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AMSTERDAM, THE NETHERLANDS

Condensed Interim Consolidated Financial Statements  
As of September 30, 2008

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## CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

### Assets

|   | <b>September 30,</b> |                     | December            |
|---|----------------------|---------------------|---------------------|
|   | <b>2008</b>          | 2007                | 31,<br>2007         |
|   | €in millions         | €in millions        | €in millions        |
| <b>Non-current assets</b>   |                      |                     |                     |
| Property, plant and equipment                                     | 117                  | 73                  | 80                  |
| Real estate under construction                                    | 558                  | 295                 | 306                 |
| Investment properties   | 1,244                | 825                 | 960                 |
| Investment in associates  | 154                  | 130                 | 127                 |
| Available-for-sale financial assets                               | 83                   | 69                  | 65                  |
| Loans to bank customers   | 294                  | 261                 | 232                 |
| Long-term loans and receivables                                   | 319                  | 205                 | 202                 |
| Deferred acquisition costs (insurance companies)                  | 16                   | 6                   | 12                  |
| Intangible assets and goodwill                                    | 414                  | 280                 | 342                 |
| Deferred income tax assets  | 16                   | 7                   | 17                  |
|   | <u>3,215</u>         | <u>2,151</u>        | <u>2,343</u>        |
| <b>Current assets</b>   |                      |                     |                     |
| Inventories and contract work and buildings inventory in progress | 441                  | 245                 | 297                 |
| Current maturities of long-term loans and receivables             | 294                  | 159                 | 223                 |
| Loans to bank customers   | 211                  | 94                  | 165                 |
| Trade receivables   | 69                   | 68                  | 44                  |
| VAT and income tax receivables                                    | 49                   | 29                  | 34                  |
| Insurance premiums receivables                                    | 49                   | 33                  | 36                  |
| Other receivables and prepayments                                 | 247                  | 82                  | 117                 |
| Reinsurance receivables and insurance companies                   | 30                   | 32                  | 32                  |
| Short-term investments  | 138                  | 50                  | 88                  |
| Cash and cash equivalents   | 506                  | 809                 | 893                 |
|   | <u>2,034</u>         | <u>1,601</u>        | <u>1,929</u>        |
| <b>Total assets</b>   | <u><u>5,249</u></u>  | <u><u>3,752</u></u> | <u><u>4,272</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,<br/>2008</b> | <b>2007</b>  | <b>December 31,<br/>2007</b> |
|--|-------------------------------|--------------|------------------------------|
|  | €in millions                  | €in millions | €in millions                 |
| <b>Equity attributable to equity holders of the parent</b> |                               |              |                              |
| Issued and paid-in capital                                 | 17                            | 17           | 17                           |
| Share premium  | 176                           | 176          | 176                          |
| Foreign currency translation reserve                       | (15)                          | (23)         | (25)                         |
| Property revaluation reserve                               | 133                           | 88           | 109                          |
| Revaluation reserve, other                                 | (1)                           | (6)          | (5)                          |
| Retained earnings  | 52                            | 36           | 71                           |
|  | <u>362</u>                    | <u>288</u>   | <u>343</u>                   |
| Minority Interest  | 837                           | 636          | 730                          |
| <b>Total equity</b>  | <u>1,199</u>                  | <u>924</u>   | <u>1,073</u>                 |
| <b>Non-current liabilities</b>                             |                               |              |                              |
| Interest-bearing loans and borrowings                      | 1,084                         | 894          | 829                          |
| Banking customer accounts                                  | 93                            | 132          | 43                           |
| Other long-term liabilities                                | 18                            | 6            | 7                            |
| Warrants and options                                       | 130                           | 179          | 164                          |
| Convertible debentures                                     | 35                            | 40           | 31                           |
| Other debentures   | 949                           | 614          | 742                          |
| Insurance provisions                                       | 147                           | 124          | 139                          |
| Deferred income tax liabilities                            | 136                           | 97           | 110                          |
| Accrued severance pay, net                                 | 1                             | 1            | 1                            |
|  | <u>2,593</u>                  | <u>2,087</u> | <u>2,066</u>                 |
| <b>Current liabilities</b>                                 |                               |              |                              |
| Advances from customers in respect of contracts            | 17                            | 20           | 12                           |
| Banking customers accounts                                 | 474                           | 280          | 443                          |
| Income tax payable   | 7                             | 8            | 10                           |
| Trade payables   | 116                           | 64           | 65                           |
| Interest-bearing loans and borrowings                      | 525                           | 191          | 353                          |
| Advances from buyers                                       | 134                           | 72           | 112                          |
| Other payables and accrued expenses                        | 184                           | 106          | 138                          |
|  | <u>1,457</u>                  | <u>741</u>   | <u>1,133</u>                 |
| <b>Total liabilities</b>                                   | <u>4,050</u>                  | <u>2,828</u> | <u>3,199</u>                 |
| <b>Total equity and liabilities</b>                        | <u>5,249</u>                  | <u>3,752</u> | <u>4,272</u>                 |

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

**CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT**

|   | <b>Nine months ended<br/>September 30,</b> |                         | <b>Three months ended<br/>September 30,</b> |                         | <b>The year<br/>ended</b> |
|---|--|-------------------------|---|-------------------------|---------------------------|
|   | <b>2008</b>                                | <b>2007</b>             | <b>2008</b>                                 | <b>2007</b>             | <b>December 31</b>        |
|   | <b>€in<br/>millions</b>                    | <b>€in<br/>millions</b> | <b>€in<br/>millions</b>                     | <b>€in<br/>millions</b> | <b>€in<br/>millions</b>   |
| <b>Revenues</b>   |  |                         |   |                         |                           |
| Sales and services  | 58   | 47                      | 32  | 26                      | 61                        |
| Contract revenues   | 108  | 55                      | 36  | 20                      | 86                        |
| Insurance activities  | 93   | 44                      | 33  | 21                      | 66                        |
| Banking and retail lending activities   | 86   | 46                      | 30  | 16                      | 72                        |
| Rental revenues   | 55   | 44                      | 20  | 17                      | 60                        |
| Equity in net earnings of associates  | 3  | 6                       | -   | 3                       | 6                         |
| Management fees   | 1  | 2                       | -   | 1                       | 2                         |
| Gain on issuance of shares in associates<br>and subsidiaries to third parties | 2  | 7                       | -   | 4                       | 45                        |
| Adjustment to fair value of investment<br>properties                          | 140  | 221                     | 69  | 119                     | 287                       |
| Gain on disposal of assets and other<br>income                                | 5  | 37                      | 2   | 7                       | 47                        |
| Other financial income  | 159  | 35                      | 74  | 19                      | 42                        |
|   | <u>710</u>                                 | <u>544</u>              | <u>296</u>                                  | <u>253</u>              | <u>774</u>                |
| <b>Expenses</b>   |  |                         |   |                         |                           |
| Cost of sales and services  | 47   | 34                      | 26  | 18                      | 46                        |
| Contract costs  | 91   | 44                      | 32  | 19                      | 68                        |
| Operating expenses of insurance<br>activities                                 | 98   | 43                      | 36  | 21                      | 64                        |
| Costs of banking and lending activities                                       | 85   | 40                      | 33  | 14                      | 65                        |
| Costs of rental operations  | 13   | 10                      | 5   | 4                       | 12                        |
| Selling and marketing expenses  | 16   | 13                      | 6   | 5                       | 19                        |
| General and administration expenses   | 34   | 61                      | 7   | 40                      | 56                        |
| Financing expenses  | 174  | 98                      | 84  | 45                      | 148                       |
| Other expenses, net   | 8  | 2                       | 7   | -                       | 4                         |
|   | <u>566</u>                                 | <u>345</u>              | <u>236</u>                                  | <u>166</u>              | <u>482</u>                |
| <b>Net profit before income taxes</b>   | 144  | 199                     | 60  | 87                      | 292                       |
| Income taxes  | 34   | 36                      | 15  | 12                      | 42                        |
| <b>Net profit for the period</b>  | <u>110</u>                                 | <u>163</u>              | <u>45</u>                                   | <u>75</u>               | <u>250</u>                |

