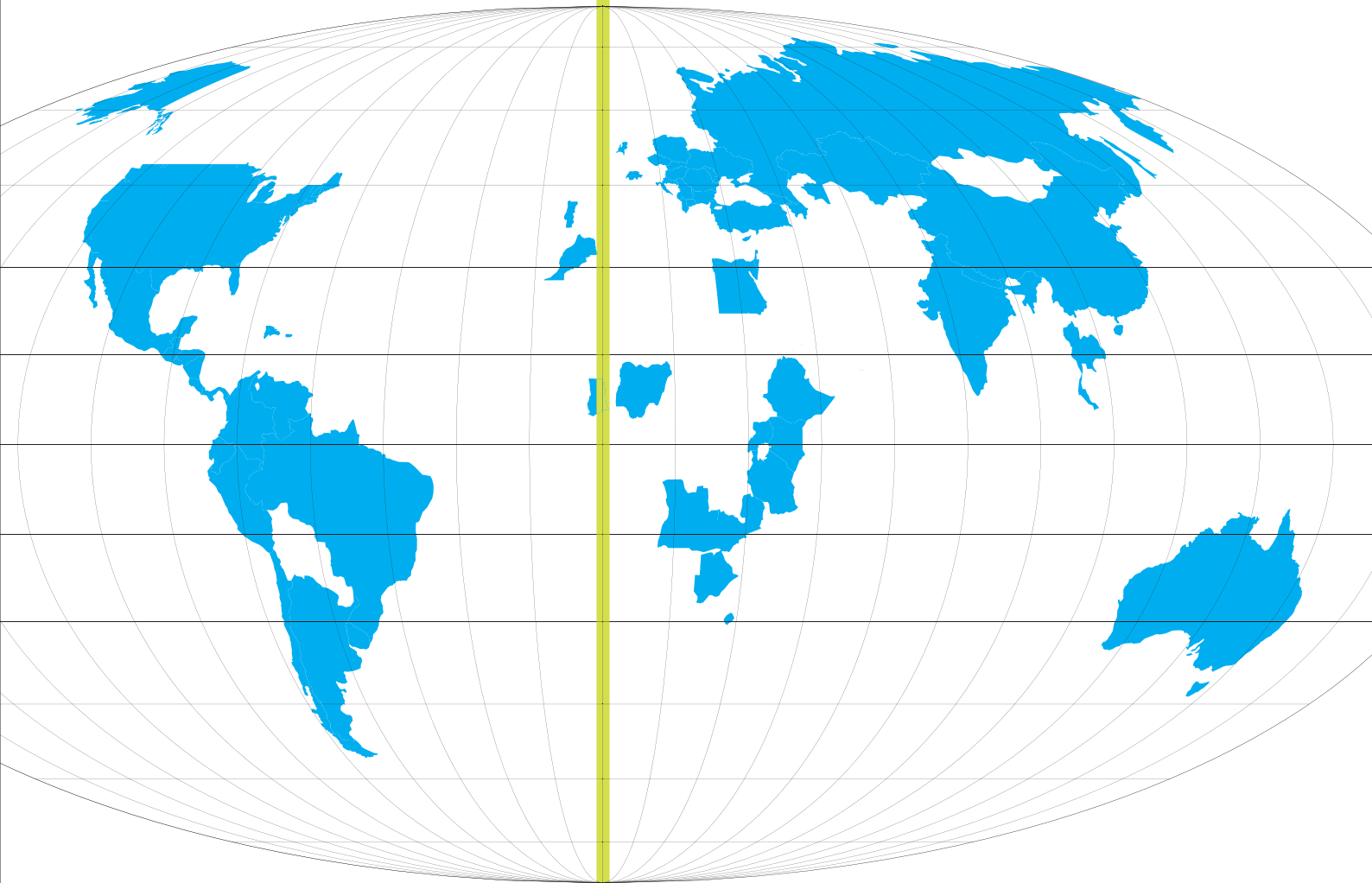


2007

# Annual Report



KARDAN N.V.

# Business Overview

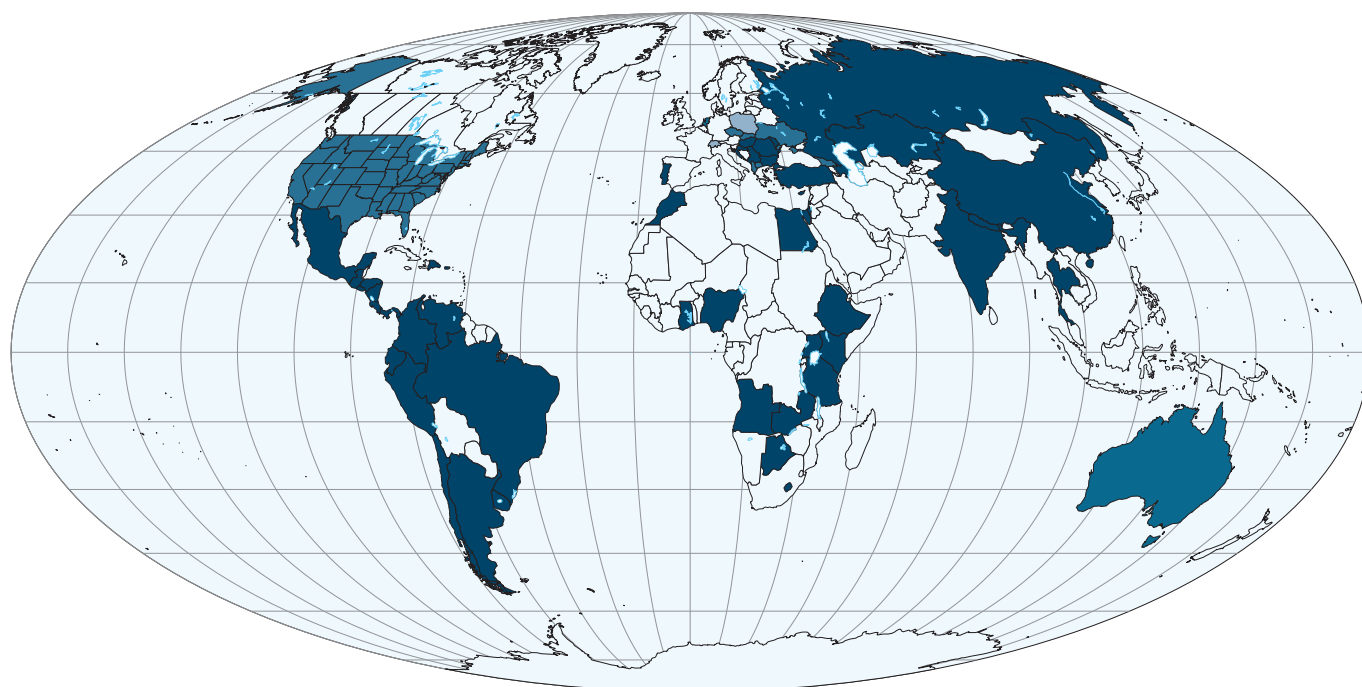
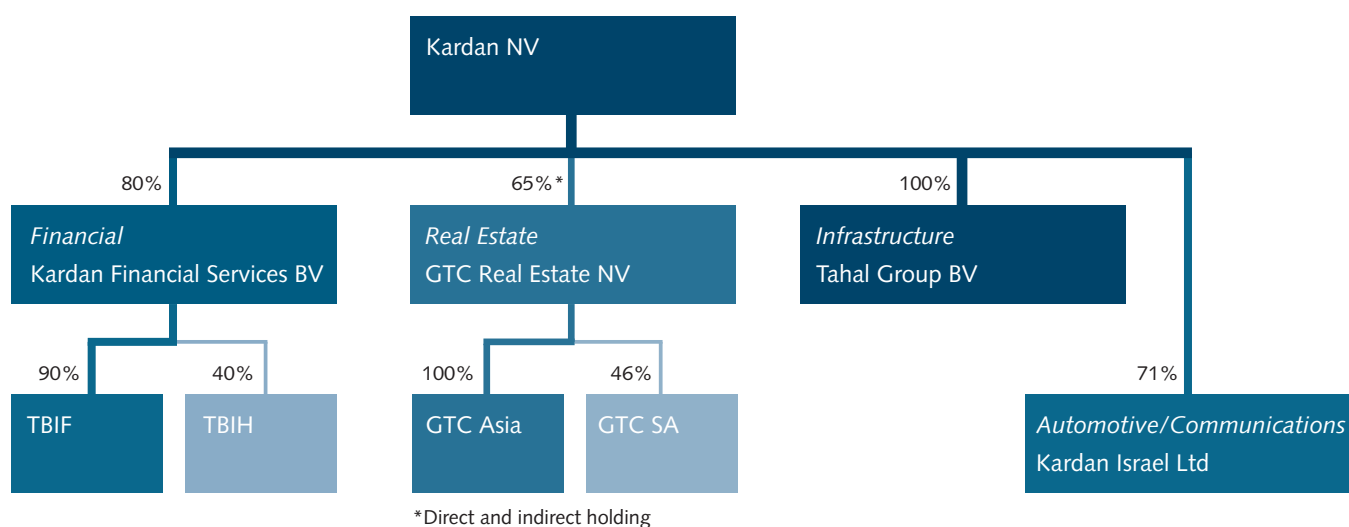
Kardan is an **international investment company** based in the Netherlands, that is listed on Euronext Amsterdam and the Tel-Aviv Stock Exchange. Kardan's main activities are developing, supporting, managing and realizing the value of its investments.

Focusing on **emerging markets** mostly within Central and Eastern Europe and South East Asia, Kardan is primarily active in three sectors: real estate, financial services and infrastructure. In addition, Kardan is active in Israel.

Kardan has a consistent track record of creating long-term shareholder value through active management of its investments and by leveraging its business experience, financial resources and local and international networks. Kardan delivers both capital and management resources to accelerate the expansion of its group companies.

| € in millions                                 | 2007         | 2006         | 2005         |
|---|--------------|--------------|--------------|
| Revenues                                      | 774          | 588          | 439          |
| Expenses (excl. tax)                          | 482          | 385          | 273          |
| Net result                                    | 250          | 157          | 136          |
| Net result net of minority interest           | 90           | 41           | 46           |
| Cash  | 893          | 409          | 141          |
| Total shareholders' equity                    | 1,073        | 758          | 436          |
| Shareholders' equity net of minority interest | 343          | 267          | 136          |
| <b>Total assets</b>                           | <b>4,272</b> | <b>2,225</b> | <b>1,508</b> |
| Solvancy                                      | 25.1%        | 34.1%        | 28.9%        |
| Return on equity net of minority interest     | 26.2%        | 14.4%        | 32.7%        |
| Number of employees                           | 13,411       | 7,980        | 6,120        |

| € per share                     | 2007       | 2006       | 2005       |
|---------------------------------|------------|------------|------------|
| Net result                      | 1.1        | 0.6        | 0.7        |
| Total equity                    | 13.3       | 9.5        | 6.5        |
| Equity net of minority interest | 4.2        | 3.4        | 2.0        |
| Number of shares:               |            |            |            |
| December 31                     | 80,871,183 | 79,658,263 | 66,615,480 |
| Weighted average for the year   | 80,759,951 | 72,289,139 | 63,877,164 |
| Fully diluted                   | 83,752,604 | 75,746,221 | 63,877,164 |



#### Financial Services

Albania  
Bulgaria  
Croatia  
Georgia  
Kosovo  
Macedonia  
Romania  
Russia  
Slovakia  
Turkey  
Ukraine

#### Real Estate

Bulgaria  
China  
Croatia  
Czech Republic  
Germany  
Hungary  
Israel  
India  
Poland  
Romania  
Russia  
Serbia  
Slovakia  
Switzerland  
Ukraine

#### Infrastructure

Africa  
Azerbaijan  
Central America  
Central & Eastern Europe  
China  
Cyprus  
India  
Israel  
Kazakhstan  
Latin-America  
Mexico  
Nepal  
Portugal  
Russia  
Thailand  
Turkey

#### Automotive & Consumer Goods/ Communications & Technology

Australia  
Brazil  
Bulgaria  
Israel  
Netherlands  
Romania  
USA

# 2007 Annual Report



KARDAN N.V.



# 2007 Annual Report

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## 2007 Overview

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# Foreword by the Chairman of the Management Board

*Dear Stakeholder,*

The past year was good for Kardan. We successfully continued our strategy of establishing new business operations and developing our existing activities in fast-growing emerging markets.

It was a year of expansion. We significantly increased our investment pace, as reflected in strong growth in total assets and the numerous transactions announced and closed this year.

Our main geographic focus remains on emerging markets mostly within Central and Eastern Europe (CEE) and parts of Asia, while our business remains focused primarily on three sectors: financial services, real estate and infrastructure. In addition, in Israel, we are active in the automotive and consumer goods, and communications and technology sectors through our subsidiary Kardan Israel.

Our financial services business grew strongly in both banking and insurance. For example, we strengthened our banking position in Russia through a very successful merger and we acquired several insurance companies in the region. A major milestone was the equity investment in and funding of Kardan Financial Services B.V. (KFS) by Israel Discount Bank. KFS intends to use these funds primarily to further develop its activities, capitalizing on the strong growth opportunities in the financial services sector in the CEE region.

Our real estate operation continued its rapid development, particularly in CEE countries and China. In CEE we acquired new development projects with aggregate building rights exceeding 700,000 sqm., while in China we acquired land for our first shopping mall. We also began operations in India. Revenues and operating results grew to record levels over the year.

Our infrastructure activities went through some reorganization; we hired a new experienced general manager who has already put his mark on the business

by significantly increasing the pipeline of projects. In addition, we are in the process of separating our engineering services activities from our investment activities. In our investment activities we focus on the ownership and development of infrastructure assets. To this end, a Chinese joint venture with local partners, Kardan Water International Group Ltd (KWIG), was established to manage, operate and maintain water-related infrastructure projects in China. KWIG has already made its first two investments and currently owns six operating sewage plants. Another sewage plant and water supply plant is under development.

In our view, the main keys to success in the markets we are active in, are to act as local as possible with the best people and to try to understand these markets as well as possible. In 2007, as in previous years, this vision proved to be the right one and boosted our track record of creating long-term shareholder value.

Investments and expansion achieved throughout 2007 have positioned us well for further growth. We have become an important player in emerging markets with platforms that will allow us to benefit from future growth in these markets. Despite the difficult circumstances in credit markets, we were able to raise significant funds during 2007. We have a solid position that should allow us to benefit from new opportunities in the years to come.

*Alain Ickovics*  
*Chairman of the Management Board*



# 2007 Highlights

## January

### **Kardan wins infrastructure tender in Turkey**

Tahal won an infrastructure turnkey project in Turkey. Tahal's share of the contract has a value of approximately EUR 18 million.

### **Kardan's real-estate subsidiary raises EUR 100 million through issuance of non-convertible debentures**

GTC RE raised approximately EUR 100 million through a private placement of non-convertible debentures to Israeli institutional investors. The issue was approximately seven times oversubscribed.

## March

### **Kardan to purchase controlling interest in Albanian insurance company**

TBIH has signed an MOU to purchase 60% of Sigma Albania, an Albanian insurance company, for a consideration of EUR 12.9 million.

### **Kardan to enter the Turkish insurance market**

TBIH has signed an agreement to purchase a 58.2% stake in Ray Sigorta, a Turkish insurance company, for a consideration of EUR 61 million.

## July

### **Kardan enters new city in China to develop first shopping mall project**

GTC RE won, together with its local partner Lucky Hope, the ownership of the 20,000 sqm new development site in Chengdu, China.

## February

### **Kardan raises EUR 150 million through issuance of non-convertible debentures**

Kardan raised approximately EUR 150 million through a private placement of non-convertible debentures to Israeli institutional debentures. The issue was five times oversubscribed.

## April

### **Tahal signs MOU to purchase majority stake in municipal services company**

Tahal signed an MOU to purchase a 60% stake in Milgam. The purchase price reflects a value of EUR 14 million for Milgam.

### **GTC SA issues EUR 210 million of bonds**

GTC SA raised approximately EUR 210 million through the issuance of bonds. The proceeds will be used for the purchase of land and the construction of new real-estate projects in Central and Eastern Europe.

### **Kardan establishes Chinese infrastructure platform**

Tahal establishes Kardan International Water Group Ltd, a joint-venture with local professionals that will invest in and manage, operate and maintain water-related infrastructure projects in China.

## August

### **Kardan completes merger, expanding its banking operations in Russia**

TBIF has merged its Russian lending operations with Sovcom Bank, creating an organization with 50 branches and more than 600 outlets spread across the Russian regions.

## October

### **GTC SA sells class-A office building in Romania**

GTC SA sells America House Building, valued at EUR 120 million, resulting in a gain of approximately EUR 7 million for Kardan.

### **Kardan acquires Build-Own-Operate concessions in Sichuan province**

KWIG, part of Tahal, signed an acquisition agreement for 100% of Tian He, which owns BOO concessions for water supply and wastewater treatment.

## September

### **Kardan acquires its first infrastructure assets in China**

Kardan's infrastructure subsidiary intends to acquire Tianjin Huanke, which owns long-term concession agreements for six operational wastewater treatment plants in China.

### **Kardan to raise capital from Israel Discount Bank**

Israel Discount Bank is to acquire 10–11% equity in KFS through capital increase of approximately EUR 50 million, reflecting a valuation of KFS of more than EUR 500 million. In addition EUR 225 million of debt will be provided.

## November

### **Kardan to purchase majority stake in Ukrainian insurance company**

TBIH to purchase 62% of Ukrainian Insurance Group, headquartered in Kiev.

### **GTC RE raises EUR 123 million through issuance of non-convertible debentures**

GTC RE completed a tender to Israeli institutional investors for a private placement of non-convertible debentures, raising approximately EUR 123 million.

### **Kardan to expand its real estate activities into India**

GTC RE signed a term sheet for the development of a commercial and residential project in India, comprising 1.5 to 2 million sqm of building rights.

# Shareholder Information

The par value of ordinary shares of Kardan N.V. is EUR 0.20. Kardan N.V.'s ordinary shares have been listed on Euronext Amsterdam since July 10, 2003, under the trading symbol 'KARD'. Kardan is also listed on the Tel Aviv Stock Exchange under the symbol 'KARNV'. The ISIN code of Kardan N.V. is NL000011365.2 and the Dutch security code (fondscode) is 'KARD'.

## Distribution of shares

As of December 31, 2007 a total of 80,871,183 ordinary shares have been issued and are outstanding.

The following table presents shareholdings of more than 5% and of related parties as of March 31, 2008:

|                    | Number of shares held<br>(ordinary shares of € 0.20 each) | Holding rate |           | Holding rate in full dilution |           |
|--------------------|---|--------------|-----------|-------------------------------|-----------|
|                    |   | In capital   | In voting | In capital                    | In voting |
| Y. Grunfeld (1)(9) | 20,546,322  | 25.40%       | 25.40%    | 24.51%                        | 24.51%    |
| A. Schnur (2)(9)   | 17,476,584  | 21.60%       | 21.60%    | 20.85%                        | 20.85%    |
| E. Rechter (3)(9)  | 4,051,725   | 5.01%        | 5.01%     | 4.83%                         | 4.83%     |
| A. Ickovics (4)    | 3,182,560   | 3.93%        | 3.93%     | 4.01%                         | 4.01%     |
| J. Pomrenze (5)    | 60,052  | 0.07%        | 0.07%     | 0.07%                         | 0.07%     |
| A. Shlank (6)      | 12,000  | 0.01%        | 0.01%     | 0.23%                         | 0.23%     |
| Z. Rubin (7)       | –   | –            | –         | 0.25%                         | 0.25%     |
| E. Gabber (8)      | –   | –            | –         | 0.18%                         | 0.18%     |

(1) The shares are held directly and indirectly through Talomit Financial Holdings (1995) Ltd., a company wholly owned by Mr. Grunfeld.

