclassification for statutory purposes	-	-	23,473	-	-	(23,473)	-	-	-
<b>Balance at September 30, 2007</b>	16,175	169,471	83,817	(5,160)	1,071	21,536	286,910	636,295	923,205

The accompanying notes are an integral part of these financial statements

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

	Attributable to equity holders of the parent						Minority interests	Total equity	
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings			Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
<b>Balance at July 1, 2007</b>									
(adjusted due to restatement of subsidiary (see also note 6))	16,175	169,079	76,821	3,607	4,675	28,310	298,667	560,671	859,338
Change in fair value of hedge instrument	-	-	-	(8,767)	-	-	(8,767)	(847)	(9,614)
Change in unrealized revaluation reserve	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	(3,604)	-	(3,604)	(5,509)	(9,113)
Total income and expense for the period recognized directly in equity	-	-	-	(8,767)	(3,604)	-	(12,371)	(6,356)	(18,727)
Net result for the period	-	-	-	-	-	222	222	74,994	75,216
Total income /expense for the period	-	-	-	(8,767)	(3,604)	222	(12,149)	68,638	56,489
Share based payments	-	392	-	-	-	-	392	599	991
Issuance and sale of shares in subsidiaries	-	-	-	-	-	-	-	7,781	7,781
Purchase of shares in consolidated companies from minority shareholders	-	-	-	-	-	-	-	(1,394)	(1,394)
Dividend distributed	-	-	-	-	-	-	-	-	-
Reclassification for statutory purposes	-	-	6,996	-	-	(6,996)	-	-	-
<b>Balance at September 30, 2007</b>	<u>16,175</u>	<u>169,471</u>	<u>83,817</u>	<u>(5,160)</u>	<u>1,071</u>	<u>21,536</u>	<u>286,910</u>	<u>636,295</u>	<u>923,205</u>

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

	Attributable to equity holders of the parent						Minority interests	Total equity	
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings			Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
<b>Balance at January 1, 2006</b>	13,323	78,554	45,728	(2,073)	(4,862)	5,747	136,417	299,535	435,952
Change in fair value of hedge instrument	-	-	-	178	-	-	178	230	408
Revaluation of available-for-sale financial assets	-	-	-	(589)	-	-	(589)	(332)	(921)
Put options granted to minority shareholders in subsidiaries	-	-	-	-	-	(769)	(769)	(1,881)	(2,650)
Currency translation differences	-	-	-	-	(443)	-	(443)	(9,256)	(9,699)
Total income and expense for the period recognized directly in equity	-	-	-	(411)	(443)	(769)	(1,623)	(11,239)	(12,862)
Net result for the period	-	-	-	-	-	42,053	42,053	115,795	157,848
Total income /expense for the period	-	-	-	(411)	(443)	41,284	40,430	104,556	144,986
Share based payments	-	-	-	-	-	-	-	1,035	1,035
Issuance of shares in subsidiaries	-	-	-	-	-	-	-	87,410	87,410
Issuance of shares	2,294	78,562	-	-	-	-	80,856	-	80,856
Exercise of warrants into Company's shares	320	7,763	-	-	-	-	8,083	-	8,083
Sale of shares held by subsidiary	-	975	-	-	-	-	975	-	975
Reclassification for statutory purposes	-	-	43,609	-	-	(43,609)	-	-	-
<b>Balance at September 30, 2006</b>	<u>15,937</u>	<u>165,854</u>	<u>89,337</u>	<u>(2,484)</u>	<u>(5,305)</u>	<u>3,422</u>	<u>266,761</u>	<u>492,536</u>	<u>759,297</u>

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## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent						Minority interests	Total equity	
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings			Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
<b>Balance at July 1, 2006</b>	15,919	165,139	72,960	(2,933)	(5,245)	9,161	255,001	448,666	703,667
Change in fair value of hedge instrument	-	-	-	56	-	-	56	34	90
Revaluation of available-for-sale financial assets	-	-	-	393	-	-	393	(332)	61
Put options granted to minority shareholders in subsidiaries	-	-	-	-	-	(8)	(8)	-	(8)
Currency translation differences	-	-	-	-	(60)	-	(60)	9,404	9,344
Total income and expense for the period recognized directly in equity	-	-	-	449	(60)	(8)	381	9,106	9,487
Net result for the period	-	-	-	-	-	10,647	10,647	44,776	55,423
Total income /expense for the period	-	-	-	449	(60)	10,639	11,028	53,882	64,910
Share based payments	-	-	-	-	-	-	-	(156)	(156)
Sale of shares in subsidiaries	-	-	-	-	-	-	-	(9,856)	(9,856)
Costs of issuance of shares	-	(610)	-	-	-	-	(610)	-	(610)
Exercise of warrants into Company's shares	18	583	-	-	-	-	601	-	601
Sale of shares held by subsidiary	-	742	-	-	-	-	742	-	742
Reclassification for statutory purposes	-	-	16,377	-	-	(16,377)	-	-	-
<b>Balance at September 30, 2006</b>	<u>15,937</u>	<u>165,854</u>	<u>89,337</u>	<u>(2,484)</u>	<u>(5,305)</u>	<u>3,422</u>	<u>266,761</u>	<u>492,536</u>	<u>759,297</u>