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

**CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT (CONT.)**

|  | <b>Nine months ended<br/>September 30,</b> |                 | <b>Three months ended<br/>September 30,</b> |                 | <b>The year<br/>ended<br/>December 31</b> |
|--|--|-----------------|---|-----------------|---|
|  | <b>2008</b>                                | 2007            | <b>2008</b>                                 | 2007            | 2007                                      |
|  | €in<br>millions                            | €in<br>millions | €in<br>millions                             | €in<br>millions | €in<br>millions                           |
| <b>Net profit for the period</b>                                 | <u>110</u>                                 | <u>163</u>      | <u>45</u>                                   | <u>75</u>       | <u>250</u>                                |
| Attributable to:   |  |                 |   |                 |   |
| Equity holders   | 23   | 34              | 7   | -               | 90  |
| Minority interest holders  | <u>87</u>                                  | <u>129</u>      | <u>38</u>                                   | <u>75</u>       | <u>160</u>                                |
|  | <u>110</u>                                 | <u>163</u>      | <u>45</u>                                   | <u>75</u>       | <u>250</u>                                |
| <b>Earning (loss) per share attributable<br/>to shareholders</b> |  |                 |   |                 |   |
| Basic  | 0.28                                       | 0.42            | 0.09  | 0.00            | 1.11                                      |
| Diluted  | (0.01)                                     | 0.42            | (0.03)                                      | (0.03)          | 1.10                                      |

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## CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | <i>Attributable to equity holders of the parent</i> |               |                              |                            |                                      |                   | Minority interests | Total equity |              |
|---|---|---------------|------------------------------|----------------------------|--------------------------------------|-------------------|--------------------|--------------|--------------|
|   | Issued and paid-in capital                          | Share premium | Property revaluation reserve | Revaluation reserve, other | Foreign currency translation reserve | Retained earnings |                    |              | Total        |
|   | €in millions  | €in millions  | €in millions                 | €in millions               | €in millions                         | €in millions      | €in millions       | €in millions |              |
| <b>Balance at January 1, 2008</b>                                     | 17  | 176           | 109                          | (5)                        | (25)                                 | 71                | 343                | 730          | 1,073        |
| Currency translation differences                                      | -   | -             | -                            | -                          | 10                                   | -                 | 10                 | 11           | 21           |
| Change in fair value of hedge instruments                             | -   | -             | -                            | 4                          | -                                    | -                 | 4                  | (3)          | 1            |
| Total income and expense for the period recognized directly in equity | -   | -             | -                            | 4                          | 10                                   | -                 | 14                 | 8            | 22           |
| Net result for the period   | -   | -             | -                            | -                          | -                                    | 23                | 23                 | 87           | 110          |
| Total income /expense for the period                                  | -   | -             | -                            | 4                          | 10                                   | 23                | 37                 | 95           | 132          |
| Share based payments  | -   | -             | -                            | -                          | -                                    | -                 | -                  | 1            | 1            |
| Issuance and sale of shares in subsidiaries                           | -   | -             | -                            | -                          | -                                    | -                 | -                  | 11           | 11           |
| Dividend  | -   | -             | -                            | -                          | -                                    | (18)              | (18)               | -            | (18)         |
| Reclassification according to statutory requirements (see Note 3D)    | -   | -             | 24                           | -                          | -                                    | (24)              | -                  | -            | -            |
| <b>Balance at September 30, 2008</b>                                  | <u>17</u>   | <u>176</u>    | <u>133</u>                   | <u>(1)</u>                 | <u>(15)</u>                          | <u>52</u>         | <u>362</u>         | <u>837</u>   | <u>1,199</u> |

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

|  | <i>Attributable to equity holders of the parent</i> |               |                              |                            |                              |                   | Minority interests | Total equity |              |
|--|---|---------------|------------------------------|----------------------------|------------------------------|-------------------|--------------------|--------------|--------------|
|  | Issued and paid-in capital                          | Share premium | Property revaluation reserve | Revaluation reserve, other | Foreign currency translation | Retained earnings |                    |              | Total        |
|  | €in millions  | €in millions  | €in millions                 | €in millions               | €in millions                 | €in millions      |                    |              | €in millions |
| <b>Balance at January 1, 2007</b>                                  | 17  | 160           | 65                           | -                          | (14)                         | 39                | 267                | 491          | 758          |
| Change in fair value of hedge                                      | -   | -             | -                            | (5)                        | -                            | -                 | (5)                | -            | (5)          |
| Adjustment due to restatement of subsidiary                        | -   | -             | -                            | -                          | -                            | (5)               | (5)                | (2)          | (7)          |
| Release of capital reserves  | -   | -             | -                            | (1)                        | (1)                          | -                 | (2)                | -            | (2)          |
| Currency translation differences                                   | -   | -             | -                            | -                          | (8)                          | -                 | (8)                | (6)          | (14)         |
| Total income and expense for the period                            | -   | -             | -                            | (6)                        | (9)                          | (5)               | (20)               | (8)          | (28)         |
| Net result for the period  | -   | -             | -                            | -                          | -                            | 34                | 34                 | 129          | 163          |
| Total income /expense for the period                               | -   | -             | -                            | (6)                        | (9)                          | 29                | 14                 | 121          | 135          |
| Share based payments   | -   | 2             | -                            | -                          | -                            | -                 | 2                  | 2            | 4            |
| Issuance of shares in subsidiaries                                 | -   | -             | -                            | -                          | -                            | -                 | -                  | 20           | 20           |
| Purchase of shares in consolidated                                 | -   | -             | -                            | -                          | -                            | -                 | -                  | 2            | 2            |
| Exercise of warrants into Company's                                | -   | 14            | -                            | -                          | -                            | -                 | 14                 | -            | 14           |
| Dividend distributed   | -   | -             | -                            | -                          | -                            | (9)               | (9)                | -            | (9)          |
| Reclassification according to statutory requirements (see Note 3D) | -   | -             | 23                           | -                          | -                            | (23)              | -                  | -            | -            |
| <b>Balance at September 30, 2007</b>                               | <b>17</b>   | <b>176</b>    | <b>88</b>                    | <b>(6)</b>                 | <b>(23)</b>                  | <b>36</b>         | <b>288</b>         | <b>636</b>   | <b>924</b>   |

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

|   | <i>Attributable to equity holders of the parent</i> |               |                              |                            |                                      |                   | Minority interests | Total equity |              |
|---|---|---------------|------------------------------|----------------------------|--------------------------------------|-------------------|--------------------|--------------|--------------|
|   | Issued and paid-in capital                          | Share premium | Property revaluation reserve | Revaluation reserve, other | Foreign currency translation reserve | Retained earnings |                    |              | Total        |
|   | €in millions  | €in millions  | €in millions                 | €in millions               | €in millions                         | €in millions      | €in millions       | €in millions |              |
| <b>Balance at July 1, 2008</b>  | 17  | 176           | 124                          | 23                         | (35)                                 | 54                | 359                | 787          | 1,146        |
| Currency translation differences                                      | -   | -             | -                            | -                          | 20                                   | -                 | 20                 | 19           | 39           |
| Change in fair value of hedge instruments                             | -   | -             | -                            | (24)                       | -                                    | -                 | (24)               | (10)         | (34)         |
| Total income and expense for the period recognized directly in equity | -   | -             | -                            | (24)                       | 20                                   | -                 | (4)                | 9            | 5            |
| Net result for the period   | -   | -             | -                            | -                          | -                                    | 7                 | 7                  | 38           | 45           |
| Total income /expense for the period                                  | -   | -             | -                            | (24)                       | 20                                   | 7                 | 3                  | 47           | 50           |
| Share based payments  | -   | -             | -                            | -                          | -                                    | -                 | -                  | 1            | 1            |
| Issuance and sale of shares in subsidiaries                           | -   | -             | -                            | -                          | -                                    | -                 | -                  | 2            | 2            |
| Reclassification according to statutory requirements (see Note 3D)    | -   | -             | 9                            | -                          | -                                    | (9)               | -                  | -            | -            |
| <b>Balance at September 30, 2008</b>                                  | <u>17</u>   | <u>176</u>    | <u>133</u>                   | <u>(1)</u>                 | <u>(15)</u>                          | <u>52</u>         | <u>362</u>         | <u>837</u>   | <u>1,199</u> |