(2) The shares are held through Raitalon Ltd., a company wholly owned by Mr. Schnur.

(3) The shares are held through Shamait Ltd., a company wholly owned by Mr. Rechter.

(4) Mr. Ickovics is a member of the Management Board of Kardan. Mr. Ickovics also holds 179,232 options to shares of Kardan.

(5) Mr. Pomrenze is a member of the Supervisory Board of Kardan.

(6) Mr. Shlank is a member of the Management Board of Kardan. Mr. Shlank also holds 179,232 options to shares of Kardan.

(7) Mr. Rubin is a member of the Management Board of Kardan. Mr. Rubin holds 209,103 options to shares of Kardan.

(8) Mrs. Gabber is a member of the Management Board of Kardan. Mrs. Gabber holds 149,360 options to shares of Kardan.

(9) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement which represents approximately 52%.

## Key financial figures per share

| € per share                     | 2007 | 2006 | 2005 |
|---------------------------------|------|------|------|
| Net results                     | 1.1  | 0.6  | 0.7  |
| Total equity                    | 13.3 | 9.5  | 6.5  |
| Equity net of minority interest | 4.2  | 3.4  | 2.0  |

## Share prices in 2007

|                     | Euronext<br>(EUR) | Tel Aviv<br>(NIS) |
|---------------------|-------------------|-------------------|
| Highest share price | 14.00             | 78.18             |
| Lowest share price  | 9.35              | 51.53             |
| Year-end            | 11.5              | 64.45             |

## Liquidity provider

Amsterdams Effectenkantoor B.V. (AEK) acts as a liquidity provider for the Kardan shares listed on Euronext Amsterdam.

## Financial calendar

General Meeting of Shareholders – June 19, 2008

Q1 2008 results – May 31, 2008

Q2 2008 results – August 31, 2008

Q3 2008 results – November 30, 2008

## Dividend policy

The dividend policy recommends an annual distribution of between 20% to 30% of net income. This recommendation will take into consideration the level of net income, liquidity and the capital position, future financing requirements, and financial covenants of the Company, all within the limitations of the law. It should be noted that due to the nature of the Company's strategy and the structure of its earnings, dividend distributions may vary from year to year.

## Additional information

Additional information can be obtained from:

Kardan N.V.

Claude Debussylaan 30

Viñoly Building, 13th floor

1082 MD AMSTERDAM

The Netherlands

Telephone +31 (0) 20 305 0010

Other publications and information: [www.kardan.com](http://www.kardan.com)

# Composition of the Boards

## Management Board

All members of the Management Board are appointed for a period of three years and may be immediately reappointed.

### Mr. Alain Ickovics (1959)

*Position:* Managing Director (Chairman)

*Nationality:* Israeli and Belgian

*Appointed:* June 14, 2006

*Current term:* AGM 2009

*Education:* MBA in Finance from Columbia University and a BA in Industrial Engineering from the Technion Israeli Institute of Technology.

*Previous position:* Joined the Kardan Group in 1994 as Chairman of the Management Board of Globe Trade Centre S.A. 2001–2006: Director of International Operations of Kardan N.V. and Managing Director of GTC International S.A., and Director of several of its operational subsidiaries.

*Other positions:* Managing Director and Supervisory Director of various other companies within the Kardan Group, including Kardan Financial Services B.V., TBIF Financial Services B.V., TBIH Financial Services Group N.V., Tahal Group B.V., GTC Real Estate N.V., and Globe Trade Centre S.A.

### Mr. Alon Y. Shlank (1959)

*Position:* Managing Director

*Nationality:* Israeli

*Appointed:* May 18, 2004

*Reappointed:* June 13, 2007

*Current term:* AGM 2010

*Education:* LL.B. degree in law from Tel Aviv University, Israel.

*Previous position:* Until 1994, partner in a law firm in Israel, specializing in Securities, Mergers and Acquisitions, Investments, and Corporate law.

1994–2000: CEO of Alrig S3R Ltd. and Director of several companies within the Alrig Group.

2001: Joined the Kardan Group.

*Other positions:* Managing Director and Supervisory Director in various other companies within the Kardan Group, including GTC Real Estate N.V., TBIH Financial Services Group N.V., Kardan Financial Services B.V., and Globe Trade Centre S.A.

### Mr. Zach Rubin (1973)

*Position:* Managing Director

*Nationality:* Dutch

*Appointed:* June 1, 2005

*Current term:* AGM 2008

*Education:* Tax law degree from the University of Amsterdam.

*Previous position:* Until 2000, worked in the Private Equity Division of BNP Paribas in the Netherlands.

2000–2002: Worked for Goldman Sachs in London, in the Equities and Investment Banking divisions.

2003–2005: Managing Director of RTG and active as a corporate finance consultant.

2005: Joined the Kardan Group.

*Other positions:* Managing Director and Supervisory Director in various other companies within the Kardan Group, including Kardan Financial Services B.V., TBIF Financial Services B.V., GTC Real Estate N.V., Globe Trade Centre S.A., and Tahal Group B.V.

### Mrs. Einat Gabber (1971)

*Position:* Managing Director (CFO)

*Nationality:* Israeli

*Appointed:* May 19, 2005

*Current term:* AGM 2008

*Education:* Certified Public Accountant (Israel) and B.A. in Economics and Accounting from Tel Aviv University, Israel.

*Previous position:* 1997–2001: Accountant and auditor in Israel with Luboshitz Kasierer (Arthur Andersen). 2001–2003: Deloitte & Touche Accountants (formerly Arthur Andersen) in the Netherlands.

Since mid-2003: Controller of the Kardan Group.

Since May 2005: Chief Financial Officer (CFO) of Kardan N.V.

*Other positions:* Managing Director and Supervisory Director in various other companies within the Kardan Group, including GTC Real Estate N.V., Kardan Financial Services B.V., TBIF Financial Services B.V., and Tahal Group B.V.

**Mr. Walter van Damme (1972)**

*Position:* Managing Director

*Nationality:* Dutch

*Appointed:* June 13, 2007

*Current term:* AGM 2010

*Education:* Law degree from the University of Amsterdam.

*Previous position:* 1996–2000: Lawyer at different law firms.

2000–2006: One of the founding partners of First Dutch Capital.

2007: Joined the Kardan Group.

*Other positions:* Managing Director and Supervisory Director in various other companies within the Kardan Group, including GTC Real Estate N.V., Globe Trade Centre S.A., Tahal Group B.V., Kardan Financial Services B.V., and TBIF Financial Services B.V.

## Supervisory Board

All members of the Supervisory Board are appointed for a period of four years and may be reappointed no more than two times.

**Mr. Joseph Krant (1948)**

*Position:* Chairman of the Supervisory Board and member of the Audit Committee

*Nationality:* Dutch

*Appointed:* July 9, 2003

*Reappointed:* June 13, 2007

*Current term:* AGM 2011

*Education:* Degree in Economics at ISW.

*Previous position:* Since 1973 he has held various positions including Managing Director and Chief Executive Officer of Kempen & Co and CEO of Dexia Bank Nederland.

*Current positions:* Managing Director of Catalyst Advisors B.V., Member of the Supervisory Board of Wereldhave N.V., Member of the Supervisory Board of Cyrt Investments B.V., Member of investment committee of Cyrt Fund 1 C.V., Cyrt Fund 2 C.V. and Cyrt Fund 3 C.V., Chairman of the Board of the Jewish Historical Museum, Amsterdam.

**Mrs. Karnina Rechter (1953)**

*Position:* Supervisory Director and member of the Audit Committee

*Nationality:* Israeli

*Appointed:* May 2, 2003

*Reappointed:* June 13, 2007

*Current term:* AGM 2011

*Education:* BA in Social Work from Bar Ilan University and a BA and a degree in Law from London University.

*Current positions:* Partner in the Israeli firm Bash-Rechter, Advocates, working as a lawyer and a mediator. Regularly lectures university students on mediation and for the past four years has written a weekly column on legal and mediation matters in Maariv, Israel's second largest daily newspaper.

*Other positions:* Director of the Israeli holding company Shamait Ltd.

**Mr. Avner A. Schnur (1948)**

*Position:* Supervisory Director

*Nationality:* Israeli

*Appointed:* July 9, 2003

*Reappointed:* June 13, 2007

*Current term:* AGM 2011

*Education:* Secondary degree.

*Current positions:* Since 1986: President of Astra Diamonds Manufacturers Ltd. Since August 1994: Director of Kardan Israel Ltd., as well as of various Israeli companies within and related to the Kardan Group, including Talladium Holdings (1987) Ltd., Talladium Ltd., and Taldan Motors Ltd. and, furthermore, Director of the following companies: Guadalup Trading & Investments Ltd., Raitalon Ltd., I.G.C. International Gemological Laboratories (2004) Ltd., Astra Diamond Manufacturers Ltd., Teledata Networks Ltd., Guadalup Trading & Investments Ltd., PDD Diamonds Ltd., AP Diamonds Ltd., Astra-Michlin Diamonds Ltd., Rachminov Diamonds (Israel) 1891 Ltd., Rachminov Jewelry 1891 Ltd., Dalior Diamonds Ltd., Taltalon Investments Ltd.

**Mr. Israel Fink (1946)**

*Position:* Supervisory Director

*Nationality:* Belgian

*Appointed:* May 2, 2003

*Reappointed:* June 13, 2007

*Current term:* AGM 2011

*Education:* Degree in Civil Engineering from Brussels University.

*Current positions:* Sales and Marketing Manager and Co-director of Fancy Diamonds International B.V.B.A., a company incorporated in Belgium. Since 1970 he has held various positions in the construction management and diamond industries.

**Mr. Jay L. Pomrenze (1949)**

*Position:* Supervisory Director

*Nationality:* American

*Appointed:* May 18, 2004

*Current term:* AGM 2008

*Education:* BA in Chemistry, Yeshiva University, New York, MA in Philosophy from Yeshiva University New York, Rabbanical Ordination Program, Yeshiva University, New York, MBA in Finance & Economics from New York University.

*Current positions:* Partner in Cayman Partners and Director in Bank Hapoalim Ltd., Poalim Capital Markets Ltd., and KCPS & Company.

**Mr. Max I. Groen (1946)**

*Position:* Supervisory Director and Chairman of the Audit Committee

*Nationality:* Dutch

*Appointed:* July 1, 2005

*Current term:* AGM 2009

*Education:* MA in Economics and Accounting from Amsterdam University, degree in Economics (Drs.) and a Postgraduate Degree in Accountancy (Chartered Accountant).

*Current positions:* Retired Partner of KPMG Business Advisory Services/KPMG Accountants, Amsterdam, after working with KPMG for more than 30 years. Member of the Netherlands Institute of Certified Accountants.

*Other positions:* Supervisory Board member of Sinai Centrum, Board member of Foundation Carel Abas, Board member of Foundation Netherlands Sephardi Inheritance, Member Appeals Committee of Dutch Jewish Humanitarian Fund, Board Member of the Netherlands Synagogue Community.

**Mr. Hendrik Benjamins (1943)**

*Position:* Supervisory Director

*Appointed:* November 1, 2006

*Nationality:* Dutch

*Current term:* AGM 2010

*Education:* Secondary education.

*Previous positions:* Retired in May 2006 from Koninklijke Frans Maas Groep. His last position was as CEO of the company.

1986–1991: Transport Manager for Akzo Nobel.

*Other positions:* Director of Vladimir Development B.V.; Chairman of the Supervisory Board at Grondexploitatie maatschappij Californie B.V., Vos Logistics B.V., Munckhof Groep B.V., CA F.N.Z. Holding B.V.; Supervisory Board Member at FloraHolland, Maastricht Academic Hospital; Chairman of Limburg Entrepreneurs Association.



# Supervisory Board Report

We are pleased to present the 2007 Annual Report, including the 2007 annual accounts. The 2007 annual accounts have been audited by Ernst & Young Accountants. The auditors' report is included on page 229 of this Annual Report.

The Annual Report for the year 2007 and the 2007 annual accounts have been presented to the Supervisory Board. The 2007 annual accounts and the auditors' report were discussed by the Audit Committee with the Management Board and the external auditor. On the basis of these discussions we are convinced that the Annual Report for the year 2007, including the 2007 annual accounts, meets the transparency requirements, and we therefore endorse this Annual Report. In our opinion it forms a sound basis for the reporting by the Supervisory Board regarding the supervision exercised in the financial year 2007.

We recommend the General Meeting of Shareholders to adopt the 2007 annual accounts included in this annual report during the Annual General Meeting of Shareholders (AGM) to be held on June 19, 2008. The Management Board has proposed, in accordance with the dividend policy adopted during the AGM held on June 13, 2007, to declare a dividend for the financial year 2007 of EUR 0.22 per ordinary share of EUR 0.20 nominal value (as per number of shares on May 19, 2008), being a total amount of EUR 18 million and representing a payout ratio of 20% of the net results for the year 2007, and to add the remainder of the results to the retained earnings in order to invest in future growth. We endorse this proposal and recommend the general meeting of shareholders to adopt this as well.

Upon adoption of the 2007 annual accounts, a separate proposal will be put before the general meeting of shareholders during the AGM to be held on June 19, 2008 discharging the members of the Management Board from all liability with respect to their management during 2007 and the members of the Supervisory Board from all liability with respect to their supervision in the same period.

## Composition of the Supervisory Board

During the AGM, held on June 13, 2007, Mr. J. Krant, Mr. A. Schnur, Mr. I. Fink, and Mrs. K. Rechter were reappointed as members of the Supervisory Board for a period of four years. At the close of the AGM to be held on June 19, 2008 Mr. J. Pomrenze's term will expire. Mr. Pomrenze will be available for reappointment.

The Supervisory Board currently comprises seven members, five of which can be regarded as independent under the criteria laid down in the Dutch Corporate Governance Code. These are Mr. Krant, Mr. Fink, Mr. Pomrenze, Mr. Groen, and Mr. Benjamins. The other members, being Mr. Schnur and Mrs. Rechter, are not independent under these criteria. Mr. Schnur is holding more than ten percent of the issued share capital of Kardan, while Mrs. Rechter is related by marriage to a shareholder who holds more than ten percent of the issued share capital of Kardan. Kardan does not completely follow provisions III.2.1 through III.2.3 of the Dutch Corporate Governance Code (independency of supervisory directors) because it regards a long-term alliance with these shareholders as vitally important to all the stakeholders involved in Kardan. Given the extensive provisions on conflict of interest in its articles of association and the Supervisory Board regulations, Kardan feels that there are – without jeopardizing the corporate governance system – good grounds for not following these provisions.

In December 2007, the Dutch Corporate Governance Code Monitoring Committee (the Frijns Committee) issued its third advisory report with inter alia recommendations on diversity in the composition of supervisory boards of companies listed on Euronext Amsterdam. The Supervisory Board supports the recommendations made by the Frijns Committee and will apply them wherever possible and feasible.

Kardan adheres to best practice provision III.1.3 of the Dutch Corporate Governance code, which states that information must be given in the annual report about members of the Supervisory Board themselves. Further



in addition to the recent recommendations of the Frijns Committee, the information provided about the members of the Supervisory Board includes information on the number of women in the Supervisory Board, as well as information, about nationality, age, expertise, and social background. One of the Supervisory Board members is a woman, while four of the Supervisory Board members are non-Dutch. This group is represented by four nationalities. The average age is 61, the difference in age ranges between 55 and 65.

The profile of the Supervisory Board is such that each member shall be capable of assessing the broad outline of the overall policy and shall have the specific expertise required for the fulfillment of the duties assigned to the role designated to him or her within the framework of the profile. Each member shall be capable of performing his or her function properly and contributing to an adequate composition of the Supervisory Board. Each member shall have an international background whereby various nationalities shall be represented. The Supervisory Board shall consist of a mix of persons with, amongst others, (i) expertise in managing enterprises, in financial administration and accounting from listed companies and other large entities, (ii) specific know-how with respect to the various aspects of the business operations of Kardan, and (iii) awareness of and the skills to identify international, economic, political, and social developments that are relevant for Kardan. The Supervisory Board has ensured that its composition fits the profile and is thus as diverse as possible, and it therefore feels that with its current composition, it has the expertise necessary to supervise Kardan, bearing in mind the nature and character of Kardan.

### Supervisory Board meetings

The Supervisory Board held nine meetings during the year 2007 in the presence of the Management Board, three of which were held via conference calls. Furthermore, the Supervisory Board held one meeting during the year 2007 without the presence of the Management Board. The purpose of this meeting was

– inter alia – to discuss the performance of the Supervisory Board and its individual members and the performance of the Management Board and that of the individual Managing Directors, and the conclusions to be drawn from this. As a follow up to this meeting, performance interviews were held in December 2007 by the Chairman of the Supervisory Board and another Supervisory Board member with each of the members of the Management Board.

The subjects that were discussed during the Supervisory Board meetings held during the year 2007 were amongst others:

- company strategy, objectives and budget;
- the results of and developments within the business sectors and the group as a whole, geographical expansion, and the policy to be pursued with regard to finance and investments;
- 2006 annual financial statements and the 2007 quarterly financial statements;
- structure of Kardan;
- dividend policy;
- the Management Board's structure and the allocation of the duties within the Management Board;
- corporate governance (including risk management) and other elements of compliance.

Most of the meetings were attended by the full Supervisory Board. None of the members of the Supervisory Board were frequently absent.

Kardan's external auditor attended the Supervisory Board meeting during which the 2006 annual results were discussed.

In addition to the formal meetings, informal discussions were held frequently between the Chairman of the Supervisory Board and one or more of the members of the Management Board. Furthermore, in September 2007, a working visit was made by the members of the Supervisory Board to Kardan's real-estate segment activities in Warsaw, Poland.

## Supervisory Board committees

The Supervisory Board has appointed an Audit Committee from amongst its members. Currently, the Audit Committee comprises three members: Mr. M. Groen (Chairman), Mr. J. Krant and Mrs. K. Rechter.

The Audit Committee met six times in 2007 and paid special attention to the following subjects during these meetings:

- 2006 annual financial statements and the 2007 quarterly financial statements, including specific accounting issues arising from such financial statements;
- risk management;
- internal audit; and
- compliance.

Most of the meetings were attended by the full audit committee. None of the members of the audit committee were frequently absent.

Kardan's external auditor attended a number of audit committee meetings and Kardan's internal auditor attended the meeting during which the internal audit report was discussed.

In addition to the formal meetings, informal discussions were held frequently between the Chairman of the Audit Committee and (i) the Chief Financial Officer and controller, and/or (ii) the external auditor.