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## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to equity holders of the parent						Minority interests	Total equity	
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings			Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
<b>Balance at January 1, 2006</b>	13,323	78,554	45,728	(2,073)	(4,862)	5,747	136,417	299,535	435,952
Currency translation differences	-	-	-	-	(1,960)	-	(1,960)	(21,262)	(23,222)
Change in fair value of hedge instrument	-	-	-	194	-	-	194	263	457
Change in unrealized revaluation reserve	-	-	2,077	(744)	-	-	1,333	248	1,581
Put options granted to minority shareholders in subsidiaries	-	-	-	-	-	(761)	(761)	(1,881)	(2,642)
Total income and expense for the year recognized directly in equity	-	-	2,077	(550)	(1,960)	(761)	(1,194)	(22,632)	(23,826)
Net result for the year	-	-	-	-	-	41,081	41,081	115,974	157,055
Total income /expense for the year	-	-	2,077	(550)	(1,960)	40,320	39,887	93,342	133,229
Share base payments	-	425	-	-	-	-	425	4,140	4,565
Issuance of shares in subsidiaries	-	-	-	-	-	-	-	94,011	94,011
Issuance of shares	2,292	78,562	-	-	-	-	80,854	-	80,854
Exercise of warrants and options into Company's shares	320	7,763	-	-	-	-	8,083	-	8,083
Sale of shares held by subsidiary	-	1,074	-	-	-	-	1,074	-	1,074
Dividend distributed by subsidiaries	-	-	-	-	-	-	-	(203)	(203)
Reclassification according statutory requirements	1,510	-	17,306	2,837	(4,347)	(17,306)	-	-	-
<b>Balance at December 31, 2006</b>	<u>17,445</u>	<u>166,378</u>	<u>65,111</u>	<u>214</u>	<u>(11,169)</u>	<u>28,761</u>	<u>266,740</u>	<u>490,825</u>	<u>757,565</u>

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

## CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT

	Nine months ended		Three months ended		Year
	September 30		September 30		ended
	2007	2006	2007	2006	December
	€'000	€'000	€'000	€'000	31, 2006
<b>Cash flow from operating activities</b>					
Net result before taxes on income	199,582	206,092	86,770	77,720	203,043
<b>Adjustment to reconcile net result to net cash</b>					
Charges/(credits) to profit/loss not affecting operating cash flows:					
• Equity earning of associated companies	(9,087)	(6,244)	(6,182)	(3,903)	(7,025)
• Dividend received from associated companies	3,168	1,394	3,168	253	3,374
• Gain on issuance of shares in associated companies and subsidiaries to third parties, net	(6,707)	(41,064)	(3,670)	-	(52,070)
• Gain on disposal of investments in companies, property, plant and equipment and investment properties, net	(30,863)	(14,660)	(4,995)	(10,177)	(15,831)
• Share based payments	3,922	1,035	991	(155)	4,565
• Depreciation and amortization	9,671	2,335	5,790	125	4,361
• Fair value adjustments of investment properties	(220,577)	(207,087)	(118,735)	(94,322)	(209,544)
• Exchange differences, net	28,874	12,871	29,534	2,146	37,872
• Change in fair value of options and share appreciation rights	43,408	64,175	20,035	29,084	82,598
• Decrease (increase) in fair value of securities held for trading and hedge instruments, net	2,790	(1,338)	2,904	1,777	489
• (Gain)/loss from early repayment of loans	(605)	-	723	-	-
• Increase in accrued severance pay, net	95	96	56	213	171
	<u>23,671</u>	<u>17,605</u>	<u>16,389</u>	<u>2,761</u>	<u>52,003</u>
<b>Changes in operating assets and liabilities</b>					
• Change in insurance provisions and deferred acquisition costs, net	10,720	10,510	123	(2,779)	11,330
• Change in outstanding insurance premiums, reinsurance receivables and insurance companies	(8,881)	(8,988)	1,097	1,124	(7,390)
• Change in trade and other receivables	(35,551)	17,728	(1,335)	17,844	(1,131)
• Change in inventories and in contract work in progress, net of advances from customers	(50,963)	(42,113)	(36,202)	(27,231)	(54,858)
• Change in trade and other payables	(15,260)	53,291	38,781	48,771	140,301
Net cash (used in) generated from operations	(99,935)	30,428	2,464	37,729	88,252
Income taxes paid	(3,820)	(17,174)	(1,215)	(4,533)	(3,690)
<b>Net cash (used in) provided by operating activities</b>	<u>(80,084)</u>	<u>30,859</u>	<u>17,638</u>	<u>35,957</u>	<u>136,565</u>