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

|  | <i>Attributable to equity holders of the parent</i> |               |                              |                            |                              |                   | Minority interests | Total equity |              |
|--|---|---------------|------------------------------|----------------------------|------------------------------|-------------------|--------------------|--------------|--------------|
|  | Issued and paid-in capital                          | Share premium | Property revaluation reserve | Revaluation reserve, other | Foreign currency translation | Retained earnings |                    |              | Total        |
|  | €in millions  | €in millions  | €in millions                 | €in millions               | €in millions                 | €in millions      |                    |              | €in millions |
| <b>Balance at July 1, 2007</b>                                     | 17  | 175           | 81                           | 3                          | (20)                         | 43                | 299                | 561          | 860          |
| Change in fair value of hedge instruments                          | -   | -             | -                            | (9)                        | -                            | -                 | (9)                | (1)          | (10)         |
| Release of capital reserves  | -   | -             | -                            | -                          | -                            | -                 | -                  | -            | -            |
| Currency translation differences                                   | -   | -             | -                            | -                          | (3)                          | -                 | (3)                | (5)          | (8)          |
| Total income and expense for the period                            | -   | -             | -                            | (9)                        | (3)                          | -                 | (12)               | (6)          | (18)         |
| Net result for the period  | -   | -             | -                            | -                          | -                            | -                 | -                  | 75           | 75           |
| Total income /expense for the period                               | -   | -             | -                            | (9)                        | (3)                          | -                 | (12)               | 69           | 57           |
| Share based payments   | -   | 1             | -                            | -                          | -                            | -                 | 1                  | -            | 1            |
| Issuance of shares in subsidiaries                                 | -   | -             | -                            | -                          | -                            | -                 | -                  | 7            | 7            |
| Purchase of shares in consolidated companies                       | -   | -             | -                            | -                          | -                            | -                 | -                  | (1)          | (1)          |
| Reclassification according to statutory requirements (see Note 3D) | -   | -             | 7                            | -                          | -                            | (7)               | -                  | -            | -            |
| <b>Balance at September 30, 2007</b>                               | <u>17</u>   | <u>176</u>    | <u>88</u>                    | <u>(6)</u>                 | <u>(23)</u>                  | <u>36</u>         | <u>288</u>         | <u>636</u>   | <u>924</u>   |

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

|  | <i>Attributable to equity holders of the parent</i> |               |                              |                            |                              |                   | Minority interests | Total equity |              |
|--|---|---------------|------------------------------|----------------------------|------------------------------|-------------------|--------------------|--------------|--------------|
|  | Issued and paid-in capital                          | Share premium | Property revaluation reserve | Revaluation reserve, other | Foreign currency translation | Retained earnings |                    |              | Total        |
|  | €in millions  | €in millions  | €in millions                 | €in millions               | €in millions                 | €in millions      |                    |              | €in millions |
| <b>Balance at January 1, 2007</b>                                  | 17  | 160           | 65                           | -                          | (14)                         | 39                | 267                | 491          | 758          |
| Adjustment due to restatement of subsidiary                        | -   | -             | -                            | -                          | -                            | (5)               | (5)                | (2)          | (7)          |
| Change in fair value of hedge instruments                          | -   | -             | -                            | (4)                        | -                            | -                 | (4)                | (1)          | (5)          |
| Change in unrealized revaluation reserve                           | -   | -             | -                            | (1)                        | -                            | -                 | (1)                | -            | (1)          |
| Currency translation differences                                   | -   | -             | -                            | -                          | (11)                         | -                 | (11)               | 1            | (10)         |
| Total income and expense for the period                            | -   | -             | -                            | (5)                        | (11)                         | (5)               | (21)               | (2)          | (23)         |
| Net result for the period  | -   | -             | -                            | -                          | -                            | 90                | 90                 | 160          | 250          |
| Total income /expense for the period                               | -   | -             | -                            | (5)                        | (11)                         | 85                | 69                 | 158          | 227          |
| Issuance of shares in subsidiaries                                 | -   | -             | -                            | -                          | -                            | -                 | -                  | 78           | 78           |
| Share based payment  | -   | 2             | -                            | -                          | -                            | -                 | 2                  | 3            | 5            |
| Exercise of warrants into Company's                                | -   | 14            | -                            | -                          | -                            | -                 | 14                 | -            | 14           |
| Dividend   | -   | -             | -                            | -                          | -                            | (9)               | (9)                | -            | (9)          |
| Reclassification according to statutory requirements (see Note 3D) | -   | -             | 44                           | -                          | -                            | (44)              | -                  | -            | -            |
| <b>Balance at December 31, 2007</b>                                | <b>17</b>   | <b>176</b>    | <b>109</b>                   | <b>(5)</b>                 | <b>(25)</b>                  | <b>71</b>         | <b>343</b>         | <b>730</b>   | <b>1,073</b> |

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

## CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT

|   | Nine months ended<br>September 30. |                 | Three months ended<br>September 30, |                 | Year<br>ended<br>December, |
|---|------------------------------------|-----------------|-------------------------------------|-----------------|----------------------------|
|   | 2008                               | 2007            | 2008                                | 2007            | 31, 2007                   |
|   | €in<br>millions                    | €in<br>millions | €in<br>millions                     | €in<br>millions | €in<br>millions            |
| <b>Cash flow from operating activities</b>  |                                    |                 |                                     |                 |                            |
| Net profit before income taxes  | 144                                | 199             | 60                                  | 87              | 292                        |
| Adjustments required to present cash flow from operating activities (see A below)                                       | (186)                              | (280)           | (41)                                | (69)            | (392)                      |
| <b>Net cash (used in) provided by operating activities</b>  | <b>(42)</b>                        | <b>(81)</b>     | <b>19</b>                           | <b>18</b>       | <b>(100)</b>               |
| <b>Cash flow from investing activities</b>  |                                    |                 |                                     |                 |                            |
| Acquisition of property, plant and equipment and investment properties  | (362)                              | (138)           | (141)                               | (47)            | (200)                      |
| Investments in companies and partnerships   | (47)                               | (45)            | (19)                                | (25)            | (63)                       |
| Collecting (granting) of loans to associated companies, net   | (18)                               | (5)             | (11)                                | (3)             | (11)                       |
| Proceeds from disposal of property, plant and equipment and investment properties                                       | 1                                  | 16              | -                                   | -               | 16                         |
| Granting of long-term loans   | (357)                              | (295)           | (65)                                | (170)           | (442)                      |
| Change in loans to bank costumers   | (62)                               | (87)            | (32)                                | (45)            | (113)                      |
| Collecting of long-term loans and receivables   | 200                                | 206             | 34                                  | 101             | 298                        |
| Change in short-term investments  | (96)                               | 4               | (36)                                | 9               | (4)                        |
| Acquisition of newly-consolidated subsidiaries, net of cash acquired (see B below)                                      | (88)                               | (116)           | (3)                                 | (72)            | (134)                      |
| Increase in cash resulting from sale of investments in formerly proportionately consolidated subsidiaries (see C below) | 2                                  | 119             | -                                   | 119             | 119                        |
| Increase in cash due to transaction in the financial services segment (see D below)                                     | -                                  | 18              | -                                   | -               | 18                         |
| Change in deferred brokerage fees   | (2)                                | (2)             | -                                   | (1)             | (2)                        |
| Income tax paid   | -                                  | (21)            | -                                   | (12)            | (21)                       |
| <b>Net cash used in investing activities</b>  | <b>(829)</b>                       | <b>(346)</b>    | <b>(273)</b>                        | <b>(146)</b>    | <b>(539)</b>               |