Given the size and structure of Kardan up until now, the Supervisory Board did not consider it necessary to form a formal Selection and Appointment Committee and a Remuneration Committee. In view of the considerable growth of Kardan, especially during the last year, the Supervisory Board has decided to install these committees in accordance with the Code as from 2008.

The General Meeting of Shareholders establishes the remuneration of individual members of the Management Board based on a proposal submitted by the Supervisory Board. The individual remuneration,

including bonuses, was adopted by the General Meeting of Shareholders during the AGM held on June 13, 2007. A specification of the remuneration of the members of the Management Board and of the members of the Supervisory Board is included in the notes to the annual accounts on page 214 of this Annual Report.

The Supervisory Board prepares its remuneration proposal on the basis of a remuneration policy which aims to offer remuneration appropriate to attracting qualified directors to an international company, bearing in mind the nature and character of Kardan. The policy is challenging in that it also motivates directors to achieve quality performances. The scope, design and composition of the remuneration package has been drawn up to support Kardan's short- and long-term objectives. Kardan believes that its senior management team is its major asset and applies incentive-based policies throughout the Kardan Group. A key element of these policies is the granting of share options or shares. Kardan granted share options under the Kardan Stock Option Plan to its Managing Directors and certain key employees. More details of these options can be found in the corporate governance chapter on page 31 of this Annual Report and in the notes to the annual accounts on page 119 and 214 of this Annual Report.

## Corporate governance

In all the meetings with the Management Board, we focused on the financial and commercial developments and management issues, such as the quality of corporate governance and the risk management policy.

As noted in the previous annual report, we fully subscribe to the meaning and usefulness of the Corporate Governance Code for Kardan and the ensuing changes in the law in the Netherlands. We endorse the outlines, principles, and best-practice provisions of the Corporate Governance Code with certain exceptions, which we feel do not fit the character and size of Kardan.

## In conclusion

The Supervisory Board expresses its special appreciation for all the effort invested by the Management Board, the senior management team heading each sector, and all employees in its holding and group companies in 2007. Everyone across the whole organization worked with enthusiasm and dedication to further strengthen Kardan.

Amsterdam, 19 May 2008

On behalf of the Supervisory Board,

Joseph Krant

# Management Board Report

It is with pleasure that we present you with the 2007 Annual Report of Kardan N.V. For Kardan, the past year was characterized by strong growth and performance. There was growth in assets, shareholders' equity, revenues and profit. As a Group we raised over EUR 600 million in capital and we are positioned to continue to support the development and growth of our businesses.

The past year 2007 can best be described as an investment year for Kardan. As we communicated to our shareholders at the beginning of the year, we significantly increased the pace of our investments during 2007. This is reflected in the growth in total assets and the numerous transactions announced and closed during the year. We have made several major acquisitions, and were able to close the equity investment by Israel Discount Bank in Kardan Financial Services B.V. (KFS), a major milestone, valuing this subsidiary at more than EUR 500 million. In real estate we had a record year in Central and Eastern Europe, both in terms of profitability and completions. We believe that the exciting developments during 2007 reinforce our strategy to further invest in emerging markets, in sectors we know well, in order to create shareholder value for years to come.

In addition, we continued to reorganize internally. The restructuring of our financial services activities was successfully completed, allowing us to realize faster growth. We strengthened our holdings in our real estate business by increasing our stake in GTC Real Estate N.V. (GTC RE). In our infrastructure business we split our project-related operations from our investment activities.

Due to numerous acquisitions during 2007 we welcomed approximately 5,520 employees to the various Group companies. At the holding company we strengthened our ability to continue to provide adequate support to our subsidiaries. The Management Board was strengthened by

the appointment of Walter van Damme as Chief Operating Officer and Risk Manager of Kardan, an increasingly important role as we continue to grow.

The developments during the last year would not have been possible without the hard work and dedication of our employees. They deserve the credit for the substantial successes in 2007.

# Operational Review

Revenues in our financial services business Kardan Financial Services B.V. (KFS) grew strongly in both the insurance and the banking sector during 2007. The operational result of both activities also grew significantly.

A major milestone in 2007 was the acquisition by Israel Discount Bank of 11% in KFS. This transaction was closed shortly before year-end, representing a significant increase in the value of KFS. KFS intends to primarily use the funds resulting from this transaction to further develop its activities, capitalizing on the strong growth opportunities in the financial services sector in the CEE region.

Kardan further increased its focus on banking, retail lending and asset management (TBIF) and has separated these activities from its insurance and pension activities (TBIH), through several transactions with Vienna Insurance Group (VIG). Kardan now has a 72% indirect stake in TBIF, while it holds a 32% indirect stake in TBIH. After this separation, TBIF merged its Russian lending operations with those of Sovcombank in Russia, creating a strong regional distribution platform, with a solid and fast growing retail deposit base. TBIF owns 59% of the merged entity. Furthermore, TBIF raised a significant amount of capital during the year.

In the insurance and pension sector, TBIH acquired several insurance companies in Turkey, Albania, Macedonia and Kosovo, in line with its strategy to become active in countries with a low insurance penetration. As a result of organic growth and acquisitions, TBIH has doubled its premium income in 2007 to EUR 240 million and its pension funds now have approximately 1.7 million members and close to EUR 743 million of assets under management.

Our real estate business, GTC Real Estate N.V. (GTC RE) continued to develop rapidly during the year and issued bonds to raise significant new funds for further growth.

Both the revenues and the operating result of the real estate activities grew over the year, due to the good performance of the businesses.

GTC SA (active in the CEE countries) posted record results over 2007. The total portfolio of pipeline projects exceeds 2.1 million sqm. of net building rights and GTC SA secured over 700,000 sqm of building rights during the year. GTC SA raised significant funds by issuing bonds and debentures. These funds made our rapid investment strategy possible. During 2007 the sale of both the America House office building in Bucharest and the Lighthouse building in Prague were completed. These transactions reflect an investment yield of 5.5% and 5.65%, respectively.

In addition, six projects were completed: the Avenue Mall shopping centre in Zagreb, Newton and Edison office buildings in Cracow, Platinum I and Nothus office building in Warsaw and the 19 Avenue office building in Belgrade. The total value of projects completed in 2007 is EUR 360 million, leading to revaluation gains of almost EUR 200 million.

Through GTC RE China, GTC RE continued developing existing projects and started several new projects in China. Our real estate development operations are performing well as we continue to add to our pipeline. Besides increasing the number of residential developments, we secured the rights to develop our first shopping mall in China. We started operating in India, with the establishment of a local team and the signing of a term sheet for the development of a phased commercial and residential project in Pune.

Our infrastructure business Tahal Group B.V. (Tahal) increased its revenues in 2007 and closed the year with a healthy order book. In 2007 Tahal focused more and more on the ownership and development of infrastructure assets.

In China we successfully established a platform during the first half of the year: a Chinese joint venture with local partners, Kardan Water International Group Ltd (KWIG). The strategy of KWIG is to invest in and manage, operate and maintain water-related infrastructure projects in China, initially focusing on waste-water treatment plants. The joint venture made two major investments. Following the acquisition of 88.15% of Tianjin Huanke Water Development Ltd., KWIG acquired 100% of Tian He Project Company. Both own concession agreements for water supply and waste-water treatment plants in China. We are confident that KWIG is well positioned to capitalize on the growth opportunities resulting from the acute problems of water pollution in China.

Please see the various division reports for more detailed information.

# Financial Developments in 2007

| € in millions   | Full year 2007 | Full year 2006 |
|---|----------------|----------------|
| <b>Net profit (loss) attributable to equity holders</b> |                |                |
| <b>Main businesses</b>                                  |                |                |
| Real estate   | 22             | 30             |
| Financial services – insurance & pension                | 30             | 9              |
| Financial services – banking & retail lending           | 6              | (1)            |
| Infrastructure – projects                               | 1              | 1              |
| Infrastructure – assets                                 | (8)            | –              |
| <b>Other businesses</b>                                 |                |                |
| Automotive & consumer goods                             | 6              | 3              |
| Communications & technology                             | (5)            | 5              |
| <b>Other (mainly corporate activities)</b>              | 38             | (6)            |
| <b>Total</b>  | <b>90</b>      | <b>41</b>      |

Total net profit (attributable to equity holders of the parent) amounted to EUR 90 million. The table above shows the contribution of each of the businesses to Kardan's results. As profit attributable to minority shareholders has already been deducted, these figures do not represent 100% of the net profit of each segment, and can therefore not be compared to the figures presented in the review of the separate businesses. In those reviews, all figures are presented before minority interests and thus represent 100% of the results of each sector.

Kardan increased its total revenues for the full year 2007 to EUR 774 million, an increase of 31 % compared to EUR 588 million in 2006. The contribution of main operations (financial services, real estate and infrastructure) rose sharply to EUR 694 million (2006: EUR 526 million). This increase was the result of higher revaluation gains in the real-estate

segment and the expansion of the lending activities in the financial services segment.

For the full year 2007 the total operating result increased by 34% to EUR 414 million compared to EUR 308 million in 2006. Most of it was attributable to the main businesses.

Net financial expenses for 2007 amounted to EUR 106 million, a slight increase from EUR 99 million for the full year 2006. The financial expenses mainly consisted of expenses resulting from the appreciation of option rights and interest expenses on debentures in Kardan, GTC RE, GTC SA, Kardan Israel and VAB Bank. The appreciation of option rights is attributable to the share price increases of Kardan and its listed group companies during 2007. In accordance with IFRS, the increase in the value of certain options held by third parties must be recorded as a loss in the income statements.

Taxes for the full year 2007 decreased slightly to EUR 42 million (2006: EUR 46 million).

As a result of the above, the net profit over 2007 rose sharply to EUR 250 million, compared to EUR 157 million in 2006. Minorities' share in the net result increased to EUR 160 million (2006: EUR 116 million). Net result attributable to equity holders for the full year 2007 more than doubled to a profit of EUR 90 million (2006: EUR 41 million). This represents a net profit per share of EUR 1.11, compared to EUR 0.55 for the full year 2006.

The increase in net profit is mainly the result of the good performance in the Company's main activities. The real-estate division (GTC) contributed EUR 22 million to Kardan over 2007, mainly due to revaluation of investment properties and due to the sale of the America House and the Lighthouse buildings. In addition, the activities of KFS expanded substantially during 2007. The Israel Discount Bank's capital injection confirmed a significant increase in the value

of KFS, from EUR 176 million in 2005 – according to the transaction with Vienna Insurance Group (VIG), formally named Wiener Städtische Insurance Group – to EUR 506 million as reflected by this latest transaction. This transaction resulted in a dilution gain of EUR 30 million. The infrastructure segment contributed a loss of EUR 7 million, a decrease compared to last year as a result of increased financing costs as a result of loans needed to acquire the infrastructure assets and provisions for losses on projects.

During 2007, total assets grew by 92 %, from EUR 2.2 billion at year-end 2006 to EUR 4.3 billion at year-end 2007. This increase was mainly the result of completing the transaction with VIG in the Financial Services segment, leading to full consolidation of TBIF Financial Services B.V. (TBIF) (previously TBIF was proportionally consolidated), investments made in 2007, the issuance of debentures in Kardan, GTC RE and GTC SA, the completion of several investment properties during the year, as well as the ongoing expansion of our activities.

As of December 31, 2007, shareholders' equity (attributable to equity holders of the parent) increased to EUR 343 million, compared to EUR 267 million at year-end 2006, mainly as a result of the net profit and issuance of shares following the exercise of options held by third parties.

During 2007, Kardan raised approximately EUR 210 million through a private placement of non-convertible debentures to Israeli institutional investors. Kardan will use most of these funds for further expansion of its activities. At subsidiary level, GTC SA raised EUR 212 million through the issuance of bonds in April 2007. In addition, GTC RE issued debentures, raising a total of EUR 243 million. These funds will be used to further expand GTC RE activities, especially in China and India.

## Outlook for 2008

Due to the investments made in 2007, Kardan is well positioned for further growth. Kardan has become an important player in emerging markets. Despite the difficult circumstances in credit markets, Kardan was able to raise significant funding during 2007. Kardan has a solid liquidity position to further invest in developing and expanding its business. Kardan focuses on emerging markets, which the current economic turmoil has only slightly affected so far.

Furthermore, Kardan aims to capitalize on opportunities that may arise in the current market conditions, based on its strong track record with operations in challenging environments while aiming to ensure long-term value creation, without being distracted by short-term movements.



## Personnel and Organization

In 2007, Kardan further accelerated its growth and expanded into new countries of operation. At year-end 2007, the number of employees engaged by Kardan N.V. and its consolidated companies had increased from 7,890 to 13,411, representing an increase of 68%. This was the result of the expansion of Group activities, acquisition of new subsidiaries, and the organic growth. Even though staff numbers increased, costs were carefully managed.

The employees are based in our main areas of operation, which include 12 European countries and China, Israel and Latin America. Kardan headquarters are in Amsterdam, the Netherlands. Most employees are based in Central and Eastern European countries, where Kardan conducts most of its activities.

Excellent management is essential to our future. Kardan has a lean management structure with an entrepreneurial approach and is actively involved in the management of its investee companies. Kardan is not only responsible for strategic development and steering its subsidiaries' policies, it also contributes its business experience, local and international network, and financial resources. An experienced manager with a relevant background heads each sector.

Kardan believes its senior management team is its major asset and considers its senior managers to be business partners. Therefore, Kardan grants them equity rights in the companies they manage. Various bonus and incentive schemes are in place throughout the Kardan Group.

Amsterdam, 19 May, 2008  
Management Board

W. van Damme  
E. Gabber  
A. Ickovics  
Z. Rubin  
A. Shlank

# Risk Management

The Management Board is responsible for setting strategic, operational and financial objectives and designing and implementing risk management policies and systems that are in line with these objectives. These risk management activities form an integral part of its day-to-day business and are aimed at ensuring effective and efficient operations, reliable financial reporting and compliance with laws and regulations.

Since in our vision the key to success in the markets we are active in is to act as local as possible, we aim to work with local partners while putting local management in place. In line with this decentralized management structure, the management of the subsidiaries has the responsibility to ensure that their risk management and control systems are properly implemented.

The risk management and internal control activities are regularly reported to and discussed with the Supervisory Board and the Audit Committee. The Audit Committee monitors these risk management and control activities within the Group and provides the Supervisory Board with an overview thereof.

## Risk Management Activities

As an active investor focused on growth in emerging markets, Kardan is continuously analyzing the risks inherent to this type of investments. To support this, Kardan aims to further enhance a Group-wide comprehensive risk management framework<sup>1</sup>. A key element of this risk management framework is ensuring high quality information flows that, based on a clear understanding of the business environments, provide a sound basis for analysis, discussions and decisions.

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<sup>1</sup> This framework is derived from the COSO – Enterprise Risk Management - Integrated Framework as published by the committee of sponsoring organizations of the Treadway Commission in 2004.

To further enhance high quality information flows, we started a process to further improve our management information systems, amongst others via the implementation of a so called 'corporate dashboard'. This 'corporate dashboard' provides a concise overview of the key performance indicators per business division which assists management on both subsidiary and Group level to monitor the performance of its businesses.

Furthermore we started the process of developing Kardan's so called "Risk Universe", i.e. the definition and assessment of risk categories that are (potentially) relevant for the Group. Based on the results thereof the Management Board will determine the responses required to manage the risks as identified and assessed and subsequently, sees to it that the control of the identified risks will be effectively embedded within our risk management framework.

## Key Risk Categories

Some of the Group's strategic, operational, financial reporting, and compliance risks areas are listed below. There may be other significant risks Kardan has not yet identified or have been assessed as not having a significant potential impact on the business but which in a later stage could materialize as such.

### Market risk

Kardan operates in various sectors in emerging markets and is exposed to inherent risks in relation to such developing countries; mainly political and local economic risks as well as legal issues. As a consequence, its subsidiaries can be exposed to changes in government regulations and potentially unfavorable political developments that may hamper the development of certain opportunities or might impair the value of local business. Furthermore, success of Kardan in the emerging markets depends on the continued development of these markets, continued development of real estate business, development of financial services and infrastructures. Decreased development rate of said markets may have an adverse impact on the business of Kardan. We are

closely monitoring the activities in these markets in order to control these risks.

#### **Capital availability**

General movements in market prices, indices and interest rates may affect the Group's cost of capital and/or its ability to raise capital. This in turn may hinder the Group's capacity to grow, execute its business model and generate future financial returns.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or debentures. Furthermore we strongly focus on cost and cash management and we are thoroughly evaluating investment propositions.

Throughout 2007, significant market turmoil was experienced in the credit markets, beginning with concerns over US sub-prime mortgages and then widening into a general banking liquidity crisis. Management is carefully reviewing and monitoring the impact of the crisis on its financing position, valuation of assets and liquidity position.

#### **Legal and regulatory**

As a consequence of our rapid growth in several emerging markets, the Group's companies and its employees are increasingly confronted with the complex and continuously changing regulatory environments of these countries. As a consequence, we are increasingly exposed to non-compliance with the laws and regulations and this might threaten the organization's capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities.

To reduce the legal and regulatory risks we are continuously further improving our internal procedures and we are closely monitoring the various regulatory environments.

#### **Financial reporting**

With an increasing number of subsidiaries based in the various emerging markets, timely in- and external financial reporting becomes more onerous.

To ensure timely and reliable financial reporting there are detailed accounting and reporting requirements specifying reporting time schedules and formats, including those required for IFRS compliance. Kardan's financial reporting, as in all its subsidiaries, supports common accounting and regular financial reporting in standard forms. External audit activities which are based as a statutory requirement are achieved and consolidated figures provide additional assurance on fair presentation of financial reporting. The financial control process has also been translated into a standard business process with "built in" internal controls such as authorizations and segregations of duty, mandatory control reports and documented procedures.

#### **Human resources**

As a result of our strong growth, our ability to timely put the right human resources in place becomes more and more decisive. Lack of required knowledge, skills, capabilities and experiences or the lack of effective succession planning among the organization's managers and key personnel might threaten the execution of our business models and achievement of critical business.

Kardan understands that human resources in general and strong local management in particular are critical to the future success of Kardan. Therefore, Kardan aims to continue to retain highly specialized, professional and committed staff as much as possible on all relevant levels and to facilitate the personal development of its staff.

#### **Currency exchange risks**

Since the Group conducts business in a variety of countries, a significant portion of its assets, liabilities and results is sensitive to currency movements.

Subsidiaries that do not have the USD (or the Euro – from January 1, 2007) as measurement currency generally have an equity position that reflects their risk profile. On the translation of the share in shareholder's equity, a translation gain or loss can arise because this position is not hedged. Regarding the other financing of these subsidiaries, the Group companies attempt to match the currency of the income with that of the costs and financing currency to minimize the foreign currency risk. Please also refer to page 150 of the financial statements.

#### **Interest rate risk**

The Group's exposure to interest rate risk is due primarily to the Group's long term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. Kardan aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible. Please also refer to page 150 of the financial statements.

To manage interest rate risks in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed variable and fixed interest amounts calculated by reference to an agreed upon principal amount. These swaps are designated to hedge underlying debt obligations. Interest rate derivatives are used to align the loan portfolio with the intended risk profile. In order to manage the risk profile, the Management Board discusses instruments to be used. Hedging is only allowed if detailed requirements are met.