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

## CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	Nine months ended September 30,		Three months ended September 30,		Year ended December 31, 2006
	2007	2006	2007	2006	€'000
	€'000	€'000	€'000	€'000	€'000
<b>Cash flow from investing activities</b>					
Acquisition of property, plant and equipment and investment properties	(137,819)	(120,897)	(46,787)	(76,194)	(137,126)
Investments in companies and partnerships	(44,830)	(42,544)	(25,025)	(14,716)	(64,359)
Collecting (granting) of loans to associated companies, net	(4,636)	(18,506)	(2,635)	(19,681)	(17,306)
Proceeds from disposal of property, plant and equipment and investment properties	15,708	210	193	208	218,015
Granting of long-term loans	(294,851)	(87,866)	(169,703)	(49,548)	(347,746)
Change in loans to bank customers	(86,799)	-	(44,992)	-	-
Collecting of long-term loans and receivables	206,171	30,478	100,726	6,757	245,776
Change in short-term investments	4,395	(9,832)	8,695	(4,148)	(42,017)
Acquisition of newly-consolidated subsidiaries, net of cash acquired (see A below)	(116,101)	(31,672)	(72,268)	(2,014)	(53,836)
Increase in cash resulting from sale of investments in formerly consolidated subsidiaries (see B below)	118,943	44,559	118,943	6,966	44,240
Increase in cash resulting from reorganization of proportionately consolidated companies (see C below)	-	31,093	-	10,477	20,616
Increase in cash due to transaction in the financial services segment (see D below)	17,613	-	-	-	-
Change in deferred brokerage fees	(1,673)	(545)	(938)	(396)	(1,205)
Income tax paid	(21,381)	(9,065)	(11,793)	321	2,972
Change in other assets	-	(344)	-	(83)	(100)
<b>Net cash used in investing activities</b>	<u>(345,260)</u>	<u>(214,931)</u>	<u>(145,584)</u>	<u>(142,051)</u>	<u>(132,076)</u>

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

## CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	Nine months ended September 30,		Three months ended September 30,		Year ended December
	2007	2006	2007	2006	31, 2006
	€'000	€'000	€'000	€'000	€'000
<b>Cash flows from financing activities</b>					
Proceeds from exercise of warrants and issuance of Company's shares	243	81,176	-	-	81,174
Proceeds from issuance of shares in associated companies and subsidiaries to third parties, net	6,206	126,582	61	-	132,959
Treasury shares sold	-	975	-	742	1,074
Dividend to minority shareholders in subsidiaries	(163)	-	-	-	(203)
Dividend distributed	(9,408)	-	(9,408)	-	-
Issuance of debentures	525,744	1,893	60,483	-	4,114
Repayment of debentures	(14,891)	(30,852)	(12,020)	-	(32,502)
Change in loans from bank customers	130,150	-	97,600	-	-
Change in deposits from tenants	262	(290)	17	(516)	(751)
Proceeds from long-term loans	443,910	188,901	123,918	67,071	263,246
Repayment of long-term loans	(186,399)	(55,490)	(49,757)	(26,151)	(167,613)
Costs related to issuance of debt and shares	(2,497)	(2,064)	-	(1,597)	(2,269)
Purchase of option rights	-	(300)	-	(13)	(2,537)
Change in short-term loans and borrowings, net	(54,373)	26,140	(39,738)	(13,613)	(13,845)
<b>Net cash provided by financing activities</b>	<b>838,784</b>	<b>336,671</b>	<b>171,156</b>	<b>25,923</b>	<b>262,847</b>
<b>Foreign exchange differences relating to cash and cash equivalents</b>	<b>(12,740)</b>	<b>(8,870)</b>	<b>(12,819)</b>	<b>(69,552)</b>	<b>(16,433)</b>
<b>Increase in cash and cash equivalents</b>	<b>400,700</b>	<b>143,729</b>	<b>30,391</b>	<b>(66,197)</b>	<b>250,903</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>408,561</b>	<b>157,658</b>	<b>778,870</b>	<b>367,584</b>	<b>157,658</b>
<b>Cash and cash equivalents at end of the period</b>	<b>809,261</b>	<b>301,387</b>	<b>809,261</b>	<b>301,387</b>	<b>408,561</b>

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

## CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December
	2007	2006	2007	2006	31, 2006
	€'000	€'000	€'000	€'000	€'000
<b>A. Acquisition of newly-consolidated subsidiaries, net of cash acquired</b>					
Cash	(26,312)	(7,380)	(2,562)	(5,361)	(7,924)
Working capital (excluding cash)	(82,228)	(13,748)	(29,188)	3,832	(58,601)
Non-current assets	(103,985)	(30,115)	(67,001)	(6,517)	(33,817)
Goodwill on acquisition	(62,794)	(13,741)	(41,009)	-	(17,314)
Gain on disposal of investment	7,271	-	7,271	-	-
Minority interests	7,042	11,766	4,930	6,032	38,783
Long-term liabilities	118,593	340	52,729	-	2,923
Total purchase price	(142,413)	(52,878)	(74,830)	(2,014)	(75,950)
Less – cash in subsidiaries acquired	26,312	2,019	2,562	-	7,924
Payable on account of investment	-	7,380	-	-	2,072
Reclassification from investment in associates	-	11,807	-	-	12,118
Cash used in acquisition, net of cash acquired	<u>(116,101)</u>	<u>(31,672)</u>	<u>(72,268)</u>	<u>(2,014)</u>	<u>(53,836)</u>
<b>B. Disposal of formerly-consolidated subsidiaries, net of cash disposed</b>					
Cash	-	(3,724)	-	(4,778)	4,213
Working capital (excluding cash)	(19)	(18,617)	(19)	(19,034)	(20,725)
Non-current assets	19	86,371	19	16,300	83,329
Investment properties	120,000	-	120,000	-	-
Minority interests	-	(409)	-	(409)	(535)
Long-term liabilities	-	(32,777)	-	-	(35,392)
Gain on disposal of investment	-	11,389	-	10,060	17,518
Total consideration	120,000	42,233	120,000	2,139	48,408
Cash of subsidiary which ceased to be consolidated	(1,057)	3,724	(1,057)	4,778	(4,213)
Change in capital reserves	-	(1,398)	-	49	(1,395)
Other receivables from disposal of investments	-	-	-	-	1,440
Cash flows from disposal, net of cash disposed	<u>118,943</u>	<u>44,559</u>	<u>118,943</u>	<u>6,966</u>	<u>44,240</u>

## CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

	Nine months ended		Three months ended		Year ended
	September 30,		September 30,		December
	2007	2006	2007	2006	31, 2006
	€'000	€'000	€'000	€'000	€'000
<b>C. Increase in cash due to reorganization in proportionately consolidated companies</b>					
Cash	-	(16,202)	-	-	(16,202)
Working capital (excluding cash)	-	(9,916)	-	-	(9,916)
Non-current assets	-	10,861	-	-	10,861
Goodwill on acquisition	-	(13,058)	-	-	(13,058)
Minority interests	-	(8,030)	-	-	(8,030)
Long-term liabilities	-	(17,985)	-	-	(17,985)
Total purchase price	-	(54,330)	-	-	(54,330)
Less – cash in subsidiaries	-	16,202	-	-	16,202
Payable on account of investment	-	55,473	-	-	55,473
Elimination of long term payable	-	3,271	-	-	3,271
	-	20,616	-	-	20,616
<b>D. Increase in cash due to transaction in the financial services segment</b>					
Cash	84,328	-	-	-	-
Working capital (excluding cash)	100,483	-	-	-	-
Non-current assets	(157,999)	-	-	-	-
Goodwill on acquisition	(27,152)	-	-	-	-
Minority interests	13,829	-	-	-	-
Long-term liabilities	70,250	-	-	-	-
Total consideration	83,739	-	-	-	-
Change in cash	(84,328)	-	-	-	-
Change in capital reserves	(1,510)	-	-	-	-
Gain on disposal	19,712	-	-	-	-
Cash flows from disposal, net of cash disposed	17,613	-	-	-	-
<b>E. Significant non-cash transactions</b>					
Investment in real estate under construction	34,129	14,673	12,985	2,596	17,270
Acquisition of land against long-term payable	-	-	-	-	1,350
Exercise of options into Company's shares	13,899	8,083	-	601	8,083
Receivables on sale of land	-	-	-	-	1,898

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS September 30, 2007

### 1. Corporate information

Kardan N.V. ('the Company' or 'Kardan') having its legal seat in Amsterdam, The Netherlands, was incorporated on May 2, 2003, and acts as an investment company engaged in development of real estate, insurance and pension, infrastructure, technology and communications and consumer goods through its subsidiaries and associated companies.

The Company's shares are traded on the Euronext Amsterdam and on the Tel Aviv Stock Exchange ('TASE').

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

### 2. Basis of presentation and preparation

#### Basis of preparation

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

The condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year 2006.

Effective the first quarter of 2007 the financial statements of the Company which are published in Israel are also prepared in accordance with IFRS. These financial statements are also presented in accordance with the Israeli Securities Regulations and accordingly present as well comparative figures of the income statement, cash flow statement and segments information for the year ended December 31, 2006. In order to provide equal information to all the readers of the financial statements, the Company has also included such comparative information in these condensed interim consolidated financial statements.

For the condensed interim consolidated financial statements for the period ended on September 30, 2007 the Company applied the same accounting principles and methods of computation as compared with the consolidated financial statements for the year 2006, except for the changes described below.

#### Changes in accounting policies

With the effect from January 1, 2007 International Financial Reporting Standards have been revised. There are the following new or revised standards and interpretations:

- 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"*



- IFRS 7 - *“Financial Instruments: Disclosures”*
- IAS 1 - *“Presentation of Financial Statements”*

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

- IFRIC 11 - *IFRS 2: “Group and Treasury Share Transactions is effective from March 1, 2007*
- IFRIC 12 – *“Service Concession Arrangements” is effective for annual periods beginning on or after January 1, 2008. Earlier application is permitted.*
- IFRS 8 – *“Operating Segments” is effective for annual periods beginning on or after January 1, 2009. Earlier application is encouraged.*

IFRIC 12 has been adopted by the Company in 2006. The other amendments have been analyzed by the Company. The changes in the standards and interpretations have no impact on the financial data presented in these condensed interim consolidated financial statements. The risks and the extent of the financial instruments used by the Company remained unchanged during the nine month period ended on September 30, 2007 in comparison with the position as at December 31, 2006. Therefore, the Management of the Company believes that full disclosure of financial instruments in accordance with IFRS 7 is not required in these interim condensed financial statements. Full disclosure of IFRS 7 will be presented in the full financial statements of the Group.

In addition, IAS 23 (Revised) “Borrowing Costs” is applicable for the financial years starting on January 1, 2009. According to IAS 23 (Revised) an entity must capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The possibility to recognize such costs as an expense in the period in which they are incurred has been cancelled.

The Company estimates that IAS 23 (Revised) will not have a significant impact on its financial position, results and cash flows as the Company’s policy is to capitalize borrowing costs to qualifying assets.

### **Change in measurement and presentation currency**

On January 1, 2007 the Company has changed its measurement and presentation currency from the USD to Euro, as the Company believes, based on the relative amounts of cash flows denominated in Euro that effective January 1, 2007 the Euro reflects in a more appropriate manner the Group’s underlying events and transactions.