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

## CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

|   | Nine months ended<br>September 30. |                 | Three months ended<br>September 30, |                 | Year<br>ended<br>December, |
|---|------------------------------------|-----------------|-------------------------------------|-----------------|----------------------------|
|   | 2008                               | 2007            | 2008                                | 2007            | 31, 2007                   |
|   | €in<br>millions                    | €in<br>millions | €in<br>millions                     | €in<br>millions | €in<br>millions            |
| <b>Cash flows from financing activities</b>   |                                    |                 |                                     |                 |                            |
| Proceeds from issuance of shares in associated companies and subsidiaries to third parties, net | -                                  | 6               | -                                   | -               | 62                         |
| Issuance of debentures  | 110                                | 526             | -                                   | 60              | 691                        |
| Repayment of debentures   | -                                  | (15)            | -                                   | (12)            | (47)                       |
| Issuance of shares to minority in subsidiaries  | 8                                  | -               | 1                                   | -               | -                          |
| Change in loans from bank customers   | 66                                 | 130             | 40                                  | 98              | 195                        |
| Receipts or proceeds of long-term loans   | 706                                | 444             | 195                                 | 124             | 545                        |
| Repayment of long-term loans  | (431)                              | (186)           | (202)                               | (50)            | (273)                      |
| Costs related to issuance of debt and shares  | (2)                                | (2)             | -                                   | -               | (3)                        |
| Dividend distributed  | (18)                               | (9)             | (18)                                | (9)             | (9)                        |
| Change in short-term loans and borrowings, net  | 46                                 | (54)            | 48                                  | (40)            | (26)                       |
| <b>Net cash provided by financing activities</b>  | <b>485</b>                         | <b>840</b>      | <b>64</b>                           | <b>171</b>      | <b>1,135</b>               |
| <b>Foreign exchange differences relating to cash and cash equivalents</b>                       | <b>(1)</b>                         | <b>(13)</b>     | <b>(3)</b>                          | <b>(13)</b>     | <b>(12)</b>                |
|   | (387)                              | 400             | (193)                               | 30              | 484                        |
| <b>Cash and cash equivalents at the beginning of the period</b>                                 | <b>893</b>                         | <b>409</b>      | <b>699</b>                          | <b>779</b>      | <b>409</b>                 |
| <b>Cash and cash equivalents at end of the period</b>   | <b>506</b>                         | <b>809</b>      | <b>506</b>                          | <b>809</b>      | <b>893</b>                 |

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

## CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

|  | Nine months ended<br>September 30. |                 | Three months ended<br>September 30, |                 | Year<br>ended<br>December, |
|--|------------------------------------|-----------------|-------------------------------------|-----------------|----------------------------|
|  | 2008                               | 2007            | 2008                                | 2007            | 31, 2007                   |
|  | €in<br>millions                    | €in<br>millions | €in<br>millions                     | €in<br>millions | €in<br>millions            |
| <b>A. Adjustments to reconcile net profit to net cash</b>  |                                    |                 |                                     |                 |                            |
| Charges/(credits) to profit/loss not affecting operating cash flows:   |                                    |                 |                                     |                 |                            |
| • Equity earning of associated companies   | (3)                                | (6)             | -                                   | (3)             | (6)                        |
| • Dividend received from associated companies  | 8                                  | 3               | 2                                   | 3               | 11                         |
| • Gain on issuance of shares in associated companies and subsidiaries to third parties, net                  | (2)                                | (7)             | -                                   | (4)             | (45)                       |
| • Gain on disposal of investments in companies, property, plant and equipment and investment properties, net | -                                  | (31)            | -                                   | (5)             | (31)                       |
| • Share based payments   | 1                                  | 4               | 1                                   | 1               | 5                          |
| • Depreciation and amortization  | 10                                 | 10              | 5                                   | 6               | 13                         |
| • Fair value adjustments   | (140)                              | (221)           | (69)                                | (119)           | (292)                      |
| • Exchange differences, net  | 75                                 | 29              | 51                                  | 30              | 61                         |
| • Change in fair value of options and share appreciation rights  | (31)                               | 43              | (19)                                | 20              | 51                         |
| • Decrease (increase) in fair value of securities held for trading, net                                      | 7                                  | 3               | 5                                   | 3               | 1                          |
| • Gain (loss) from early repayment of loans  | -                                  | (1)             | -                                   | 1               | (3)                        |
| • Increase in accrued severance pay, net   | -                                  | -               | -                                   | -               | (1)                        |
| <b>Changes in operating assets and liabilities</b>   |                                    |                 |                                     |                 |                            |
| • Change in insurance provisions and deferred acquisition costs, net   | 18                                 | 11              | 6                                   | -               | 12                         |
| • Change in outstanding insurance premiums, reinsurance receivables and insurance companies                  | (14)                               | (9)             | (1)                                 | 1               | (11)                       |
| • Change in trade and other receivables  | (81)                               | (39)            | (24)                                | (3)             | (94)                       |
| • Change in inventories and in contract work in progress, net of advances from customers                     | (145)                              | (51)            | (58)                                | (37)            | (97)                       |
| • Change in trade and other payables   | 115                                | (14)            | 60                                  | 38              | 40                         |
| Income taxes paid  | (4)                                | (4)             | -                                   | (1)             | (6)                        |
|  | <u>(186)</u>                       | <u>(280)</u>    | <u>(41)</u>                         | <u>(69)</u>     | <u>(392)</u>               |

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

**CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**

|  | Nine months ended<br>September 30. |                 | Three months ended<br>September 30, |                 | Year<br>ended<br>December, |
|--|------------------------------------|-----------------|-------------------------------------|-----------------|----------------------------|
|  | 2008                               | 2007            | 2008                                | 2007            | 31, 2007                   |
|  | €in<br>millions                    | €in<br>millions | €in<br>millions                     | €in<br>millions | €in<br>millions            |
| <b>B. Acquisition of newly consolidated subsidiaries and increase of holding in joint ventures, net of cash acquired</b> |                                    |                 |                                     |                 |                            |
| Working capital (including cash)   | 6                                  | (108)           | 3                                   | (32)            | (97)                       |
| Non-current assets   | (138)                              | (104)           | (5)                                 | (67)            | (122)                      |
| Goodwill on acquisition  | (54)                               | (63)            | (1)                                 | (41)            | (80)                       |
| Minority interests   | 2                                  | 7               | -                                   | 5               | 9                          |
| Gain on disposal of investment   | -                                  | 7               | -                                   | 7               | 7                          |
| Long-term liabilities  | 74                                 | 119             | -                                   | 53              | 123                        |
| Total purchase price   | (110)                              | (142)           | (3)                                 | (75)            | (160)                      |
| Less-cash in subsidiaries acquired   | 9                                  | -               | -                                   | -               | 26                         |
| Payable on account of investment   | 13                                 | 26              | -                                   | 3               | -                          |
| Cash used in acquisition, net of cash acquired   | <u>(88)</u>                        | <u>(116)</u>    | <u>(3)</u>                          | <u>(72)</u>     | <u>(134)</u>               |
| <b>C. Disposal of formerly-consolidated subsidiaries, net of cash disposed</b>   |                                    |                 |                                     |                 |                            |
| Working capital (including cash)   | (18)                               | -               | -                                   | -               | -                          |
| Non-current assets   | 21                                 | -               | -                                   | -               | -                          |
| Goodwill   | 2                                  | -               | -                                   | -               | -                          |
| Investment properties  | -                                  | 120             | -                                   | 120             | 120                        |
| Total consideration  | <u>5</u>                           | <u>120</u>      | <u>-</u>                            | <u>120</u>      | <u>120</u>                 |
| Investment in associates   | (1)                                | -               | -                                   | -               | -                          |
| Cash of subsidiaries which ceased to be consolidated   | <u>(2)</u>                         | <u>(1)</u>      | <u>-</u>                            | <u>(1)</u>      | <u>(1)</u>                 |
| Cash flows from disposal, net of cash disposed   | <u>2</u>                           | <u>119</u>      | <u>-</u>                            | <u>119</u>      | <u>119</u>                 |