#### **Credit risk**

The Group is exposed to credit risks (i.e. the risk of counter parties defaulting) with regard to its trade receivables, cash and cash equivalents, derivative assets and non current financial assets. The Group's policy is to trade only with recognized, creditworthy third parties. To reduce exposure to credit risk, the Group performs ongoing credit evaluations of the

financial conditions of its customers and debtors, and adjusts payment terms and credit limits when appropriate. Furthermore credit risks are controlled by the application of credit approvals, limits and monitoring procedures.

### **Management Review**

Based on our review of Kardan's risk management and internal control systems, and cognizant of their inherent limitations as described below, we have concluded that there is reasonable assurance that:

- We have sufficient insight into the extent to which Kardan's strategic and operational targets will be realized;
- Kardan's internal and external (financial) reports are reliable; and
- Applicable laws and regulations are being complied with.

During the year under review, the Management Board has not been made aware of any significant deficiencies in the Group's risk management and internal control systems have worked properly and there are no indications that any deficiencies will occur in the upcoming year. However, we draw attention to the contemplated modifications to the internal risk management and control systems. The changes and (planned) modifications in Kardan's risk management and internal control systems as described above have been discussed with the Audit Committee, the Supervisory Board and the external auditor.

It is important to note that effective risk management, with embedded internal control, no matter how well designed and operated, provides only reasonable assurance to the Management and Supervisory Board regarding achievement of an entity's objectives. Achievement of objectives is affected by limitations inherent in all management processes. These include the inherent risk that human judgment in decision-making can be faulty and that breakdowns can occur because of such human failures as simple error or

mistake. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the enterprise risk management process, including risk response decisions and control activities. Another limiting factor is the need to consider the relative costs and benefits of risk responses. Therefore, in this context 'reasonable assurance' refers to a degree of certainty that would be satisfactory for a prudent manager in the management of his affairs in the given circumstances. Projections for any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with Group's standing policies, procedures and instructions may deteriorate.

# Corporate Governance

## Introduction

Since its incorporation, Kardan N.V. (Kardan) has been enhancing and improving its compliance with corporate governance standards as set out in the applicable laws and regulations. Most notable is the Dutch Corporate Governance Code adopted on December 9, 2003 (the Code), which became effective under the Dutch Civil Code in December 2004. This chapter describes the general corporate governance structure of Kardan. The Management Board and the Supervisory Board of Kardan acknowledge their responsibility for Kardan's corporate governance and for compliance with the Code. Kardan applies the Code's principles and best practice provisions, taking into account the recommendations of the Dutch Corporate Governance Code Monitoring Committee (the Frijns Committee), except for the following principles and best practice provisions that are not fully applied:

- *The best practice provisions relating to principle II.2* – remuneration of the members of the Management Board: the Annual General Meeting of Shareholders of Kardan directly determines the remuneration amount and composition of the remuneration of the members of the Management Board. Accordingly, Kardan believes that the provisions relating to principle II.2 of the Code have already been properly dealt with although it does not strictly follow these provisions. Further, in view of the considerable growth of Kardan, especially during the last year, the Supervisory Board has decided to install a Remuneration Committee and a Selection and Appointment Committee in accordance with the Code as from 2008. More information regarding the remuneration of the Management Board (including employee options) and the deviations from the Code in this respect can be found in this chapter and in the report of the Supervisory Board. Furthermore, detailed information can be found in the notes to the financial statements (page 119 and 214 of this Annual Report);
- *Best practice provisions II.2.6 and III.7.3* – adoption of regulations containing rules governing ownership of and transactions by Management Board members or Supervisory Board members in securities in Dutch listed companies other than their 'own' company: With respect to the notification by members of the Supervisory Board or the members of the Management Board of all changes in stockholdings in Dutch listed companies other than Kardan as recommended in best practice provisions II.2.6 and III.7.3 of the Code, Kardan has investigated the consequences of the implementation of these provisions. The conclusion of this investigation was that Kardan will not implement these provisions, perceiving that this is a private matter and is already adequately regulated by the current regulations on insider trading and conflict of interest. Naturally, should ownership of securities constitute a material conflict of interest, the relevant member of the Management Board or Supervisory Board will have to comply with the rules on conflicts as further described in this chapter;
- *Best practice provision II.2.7* – maximum remuneration in the event of dismissal of the Management Board members: none of the agreements between Kardan and the members of the Management Board includes provisions relating to severance payments in case of dismissal as this is not believed to be in the interest of Kardan;
- *Best practice provisions III.2.1 and III.2.2* – independency of the Supervisory Board members: five members of the Supervisory Board of Kardan can be regarded as independent under the criteria laid down in the Code. These are Mr. Krant, Mr. Fink, Mr. Pomrenze, Mr. Groen, and Mr. Benjamins. The other members, being Mr. Schnur and Mrs. Rechter, are not independent under these criteria. Mr. Schnur is holding more than ten percent of the issued share capital of Kardan and Mrs. Rechter is related by marriage to a shareholder that holds more than ten percent of the issued share capital of Kardan. Kardan will not follow provisions III.2.1 and III.2.2 because it regards a long-term alliance with these shareholders as vitally important to all the stakeholders involved in Kardan. Given the extensive provisions on conflict of interest in its articles of association and the Supervisory

Board Regulations, Kardan feels that there are – without jeopardizing the corporate governance system – good grounds for not following these provisions;

- *Best practice provisions III.3.3 and III.4.1 (a) and (f)* – Introductions and education or training program and the election of a vice chairman by the Supervisory Board: Kardan does not consider it necessary to make an introduction program mandatory for each newly appointed Supervisory Board member. If a newly appointed Supervisory Board member considers it necessary or desirable, he or she may follow an introduction program, that covers general financial and legal matters, financial reporting by Kardan, any specific aspects that are unique to Kardan and its business activities and the responsibilities of a Supervisory Board member. Furthermore, Kardan did not appoint a vice chairman in deviation from the best practice provision III.4.1 (f) as it does not consider it necessary to have a vice chairman;
- *Best practice provision III.4.2* – the Chairman of the Supervisory Board shall not be a former member of the Management Board: although the current chairman, Mr. Krant, is not a former member of the Management Board, Kardan does not consider it appropriate to exclude such situation for the future, taking into account the specific knowledge and experience that rest with its senior management and from which a Supervisory Board may well benefit when performing its tasks;
- *Principle 5.III and the related best practice provision* – If the Supervisory Board comprises of more than four members, the Supervisory Board should designate an Audit Committee, a Remuneration Committee and a Selection and Appointment Committee from among themselves. Although the Supervisory Board of Kardan comprises of more than four members, given the size and structure of Kardan up until now, the Supervisory Board did not consider it necessary to form a formal Selection and Appointment Committee and a Remuneration Committee. In view of the considerable growth

of Kardan, especially during the last year, the Supervisory Board has decided to install these committees in accordance with the Code as from 2008;

- *Best practice provision III.5.6* – the Chairman of the Audit Committee shall not be a former member of the Management Board: although Kardan is currently in compliance with the Code, it considers it in the interest of Kardan not to exclude this situation for the future and has therefore enforced this vision in the terms of reference of the Audit Committee;
- *Best practice provision IV.1.1* – the adoption of a resolution to cancel the binding nature of a nomination for the appointment of a member of the Management Board or of the Supervisory Board and/or a resolution to dismiss a member of the Management Board or of the Supervisory Board: Kardan considers it in its own interest that the Supervisory Board's right of nomination shall be binding, unless the General Meeting of Shareholders deprives the binding character, by a resolution passed with a majority of two-thirds of the votes cast representing more than half of Kardan's issued capital.

Each important change to Kardan's corporate governance structure and any alterations in the compliance to the Code will be submitted to the Annual General Meeting of Shareholders for discussion as a separate agenda item. During the AGM held on May 18, 2004, Kardan's Corporate Governance and deviations from the code were discussed for the first time. On the agenda of the coming AGM, Kardan will again put 'corporate governance' as a separate discussion item on the agenda.

Further details on the extent and manner of implementation of the Code are found in (i) this chapter and in the risk management chapter (page 23 of this Annual Report), and (ii) in Kardan's articles of association, the Supervisory Board regulations (including profile and Audit Committee terms) and the Management Board Regulations which have all been posted on Kardan's website ([www.kardan.com](http://www.kardan.com)).



## Structure

Kardan has a two-tier structure with a Management Board and a Supervisory Board. The members of the Management Board are all executive directors and the members of the Supervisory Board are non-executive directors.

The company's management is entrusted to the Management Board, which means, among other things, that the Management Board is responsible for the development and implementation of Kardan's objectives, strategy and policies. Under Dutch law, the members of the Management Board hold their duties and responsibilities collectively. The Management Board is accountable to the Supervisory Board and to the General Meeting of Shareholders. In performing its duties and responsibilities, the Management Board is guided by Kardan's corporate interests and its affiliated enterprises, while taking all stakeholders' interest into consideration. The Management Board is subject to the Management Board Regulations.

The Supervisory Board acts separately from and independently of the Management Board. The Supervisory Board manages and advises on the actions and policies of the Management Board and determines the general course of Kardan's business activities. The supervision of the Management Board by the Supervisory Board includes the following: (i) achievement of Kardans' objectives, (ii) corporate strategy and the risks inherent in the business activities, (iii) the structure and operation of the internal risk management and control systems, (iv) the financial reporting process, and (v) compliance with legislation and regulations. In its supervisory capacity, the Supervisory Board assists and advises the Management Board in the performance of its managerial duties. In performing their duties, the members of the Supervisory Board shall act in accordance with the interests of Kardan and the business connected with it, and shall take into account the relevant interests of Kardan's stakeholders. The Supervisory Board is responsible for the quality of its

own performance. The Supervisory Board is subject to the Supervisory Board Regulations.

The Management Board provides the Supervisory Board in a timely manner with all information necessary for the exercise of the duties of the Supervisory Board. The articles of association and the Supervisory Board Regulations provide that certain important resolutions of the Management Board are subject to the prior approval of the Supervisory Board.

## Appointment and composition of the Management Board

The Supervisory Board has the right to make binding nominations for candidates for the Management Board that are subsequently appointed by the General Meeting of Shareholders. Each member of the Management Board is appointed for a period of three years, but may be re-appointed following the expiration of his term of office. At present there are five members of the Management Board; their profiles and an appointment scheme can be found on page 10 and 11 of this Annual Report.

A member of the Management Board may not be a supervisory director of more than two listed companies. Currently, no member of the Management Board serves as a member of a Supervisory Board of another listed company outside the Kardan Group. A member of the Management Board can also not be the Chairman of the Supervisory Board of a listed company. Membership of the Supervisory Board of another company within the Kardan Group does not count for this purpose. The acceptance by a member of the Management Board of membership of the Supervisory Board of a listed company outside the Kardan Group requires the approval of the Supervisory Board. Other important positions held by a member of the Management Board shall be notified to the Supervisory Board.

The Supervisory Board may elect one of the members of the Management Board as chairman of the



Management Board. In the event that no chairman has been elected by the Supervisory Board, the meeting of the Management Board will itself designate a chairman for each separate meeting. The Management Board meets regularly. It also meets whenever the chairman or two other members of the Management Board or the Supervisory Board consider a meeting necessary.

Resolutions of the Management Board are adopted if an absolute majority of the votes cast are in favor.

### **Risk management and conflicts of interest in the Management Board**

Kardan considers a professional risk management and control system to be a vital element of its strategic policy. Running risks is an integral part of Kardan's business operations and can play a part in both gains and losses, in both opportunities and threats. Kardan's policy is to ensure that risks are identified in a timely manner, adequately understood, properly assessed and effectively responded to by the responsible employees at all levels within the Kardan Group. Through Kardan's risk management and control system, the organization seeks to provide reasonable assurance that business objectives can be achieved and obligations to third parties can be met. More information on this subject can be found in the risk management chapter on page 23 of this Annual Report.

Kardan considers it important that employees are able to report in an adequate and safe manner any suspicions they may have of irregularities of a general, operational and financial nature within the Group. Proper procedural provisions play an important part in this, being reason for the Management Board to adopt a whistleblower policy which has been posted on Kardan's website ([www.kardan.com](http://www.kardan.com)).

Kardan decided to adopt a code of conduct and to post it on its website. Employees at Kardan are obliged to act according to this code of conduct that stresses the values and the ethics the company stands for.

The articles of association of Kardan include extensive provisions on conflicts of interest between Kardan and Holders of Control (as defined in the articles of association), which are also applicable if these Holders of Control hold a position in the Management Board. In addition, Kardan endorses the principles and provisions of the Code that address conflicts of interest between Kardan and one or more members of the Management Board. To this effect provisions have been included in the Management Board Regulations.

### **Remuneration and shareholdings of the Management Board**

The General Meeting of Shareholders directly determines the remuneration amount and composition of the remuneration of the members of the Management Board. Accordingly, Kardan believes that the provisions relating to principle II.2 of the Code have already been properly dealt with. Detailed information about the remuneration of the members of the Management Board can be found in the notes to the financial statements on page 214 of this Annual Report.

Currently, no member of the Management Board has been granted a loan, guarantee or the like and no member of the Management Board has been granted shares in the capital of Kardan by way of remuneration.

The only members of the Management Board who hold shares in the capital of Kardan are Mr. A. Ickovics, who currently holds 3,182,560 shares in the capital of Kardan, and Mr. A. Shlank, who currently holds 12,000 shares in the capital of Kardan.

Furthermore, the following members of the Management Board hold shares in the following companies that are part of the Kardan Group:

- Mr. A. Ickovics holds 69,031 shares in the capital of GTC Real Estate N.V. ("GTC RE"), a Dutch company listed on the Tel-Aviv Stock Exchange, 61,904 shares in Kardan Israel Limited, an Israeli company listed on

- the Tel-Aviv Stock Exchange, and 225 shares in GTC Investments B.V.;
- Mr. A. Shlank holds 12,400 shares in GTC RE; and
  - Mrs. E. Gabber holds 2,827 shares in GTC RE.

Kardan granted the following number of options of shares in Kardan to the following members of the Management Board under the terms and conditions as laid down in the Stock Option Plan for which approval was granted by the General Meeting of Shareholders during the Extraordinary General Meeting of Shareholders of Kardan held on 26 October 2006:

- 179,232 options to Mr. A. Ickovics;
- 179,232 options to Mr. A. Shlank;
- 149,360 options to Ms. E. Gabber; and
- 209,103 options to Mr. Z. Rubin.

Furthermore, Kardan granted to Mr. W. van Damme 150,000 options under the Stock Option Plan at the beginning of April 2008. The granting took place in accordance with a resolution adopted in this respect by the Management Board which was approved by the Supervisory Board. The options have been granted to Mr. W. van Damme under the condition subsequent (*ontbindende voorwaarde*) of the General Meeting of Shareholders denying approval to the granting of such options.

Kardan believes that its senior management team is a major asset. In order to minimize the risk of management changes, Kardan considers it to be in the best interest of Kardan and the Kardan Group that incentive-based policies be applied throughout the Kardan Group. A key element of these policies is the granting of share options or shares.

The Stock Option Plan does not include specific vesting mechanisms nor is granting subject to fulfillment of certain performance criteria. This is a deviation from the Code. The allocation to the members of the Management Board is based on their current achievements, the need for further

continuation, and the build-in incentive to focus on further value creation for Kardan. Furthermore, the allocation to the members of the Management Board under the Stock Option Plan is not considered best practice under the Code as the options will vest in three equal annual instalments, commencing on the first anniversary of the date of grant and the exercise price of options can be set lower than the closing share price at the date of grant. Kardan believes that it is not necessary to completely adhere to these provisions of the Code for the reasons as mentioned above and because (i) the same Stock Option Plan rules apply to the other employees and, therefore, for the sake of unity, clarity and ease of administration, no differences are applied between the members of the Management Board and the other employees, (ii) annual vesting of options is appropriate and market practice in an international environment, and (iii) the discounting exercise price reflects the depreciating effect of the fact that the participant cannot sell nor exercise the options during the vesting period.

Until now, none of the aforementioned options that were granted to the members of the Management Board have been exercised.

The members of the Management Board are subject to the insider trading policy of Kardan which, among other stipulations, contains rules of conduct to prevent trading in Kardan's securities when holding inside information.

## Appointment and composition of the Supervisory Board

The Supervisory Board itself has the right to make binding nominations for the candidates for the position of supervisory director that are subsequently appointed by the General Meeting of Shareholders. Each member of the Supervisory Board is appointed for a period of four years and may be re-appointed for no more than two times. The Supervisory Board itself determines the number of supervisory directors, but there must always be at least three members. At present, the Supervisory

Board consists of seven members; their profiles and an appointment scheme can be found on page 11 of this Annual Report. Furthermore, the Supervisory Board Regulations include a profile of the Supervisory Board's size and composition.

Each Supervisory Director must be capable of assessing the broad outline of Kardan's overall policy and must have the specific expertise required for the fulfillment of the duties assigned to the role designated to the supervisory director in the Supervisory Board profile. It is considered desirable for the Supervisory Board to have, where possible, a wide range of expertise so that it has relevant knowledge and experience of business management, financial administration and accounting for listed companies and other large legal entities. If a newly appointed Supervisory Director considers it to be necessary or desirable, the Supervisory Director may follow an introduction program, that covers general financial and legal matters, financial reporting by Kardan, any specific aspects that are unique to Kardan and its business activities and the responsibilities of a Supervisory Director. Kardan does not consider it necessary to make an introduction program mandatory for each newly appointed Supervisory Director.

The Supervisory Board can request Supervisory Directors to retire early in the event of inadequate performance or a structural incompatibility of interests.

Kardan is in compliance with provision III.3.4 of the Code, which states that the number of Supervisory Boards of Dutch listed companies of which a Supervisory Director may be a member is limited to such an extent that the proper performance of the Supervisory Director's duties is assured and must in any event be no more than five, for which purpose the Chair of a Supervisory Board counts double. However, the Supervisory Board Regulations provide that any new position that a Supervisory Director of Kardan is planning to accept with another Dutch listed company will be notified to the Supervisory Board, after which the Supervisory Board will decide as a whole, on a case by case basis, and depending on the specific

circumstances, whether the acceptance of such position would conflict with the ability of the relevant Supervisory Director to properly perform its role as a Supervisory Director of Kardan, in which case the relevant member is requested to resign in case of acceptance of the conflicting position. Although at present no Supervisory Board director holds more than 5 similar positions in other companies, Kardan does not prohibit this as such as it believes that a case by case assessment better serves the principle behind this provision of the Code than applying absolute numerical criteria.

The Supervisory Board can elect a Chairman from its members. The Chairman of the Supervisory Board sets the agenda, chairs the Supervisory Board meetings, monitors the proper functioning of the Supervisory Board and the Audit Committee and arranges for the adequate provision of information to the Supervisory Directors. Furthermore, the Chairman ensures that there is sufficient time for decision making, and acts on behalf of the Supervisory Board as the main point of contact towards the Management Board. The Chairman of the Supervisory Board is also the Chairman of the General Meeting of Shareholders.

The Chairman of the Supervisory Board may arrange for the Supervisory Board to discuss its own functioning and that of its individual members, and the conclusions which can be drawn. The desired profile, composition and competence of the Supervisory Board may also be discussed.