The Company applied the translation procedures applicable to the new functional currency prospectively from 1 January 2007. All assets and liabilities were translated using the exchange rate in effect at the date of the change.

For comparative figures, the presentation currency has also been changed. A change in presentation currency basically requires retrospective recalculation of the Currency Translation Adjustment, unless deemed impractical. The comparable results and financial position of the company were therefore translated from USD into Euro using the following procedures:

- A. Assets, liabilities and minority interests for each balance sheet presented were translated at the closing rate at the date of that balance sheet.

- B. Income and expenses for each income statements were translated at exchange rates at the dates of the transactions. Equity components other than income for the period were translated using historic rates.
- C. Share capital is denominated in EUR and thus presented at EUR par value; the difference between the share capital as presented in USD as at December 31, 2006, recalculated to EUR at closing rates and the EUR par value, is posted to the share premium account.
- D. All other resulting exchange differences cumulate into and are recognized as a separate component in equity.

For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, like an average rate, was often used to translate income and expenses items.

The functional currency of some of the Company's subsidiaries is a currency other than Euro. As at the reporting date, the assets and liabilities of these 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 without affecting earnings. 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 USD and NIS in relation to the EUR and the Israeli Consumer Price Index (CPI) in points:

	<u>USD</u>	<u>NIS</u>	<u>CPI</u>
September 30, 2007	1.418	5.6898	189.1
September 30, 2006	1.266	5.4550	186.5
December 31, 2006	1.317	5.5643	184.9
<u>Change in the period:</u>			
September 30, 2007 (9 months)	7.7%	2.3%	2.3%
September 30, 2007 (3 months)	5.5%	(0.4)%	1.3%
September 30, 2006 (9 months)	7.3%	0.2%	0.8%
September 30, 2006 (3 months)	(0.4)%	(3.3)%	(0.7)%
Change in 2006 (12 months)	11.6%	2.2%	(0.1)%



### 3. Segment information

	<b>Financial Services - Banking &amp; lending</b> €'000	<b>Financial Services - Insurance &amp; Pension</b> €'000	<b>Real Estate</b> €'000	<b>Infrastructure</b> €'000	<b>Automotive &amp; Consumer goods</b> €'000	<b>Communication &amp; Technologies</b> €'000	<b>Other</b> €'000	<b>Adjustment (2)</b> €'000	<b>Total (1)</b> €'000
<b>For the nine months ended September 30, 2007</b>									
Segment Revenues	56,076	66,256	302,820	50,690	23,124	(1,170)	11,389	35,594	544,779
Segment Results	(6,285)	19,043	246,918	(2,549)	7,519	(2,713)	10,220		272,153
Unallocated expenses									(11,103)
Profit from operations									261,050
<b>For the three months ended September 30, 2007</b>									
Segment Revenues	23,234	21,126	165,228	15,779	7,171	(537)	1,806	19,150	252,957
Segment Results	(12,757)	(1,050)	133,040	(4,469)	1,748	(684)	2,352		118,180
Unallocated expenses									(4,945)
Profit from operations									113,235
<b>For the nine months ended September 30, 2006</b>									
Segment Revenues	15,656	61,790	330,275	47,514	15,283	988	1,384	20,429	493,319
Segment Results	(1,666)	8,700	274,691	2,363	3,237	643	(248)		287,720
Unallocated expenses									(3,927)
Profit from operations									283,793
<b>For the three months ended September 30, 2006</b>									
Segment Revenues	7,242	20,487	124,187	16,506	5,761	104	477	4,937	179,701
Segment Results	(3,399)	9,091	106,683	553	1,102	(7)	-		114,023
Unallocated expenses									(210)
Profit from operations									113,813

	<b>Financial Services - Banking &amp; lending</b> €'000	<b>Financial Services - Insurance &amp; Pension</b> €'000	<b>Real Estate</b> €'000	<b>Infrastructure</b> €'000	<b>Automotive &amp; Consumer goods</b> €'000	<b>Communication &amp; Technologies</b> €'000	<b>Other</b> €'000	<b>Adjustment</b> €'000	<b>Total (1)</b> €'000
<b>For the year ended December 31, 2006</b>									
Segment Revenues	25,027	78,496	358,241	64,537	21,973	7,920	4,565	27,283	588,042
Segment Results	(624)	6,035	284,928	2,602	5,134	6,446	2,537		307,058
Unallocated expenses									(5,646)
Profit from operations									<u>301,412</u>

(1) Profit before taxes and finance expenses

(2) Finance income

(\*) Following the completion of the transaction described in note 5A, the Company is presenting its financial services – banking and retail lending separate from financial services – insurance and pension



## 5. Business combinations

- A. In April 2007, the Company has completed a transaction in the financial services segment following agreements signed in August 2006. The transaction relates to the Company's and Wiener Stadtische Versicherurg AG ('WS') holdings in Kardan Financial Services B.V. ('KFS'), in TBIH Financial Services Group N.V. ('TBIH') and in TBIF Financial Services B.V. ('TBIF'). Following the completion of the transaction the Company's interest in KFS has increased from 55.12% to 92.3%.

The net effect of the transaction in terms of Kardan's holdings was an indirect increase in TBIF, which operates in the fields of banking, retail lending, leasing, mortgages and asset management in Central Eastern Europe, from 49% to 80%. Concurrently, the Company's indirect interest in its insurance and pension activities through TBIH has decreased from 55% to 36%.