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

**CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**

|   | Nine months ended<br>September 30. |                 | Three months ended<br>September 30, |                 | Year<br>ended<br>December, |
|---|------------------------------------|-----------------|-------------------------------------|-----------------|----------------------------|
|   | 2008                               | 2007            | 2008                                | 2007            | 31, 2007                   |
|   | €in<br>millions                    | €in<br>millions | €in<br>millions                     | €in<br>millions | €in<br>millions            |
| <b>D. Increase in cash due to transaction in the financial services segment</b> |                                    |                 |                                     |                 |                            |
| Cash  | -                                  | 84              | -                                   | -               | 84                         |
| Working capital (excluding cash)  | -                                  | 100             | -                                   | -               | 100                        |
| Non- Current assets   | -                                  | (158)           | -                                   | -               | (158)                      |
| Goodwill on acquisition   | -                                  | (27)            | -                                   | -               | (27)                       |
| Minority interests  | -                                  | 14              | -                                   | -               | 14                         |
| Long-term liabilities   | -                                  | 70              | -                                   | -               | 70                         |
| Total consideration   | -                                  | 83              | -                                   | -               | 83                         |
| Change in cash  | -                                  | (84)            | -                                   | -               | (84)                       |
| Change in capital reserves  | -                                  | (1)             | -                                   | -               | (1)                        |
| Gain on disposal  | -                                  | 20              | -                                   | -               | 20                         |
| Cash flows from disposal, net of cash disposed                                  | -                                  | 18              | -                                   | -               | 18                         |
| <b>E. Significant non-cash transactions</b>                                     |                                    |                 |                                     |                 |                            |
| Investment in real estate under construction against payables                   | 33                                 | 34              | 15                                  | 13              | 35                         |
| Exercise of options to Company's shares   | -                                  | 14              | -                                   | -               | 14                         |
| Conversion of convertible debentures into shares of consolidated companies      | 6                                  | 12              | 1                                   | 7               | 158                        |
| Payable on account of investments   | 13                                 | 26              | -                                   | 3               | -                          |
| <b>F. Additional information</b>  |                                    |                 |                                     |                 |                            |
| Interest paid in cash   | 151                                | 54              | 60                                  | 12              | 65                         |
| Interest received in cash   | 153                                | 26              | 66                                  | 18              | 24                         |

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

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**



**September 30, 2008**

## **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 registered office address of the Company is located at Claude Debussylaan 30, Amsterdam, The Netherlands.

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

On October 16, 2008 the Company, GTC Real Estate N.V. ('GTC RE') and GTC Real Estate Holding B.V. (a wholly owned subsidiary) filed merger documents at the trade register in Amsterdam. The merger proposal was approved by the Management Board and Supervisory Board of each of the companies.

The merger will take the form of a triangular legal merger pursuant to Dutch law. By operation of law at the moment the merger becomes effective, the assets and liabilities of GTC RE, except for the debentures issued by GTC RE, will be acquired by the newly founded 100% subsidiary, GTC Real Estate Holding B.V. At the same time, all shareholders of GTC RE (except Kardan) will receive shares in Kardan at a share exchange ratio of 0.81 Kardan share for each GTC RE share.

The completion of the merger is subject to certain conditions precedent, including the approval of the extraordinary meetings of shareholders of both the Company and GTC RE.

Following the completion of the merger GTC RE will cease to exist.

In connection with the merger, on May 27, 2008 the Company has published a shelf prospectus in Israel, based on its financial statements for the year ended on December 31, 2007, and on November 6, 2008 a Shelf Offering Report.

On November 24, 2008 the Company has published a prospectus in the Netherlands, in connection with the merger proposal.

As a result of the merger, the equity of the Company will increase according to the market value of the shares to be issued at the date of the merger in exchange for GTC RE's shares; and the investment in GTC RE Holding will increase accordingly. Based on the share price of GTC RE shares close to the date of approval of these financial statements, the excess of the book value over market value of GTC RE's shares is estimated at approximately €79 million, and will be recognized as profit in the income statement of the Company.

These condensed interim financial statements were authorized for issuance by the management board on November 28, 2008.

## **2. Basis of presentation and preparation**

### **A. 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 2007.

For the condensed interim consolidated financial statements for the period ended on September 30, 2008 the Company applied the same accounting principles and methods of computation as compared with the consolidated financial statements for the year 2007, unless described otherwise.

## B. Exchange rates and index

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:

|                            | EUR/USD | EUR/NIS | CPI   |
|----------------------------|---------|---------|-------|
| September 30, 2008         | 1.4303  | 4.9998  | 107.0 |
| September 30, 2007         | 1.4179  | 5.6898  | 101.4 |
| December 31, 2007          | 1.4715  | 5.6592  | 102.5 |
| Change in 2008 (9 months)  | (2.8)%  | (11.7)% | 4.4%  |
| Change in 2008 (3 months)  | (9.3)%  | (5.4)%  | 2.0%  |
| Change in 2007 (9 months)  | 7.1%    | 2.3%    | 2.3%  |
| Change in 2007 (3 months)  | 5.2%    | (0.4)%  | 1.3%  |
| Change in 2007 (12 months) | 11.7%   | 1.7%    | 3.4%  |

C. The reporting period of the financial statements of the Russian insurance subsidiary, RIC, held by TBIH, used for consolidation purposes lags three months behind the reporting period of the Company. This lag in reporting has no material effect on the financial statements of the Company.

## D. Changes in accounting policies

With effect from January 1, 2008 certain International Financial Reporting Standards have been revised. None of these standards have a material impact on the financial position of the Company.

The following standards and interpretations were issued by International Financial Standards Board or International Financial Reporting Interpretations Committee but are not effective yet:

- Amendments to IAS 32 and IAS 1 - *“Puttable Financial Instruments”* (amendments issued in February 2008) - effective from January 1, 2009
- Annual improvements - effective from 1 January 2009

- Amendments to IFRS 1 and IAS 27 – “*Accounting for investments in subsidiaries, jointly controlled entities and associates in separate financial statements*” - effective from 1 January 2009
- IFRIC 15 – “*Agreements for the Construction of Real Estate*” - IFRIC 15 establishes rules for distinguishing between agreements for the construction of real estate under the scope of IAS 11 and similar agreements under the scope of IAS 18. When an agreement is specifically held for the construction of a property or a combination of properties where the buyer has the ability to determine the specifications and changes therein, the agreement falls under the scope of IAS 11. Accordingly, revenue will be recognized using the percentage of completion method. However, when the buyer may not determine the specifications or has limited involvement, the agreement is for the sale of real estate and therefore under the scope of IAS 18. The Interpretation applies to annual financial statements for periods commencing on January 1, 2009 or thereafter and will be adopted retrospectively. Early adoption is permitted.
- IFRIC 16 – “*Hedges of a Net Investment in a Foreign Operation*” - effective from 1 October 2008
- IAS 40 (Revised) – “*Investment Property*” - investment property under construction or under development for future use as investment property will also be accounted for as investment property when the fair value model is applied and can be measured reliably. The Standard will be adopted prospectively starting from the financial statements for periods commencing on January 1, 2009.
- IAS 28 (Revised) – “*Investment in Associates*” - Pursuant to IAS 28 (Revised), the test of impairment of an investment in an associate will be carried out with reference to the entire investment. Accordingly, a recognized impairment loss will not be specifically attributed to goodwill included in the investment but rather attributed to the investment as a whole and therefore, the entire impairment loss recognized in the past may be reversed provided that the relevant conditions are met. The Standard may be adopted retrospectively or prospectively starting from the financial statements for periods commencing on January 1, 2009. Early adoption is permitted.
- IFRS 5 (Revised) – ‘*Non-current Assets Held for Sale and Discontinued Operations*’ - Pursuant to IFRS 5 (Revised), when the parent company decides to sell part of its holdings in a subsidiary whereby following the sale, the parent company will maintain a percentage of holding that does not confer control, for example, rights entitling to significant influence, all the assets and liabilities attributed to the subsidiary will be classified as held for sale and the relevant provisions of IFRS 5 will apply, including presentation as discontinued operations. The amendment to IFRS 5 will be prospectively adopted starting from the financial statements for periods commencing on January 1, 2010. Early adoption is permitted.

All the above standards, interpretations and revised standards have not been endorsed yet by EU as of the date of approval of these financial statements.