Adoption of resolutions by the Supervisory Board requires an absolute majority of the votes cast. Supervisory Directors who are frequently absent from the meetings may be asked by the Supervisory Board to account for their absence.

### **Conflict of Interest and remuneration of the Supervisory Board**

The articles of association of Kardan include extensive provisions on conflicts of interest between Kardan and Holders of Control (as defined in the articles of

association), which are also applicable if these Holders of Control hold a position in the Supervisory Board. In addition, Kardan endorses the principles and provisions of the Code that address conflicts of interest between Kardan and one or more members of the Supervisory Board. To this effect provisions have been included in the Supervisory Board Regulations.

The General Meeting of Shareholders determines the remuneration of each supervisory director. The remuneration of a supervisory director is currently not dependent on the results of Kardan. Shares and rights to shares are currently not granted to Supervisory Directors as remuneration. Kardan has not granted personal loans, guarantees or the like to supervisory directors. Detailed information on the remuneration of the members of the Supervisory Board can be found in the notes to the financial statements on page 214 of this Annual Report.

There are two members of the Supervisory Board who hold shares in the capital of Kardan. One of them is Mr. A. Schnur, who currently holds 17,476,584 shares and the other is Mr. J. Pomrenze who currently holds 60.052 shares. Furthermore, Mr. A. Schnur holds 2,318,783 shares in the capital of GTC RE. In addition to that, Mrs. K. Rechter is married with Mr. E. Rechter who holds shares 4,051,725 shares in the capital of Kardan.

The members of the Supervisory Board are subject to the insider trading policy of Kardan which, amongst others, contains rules of conduct in preventing trade in Kardan's securities when holding inside information.

### **Audit Committee**

The Supervisory Board has elected three persons from its members to form an Audit Committee, without in any way derogating anything from its primary responsibilities.

The Audit Committee is subject to the terms of reference which form part of the Supervisory Board Regulations.

The Audit Committee has the general task of evaluating and advising the Supervisory Board on matters concerning the financial administrative control, the financial reporting and the internal and external auditing. The Audit Committee shall act as the principal contact for the external auditor if the auditor discovers irregularities in the content of the financial reports. The Audit Committee is authorized to request advice from outside experts if it considers it necessary. Where possible, the Audit Committee consists of at least one financial expert. The Chairman of the Supervisory Board does not chair the Audit Committee. If and to the extent practically possible, a maximum of one member may be not independent.

### **General Meeting of Shareholders and shareholders' rights**

The General Meeting of Shareholders is the forum in which the Management Board and the Supervisory Board give their account with regard to the manner in which they have performed their duties. Kardan considers it to be in its own interest that the majority of shareholders take part in the decision-making process in the General Meeting of Shareholders, as much as possible.

Each shareholder has the right to attend General Meetings of Shareholders, either in person or represented by proxy, to address the General Meeting of Shareholders and to exercise voting rights, subject to the provisions of the articles of association of Kardan. If and to the extent practically possible, investors in Israel may participate in General Meetings of Shareholders by means of a conference call or a video conference.

Each share carries one vote. Kardan has only one class of shares, being ordinary shares with a nominal value of EUR 0.20 each. Kardan may set a record date for the exercise of the voting rights and the rights relating to general meetings of shareholders. Unless otherwise required by the articles of association or Dutch law, resolutions of the General Meeting of Shareholders require the approval of an absolute majority of the

votes validly cast. Unless provided otherwise by Dutch law or Kardan's articles of association, there are no quorum requirements.

General Meeting of Shareholders are held at least once a year in order to, amongst other things, discuss the report by the Management Board and the report by the Supervisory Board, to adopt the statutory financial statements, to appoint the external auditor, to adopt any proposal concerning dividends, to, if applicable, appoint members of the Supervisory Board and of the Management Board, and to consider any other matters proposed by the Supervisory Board, the Management Board or the shareholders in accordance with the articles of association of Kardan and Dutch law. Pursuant to both Dutch law and the articles of association, the General Meeting of Shareholders, under a separate agenda item, discusses and passes resolutions discharging the members of the Management Board and the Supervisory Board from their responsibilities for the performance of their respective duties in the preceding financial year. This discharge only covers the matters that are known to Kardan and the shareholders when the resolution is adopted.

Other General Meetings of Shareholders may be held as often as the Management Board or the Supervisory Board deems necessary. Such a meeting must be held if requested in writing by one or more shareholders holding shares representing at least 10% of Kardan's issued share capital. The request must be made to the Management Board or the Supervisory Board and must specify in detail the business to be dealt with. If the Management Board or the Supervisory Board fails to convene and hold a meeting within four weeks of its receipt of this request, the requesting shareholder(s) may call the meeting.

One or more shareholders holding shares representing at least 1% of Kardan's issued share capital or representing a value of EUR 50 million according to the Official Price List of Euronext Amsterdam has/have

the right to request the Management Board or the Supervisory Board to place items on the agenda of a General Meeting of Shareholders. The Management Board or the Supervisory Board shall add the item to the agenda of the meeting, provided that Kardan does not have a serious interest in not adding it to the agenda and that the request is received by the Management Board or Supervisory Board in writing at least fourteen days before the notice of the meeting will be given. Notice of a General Meeting of Shareholders shall be given no later than on the fifteenth day prior to the date of the meeting.

The external auditor will attend and be entitled to address the General Meeting of Shareholders.

Shareholders' rights, such as dividend rights, liquidation rights and rights in respect of amendments of the articles of association and reduction and increase of share capital are all described in the articles of association of Kardan which have been posted on Kardan's website.

Kardan does not have anti-takeover measures in the sense that such measures exclusively or almost exclusively have the purpose of frustrating an actual or attempted hostile takeover.

### Information on the European Takeover Directive

In accordance with Article 10 of the European Takeover Directive, companies with securities that are admitted to trading on a regulated market are obligated to disclose certain information in their annual report. This obligation has been implemented in Dutch law through Article 10 Takeover Directive Decree. Kardan must disclose certain information that might be relevant for companies considering making a public offer with respect to Kardan. In addition to the information described in the previous paragraph of this chapter, the following information is provided in connection with Article 10 Takeover Directive Decree:

- a. An overview of Kardan's capital structure is included on page 118 of this Annual Report;
- b. Shares in the capital of Kardan are freely transferable;
- c. Substantial shareholdings within Kardan are included on page 8 of this Annual Report;
- d. There are no special control rights attached to the Kardan shares;
- e. A stock option plan for members of the Management Board of Kardan and other key employees of Kardan has been approved by the shareholders during the Extraordinary General Meeting of Shareholders held on October 26, 2006. The options can only be granted in accordance with the underlying stock option plan rules and with the approval of the Supervisory Board and – in respect of the Management Board – with the approval of the general meeting of shareholders. Further information regarding the options granted under the stock option plan can be found on page 119 and 214 of the Annual Report;
- f. There are no limitations to voting rights on the shares in the capital of Kardan;
- g. Kardan is unaware of any agreements which might result in a limitation of the transferability of or the voting rights on shares in the capital of Kardan;
- h. The provisions regarding the appointment and dismissal of members of the Management Board and the Supervisory Board and the provisions regarding amendments of the Articles of Association are described in Kardan's Articles of Association which can be viewed on Kardan's website ([www.kardan.com](http://www.kardan.com));
- i. The General Meeting of Shareholders may authorize the Management Board (i) to purchase shares by Kardan in its own capital, and (ii) to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares. Further information can be found in the Articles of Association of Kardan and the minutes of the relevant General Meetings of Shareholders of Kardan in respect of the authorizations that have been granted to the Management Board. Authorization for the purchase by Kardan of its own shares has been granted for a period of eighteen months during the General Meeting of Shareholders of June 13, 2007 and the authorization to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares has been granted for a period of five years via the articles of association as adopted on June 3, 2004;
- j. There are no important agreements to which Kardan is a party and that will come into force, be amended or be terminated under the condition of a change of control over Kardan as a result of a public offer;
- k. There are no agreements of Kardan with members of the Management Board or with other employees that entitle them to any compensation rights upon termination of their employment after completion of a public offer on Kardan shares.



# Financial Services

Kardan operates in the financial services sector through its 80% holding in Kardan Financial Services B.V. (KFS).

KFS holds a 90% interest in TBIF Financial Services B.V. (TBIF), a holding company for Kardan's banking and lending businesses. KFS holds a 40% stake in TBIH Financial Services Group N.V. (TBIH), the holding company for insurance and pension activities. TBIH is

jointly controlled by KFS and Vienna Insurance Group (VIG). VIG, the leading Austrian insurance company, which is widely active in CEE and CIS, holds the remaining 60%.

This structure was implemented in April 2007, with the completion of the reorganization within the KFS Group that was initiated in 2006.

In December 2007 Israel Discount Bank Ltd. (Discount Bank) purchased 11% in KFS, through a capital increase of EUR 55.6 million. This reflected a post-transaction valuation of KFS of more than EUR 500 million, a significant increase in value. In addition, Discount Bank committed itself to providing KFS with credit facilities of EUR 225 million, the majority of which have already been provided. KFS intends to primarily use the funds to further develop its activities in the banking and lending sector, capitalizing on the strong growth opportunities in the financial services sector in the CEE and CIS regions. Part of the funds was also used to refinance certain loans.

KFS's strategy is based on seizing early business opportunities and establishing a platform for building banking, lending, insurance, and pension activities.

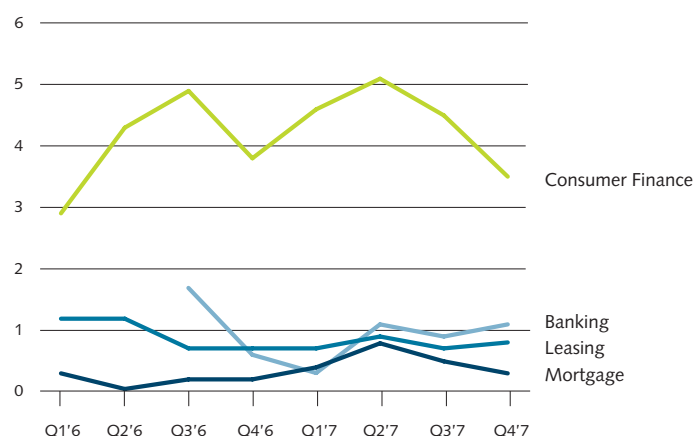
## Banking, lending and asset management

TBIF is active in the field of banking, consumer finance, leasing, mortgages, and asset management, predominantly in Russia, Ukraine, Romania, and Bulgaria.

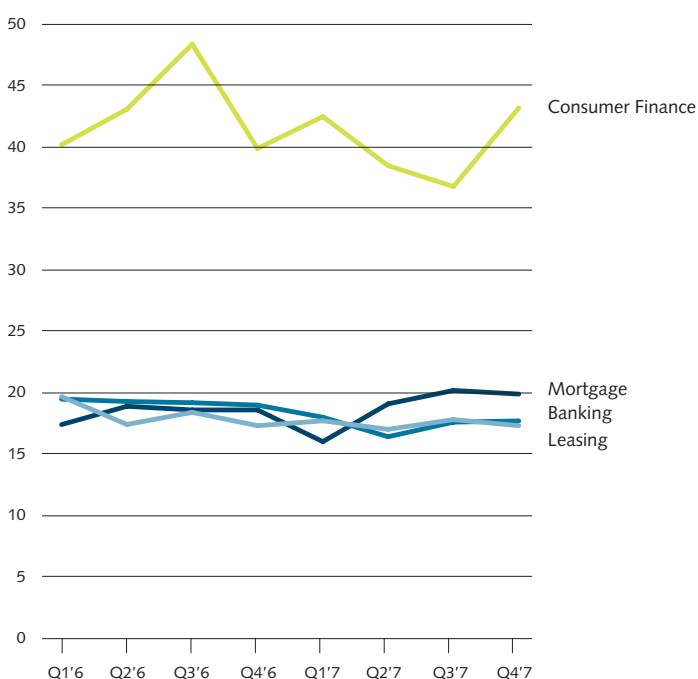
In Russia, TBIF is active via its 59% stake in Sovcombank, a retail bank specializing in the origination of consumer loans. The bank was acquired by TBIF in 2007, and TBIF's existing consumer finance and banking operations in Russia were transferred to the bank. The bank has a nationwide network with over 1,000 branches and outlets throughout Russia. It focuses on regional development.

Furthermore, TBIF provides consumer credit to individuals to purchase consumer goods such as electrical appliances and furniture in retail outlets in Romania, Bulgaria, and Ukraine.

**TBIF: Manageable levels of NPLs (percentage)**



**TBIF: Lending rates (percentage)**



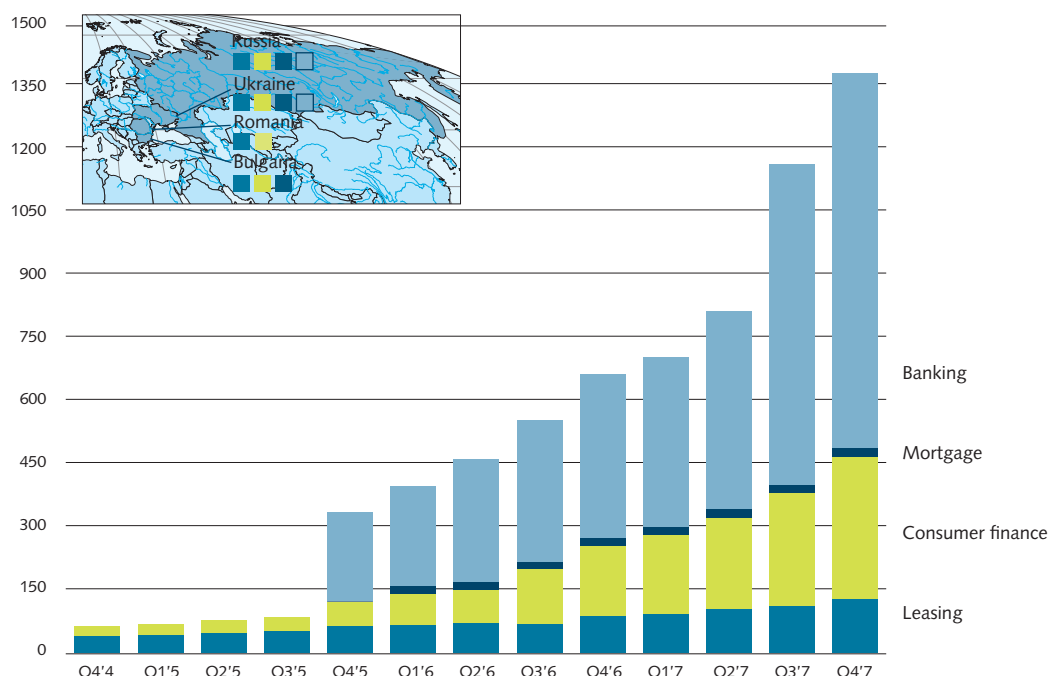
In Ukraine, TBIF is active via its 49% shareholding in VAB Bank. The bank, which is active in the retail and SME sectors, focuses on developing retail services through its 171 branches.

The TBIF Group also extends credit under leasing arrangements (financial leases and operational leases), mostly for vehicles and equipment. Activities in the leasing field are carried out predominantly in Romania

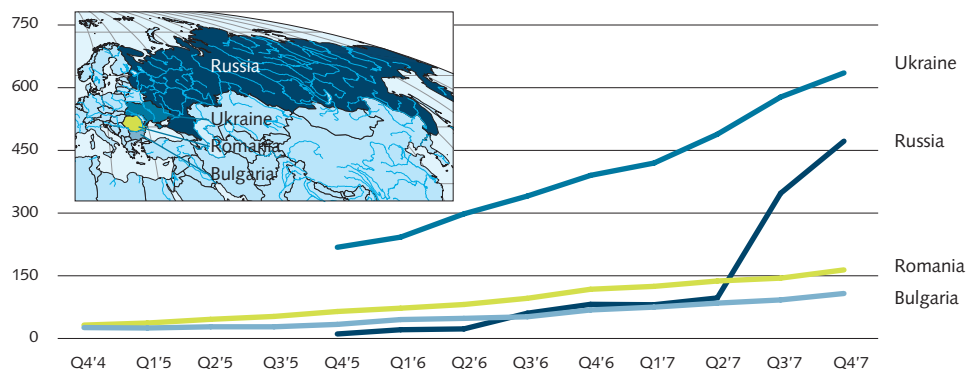
and Bulgaria and are in the early stages of development in Russia and Ukraine. In 2007, TBIF announced it would acquire approximately 60% of a Ukrainian operational leasing business, operating under the "AVIS" brand.

TBIF is active in providing mortgages in Bulgaria, Ukraine, and Russia through VAB Bank and Sovcombank, respectively.

**TBIF: Net portfolio growth by business line (EUR millions)**



**TBIF: Net portfolio growth by country (EUR millions)**





The KFS Asset Management companies supply services to the pension funds and insurance companies of the Group, as well as to third parties. Services include institutional asset management, asset management for high net worth individuals, management of mutual funds, and brokerage. Asset Management activities are concentrated in Bulgaria, Slovakia, and Ukraine.

### Insurance activities

Through its subsidiaries, TBIH is active in the fields of general and life insurance in Bulgaria, Romania, Ukraine, Turkey, Croatia, Russia, Georgia, Albania, Macedonia, and Kosovo.

2007 was a year of expansion for TBIH in the field of insurance with, amongst others, the following acquisitions:

Sigma Sh.a. – simultaneous entry into the insurance markets of Albania, Macedonia and Kosovo, through a purchase of over 75%.

Ray Sigorta A.S. – entry into the Turkish insurance market through a 74% purchase.

Ukrainska Strakhova Grupa (UIG) – expansion of activities in Ukraine through a 62% purchase (finalized in the first quarter of 2008).

TBIH is also active in the following insurance markets:

- Bulgaria: Bulstrad Insurance & Reinsurance A.D. (Bulstrad), which operates in a wide variety of general, life and health insurance fields in Bulgaria. Bulstrad is one of the market leaders with a market share in the general insurance market of approximately 16% in 2007.
- Romania: TBIH holds a 50% stake in Omniasig Life SA (Omniasig), a life insurance company.
- Croatia: Helios Insurance Plc., which operates in a wide variety of general and life insurance fields in Croatia.
- Georgia: GPIH and IRAO, leading insurers in Georgia, providing general, life and health insurance with a combined 25% market share.

- Ukraine: VAB Insurance Group, focusing on non-life, life and reinsurance operations.

### Pension fund management

TBIH is active in the field of pensions through its holdings in pension fund asset management companies. TBIH Group manages pension funds in Bulgaria, Croatia, Georgia, Russia, and Ukraine. In 2007, TBIH commenced operations in Romania. In Bulgaria, TBIH holds a controlling interest in Pension Assurance Company Doverie A.D. (Doverie), which manages mandatory and voluntary pension funds in Bulgaria with EUR 763 million assets under management. Doverie is the largest pension fund in Bulgaria and has a market share of approximately 38%. All of the TBIH Group pension companies are defined contribution funds in which members' pension payments are based on savings deposited and any returns accumulated on that amount prior to the pension being taken.