Following the completion of the transaction the Company recognized a gain of approximately EUR 19.7 million (of which EUR 1.5 million as a result of release of capital reserves) as a result of the indirect decrease in its interest in TBIH.

From the date of completion of the transaction the Company is consolidating the financial statements of TBIF (which were previously proportionately consolidated). The transaction was accounted for in accordance with IFRS 3.

The price for the indirect acquisition of TBIF's shares amounted to approximately EUR 68 million. The Company has temporarily allocated the excess of the purchase price over the book value of the net assets of TBIF, amounting to approximately EUR 27 million, primarily to goodwill.

The effect of the change from proportionate consolidation (approximately 55%) to full consolidation of TBIF on the financial statements of the Company is presented in C below.

The effect of the decrease in proportionate consolidation of TBIH from 55% to 36% on the financial statements of the Company is presented in D below.

- B. Within the framework of the abovementioned reorganization, KFS has acquired employee options which were granted to certain key employees in TBIH in exchange for shares in KFS and cash payment.

Following the acquisition the key employees, managers and other minority shareholders have a 10.4% interest in KFS.

The Company has granted to the key employees, managers and other minority shareholders in KFS PUT options to sell their shares in KFS to the Company according to the fair value of the shares at the date of sale. The PUT options are exercisable during a period of several years as stipulated in the agreement. Some of the PUT options include a minimum price.

The Company has accounted for the PUT options granted to the minority shareholders according to IAS 39, IAS 32 and IFRS 3. The PUT options are included in the long-term liabilities of the Company according to their fair values and the Company accounts for 100% interest in KFS.

The fair value of the liability at the date of the transaction (initial recognition) amounted to approximately EUR 23 million. The difference between the fair value of the liability and the book value of the minority interests in KFS amounted to approximately EUR 10 million and was recorded as goodwill. During the third quarter of 2007 the value of the liability was adjusted to approximately EUR 45 million. The increase in value of that liability, based on the transaction described in 6 below, was attributed to the abovementioned goodwill .

- C. Following is the effect of the indirect increase in the Company's interest in TBIF on its financial statements at the date of acquisition:

	<u>€ '000</u>
Cash and cash equivalents	37,504
Loans to bank customers	94,155
Long-term receivables	86,011
Other current assets	49,584
Other non-current assets	39,519
Long-term loans and borrowings	(109,229)
Banking customers accounts	(115,190)
Other liabilities	<u>(41,422)</u>
Net assets	40,932
Excess of purchase price	<u>27,152</u>
Total purchase price	<u><u>68,084</u></u>

As of the date of the transaction, TBIF has contributed EUR 9,502 thousand to the net consolidated profit of the Company. If the transaction would have taken place in the beginning of 2007, the net consolidated profit of the Company for the nine months period ended on September 30, 2007 would amount to EUR 163,450 thousand and total consolidated revenues to EUR 550,585 thousand.



D. Following is the effect of the indirect decrease in the Company's interest in TBIH on its financial statements at the date of the transaction:

	€ '000
Cash and cash equivalents	(4,093)
Receivables of insurance activities	(10,283)
Other current assets	(10,457)
Other non-current assets	(26,498)
Long-term loans and borrowings	3,620
Insurance provisions	25,463
Other liabilities	2,376

E. In June 2007 TBIH has completed the acquisition of a 58.2% stake in Ray Sigorta A.Ş. ('Ray Sigorta'), a Turkish insurance company, listed on the Istanbul Stock Exchange, for a consideration of approximately EUR 62 million. According to the agreement, during 2010 and 2011 the minority shareholder in Ray Sigorta will have the option to sell its remaining 20% holding in Ray Sigorta to TBIH in consideration for the current purchase price plus interest. 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 EUR 13 million and EUR 23 million. According to regulatory requirements, TBIH has made a tender offer to the holders of the remaining 21.8% of Ray Sigorta shares to acquire these shares. TBIH has accounted for the PUT option granted to the minority shareholders and its commitment to make a tender offer to the public as a liability. TBIH's investment in Ray Sigorta was therefore recorded for 100%, without accounting for minority interests.

In August 2007 approximately 16% of the shareholders of Ray Sigorta responded to the tender offer, and TBIH has paid approximately EUR 17 million. Accordingly its interest in Ray Sigorta has increased to approximately 74%.

The fair value of the allocated assets and the allocated liabilities and their book value of Ray Sigorta at the date of acquisition are as follows:

	Fair value recognized on acquisition	Previous carrying value
	€ '000	€ '000
Property plant and equipment	15,744	10,084
Reinsurance assets	44,512	44,512
Insurance receivables	47,916	47,916
Other assets	51,022	32,916
	<u>159,194</u>	<u>135,428</u>
Insurance contracts liabilities	(115,244)	(115,244)
Other liabilities	(11,197)	(10,065)
Net assets	<u>32,753</u>	<u>10,119</u>
Minority interests	(581)	
Goodwill arising on acquisition	68,397	
Total acquisition cost	<u><u>100,569</u></u>	

TBIH has temporarily allocated the excess of purchase price over the book value of the net assets of Ray Sigorta primarily to goodwill.

If the transaction would have taken place in the beginning of 2007, the net consolidated profit of the Company for the nine months period ended on September 30, 2007 would amount to EUR 162.5 million and the total consolidated revenues to EUR 576.1 million.