Management does not expect the introduction of the above-mentioned amendments and interpretations to have a significant effect on the financial position, operating result, and cash flows of the Company, with the exception of IAS 40 (Revised) which will result in valuation of the Group’s investment property under construction at fair value.

In addition, the Company has chosen to adopt the amendments made to IAS 39 “*Financial Instruments: Recognition and Measurement*” and IFRS 7 “*Financial Instruments: Disclosures*”, issued on October 13, 2008 with regard to the treatment of financial instruments in Sovcombank. The Company has decided to reclassify financial instruments held for trading into both the available for sale portfolio (RUB 760 million or €20.9 million) and loans and receivables (RUB 111 million or €3 million). The loans and receivables have been reclassified in accordance with Section 50D of the amendment and the trading securities reclassified to available for sale have been done so in accordance with section 50B. The rare circumstance on which the reclassification was based was the large drop in the local share market on September 10, 2008 as a result of overseas bank failures and expected impacts on the local economy. The loss incurred on debt and equity instruments now classified as available-for-sale has been recognized in reserves and amounts to RUB 31 million or €56 thousand. The fair value losses not recognized in the income statement as a result of the reclassification amounted to €157 thousand.

#### **E. World credit crisis**

The crisis in the financial markets could possibly have further future various adverse economic implications, on the global credit market, and could possibly lead to a further slowdown of the world economy in general. These global economic factors could possibly have future negative consequences for the results of the Group, its equity base, the value of its assets, its ability to comply with the covenants agreed upon with lenders and its ability to raise financing, as well as the terms of such financing.

The abovementioned global economic factors could also possibly result in future value losses due to:

- potential increases of real estate yields and therefore decreases in value of investment properties, and investment properties under construction;
- A negative effect on the KFS Group’s banking operations in Russia and Ukraine, putting additional strain on their liquidity position and preventing normal inter-bank operations;
- Negative impact on insurance and pensions business due to possible decrease in demand for the products;
- impairment of goodwill and investments in associated companies; and
- impairment of financial instruments and other assets.

Currently, the Group is not able to estimate the impact of these factors and the effect, if any, on the Group’s activity in the future.

As of 30 September 2008 all investment properties have been valued by external appraisers. Although, the markets in Central Eastern Europe and CIS are less active and therefore there are fewer comparable transactions, management is reasonably comfortable that the valuations reflect the current values of the assets. In general, the yields and discount rates applied in valuing the investment properties have increased in line with the general market trends. However the impact resulting from that have been more than compensated by improved occupier, occupancy and rental fundamentals.

Notwithstanding the potential adverse effects of the credit crisis, as of the date of approval of these financial statements, the valuations and further analysis by management support the Group’s management belief that the fair value of the investment properties under construction

and the buildings inventory is not lower than its book value (including goodwill allocated to such assets, if exists).

In addition, the management of the Company believes, that the value of major investments in subsidiaries in the financial services segment, which has been reviewed internally, as well as using certain external valuations, is not lower than its book value (including goodwill allocated to such investments, if exists).

Subsequent to 30 September 2008, the financial markets have further deteriorated and global economies continue suffering. This may have further adverse effects on the performance of the Group and, owing to possibly increased yields and discount rates, fair value and impairment losses.

### 3. Shareholders' equity

#### A. Composition of share capital

|   | <u>September 30, 2008</u> |                           | <u>December 31, 2007</u> |                           |
|---|---------------------------|---------------------------|--------------------------|---------------------------|
|   | <u>Authorized</u>         | <u>Issued and Paid-in</u> | <u>Authorized</u>        | <u>Issued and Paid-in</u> |
|   | Number of shares          |                           | Number of shares         |                           |
|   | _____                     | _____                     | _____                    | _____                     |
| Ordinary shares with nominal value of EUR 0.20 each | <u>225,000,000</u>        | <u>80,904,797</u>         | <u>225,000,000</u>       | <u>80,871,183</u>         |

#### B. Changes in the reported period:

During the nine months period ended on September 30, 2008 the Company has issued 33,614 ordinary shares as a result of the exercise of 44,998 options (route 1). As a result, the shareholders' equity of the Company has increased with €338 thousand. Following this exercise, the outstanding balance of the options (route 1) amounts to 1,874,925.

#### C. Dividend

In June 2008 the annual general meeting of shareholders approved distribution of dividend for the year 2007 in a total amount of €18 million. The dividend was paid in July 2008.

#### D. Reclassification for statutory purposes

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 and other adjustments.

E. In April 2008 the Management Board of the Company resolved, after approval of the Supervisory Board, to grant 150,000 options to a Management Board member, exercisable for into up to 150,000 ordinary shares in the capital of the Company at an exercise price of €6.615 per option, reflecting a price of 90% of the closing price of the Company's share on Euronext as at the date of grant, being April 1, 2008, all in accordance with the Company's Employees Options Plan.

In addition, the Supervisory Board resolved granting of 175,000 options to a member of the Management Board of the Company (at that time, a nominee) exercisable into up to 175,000 ordinary shares in the capital of the Company at an exercise price per option of €9.22 reflecting 90% of the closing price of Kardan's share on Euronext on the date of grant. The options were granted under the terms and conditions of the Company's Employees Option Plan with the following exceptions for the 175,000 options granted: the options will be granted in three equal portions over three years, with the vesting period commencing at the end of two years from the date of grant. The options will be exercisable as follows: Up to two thirds of the options are first exercisable at the end of three years after the date of grant. The balance will be exercisable at the end of the fourth year after the date of grant. The options will be exercisable from the end of their vesting period until six years after the date of grant.

In June 2008 the option plans as stated above were approved by the annual general meeting of shareholders.

The fair value of the options was calculated using the Black & Scholes model under the following assumptions:

|  |         |         |
|--|---------|---------|
| Number of options                      | 150,000 | 175,000 |
| Exercise price (in €)                  | 6.62    | 9.22    |
| Share price on date of grant (in €)    | 7.35    | 10.24   |
| Risk free interest rate                | 3.68%   | 4.26%   |
| Expected term of the option (in years) | 5       | 6       |
| Standard deviation                     | 40.5%   | 40.4%   |
| Value of one option (in €)             | 3.27    | 5.04    |

## 4. Segment information

|  | <u>Real Estate</u> | <u>Financial Services - Insurance Pension</u> | <u>Financial Services – Banking Lending</u> | <u>Infrastructure Projects</u> | <u>Infrastructure Assets</u> | <u>Automotive &amp; Consumer Goods</u> | <u>Communication &amp; Technology</u> | <u>Other</u> | <u>Adjustments (1)</u> | <u>Total (2)</u> |
|--|--------------------|---|---|--------------------------------|------------------------------|--|---------------------------------------|--------------|------------------------|------------------|
|  | €in millions       | €in millions                                  | €in millions                                | €in millions                   | €in millions                 | €in millions                           | €in millions                          | €in millions | €in millions           | €in millions     |
| <b>For the nine months ended September 30, 2008</b>  |                    |   |   |                                |                              |  |                                       |              |                        |                  |
| Segment Revenues                                     | 252                | 96  | 87  | 63                             | 29                           | 23                                     | (1)                                   | 2            | 159                    | 710              |
| Segment Results                                      | 168                | (11)  | 8   | (1)                            | (3)                          | 8                                      | (2)                                   | -            | -                      | 167              |
| Unallocated expenses                                 |                    |   |   |                                |                              |  |                                       |              |                        | (8)              |
| Profit from operations                               |                    |   |   |                                |                              |  |                                       |              |                        | <u>159</u>       |
| <b>For the three months ended September 30, 2008</b> |                    |   |   |                                |                              |  |                                       |              |                        |                  |
| Segment Revenues                                     | 117                | 34  | 31  | 20                             | 12                           | 8                                      | (1)                                   | 1            | 74                     | 296              |
| Segment Results                                      | 78                 | (8)   | 5   | (1)                            | (3)                          | 3                                      | (1)                                   | -            | -                      | 73               |
| Unallocated expenses                                 |                    |   |   |                                |                              |  |                                       |              |                        | (3)              |
| Profit from operations                               |                    |   |   |                                |                              |  |                                       |              |                        | <u>70</u>        |