### Overview of 2007

Our banking and lending businesses (including leasing, asset management and mortgages) contributed an operating profit of EUR 7.5 million in 2007 (2006: EUR 5.8 million). This growth in profitability and assets (from EUR 605 million in 2006 to over EUR 1 billion in 2007) is predominantly the result of growth in Russia and Ukraine.

Total earned insurance premiums amounted to EUR 240 million for 2007, doubled from 2006. This increase can be attributed to organic growth of the subsidiaries as well as acquisitions, especially in Turkey. The increase in premiums was partially offset by the consolidation of only 40% of TBIH's premiums from the second quarter of 2007 as opposed to 100% in 2006, as a result of the 60% participation by VIG. In 2007, the insurance activities contributed an operating profit of EUR 2.5 million to KFS (2006: EUR 0.4 million operating loss).

Pension funds activities generated an operating loss of EUR 2.5 million (2006: operating loss of EUR 2.0 million). This was mainly due to investments incurred

to the costs of acquiring new members in the pension funds which are apportioned to the current period and cannot be capitalized under IFRS. The number of pension fund members increased from 1.5 million on December 31, 2006 to 1.7 million on December 31, 2007. The assets managed by these pension funds increased accordingly, from EUR 494 million on December 31, 2006 to EUR 743 million on December 31, 2007.

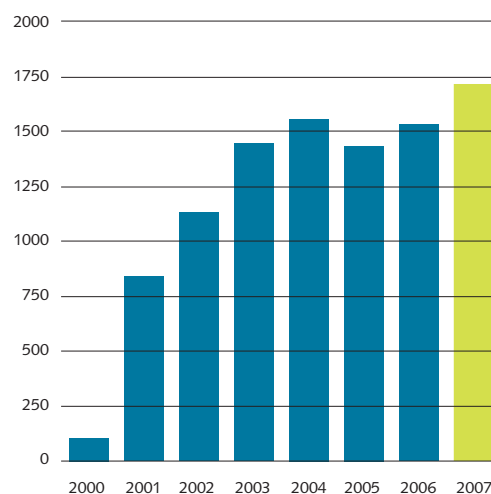
## Outlook

The KFS Group's objective is to expand its role as a provider of financial services in selected countries in the CEE and CIS regions.

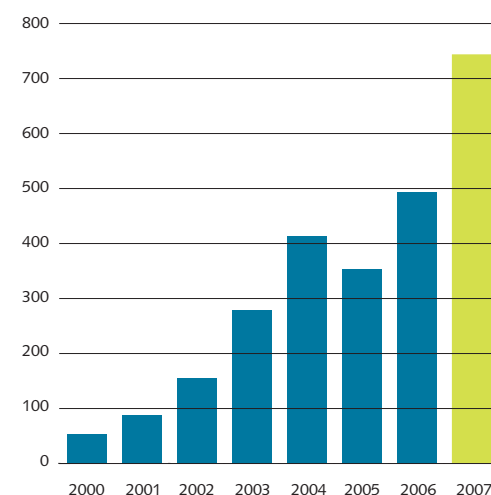
KFS will continue to focus on developing its banking and lending operations in Ukraine, Russia, Bulgaria, and Romania via TBIF. Additionally, KFS may consider penetrating new banking and lending markets.

With its strategic partner VIG, TBIH intends to continue to focus on its current portfolio and possibly acquire additional insurance companies.

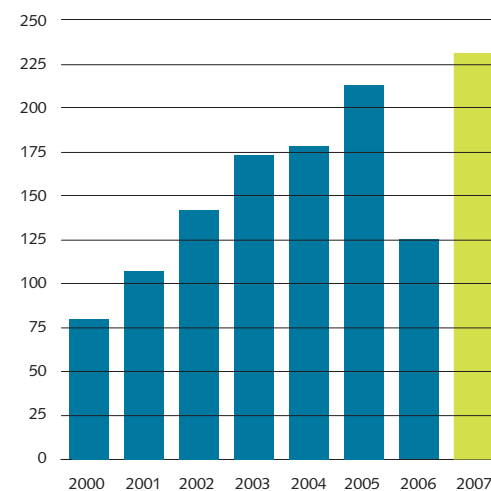
**TBIH: Pensions: number of members (thousands)**



**TBIH: Pensions: total assets under management (EUR millions)**



**TBIH: Insurance: premiums (EUR millions)**





## Financial Services

### Project Rebranding VAB Bank

171 bank branches and outlets  
3,457 employees

Kardan has been active in banking in the Ukraine since 2005 through its subsidiary TBIF, which has a 49% interest in VAB Bank. VAB Bank, which focuses on retail and SMEs, is active throughout the Ukraine.

VAB Bank's retail-focused strategy and the rebranding carried out during 2007 are both contributing to the growth of the business. During the past year, VAB Bank continued to grow its market share, expand its customer base and increase its network coverage throughout the Ukraine.

With the support of TBIF, VAB Bank has grown its distribution network during the last two years from 64 to 171 bank branches and outlets, and from 129 to 273 ATMs. It has developed an extensive distribution network throughout the Ukraine. As of December 31, 2007, VAB Bank had 3,457 employees. VAB Bank is well positioned to continue its development: as of December 31, 2007, its capital adequacy ratio stood at 15%.

VAB Bank's strategy is to differentiate itself from the competition by offering the widest range of retail products under one umbrella brand in order to allow effective cross-selling. VAB Bank aims to provide multi-channel sales and communication to its customers, to have the most convenient and accessible sales outlets, while remaining a trusted advisor to its customers.

VAB Bank performed well in terms of brand development and increased level of brand recognition in the market. A 2007 survey conducted by Innovative Research Solutions showed that VAB Bank's brand recognition had risen to 47%, compared to 18% during the previous year. Most respondents characterized VAB Bank as 'a modern, dynamic, European' brand. This positive result is a confirmation of the success of the rebranding and follow-up advertising campaign conducted during 2007.

In May 2007, the rating agency Moody's upgraded VAB Bank's rating outlook to positive, and its long-term national rating to A1.ua, due to positive developments in the business. In the same month, the rating agency Fitch confirmed VAB Bank's rating and outlook as B- (stable). VAB has been cooperating with Moody's and Fitch since 2003 and 2006, respectively.

High standards of corporate governance and transparency have helped VAB Bank to maintain its top-five ranking for the second consecutive year among the most transparent banks in the Ukraine, according to a Standard's & Poor's survey.

As a main priority for 2008, VAB Bank will continue to strengthen its position, increase its market share and continue to be a universal bank for retail and SME customers. VAB Bank will further develop and diversify its distribution and sales efforts, increasing the number of bank branches and outlets to 250 by 2010.



## Real Estate

### Olympic Garden, China

818,000 sqm of residential and commercial area  
partnership with the Lucky Hope Group

Olympic Garden – the second of GTC Real Estate's six projects in China – is located on the municipal border of two cities: – Xianyang and Xi'an. Xi'an is one of China's most popular tourist destinations, one of the most important manufacturing and logistics hubs of central China, and the capital of Shaanxi, a province with a population of nearly 40 million people.

Xi'an's economy is developing rapidly, with a GDP growth of 14.7% in 2007, and over 13% in 2006 and 2005.

Olympic Garden is one of several selected real-estate projects licensed to carry the name 'Olympic', under a special concession from the Chinese Olympic Committee. It consists of both high-rise and low-level apartment blocks where residents will be able to enjoy a unique lifestyle and can take advantage of the project's modern sports facilities, extensive green areas, new school, and easy access to Xi'an and Xianyang International Airport.

The project consists of close to 818,000 sqm of residential and commercial area, including nearly 6,900 apartments, a medium-sized shopping centre, community shopping and recreation areas, and a 20,000 sqm hotel. Housing prices in the province grew by 20% between 2005 and 2006, with retail spending growing by 18.7% in 2007, and an average of more than 15% per annum between 2004 and 2006.

Olympic Garden is being developed in partnership (50%/50%) with the Lucky Hope Group, combining the two companies' experience in developing, marketing and operating residential and commercial property. Construction began in the third quarter of 2006 and is set to be completed by the end of 2012.

# Real Estate

Kardan operates in the real-estate segment through its holding in GTC Real Estate N.V. (GTC RE), a company listed on the Tel Aviv Stock Exchange. GTC RE is currently active in three regions; CEE, China and Western Europe.

In the CEE, GTC RE is active via its 46.1 % holding in Globe Trade Centre SA (GTC SA), one of the leading real-estate developers in the CEE. GTC SA is listed on the Warsaw Stock Exchange and is included in major indices, such as the WIG20, MSCI and GPR250. Its activities include the development and management of office buildings, shopping centers, and residential projects. GTC SA has vast experience in the region and is active in nine countries: Poland, Hungary, the Czech Republic, Romania, Serbia, Croatia, Slovakia, Bulgaria, Ukraine. GTC SA's strategy is to focus on large-scale projects in prime locations.

In China, GTC RE is active through its 100% holding in GTC RE China. GTC RE has gradually expanded its activities in the Chinese market. GTC studied the business environment, recruited a local team, and opened a Chinese office. In the last three years, GTC China has entered into six agreements for the acquisition or lease of land for real-estate development, mainly residential, in large-scale cities together with its partner Lucky Hope.

In Western Europe, GTC RE conducts its limited activities through GTC Investments. Due to the market conditions, GTC RE has slowed its investment pace in Western Europe.

Kardan conducts its Israeli real-estate activities through Kardan Real Estate Ltd.

## Overview 2007

During the year under review, the real-estate segment continued expanding its activities through accelerated expansion in all existing countries.

Raising new funds helped to accelerate the pace of new acquisitions in 2007. In January 2007, GTC RE

raised EUR 100 million by issuance of bonds to leading Israeli institutional and private investors. In April 2007, GTC SA successfully raised EUR 212 million by issuance of bonds to leading Polish institutional investors. In November 2007 GTC RE expanded the bonds series and raised an additional EUR 139 million.

Revenues from rental activities amounted to EUR 59.0 million in 2007 (2006: EUR 70.9 million) and revenues from the sale of apartments amounted to EUR 27.4 million (2006: EUR 22.2 million). The decrease in the results of the rental activities is attributable to the sale of the main rentable asset (Galleria Mokotow) at the end of 2006. The increase in the results of the residential activities is attributable to the completion of several phases in residential projects in Poland and China. Gains from the revaluation of investment properties amounted to EUR 287 million in 2007 (2006: EUR 213.2 million).

## CEE

GTC SA posted record results over 2007, with a profit of EUR 261 million. The total portfolio of investments – completed, in development, or in the pipeline, now comprises approximately 2.1 million sqm of net office, retail, and residential space. In total, GTC SA acquired nearly 700,000 sqm of potential net building rights in 2007.

GTC SA raised significant funds through the issuance of bonds and debentures. These funds enabled the rapid investment strategy pursued by these businesses.

In 2007, the sale of both the America House office building in Bucharest and the Lighthouse building in Prague were completed. These transactions reflect an investment yield of 5.5% and 5.65% respectively. In addition six projects were completed: Avenue Mall shopping center in Zagreb, the Newton and Edison office buildings in Cracow, Platinum I and Nothus office building in Warsaw and 19 Avenue office building in Belgrade. The total value of the projects completed in 2007 is EUR 360 million, leading to revaluation gains of almost EUR 200 million.

Total revaluation gains included in the 2007 results amounted to EUR 287 million. The sale of these properties is part of GTC SA's strategy to further diversify its property portfolio in terms of sector, geographical spread, and maturity of assets.

GTC SA's successful activities in the region have also been acknowledged by real-estate experts. After winning several development real-estate awards, GTC SA has been awarded the best stock exchange investment of all WIG 20 companies.

## China

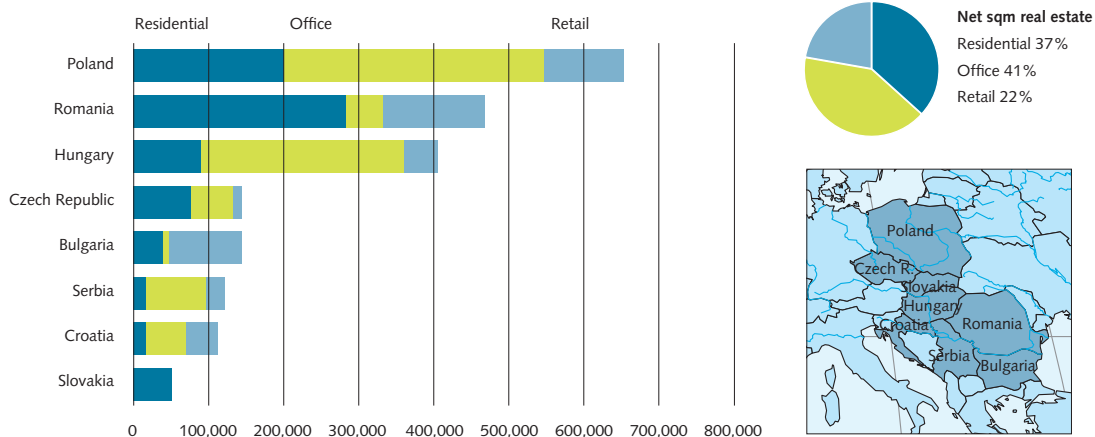
Building rights amount to approximately 2.6 million sqm, representing an estimated total investment of more than € 800 million. GTC's share in the Chinese projects is between 45%-75% (50% in most of the projects).

At the end of 2007, new operations began in India, with the signing of a term sheet for the development of a phased commercial and residential project in Pune.

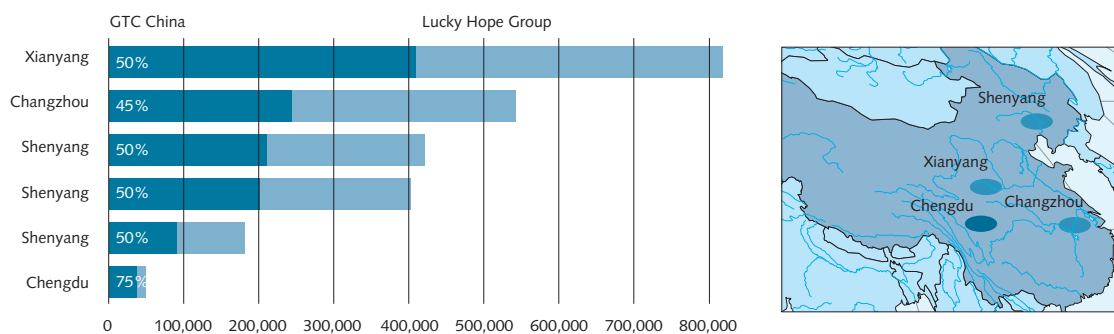
## Western Europe

Due to the current market conditions GTC Investments has decided to slow down its investment pace in Western Europe.

### Real-estate projects in Europe, net sqm



### Real-estate projects in China, in partnership with Lucky Hope Group, net sqm





## Outlook

In the coming year, GTC RE intends to continue its growth through the development of and investment in new residential, commercial, and office buildings according to market conditions. In addition, GTC RE China plans to expand its activities in different second- and third-tier cities in China, as well as to expand its activities to the development of shopping centers.

### Rental projects, completed and under development

| Type of project  | Country        | Number of completed projects | Net rentable area in sqm | Under development | Net planned area in sqm |
|------------------|----------------|------------------------------|--------------------------|-------------------|-------------------------|
| Office buildings | Poland         | 7                            | 72,730                   | 14                | 309,750                 |
|                  | Hungary        | 3                            | 41,760                   | 8                 | 291,872                 |
|                  | Serbia         | 2                            | 29,970                   | 2                 | 41,709                  |
|                  | Romania        | –                            | –                        | 2                 | 73,180                  |
|                  | Czech Republic | 1                            | 23,000                   | 2                 | 160,059                 |
|                  | Croatia        | –                            | –                        | 1                 | 36,700                  |
| Retail centres   | Poland         | 2                            | 98,500                   | 1                 | 48,500                  |
|                  | Croatia        | –                            | –                        | 1                 | 26,000                  |
|                  | Romania        | –                            | –                        | 7                 | 165,470                 |
|                  | Hungary        | –                            | –                        | 1                 | 36,568                  |
|                  | Bulgaria       | –                            | –                        | 3                 | 96,500                  |
|                  | Czech Republic | –                            | –                        | 1                 | 42,383                  |
| Income-yielding  | Germany        | 7                            | 55,300                   | –                 | –                       |
|                  | Switzerland    | 9                            | 50,500                   | –                 | –                       |

## Residential projects

| Country        | No. of projects | Size   | Completion stage   |
|----------------|-----------------|--|--|
| Poland         | 5               | 160,500 sqm planned for residential units            | <b>Osiedle Konstancja (Warsaw)</b> – phase 1 and 2: 100% sold, phase 3: 95%, phase 4: 30%, phase 5: 5%. Planned completion in 2008<br><b>Galileo Gardens (Krakow)</b> – planned completion in 2010<br><b>Ortal (Lod'z)</b> – planned completion in 2010<br><b>Mikolowska (Katowitz)</b> – planned completion in 2010<br><b>Park Apartments (Poznan)</b> – planned completion in 2009 |
| Hungary        | 3               | 141,500 sqm planned for residential units            | <b>River Loft (Budapest)</b> – completed<br><b>Paskal (Budapest)</b> – planned completion in phases from 2009 to 2011<br><b>Sasad Resort (Budapest)</b> – planned completion in phases from 2008 to 2010   |
| Romania        | 5               | 488,800 sqm planned for residential units            | <b>Green Dream Residence (Bucharest)</b> – planned completion in 2009<br><b>Jasmine Park (Bucharest)</b> – planned completion in 2010<br><b>Rose Garden (Bucharest)</b> – phase 1: 20%, to be completed in 2008<br><b>Felicity (Bucharest)</b> – phase 1 to be completed in 2008<br><b>Garden of Eden (Bucharest)</b> – phase 1 to be completed in 2010                              |
| Czech Republic | 2               | 212,000 sqm planned for residential/commercial units | <b>Prague Marina</b> – phase 1: 37%, to be completed in 2008<br><b>Green City (Prague)</b> – phase 1: 20%, to be completed in 2009   |
| Slovakia       | 2               | 77,000 sqm of residential units/apartment hotel      | <b>Vinyard (Bratislava)</b> – phase 1 to be completed in 2009<br><b>Park apartments (Bratislava)</b> – planned completion in 2009  |
| Croatia        | 1               | 24,000 sqm planned for residential units             | <b>Istria Golf Resorts (Pola)</b> – planned completion in 2009   |
| Serbia         | 1               | 16,600 sqm planned for residential units             | <b>Park Apartments (Belgrade)</b> – phase 1 to be completed in 2010  |
| Bulgaria       | 1               | 65,000 sqm planned for residential units             | <b>Burgas Residence (Burgas)</b> – phase 1 to be completed in 2009   |
| China          | 3               | 1,417,000 sqm planned                                | <b>Qili Xiandi (Shenyang)</b> – phase 1-3 completed; phase 4 : 40% completed<br><b>Palm Garden (Shenyang)</b> – phase 1: 60%, phase 2: 30%, planned completion in 2011<br><b>Olympic Garden (Xi'an)</b> – planned completion in 2012   |



## Infrastructure

Kardan is active in the infrastructure business through Kardan's wholly owned subsidiary Tahal Group B.V. (Tahal). Tahal is a leading international engineering concern specialized in water-related infrastructure projects. Founded in 1952, Tahal has participated in the planning, development, design, construction, and management of thousands of projects in over 50 countries across five continents. Tahal's advanced technical resources include a staff of nearly 1,500 employees, with engineers and scientists in a wide variety of disciplines.