## 6. Significant transactions and commitments

### Real Estate

- A. In January 2007 GTC Real Estate N.V. ('GTC RE') has issued debentures (series B) to institutional investors in Israel in consideration of NIS 550 million (approximately EUR 100 million).

The debentures are linked to the Israeli CPI and bear an annual interest rate of 4.9%. The principal is repayable in 7 equal installments during the years 2014 to 2020. The interest payments will be made annually starting January 2008.

In June 2007 the debentures were listed for trade on the Tel Aviv Stock Exchange.

According to the terms of the debentures, GTC RE paid to the holders of the debentures additional interest until the date of listing at a rate of 0.1685%.

Subsequent to the balance sheet date, in November 2007, GTC RE has issued additional debentures (series B) to institutional investors in Israel in consideration of NIS 806 million

(approximately EUR 142 million). The debentures are of the same series as the debentures mentioned above, and have the same terms as these debentures.

- B. In January 2007 a director of Globe Trade Centre S.A. ('GTC S.A.') exercised 1,341,450 subscription warrants into 1,341,450 shares of GTC S.A. in consideration of EUR 124 thousand. As a result GTC RE's interest in GTC S.A. was diluted from 46.4% to 46.1%, and the Company recorded a loss of approximately EUR 1.2 million (after minority interests).
- C. In February 2007 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 (approximately EUR 42 million), to be paid in advance for the full term of the lease. The land will be used for residential development.
- D. In March 2007 GTC S.A. has successfully completed the construction of the Newton office building in Krakow. The value of the Newton office building according to independent appraiser report amounts to EUR 24.1 million. The revaluation gain amounts to approximately EUR 11 million, of which the Company's share, after tax and minority interests, amounts to approximately EUR 2.5 million.
- E. In April 2007, GTC S.A. has completed PLN 800 million (approximately EUR 212 million) bonds offering to Polish institutional investors. The bonds were issued in two series, of which one (90% of the proceeds) has 7-year maturity and the second series has 5-year maturity. The bonds are denominated in PLN and bear variable interest rate which will be paid every 6 months.  
Following the bonds issue, GTC S.A. converted the cash received into Euro and swapped the related liability by entering into a Euro-PLN cross-currency Interest Rate Swap transaction, whereby the liability bears fixed interest at a rate of 5.745% p.a.
- F. In June 2007 a subsidiary of GTC S.A. has completed the construction of Avenue Mall in Zagreb. The value of Avenue Mall according to the independent appraiser report amounts to EUR 190.2 million.

In addition all investment properties of GTC S.A. and its subsidiaries were revalued to their fair value as of September 30, 2007. Valuation gains on completed investment properties amounted to EUR 125.7 million and net gains arising from revaluation of existing investment properties amounted to EUR 94.8 million.

- G. In July 2007, GTC RE, through its subsidiary GTC China, has acquired, in a 75%/25% partnership with its local partner Lucky Hope, the ownership of the 20,000 sq.m. new development site through an auction. On the site, GTC China plans to develop a 40,000 sq.m. shopping mall over the next 3 years. The consideration for the land amounts to approximately EUR 26 million. The total investment in the project is estimated at approximately EUR 57 million.
- H. In July 2007 the Company has acquired, on the market, additional 1,231,841 shares of GTC RE in consideration of EUR 13.9 million. The goodwill resulted from the purchase amounted to approximately EUR 11 million. In addition, NIS 4,222,679 par value convertible

debentures of GTC RE were purchased in consideration of approximately EUR 3.1 million. As a result the Company's direct and indirect interest in GTC RE has increased to 61.6%.

- I. In September 2007 GTC Romania (a subsidiary of GTC S.A.) has sold its 100% interest in Complexul Multifunctional Victoria S.R. ('CMV'), a Romanian subsidiary, owning the America House office building in Bucharest, Romania. The purchase price, amounting to EUR 120 million, was based on asset value of CMV. As a result of the sale the Company has released the deferred tax liability previously recorded and accordingly income tax expenses reduced in the amount of EUR 13.9 million.

### Financial Services

- A. In February 2007 TBIF has signed a term sheet with the shareholders of a regional bank in Russia ('Sovcom Bank') to merge TBIF's 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 (approximately EUR 29.7 million), through the 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. The transaction was completed in August 2007.

In the end of the third quarter of 2007, TBIF has effectively acquired 50% of the net assets of Sovcom Bank by combining 100% of its holdings in Arka Finance with the holdings of Sovcom Bank and making additional net payments in the amount of RUR 1,027 million (approximately EUR 30 million). TBIF consolidates the financial statements of Sovcom Bank as of September 30, 2007 proportionally, with 50% holding.

The excess of purchase price over the net assets value of Sovcom Bank amounted to approximately EUR 23 million, and was temporarily allocated primarily to goodwill.

- B. In July 2007 TBIH signed a Share Purchase Agreement ('SPA'), according to which TBIH purchased 75% + 1 share of Sigma Albania ('Sigma'), an Albanian insurance company also operating in Macedonia (through a subsidiary) and Kosovo (through a branch), for consideration of EUR 16.6 million. The SPA includes the option for the minority shareholders to sell the remaining 25% stake in Sigma within the next four years for a price depending on the development of Sigma during this period. The total liability due to the option amounts to EUR 5.4 million and was classified as financial liability

The transaction was completed in September 2007. The financial statements of Sigma were first consolidated in TBIH as of September 30, 2007.