(1) Finance income

(2) Profit before taxes and finance expenses

|  | <b>Real Estate</b> | <b>Financial Services - Insurance Pension</b> | <b>Financial Services – Banking Lending</b> | <b>Infrastructure Projects</b> | <b>Infrastructure Assets</b> | <b>Automotive &amp; Consumer Goods</b> | <b>Communication &amp; Technology</b> | <b>Other</b> | <b>Adjustments (1)</b> | <b>Total (2)</b> |
|--|--------------------|---|---|--------------------------------|------------------------------|--|---------------------------------------|--------------|------------------------|------------------|
|  | €in millions       | €in millions                                  | €in millions                                | €in millions                   | €in millions                 | €in millions                           | €in millions                          | €in millions | €in millions           | €in millions     |
| <b>For the nine months ended September 30, 2007</b>  |                    |   |   |                                |                              |  |                                       |              |                        |                  |
| Segment Revenues                                     | 303                | 66  | 56  | 49                             | 2                            | 23                                     | (1)                                   | 11           | 35                     | 544              |
| Segment Results                                      | 247                | 19  | (6)   | (1)                            | (1)                          | 8                                      | (3)                                   | 10           |                        | 273              |
| Unallocated expenses                                 |                    |   |   |                                |                              |  |                                       |              |                        | (11)             |
| Profit from operations                               |                    |   |   |                                |                              |  |                                       |              |                        | 262              |
| <b>For the three months ended September 30, 2007</b> |                    |   |   |                                |                              |  |                                       |              |                        |                  |
| Segment Revenues                                     | 165                | 21  | 24  | 16                             | -                            | 7                                      | (1)                                   | 2            | 19                     | 253              |
| Segment Results                                      | 133                | (1)   | (13)  | (2)                            | (2)                          | 2                                      | (1)                                   | 2            |                        | 118              |
| Unallocated expenses                                 |                    |   |   |                                |                              |  |                                       |              |                        | (5)              |
| Profit from operations                               |                    |   |   |                                |                              |  |                                       |              |                        | 113              |
| <b>For the year ended December 31, 2007</b>          |                    |   |   |                                |                              |  |                                       |              |                        |                  |
| Segment revenues                                     | 412                | 104   | 103   | 66                             | 9                            | 30                                     | (4)                                   | 12           | 42                     | 774              |
| Segment results                                      | 329                | 33  | 37  | 2                              | (1)                          | 10                                     | (6)                                   | 10           | -                      | 414              |
| Unallocated expenses                                 |                    |   |   |                                |                              |  |                                       |              |                        | (16)             |
| Profit from operations                               |                    |   |   |                                |                              |  |                                       |              |                        | 398              |

(1) Finance income

(2) Profit before taxes and finance expenses



## 5. Significant transactions and commitments

### A. Real Estate

1. In January 2008, following the expanding of the bond series of GTC RE in November 2007 (series B), and for the purpose of matching the payments of the GTC RE undertakings to its cash flow resources, which are stated in Euros, GTC RE engaged with Discount Bank in a Swap transaction for NIS 193,430,049 in bonds (series B) nominal value, under which, starting on the date each transaction is entered into, the bank shall pay GTC RE the linked NIS cash flow required for repaying the bonds (series B), and on the other hand, GTC RE shall pay the bank a corresponding cash flow in Euros, with a fixed annual interest of 6.21%.

In September 2008, GTC RE has entered into another SWAP transaction for the remaining NIS 423,797,795 nominal value debentures at a fixed interest of 7.06% per annum.

The hedges are designated as an effective cash flow hedge, whereby fair value adjustments are directly accounted for in equity.

2. During January-February 2008 GTC China has purchased land plots having a total area of 450,000 sq.m in different cities in China in consideration of €69 million. GTC China intends to develop on the land into residential and commercial projects.
3. In March 2008, GTC SA has successfully completed the Nefryt office building in Warsaw, Poland, and the Globis Wroclaw office building in Wroclaw, Poland. The adjustments to fair value amounted to €28 million and €23.2 million, respectively, out of which the net equity holders share amounts to €9 million.
4. In March 2008 Kardan Israel Ltd. and Kardan Real Estate Ltd. ('Kardan RE'), a subsidiary of Kardan Israel Ltd., signed an agreement with Delek Real Estate ('DRE') for the merger of their activities.

DRE will transfer all of its shares in Dankner Investments Ltd. ('DI'), a fully owned subsidiary of DRE, to Kardan RE. DRE will receive 40% of the shares of Kardan RE. Following the transaction, Kardan RE will be jointly held by Kardan Israel (60%) and DRE (40%).

The final agreement and the closing of the transaction are subject to certain conditions precedent, including antitrust and tax authority approvals.

Kardan Israel has granted DRE a put option to sell its shares in Kardan RE to Kardan Israel in case there has not been an IPO of the merged entity following the fourth anniversary of the closing. The consideration for this sale will be determined by an appraiser but will not be less than USD 67.5 million (approximately €46 million). The put option can be exercised during a period of 90 days, following the 4th anniversary of the closing (and in certain circumstances the exercise period can be postponed by Kardan Israel for an additional year).

5. In June 2008, GTC SA has successfully completed the Zepirus office building in Warsaw, Poland, and a subsidiary of GTC Romania has completed the Galleria Buzau shopping mall in

Buzau, Romania. The adjustments to fair value amounted to €10.3 million and €1.2 million, respectively, out of which the net equity holders share amounts to approximately €1 million.

6. In September 2008, GTC SA has successfully completed the Platinum 2 office building in Warsaw, Poland, and GTC Serbia has completed the Block 41a office building in Belgrade, Serbia. The adjustments to fair value amounted to €4.5 million and €0.1 million, respectively, out of which the net equity holders share amounts to €0.3 million.
7. In addition to the valuations mentioned above, all investment properties of GTC SA and its subsidiaries were revaluated to their fair value as of September 30, 2008. Valuation gains on existing properties of which the share of the equity holders of the parent amounted to approximately €3 million, primarily relate to Galleria Mokotow in Warsaw, Poland and Avenue mall in Zagreb, Croatia.
8. During the nine months period ended on September 30, 2008, Kardan Israel acquired 782,550 shares of GTC RE in consideration of €6.6 million. Due to these acquisitions the holding percentage of the Company in GTC RE increased to 65.2%. The excess of the purchase price over the book value of the net assets of GTC RE amounted to €2.8 million and is allocated to real estate under construction.
9. During the nine months period ended on September 30, 2008, GTC RE issued 732,037 ordinary shares as a result of the conversion of NIS 11,780,415 par values of convertible debentures. Following the conversion the Company recognized a profit of €2 million.
10. In May 2008 GTC Russia signed an agreement to acquire a 50% stake in an office development project in Viborgsky, a district of St. Petersburg, Russia. GTC Russia is intended to develop 110,000 sq. m. of net office space, to be completed in 2011-13. GTC Russia paid €8.9 million for its share in the project.
11. In May 2008, GTC SA completed the issuance of debentures amounting to PLN 350 million (approximately €104 million). The debentures were issued to institutional investors in Poland and are not subject to any pledge or guarantee. The debentures bear fix interest of 6.63% denominated in PLN and will be repaid in 5 years from the issuance date.
12. In July 2008, GTC Ukraine signed an agreement to acquire a 10% stake in Europort Ltd ('Europort'), a company active in investing in real estate investments in the CIS region for a total consideration of approximately €3.5 million. Furthermore, an agreement was signed to acquire 49.99% of Europort Investments (Cyprus) 1 Limited ('Europort Cyprus'), a 100% subsidiary of Europort. Europort Cyprus is active in the Ukrainian real estate sector and is developing a combined offices and logistics project of 120,000 sq. m. in Odessa, Ukraine. GTC Ukraine paid the nominal value of the shares, amounting to approximately €20 thousand. In addition, GTC Ukraine has granted Europort Cyprus a loan in the amount of €7.9 million. The remainder of the Europort Cyprus shares will continue to be held by Europort.
13. In July 2008, GTC China has won an auction to acquire a land plot of approximately 10,400 sq. m. with construction rights of approximately 109,000 sq. m. in the city of Hangzhou in China. GTC China will hold 50% in the project. The project is a mixed use project and will

comprise of, residential (84,000 sq. m.) and retail and office (25,000 sq. m. in total). The consideration for the land will amount to approximately €40 million.