In line with its strategy to further focus on the ownership and development of infrastructure assets, Tahal started reorganizing in 2007 by separating its project execution and engineering services activities from its investment activities. These reorganizations will continue in 2008.

### Projects

Tahal engages in two basic types of projects: construction projects and design projects. Construction projects are contracts that include planning, acquisition, management, and construction, as well as arrangement of financing. Construction projects are usually in the fields of water supply, desalination, wastewater treatment, and agriculture. Design projects, Tahal's traditional field of operations, include planning, design, project management, and construction supervision services in a wide variety of fields – including water supply, water and wastewater treatment, desalination, water resource planning, solid waste management, and agricultural planning.

### Investment in assets

Tahal invests in water-related assets such as municipal water systems, desalination plants, wastewater treatment plants, and hydropower plants. Currently Tahal has the following significant holdings:

#### **Task Su Kanalizasyon Yatiri, Yapim Ve Isletin A.S.**

("Task") is a holding company with concessions for managing municipal water and wastewater corporations in Turkey – two 35-year concession, one 49-year concession and a 29-year BOT agreement for a wastewater treatment plant. Tahal (indirectly) holds 33.3% of Task's share capital.

#### **Kardan Water International Water Group Ltd.**

("KWIG") is a joint enterprise, established in 2007, that invests, operates, and manages water and wastewater infrastructure projects in China. Tahal holds 66.6% of KWIG's share capital.

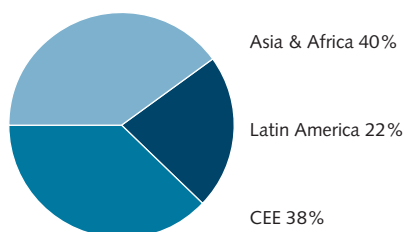
**Milgam City Services Ltd.** provides various services to over 100 municipalities in Israel, including billing management and operation of municipal water authorities. Tahal holds 91.5% of Milgam's share capital.

**Hydro Caisan S.A.** has a 50-year concession for the construction and operation of a hydropower plant in Panama. Tahal holds 100% of Hydro Caisan's share capital. The estimated investment cost is EUR 102 million, with expected annual revenues of about EUR 17 million.

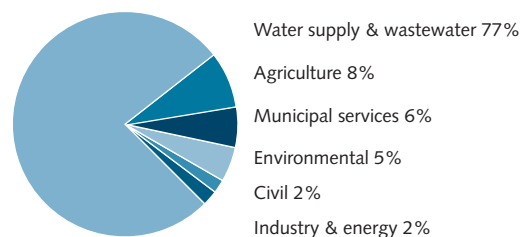
**Via Maris Desalination Ltd.** owns a 25-year concession for a 30 million MCM/year sea-water desalination plant in Palmachim, Israel, via a BOO contract. Tahal holds 26.5% of Via Maris. Construction of the desalination facility was completed in May 2007. The investment cost was about EUR 90 million. Expected revenues for 2008 are EUR 16 million.

**Tahal Water Energy Ltd.** ("TWE") is engaged in the construction and operation of a pumped-storage power plant in Israel. Tahal holds 81% of TWE's share capital. The enterprise means penetration into a new part of the infrastructure sector. The facilities' expected investment cost is approximately USD 150 million.

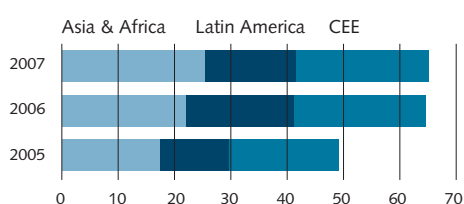
Infrastructure revenue breakdown by region



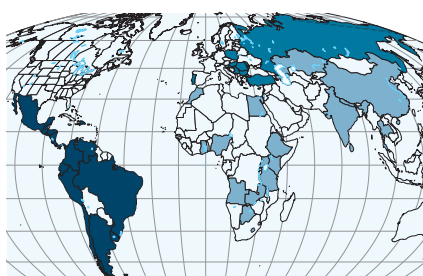
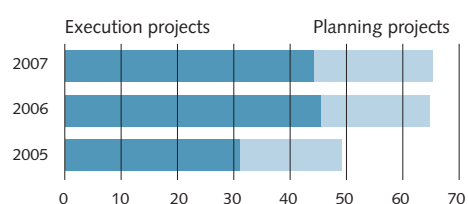
Infrastructure revenue breakdown by sector



Revenue segmentation projects by region, EUR million



Revenue segmentation projects by sector, EUR million



New projects whose total proceeds constitute a significant portion of Tahal's income include the following:

| Country  | Project   | Total proceeds   |
|----------|---|------------------|
| Angola   | Turnkey project for 400 km water supply system      | EUR 34 million   |
| Botswana | Comprehensive 15-year water and agriculture project | EUR 272 million  |
| Poland   | Water and wastewater networks                       | EUR 26.5 million |
| Russia   | Water treatment plant in St. Petersburg             | EUR 18.0 million |
| Russia   | Wastewater treatment plant in Obninsk               | EUR 19.7 million |

## Overview 2007

In 2007 Tahal hired a new experienced General Manager to further organize its business and lead the company to the next level.

In 2007, Tahal further developed its asset ownership activities. The establishment of KWIG, a joint venture with local partners in China, marks an important step in this strategy. In September 2007, KWIG signed an agreement to acquire 88.15% of Tianjin Huanke Water Development Ltd. for a consideration of approximately EUR 12 million. Tianjin Huanke owns long-term concession agreements for six operational wastewater treatment plants in China. In addition, in the fourth quarter of 2007 KWIG acquired 100% of Tian He Project Company, which owns concession agreements for water supply and wastewater treatment plants in Dazhou City, Sichuan Province, China.

Tahal also won two tenders for water-related infrastructure projects in Africa: one in Angola, where Tahal will design and construct the water supply networks for seven districts in Luanda, and one in Botswana for the design and development of the main water supply system from the Zambezi River.

In 2007, Tahal also reinforced its presence in Central and East Europe, through its subsidiaries EkoWark (Poland) and Tahal Romania, where Tahal designs and executes water supply and wastewater treatment projects, and Tahal Serbia and Tahal Saint Petersburg, where Tahal designs and supplies the process equipment for major municipal water treatment plants.

In 2007, Tahal's sales income from construction and design projects was EUR 44.2 million and EUR 21.1 million, respectively. Tahal's gross profit rate for construction and design projects was approximately 20% and 25%, respectively.

The revenues of assets infrastructure activities totalled EUR 9 million in 2007 (most of which occurred during H2 2007).

Tahal's project order backlog at the end of 2007 was EUR 189.2 million, up from EUR 122.8 million at the end of 2006.

## Outlook

For 2008, Tahal aims to maintain its operations in the field of engineering services, with a continuing focus on the shift from traditional design projects to large construction projects. We expect the scope of project operations to continue to increase, especially turnkey and BOT/BOO projects, which include planning, design, management, construction, and operation.

In the field of asset ownership we expect an expansion in additional countries in developing markets, as well as an increase in investment in countries where Tahal is already active. The focus of the expansion will mainly be on wastewater treatment plants, desalination plants, hydropower stations, and other areas that relate to and complement Tahal's traditional water-related activities. In addition, in 2008 we aim to create further financial capacity to enable the necessary investments in entrepreneurial projects.



## Infrastructure

### Yaylak Plain Irrigation Project (GAP), Turkey

Client: DSI – Devlet Su İşleri (General Directorate of State Hydraulic Works)

In a joint venture with Turkish firms, Tahal performed design, engineering, management, construction and coordination services for the Yaylak Plain Irrigation Project, a turnkey undertaking that forms part of the Southern Anatolian Project (GAP), one of the largest development projects in Turkey.

Located in the vicinity of the Atatürk Dam, the project includes the modern irrigation of 18,322 hectares of land located in 46 villages. Water from the Atatürk Dam is utilized by conveying it via the existing Yaslica Tunnel to a newly constructed main pumping station, from where it is delivered at a discharge rate of  $21\text{m}^3/\text{sec}$  to facilities constructed as part of the project.

Services provided by the joint venture included the design, engineering, construction and coordination of the entire irrigation system; the supply and installation of the electromechanical equipment for the main pumping station ( $21\text{m}^3/\text{second}$  capacity, total of 17 pumps, each with a capacity of  $1.5\text{m}^3/\text{second}$ ); the construction of a reinforced concrete main canal (approx. 83km long, maximum discharge rate about

$17\text{m}^3/\text{second}$ ) and associated structures; the detailed design, supply, transportation, storage and installation of equipment, construction and the commissioning of 10 network pumping stations; the detailed design, supply, transportation, laying and commissioning of pipelines and hydromechanical equipment for the main and secondary distribution systems (total length approx. 640km); the supply and construction of the drainage system; the construction of service and maintenance roads; and the training of personnel in the design and O&M of the irrigation systems.

The total value of the project is EUR 112 million, financing for which was secured by the joint venture.

## Other Businesses

### Automotive & consumer goods

Kardan is active in the automotive & consumer goods sector in Israel through Kardan Israel and its Group companies, UMI and SFDI. UMI is the exclusive Israeli distributor for the General Motors Group (GM Group). UMI engages in the import and marketing of motor vehicles manufactured by the GM Group. These vehicles, which include family-sized vehicles, executive vehicles and off-road vehicles, are marketed under the brand names "Chevrolet", "Buick", "Chevy Trucks", "Cadillac" and "Hummer" (manufactured in North America and in Korea), "Opel" and "Saab" (manufactured in Europe) and "Isuzu" (manufactured in Japan and in Thailand). In addition, UMI imports trucks manufactured by Isuzu and markets them through its 50% affiliate Universal Trucks Israel Ltd. UMI's market share of total motor vehicle deliveries in Israel was 7.1% in 2006 and 7.2% in 2007.

SFDI distributes Whirlpool and Bauknecht "white goods" throughout Israel.

### Overview of 2007

As of December 31, 2007 UMI's revenues amounted to EUR 375 million, compared to EUR 315 million in 2006. The revenues of UMI are not consolidated with the revenues of Kardan. The revenues of SFDI amounted to EUR 22 million for 2007, compared to EUR 18 million in 2006. In 2007, Kardan's automotive & consumer segment contributed an operating result of EUR 10 million, compared to EUR 5 million in 2006.

### Outlook

UMI aims to maintain its position as a leading car distributor in Israel by focusing on the prestigious car market and the private sector.

### Communications & technology

Kardan operates in the communications & technology sector through Kardan Communications and Kardan Technologies.

Kardan focuses its investments on small and medium-sized companies in the technology sector, mainly in the fields of communications and media that have moved beyond the start-up stage and have strong growth potential.

### Overview of 2007

In 2007, Kardan's communications & technologies segment contributed an operating loss of EUR 5 million, compared to a profit of EUR 5 million over 2006. During 2007 Kardan Communications invested approximately EUR 4 million in its portfolio companies (including loans).

Kardan Communications does not consolidate the results of its Group companies in its financial statements. The results of RRSat, a significant holding of Kardan Communications, which engages in the transfer of television and radio broadcasts, are included by means of the equity method. In 2007, RRSat's revenues amounted to EUR 43 million.

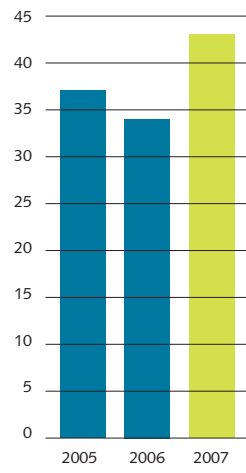
The activities of Kardan Technologies are limited to minority holdings in a venture capital fund and in several technology companies. As of December 31, 2007 Kardan Technologies assets amounted to EUR 13 million.

### Outlook

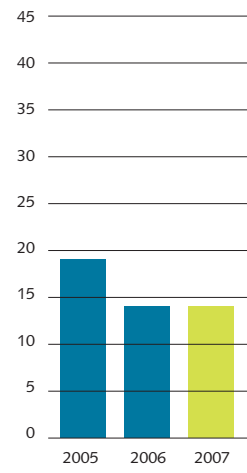
In 2008, Kardan intends to consider further investments in the technology sector, primarily in the fields of communications and media.

## Other businesses

Revenues, EUR million



Results, EUR million





# Statutory Financial Statements

for the year ended December 31, 2007 by Kardan NV, Amsterdam, the Netherlands

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# Consolidated IFRS Balance Sheet

| € in millions  | Note | December 31, 2007 | December 31, 2006 |
|--|------|-------------------|-------------------|
| <b>Assets</b>  |      |                   |                   |
| <b>Non-current assets</b>                                      |      |                   |                   |
| Property, plant and equipment                                  | 7    | 80                | 35                |
| Real estate under construction                                 | 8    | 306               | 189               |
| Investment properties  | 9    | 960               | 638               |
| Intangible assets and goodwill                                 | 10   | 342               | 116               |
| Investments in associates                                      | 11   | 127               | 109               |
| Available-for-sale financial assets                            | 12   | 65                | 56                |
| Loans to bank customers  | 16   | 232               | 82                |
| Long-term loans and receivables                                | 13   | 202               | 98                |
| Deferred acquisition costs (insurance companies)               | 14   | 12                | 6                 |
| Deferred income tax assets                                     | 47   | 17                | 4                 |
|  |      | <b>2,343</b>      | <b>1,333</b>      |
| <b>Current assets</b>  |      |                   |                   |
| Inventories, contract work and buildings inventory in progress | 15   | 297               | 160               |
| Current maturities of long-term loans and receivables          | 13   | 223               | 94                |
| Loans to bank customers  | 16   | 165               | 39                |
| Trade receivables  | 17   | 44                | 42                |
| VAT and income tax receivables                                 |      | 34                | 16                |
| Insurance premium receivables                                  | 19   | 36                | 16                |
| Reinsurance receivables and insurance companies                | 20   | 32                | 12                |
| Other receivables and prepayments                              | 18   | 117               | 44                |
| Short-term investments   | 21   | 88                | 60                |
| Cash and cash equivalents                                      | 22   | 893               | 409               |
|  |      | <b>1,929</b>      | <b>892</b>        |
| <b>Total assets</b>  |      | <b>4,272</b>      | <b>2,225</b>      |

The accompanying notes are an integral part of the financial statements.

| € in millions  | Note | December 31, 2007 | December 31, 2006 |
|--|------|-------------------|-------------------|
| <b>Equity and liabilities</b>                              |      |                   |                   |
| <b>Equity attributable to equity holders of the parent</b> |      |                   |                   |
| Issued and paid-in capital                                 | 23   | 17                | 17                |
| Share premium  |      | 176               | 160               |
| Foreign currency translation reserve                       |      | (25)              | (14)              |
| Property revaluation reserve                               |      | 109               | 65                |
| Revaluation reserve, other                                 |      | (5)               | –                 |
| Retained earnings  |      | 71                | 39                |
|  |      | <b>343</b>        | <b>267</b>        |
| <b>Minority interests</b>                                  |      | <b>730</b>        | <b>491</b>        |
| <b>Total equity</b>  |      | <b>1,073</b>      | <b>758</b>        |
| <b>Non-current liabilities</b>                             |      |                   |                   |
| Interest-bearing loans and borrowings                      | 25   | 829               | 471               |
| Banking customers accounts                                 | 31   | 43                | 53                |
| Other long term liabilities                                | 26   | 7                 | 5                 |
| Warrants and options                                       | 27   | 164               | 134               |
| Convertible debentures                                     | 28   | 31                | 43                |
| Other debentures   | 29   | 742               | 80                |
| Insurance provisions                                       | 30   | 139               | 84                |
| Deferred income tax liabilities                            | 47   | 110               | 63                |
| Accrued severance pay, net                                 |      | 1                 | 2                 |
|  |      | <b>2,066</b>      | <b>935</b>        |
| <b>Current liabilities</b>                                 |      |                   |                   |
| Advances from customers in respect of contracts            | 15   | 12                | 7                 |
| Banking customers accounts                                 | 31   | 443               | 90                |
| Income tax payables  |      | 10                | 27                |
| Trade payables   | 33   | 65                | 58                |
| Interest-bearing loans and borrowings                      | 34   | 353               | 235               |
| Other payables and accrued expenses                        | 32   | 250               | 115               |
|  |      | <b>1,133</b>      | <b>532</b>        |
| <b>Total liabilities</b>                                   |      | <b>3,199</b>      | <b>1,467</b>      |
| <b>Total equity and liabilities</b>                        |      | <b>4,272</b>      | <b>2,225</b>      |

The accompanying notes are an integral part of the financial statements

# Consolidated IFRS Income Statement

| € in millions  | Note | December<br>31, 2007 | December<br>31, 2006 | December<br>31, 2005 |
|--|------|----------------------|----------------------|----------------------|
| <b>Revenues</b>  |      |                      |                      |                      |
| Sales and services   | 36   | 61                   | 50                   | 43                   |
| Contract revenues  |      | 86                   | 65                   | 48                   |
| Insurance activities   | 37   | 66                   | 61                   | 87                   |
| Banking and retail lending activities  | 38   | 72                   | 25                   | 9                    |
| Rental revenues  |      | 60                   | 72                   | 55                   |
| Equity in net earnings of associated companies                                       | 11   | 6                    | 7                    | 7                    |
| Management fees  |      | 2                    | 1                    | 1                    |
| Gain on issuance of shares in associated companies and subsidiaries to third parties |      | 45                   | 52                   | 14                   |
| Adjustment to fair value of investment properties                                    | 9    | 287                  | 209                  | 117                  |
| Gain on disposal of assets and other income  | 39   | 47                   | 19                   | 51                   |
| Other financial income   |      | 42                   | 27                   | 7                    |
|  |      | <b>774</b>           | <b>588</b>           | <b>439</b>           |
| <b>Expenses</b>  |      |                      |                      |                      |
| Cost of sales and services   | 40   | 46                   | 41                   | 28                   |
| Contract costs   |      | 68                   | 49                   | 39                   |
| Operating expenses of insurance activities   | 41   | 64                   | 63                   | 84                   |
| Costs of banking and lending activities  | 43   | 65                   | 21                   | 7                    |
| Costs of rental operations   |      | 12                   | 20                   | 16                   |
| Selling and marketing expenses   | 42   | 19                   | 15                   | 11                   |
| General and administration expenses  | 44   | 56                   | 44                   | 24                   |
| Other financing expenses   | 45   | 148                  | 126                  | 57                   |
| Other expenses, net  | 46   | 4                    | 6                    | 7                    |
|  |      | <b>482</b>           | <b>385</b>           | <b>273</b>           |
| <b>Net profit before income taxes</b>  |      | <b>292</b>           | <b>203</b>           | <b>166</b>           |
| Income taxes   | 47   | 42                   | 46                   | 30                   |
| <b>Net profit for the year</b>   |      | <b>250</b>           | <b>157</b>           | <b>136</b>           |
| Attributable to:   |      |                      |                      |                      |
| Equity holders   |      | 90                   | 41                   | 46                   |
| Minority interest holders  |      | 160                  | 116                  | 90                   |
|  |      | <b>250</b>           | <b>157</b>           | <b>136</b>           |
| Earnings per share attributable to shareholders                                      |      |                      |                      |                      |
| Basic  | 48   | 1.11                 | 0.55                 | 0.72                 |
| Diluted  |      | 1.10                 | 0.47                 | 0.67                 |