The excess of purchase price over the net assets of Sigma amounted to EUR 19.4 million and was temporarily primarily allocated to goodwill.

- C. In September 2007 the Company and Israel Discount Bank Ltd. ('Discount Bank') have signed a term sheet for an equity investment by Discount Bank of 10% in KFS through a capital increase of EUR 50 million. In addition, Discount Bank will provide KFS with a credit facility of EUR 225 million. The EUR 50 million consideration for the shares reflects a

post-transaction valuation of KFS of EUR 500 million. Discount Bank will have the option to increase its holding to 11% until the closing.

The completion of the transaction is subject to certain conditions precedent, including the completion of due diligence and the signing of final agreements. Discount Bank will have customary minority rights and the right to nominate up to 20% of the Supervisory Board members of KFS.

As a result, KFS has revalued a PUT option granted to management to its fair market value to reflect the adjusted valuation of the underlying subsidiaries, which results with a loss of EUR 19 million. If the transaction will be closed, the Company expects to recognize a gain which is currently estimated at EUR 28 million.

### Infrastructure

In April 2007 Tahal Group B.V. ('Tahal') has signed an agreement for the establishment of a joint venture that will invest in and manage, operate and maintain water related infrastructure projects in China.

Tahal holds a 66.6% interest in the joint venture, while the local partners hold the remaining 33.3%. Upon incorporation Tahal has invested approximately EUR 22 million in the capital of the joint company, of which half against the issuance of preferred shares. In addition, Tahal has committed to provide the joint venture loans amounting to up to EUR 41 million.

### Kardan Israel

A. The subsidiary Kardan Israel Ltd. ('Kardan Israel') has restated its previously published interim financial statements in 2007. The restatement in Kardan Israel is the result of an error found in valuation reports prepared by an external appraiser regarding the value of the conversion component of Kardan Israel convertible debentures. The Company believes it is not required to restate its financial statements as the estimated impact on its equity and its results is not material.

As a result the Company has adjusted the opening balance of its equity as of January 1, 2007, in the amount of approximately EUR 7 million (including minority interests) to reflect the accumulated impact for all periods up until December 31, 2006. The impact for the year 2007, amounting to EUR 0.2 million, is included in finance expenses of the third quarter 2007.

B. In April 2007 the Company has sold approximately 3.9% of Kardan Israel Ltd. ('Kardan Israel') shares in consideration for approximately EUR 10 million. The sale resulted in a gain of approximately EUR 5.5 million. As a result, the Company's interest in Kardan Israel decreased to approximately 74.1%.

Furthermore, in April 2007 Kardan Israel raised approximately EUR 6 million by the issuance of 2 million new shares to institutional investors. The completion of the issuance is subject to approval of the Tel-Aviv Stock Exchange. After this transaction, Kardan's interest

in Kardan Israel will be diluted to 72.25% and the Company has realized a gain of approximately EUR 2.7 million.

#### Debentures issued by the Company

- A. In February 2007 the Company has issued debentures to institutional investors in Israel in consideration of NIS 840 million (approximately EUR 150 million). The debentures are linked to the Israeli CPI and bear an annual interest rate of 4.45%. The principal is repayable in 4 equal installments during the years 2013 to 2016. The interest payments will be made annually.

In June 2007 the debentures were listed for trade on the Tel Aviv Stock Exchange.

According to the terms of the debentures, the Company paid to the holders of the debentures additional interest until the date of listing at a rate of 0.2214%.

- B. In July 2007, the Company has issued additional NIS 350 million par value debentures. The proceeds from the issue amounted to NIS 357 million (approximately EUR 60.8 million). The debentures have the same terms as the debentures issued in February 2007. In August 2007 the Company has entered into a swap transaction having similar features as described below, bearing a fixed interest rate of 5.64% per annum. The debentures were listed for trade on the Tel Aviv Stock Exchange as soon as they were issued

#### Swap transactions

Following the issuance of the debentures, the Company and GTC RE have entered into several swap transactions with banks according to which the Company and GTC RE have converted the cash received in NIS into Euro, and swapped the related liability into a Euro loan bearing a fixed interest rate at the range of 5.38% - 5.94% per annum.

As for the Debentures that were raised in November 2007, GTC RE intends to convert the debentures from NIS to Euro at either a fixed or floating interest rate, as described above, as well.

The Company and GTC RE designated the cross-currency swap as a cash flow hedge of their exposure to changes in its functional currency equivalent cash flows on the debt. Accordingly in accordance with IAS 39:

- The loans are translated at spot rate. The translation gains and losses on the foreign currency denominated debt are taken in to the income statement;
- The fair value of the cross currency swap (liability of EUR 3.3 million as at September 30, 2007) is recorded in the balance sheet with entries for the effective part of the hedge to a separate component of equity (a loss of EUR 16.6 million) and a reclassification to income at the time the hedged risk affects profit or loss to offset retranslation of the hedged debt and interest expense.

## **7. Subsequent events**

- A. Subsequent to the balance sheet date, in November 2007, the Company has converted NIS 143,183,170 par value series A convertible debentures that it holds into 8,879,426 shares of GTC RE. As a result the Company's direct and indirect interest in GTC RE increased from 61.58% to 65.71%. The goodwill which resulted from the conversion amounts to approximately EUR 23 million.