14. Following the term sheet signed in November 2007 by GTC RE in connection with a development in India, in July 2008, GTC RE signed a detailed agreement with a third party, which concludes the understandings regarding the preliminary term sheet. According to the agreement, the third party will transfer a land it owns to a joint venture company, which will be held equally by the parties, and GTC RE will invest an amount of approximately USD 90 million (approximately €60 million). The completion of the transaction is subject to certain conditions precedent including receiving a Special Economic Zone approval which grants significant tax benefits.
15. In September 2008 GTC RE has acquired on TASE 33,475 of its own shares. Subsequent to the balance sheet date, in October and November 2008, GTC RE has acquired additionally 1,293,156 of its own shares in consideration of approximately €3.6 million. As of the date of these financial statements GTC RE holds in total 1,326,631 of its own shares, representing approximately 1.6% of the issued capital of GTC RE. GTC RE accounts for these shares as treasury shares. Due to the acquisition of shares by GTC RE the holding percentages of the Company in GTC RE (directly and indirectly) has increased to 67.7%.

## B. Financial Services

1. In February 2008, TBIF purchased an additional 9% of the shares of the Russian bank for a consideration of €29 million. The goodwill created in the acquisition amounted to €7 million.

In addition, in May 2008, TBIF purchased from the other shareholder of the Russian bank an additional 1% of the share capital of the bank for in consideration of €1.7 million.

Following these acquisitions TBIF holds a 60% stake in the Russian bank. TBIF continues to proportional consolidate the financial statements of the Russian bank according to the shareholders' agreement.

According to the agreement TBIF was granted options to increase its share in the Russian bank to 65%, according to the first option, and to increase its share to 75%, according to the second option. The exercise price of those options will be determined by a mutually agreed formula. The first and the second options will be valid for a period of 30 days after the approval of the financial as of 30<sup>th</sup> of June 2008 and 31<sup>st</sup> of December 2008, respectively.

In case that TBIF will not exercise the second option, the other shareholder in the Russian bank will have an option to purchase from TBIF shares that will reduce TBIF interest in the Russian bank for the same price that TBIF paid for increasing its share in the Russian bank plus annual interest of LIBOR + 5%.

The exercise of the above mentioned options is subject to regulatory approvals.

2. In March 2008, TBIH completed the acquisition of 62% of Ukrainian insurance company ('UIG') for a total consideration of €33 million (in which the Company's share amounts to €13 million).

The shareholders agreement includes a call option for TBIH to purchase and a put option for the sellers to sell the remaining 38% of UIG within five years, under certain terms and conditions. The excess of the purchase price over the net assets of UIG (including the financial liability to recognize the put option granted to the minority shareholder) amounted to €84 million (in which the Company's share is €34 million). TBIH classified the excess of the purchase price over the net assets preliminary pending PPA as goodwill.

3. In May 2008, KFS acquired the minority share (approximately 25%) of The Russian Insurance Company ('RIC') in consideration of €16 million. Following the closing of this transaction KFS will hold 100% of RIC. The excess of the purchase price over the net asset value of RIC amounted to €3.3 million and was accounted for as goodwill.
4. Currently, the VAB Bank, a joint venture of TBIF with operations in Ukraine, is contesting a notification for unpaid taxes and penalties in the amount of UAH 126 million (€16.5 million), regarding a possible Corporate Profit Tax understatement related to share capital premium received in the years 2005 – 2006. The Bank has commenced a counter-action through an appeal to the Tax authority of higher instance, and preliminary hearings and discovery proceedings are in progress. The ultimate outcome of this matter cannot presently be determined, and no provision for the unpaid taxes or any penalty that may result has been made in these condensed interim consolidated financial statements.  
The management of VAB Bank believes, based on its legal advisors opinion, that the risk that VAB Bank will suffer a material loss due to the claim is remote.
5. Under a loan agreement between KFS and a bank ('the Bank') KFS is required to comply with certain covenants. Subsequent to the balance sheet date, KFS received a waiver regarding a covenant relating to the minimal equity of TBIH as of 30 September 2008 and 31 December 2008. KFS met all other financial covenants. The loan, amounting to approximately €22 million, is presented in the financial statements as of 30 September 2008 as current liability. The management of the Company estimates, based on discussions with the Bank, that the loan will be classified as a non-current liability.

### C. Infrastructure

1. In February 2008 Tahal Group B.V. ('Tahal') signed an agreement with the national water company of Angola, Empresa Publica de Agua ('EPAL'), regarding the development of a water supply infrastructure project.  
The agreement between Tahal and EPAL involves the execution of a water supply network distribution system to seven neighborhoods, located to the south of the capital city Luanda. The project includes the design of the distribution system and the installation of about 400 km of PVC pipes and the installation of about 140 fountains. The total project comprises an area of about 3,530 acres.  
The project size is approximately €34 million and will be financed by the Government of Angola. The execution of the project is estimated to take 18 months.
2. In July 2008 Tahal has won two tenders for turn key projects in two countries, located in the Southern Sahara.  
The projects size is approximately €165 million (USD 260 million) and the execution of the projects will take around 3 to 5 years. The commencing of the projects is subject, among other things, to the closing of the financing for each of the projects.

3. In August 2008 Tahal has closed the financing for a Turnkey project in Ghana. The project size is approximately €1 million and it is financed through a grant from the government of the Netherlands and a long term loan that was made available to the ministry of treasury and finance in Ghana by a commercial bank.
4. TCE is engaged in a turn-key project in Obninsk, Russia. The projected proceeds of the project were approximately €19.7 million however, TCE's client is in breach of the contract due to budgetary problems. Currently, a settlement agreement is being negotiated for compensation to be paid to TCE.

## 6. Subsequent events

- A. Subsequent to the balance sheet date, in October 2008, a subsidiary of Tahal, Hydro Caisan S.A ('Hydro'), a company in Panama, which has a 50 year franchise for the operation of a hydraulic power plant in the Chiriqui river in Panama, has signed an agreement with two companies in Panama for the sale of electricity to be produced by the hydro power plant. The construction of the power plant is planned to commence in 2009, with total estimated investment of approximately €12 million.

Management estimates that construction costs will be funded through 30% equity and 70% debt. It is expected that the total annual revenue generated through the supply of electricity by the power plant will amount to approximately €8.5 million.

- B. Subsequent to the balance sheet date, in October - November 2008 Kardan Israel has acquired additional 1,892,900 shares of GTC RE for a purchase price of approximately €6.5 million. Due to this acquisition the holding percentage of the Company in GTC RE (directly and indirectly) increased to 67.3%.
- C. Subsequent to the balance sheet date, Tahal Group International B.V., a 100% subsidiary of Kardan, has purchased on TASE approximately NIS 150 million nominal value of debentures issued by the Company, in consideration of approximately €18 million. The Company estimates that it will recognize a gain of approximately €5 million as a result of early redemption of these debentures.
- D. Subsequent to the balance sheet date 339,904 ordinary shares of the Company were issued as a result of exercising 749,790 options (route 1).
- E. In November 2008 Tahal has closed the financing for an additional Turnkey project in Ghana amounting to approximately €15 million. The financing is comprised of a long-term loan to the Ministry of Finance and Economic Planning of Ghana, provided by a commercial bank, and supported by an Israeli export credit agency.

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To the management and shareholders of Kardan N.V.

## Review report

### *Introduction*

We have reviewed the accompanying interim condensed balance sheet of Kardan N.V., Amsterdam (the "Company") as at September 30, 2008 and the related interim condensed statements of income, changes in equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### *Scope*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Opinion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

Apeldoorn, November 28, 2008

Ernst & Young Accountants LLP

Signed by: A.J. Buisman