The accompanying notes are an integral part of the financial statements

# Consolidated IFRS Statement of Changes in Equity

| € in millions  | Attributable to equity holders of the parent |               |                               |                             |                                       |                   | Total      | Minority interest | Total equity |
|--|--|---------------|-------------------------------|-----------------------------|---------------------------------------|-------------------|------------|-------------------|--------------|
|  | Issued and paid-in capital                   | Share premium | Property revaluation Reserve* | Revaluation reserve, Other* | Foreign currency translation reserve* | Retained earnings |            |                   |              |
| <b>Balance as of December 31, 2004</b>   | <b>14</b>                                    | <b>65</b>     | <b>15</b>                     | <b>–</b>                    | <b>3</b>                              | <b>(9)</b>        | <b>88</b>  | <b>298</b>        | <b>386</b>   |
| Impact of change in functional currency  | –  | (7)           | –                             | –                           | (3)                                   | 10                | –          | –                 | –            |
| <b>Balance as of January 1, 2005</b>   | <b>14</b>                                    | <b>58</b>     | <b>15</b>                     | <b>–</b>                    | <b>–</b>                              | <b>1</b>          | <b>88</b>  | <b>298</b>        | <b>386</b>   |
| Currency translation differences   | –  | –             | –                             | 1                           | (10)                                  | –                 | (9)        | (11)              | (20)         |
| Change in fair value of hedge instrument (net of tax – USD 146 thousand)       | –  | –             | –                             | –                           | –                                     | –                 | –          | –                 | –            |
| Change due to issuance of shares in subsidiaries/acquisition of subsidiaries** | –  | –             | –                             | –                           | –                                     | –                 | –          | (84)              | (84)         |
| Change in unrealized revaluation reserve                                       | –  | –             | –                             | –                           | –                                     | –                 | –          | –                 | –            |
| Realization of revaluation reserve   | –  | –             | –                             | (3)                         | –                                     | –                 | (3)        | –                 | (3)          |
| Exercise of warrants and options into Company's shares                         | –  | –             | –                             | –                           | –                                     | –                 | –          | –                 | –            |
| Share-based payment  | –  | –             | –                             | –                           | –                                     | –                 | –          | 1                 | 1            |
| Put options granted to minority shareholders in subsidiaries                   | –  | –             | –                             | –                           | –                                     | –                 | –          | –                 | –            |
| Total income and expense for the year recognized directly in equity            | –  | –             | –                             | (2)                         | (10)                                  | –                 | (12)       | (94)              | (106)        |
| Net profit for the period  | –  | –             | –                             | –                           | –                                     | 46                | 46         | 99                | 145          |
| <b>Total income /expense for the year</b>                                      | <b>–</b>                                     | <b>–</b>      | <b>–</b>                      | <b>(2)</b>                  | <b>(10)</b>                           | <b>46</b>         | <b>34</b>  | <b>5</b>          | <b>39</b>    |
| Issuance of shares in subsidiaries   | 1  | 14            | –                             | –                           | –                                     | –                 | 15         | –                 | 15           |
| Exercise of warrants and option  | –  | –             | –                             | –                           | –                                     | –                 | –          | –                 | –            |
| Sale of shares held by subsidiary  | –  | –             | –                             | –                           | –                                     | –                 | –          | –                 | –            |
| Dividend distributed by subsidiaries   | –  | –             | –                             | –                           | –                                     | –                 | –          | (3)               | (3)          |
| Reclassification according to statutory requirements*                          | (2)  | –             | 31                            | –                           | 2                                     | (31)              | –          | –                 | –            |
| <b>Balance as of December 31, 2005</b>   | <b>13</b>                                    | <b>72</b>     | <b>46</b>                     | <b>(2)</b>                  | <b>(8)</b>                            | <b>16</b>         | <b>137</b> | <b>300</b>        | <b>437</b>   |

\* 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.

The accompanying notes are an integral part of the financial statements

# Consolidated IFRS Statement of Changes in Equity

| € in millions  | Attributable to equity holders of the parent |               |                               |                             |                                       |                   | Total      | Minority interest | Total equity |
|--|--|---------------|-------------------------------|-----------------------------|---------------------------------------|-------------------|------------|-------------------|--------------|
|  | Issued and paid-in capital                   | Share premium | Property revaluation Reserve* | Revaluation reserve, Other* | Foreign currency translation reserve* | Retained earnings |            |                   |              |
| <b>Balance as of January 1, 2006</b>                                       | <b>13</b>                                    | <b>72</b>     | <b>46</b>                     | <b>(2)</b>                  | <b>(8)</b>                            | <b>16</b>         | <b>137</b> | <b>300</b>        | <b>437</b>   |
| Currency translation differences   | –  | –             | –                             | –                           | (2)                                   | –                 | (2)        | (21)              | (23)         |
| Change in fair value of hedge instrument                                   | –  | –             | –                             | –                           | –                                     | –                 | –          | –                 | –            |
| Change in unrealized revaluation reserve                                   | –  | –             | 2                             | (1)                         | –                                     | –                 | 1          | –                 | 1            |
| Put options granted to minority shareholders subsidiaries                  | –  | –             | –                             | –                           | –                                     | (1)               | (1)        | (2)               | (3)          |
| Share based payment  | –  | –             | –                             | –                           | –                                     | –                 | –          | 4                 | 4            |
| <b>Total income and expense for the year recognized directly in equity</b> | <b>–</b>                                     | <b>–</b>      | <b>2</b>                      | <b>(1)</b>                  | <b>(2)</b>                            | <b>(1)</b>        | <b>(2)</b> | <b>(19)</b>       | <b>(21)</b>  |
| Net profit for the period  | –  | –             | –                             | –                           | –                                     | 41                | 41         | 116               | 157          |
| <b>Total income /expense for the year</b>                                  | <b>–</b>                                     | <b>–</b>      | <b>2</b>                      | <b>(1)</b>                  | <b>(2)</b>                            | <b>40</b>         | <b>39</b>  | <b>97</b>         | <b>136</b>   |
| Issuance of shares in subsidiaries   | –  | –             | –                             | –                           | –                                     | –                 | –          | 94                | 94           |
| Issuance of shares   | 3  | 79            | –                             | –                           | –                                     | –                 | 82         | –                 | 82           |
| Exercise of warrants and options into Company's shares                     | –  | 8             | –                             | –                           | –                                     | –                 | 8          | –                 | 8            |
| Sale of shares held by subsidiary  | –  | 1             | –                             | –                           | –                                     | –                 | 1          | –                 | 1            |
| Dividend distributed by subsidiaries                                       | –  | –             | –                             | –                           | –                                     | –                 | –          | –                 | –            |
| Reclassification according to statutory requirements*                      | 1  | –             | 17                            | 3                           | (4)                                   | (17)              | –          | –                 | –            |
| <b>Balance as of December 31, 2006</b>                                     | <b>17</b>                                    | <b>160</b>    | <b>65</b>                     | <b>–</b>                    | <b>(14)</b>                           | <b>39</b>         | <b>267</b> | <b>491</b>        | <b>758</b>   |

\* 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.

The accompanying notes are an integral part of the financial statements

# Consolidated IFRS Statement of Changes in Equity

| € in millions  | Attributable to equity holders of the parent |               |                               |                             |                                       |                   | Total       | Minority interest | Total equity |
|--|--|---------------|-------------------------------|-----------------------------|---------------------------------------|-------------------|-------------|-------------------|--------------|
|  | Issued and paid-in capital                   | Share premium | Property revaluation Reserve* | Revaluation reserve, Other* | Foreign currency translation reserve* | Retained earnings |             |                   |              |
| <b>Balance as of January 1, 2007</b>                                       | <b>17</b>                                    | <b>160</b>    | <b>65</b>                     | <b>–</b>                    | <b>(14)</b>                           | <b>39</b>         | <b>267</b>  | <b>491</b>        | <b>758</b>   |
| Currency translation differences   | –  | –             | –                             | –                           | (11)                                  | –                 | (11)        | 1                 | (10)         |
| Change in fair value of hedge instrument                                   | –  | –             | –                             | (4)                         | –                                     | –                 | (4)         | (1)               | (5)          |
| Adjustment due to restatement of subsidiary (see also note 5)              | –  | –             | –                             | –                           | –                                     | (5)               | (5)         | (2)               | (7)          |
| Change in unrealized revaluation reserve                                   | –  | –             | –                             | (1)                         | –                                     | –                 | (1)         | –                 | (1)          |
| Share base payment   | –  | 2             | –                             | –                           | –                                     | –                 | 2           | 3                 | 5            |
| Put options granted to minority shareholders in subsidiaries               | –  | –             | –                             | –                           | –                                     | –                 | –           | –                 | –            |
| <b>Total income and expense for the year recognized directly in equity</b> | <b>–</b>                                     | <b>2</b>      | <b>–</b>                      | <b>(5)</b>                  | <b>(11)</b>                           | <b>(5)</b>        | <b>(19)</b> | <b>1</b>          | <b>(18)</b>  |
| <b>Net profit for the period</b>   | <b>–</b>                                     | <b>–</b>      | <b>–</b>                      | <b>–</b>                    | <b>–</b>                              | <b>90</b>         | <b>90</b>   | <b>160</b>        | <b>250</b>   |
| <b>Total income /expense for the year</b>                                  | <b>–</b>                                     | <b>2</b>      | <b>–</b>                      | <b>(5)</b>                  | <b>(11)</b>                           | <b>85</b>         | <b>71</b>   | <b>161</b>        | <b>232</b>   |
| Issuance and sale of shares to minority                                    | –  | –             | –                             | –                           | –                                     | –                 | –           | 78                | 78           |
| Exercise of warrants and options   | –  | 14            | –                             | –                           | –                                     | –                 | 14          | –                 | 14           |
| Shares purchase in consolidated companies                                  | –  | –             | –                             | –                           | –                                     | –                 | –           | –                 | –            |
| Dividend   | –  | –             | –                             | –                           | –                                     | (9)               | (9)         | –                 | (9)          |
| Dividend paid to minority  | –  | –             | –                             | –                           | –                                     | –                 | –           | –                 | –            |
| Reclassification according to statutory requirements*                      | –  | –             | 44                            | –                           | –                                     | (44)              | –           | –                 | –            |
| <b>Balance as of 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> |

\* 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.

The accompanying notes are an integral part of the financial statements

# Consolidated IFRS Cash Flow Statement

For the year ended December 31

| € in millions  | 2007         | 2006         | 2005         |
|--|--------------|--------------|--------------|
| <b>Cash flow from operating activities</b>   |              |              |              |
| Net profit before taxes on income  | 292          | 203          | 166          |
| <b>Adjustment to reconcile net profit (loss) to net cash</b>   |              |              |              |
| <b>Charges/(credits) to profit/loss not affecting operating cash flows:</b>                                  |              |              |              |
| – Equity earnings of associated companies  | (6)          | (7)          | (7)          |
| – Dividend received from associated companies  | 11           | 3            | 6            |
| – Gain on issuance of shares in associated companies and subsidiaries to third parties, net                  | (45)         | (52)         | (14)         |
| – Gain on disposal of investments in companies, property, plant and equipment and investment properties, net | (31)         | (16)         | (43)         |
| – Share based payment  | 5            | 5            | 3            |
| – Depreciation and amortization  | 13           | 5            | 6            |
| – Fair value adjustments   | (292)        | (210)        | (129)        |
| – Exchange differences, net  | 61           | 38           | (20)         |
| – Change in fair value of options and share appreciation rights  | 51           | 83           | 26           |
| – Decrease (increase) in fair value of securities held for trading, and hedge instruments, net               | 1            | –            | (1)          |
| – Decrease of assets   | –            | –            | 3            |
| – Gain (loss) from early repayment of loans  | (3)          | –            | –            |
| – Increase in accrued severance pay, net   | (1)          | –            | –            |
|  | <b>(236)</b> | <b>(151)</b> | <b>(170)</b> |
| <b>Changes in operating assets and liabilities</b>   |              |              |              |
| – Change in insurance provisions and deferred acquisition costs, net   | –            | 11           | 16           |
| – Change in outstanding insurance premiums, reinsurance receivables and insurance companies                  | (11)         | (7)          | (5)          |
| – Change in trade and other receivables  | (94)         | (1)          | (15)         |
| – Change in inventories and in contract work in progress, net of advances from customers                     | (97)         | (55)         | (9)          |
| – Change in trade and other payables   | 40           | 140          | 3            |
| <b>Net cash generated from (used in) operations</b>  | <b>(150)</b> | <b>88</b>    | <b>(10)</b>  |
| Income taxes paid  | (6)          | (4)          | (3)          |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(100)</b> | <b>136</b>   | <b>(17)</b>  |

The accompanying notes are an integral part of the financial statements.

# Consolidated IFRS Cash Flow Statement (continued)

For the year ended December 31

| € in millions   | 2007         | 2006         | 2005         |
|---|--------------|--------------|--------------|
| <b>Cash flow from investing activities</b>  |              |              |              |
| Acquisition of property, plant and equipment and investment properties                                  | (200)        | (137)        | (110)        |
| Investments in companies and partnerships   | (63)         | (64)         | (138)        |
| Collecting (granting) of loans to associated companies, net   | (11)         | (18)         | (8)          |
| Proceeds from disposal of property, plant and equipment and investment properties                       | 16           | 218          | 23           |
| Granting of long-term loans   | (442)        | (348)        | (99)         |
| Change in loans to bank customers   | (113)        | –            | –            |
| Collecting of long-term loans and receivables   | 298          | 246          | 51           |
| Change in short-term investments  | (4)          | (42)         | (23)         |
| Acquisition of newly-consolidated subsidiaries, net of cash acquired (see A below)                      | (134)        | (54)         | (4)          |
| Increase in cash resulting from sale of investments in formerly consolidated subsidiaries (see B below) | 119          | 44           | 35           |
| Increase in cash resulting from reorganization of proportionately consolidated companies (see C below)  | –            | 21           | 13           |
| Increase in cash due to transactions in the financial services segment (see D below)                    | 18           | –            | –            |
| Change in deferred brokerage fees   | (2)          | (1)          | (2)          |
| Income taxes paid   | (21)         | 3            | –            |
| Change in other assets  | –            | –            | (3)          |
| <b>Net cash used in investing activities</b>  | <b>(539)</b> | <b>(132)</b> | <b>(265)</b> |
| <b>Cash flows from financing activities</b>   |              |              |              |
| Proceeds from exercise of warrants of issuance of Company's shares                                      | –            | 81           | 3            |
| Proceeds from issuance of shares in associated companies and subsidiaries to third parties, net         | 62           | 133          | 8            |
| Treasury shares sold  | –            | 1            | –            |
| Dividend to minority shareholders in subsidiaries   | –            | –            | (3)          |
| Dividend distributed  | (9)          | –            | –            |
| Issuance of debentures  | 691          | 4            | 109          |
| Repayment of debentures   | (47)         | (32)         | (26)         |
| Change in loans from bank customers   | 195          | –            | –            |
| Change in deposits from tenants   | –            | (1)          | 1            |
| Proceeds from long-term loans   | 545          | 263          | 260          |
| Repayment of long-term loans  | (273)        | (168)        | (94)         |
| Costs related to issuance of debt and shares  | (3)          | (2)          | (2)          |
| Purchase of option rights   | –            | (2)          | –            |
| Change in short-term loans and borrowings, net  | (26)         | (14)         | (3)          |
| <b>Net cash provided by financing activities</b>  | <b>1,135</b> | <b>263</b>   | <b>253</b>   |

The accompanying notes are an integral part of the financial statements.



# Consolidated IFRS Cash Flow Statement (continued)

For the year ended December 31

| € in millions  | 2007         | 2006        | 2005       |
|--|--------------|-------------|------------|
| Foreign exchange differences relating to cash and cash equivalents             | (12)         | (16)        | 38         |
| Increase (decrease) in cash and cash equivalents                               | 484          | 251         | 9          |
| Cash and cash equivalents at the beginning of the period                       | 409          | 158         | 149        |
| Cash and cash equivalents at the end of the period                             | 893          | 409         | 158        |
| <b>A. Acquisition of newly-consolidated subsidiaries, net of cash acquired</b> |              |             |            |
| Cash   | (26)         | (8)         | 3          |
| Working capital (excluding cash)   | (71)         | (59)        | 6          |
| Non-current assets   | (122)        | (34)        | (16)       |
| Goodwill on acquisition  | (80)         | (17)        | (5)        |
| Gain on disposal of investment   | 7            | –           | –          |
| Minority interests   | 9            | 39          | (2)        |
| Long-term liabilities  | 123          | 3           | 7          |
| Total purchase price   | (160)        | (76)        | (7)        |
| Less – cash in subsidiaries acquired   | 26           | 8           | 3          |
| Payable on account of investment   | –            | 2           | –          |
| Reclassification from investment in associates                                 | –            | 12          | –          |
| <b>Cash used in acquisition, net of cash acquired</b>                          | <b>(134)</b> | <b>(54)</b> | <b>(4)</b> |
| <b>B. Disposal of formerly-consolidated subsidiaries, net of cash disposed</b> |              |             |            |
| Cash   | 1            | 4           | 27         |
| Working capital (excluding cash)   | (1)          | (21)        | (31)       |
| Non-current assets   | –            | 83          | 64         |
| Investment properties  | 120          | –           | –          |
| Minority interests   | –            | (1)         | (3)        |
| Long-term liabilities  | –            | (35)        | (29)       |
| Gain on disposal of investment   | –            | 18          | 45         |
| Total consideration  | 120          | 48          | 73         |
| Cash of subsidiary which ceased to be consolidated                             | (1)          | (4)         | (27)       |
| Change in capital reserves   | –            | (1)         | 1          |
| Other receivables from disposal of investments                                 | –            | 1           | (24)       |
| <b>Cash flows from disposal, net of cash disposed</b>                          | <b>119</b>   | <b>44</b>   | <b>23</b>  |

The accompanying notes are an integral part of the financial statements.

# Consolidated IFRS Cash Flow Statement (continued)

For the year ended December 31

| € in millions  | 2007      | 2006     | 2005     |
|--|-----------|----------|----------|
| <b>C. Increase in cash due to reorganization in proportionately consolidated companies</b> |           |          |          |
| Cash   | –         | (16)     | 6        |
| Working capital (excluding cash)   | –         | (10)     | (1)      |
| Non-current assets   | –         | 11       | 31       |
| Goodwill on acquisition  | –         | (13)     | –        |
| Minority interests   | –         | (8)      | (2)      |
| Gain on disposal of investments  | –         | –        | 9        |
| Long-term liabilities  | –         | (18)     | (26)     |
| Total purchase price   | –         | (54)     | 17       |
| Less – cash in subsidiaries  | –         | 16       | (6)      |
| Payable on account of investment   | –         | 56       | –        |
| Elimination of long term payable   | –         | 3        | –        |
|  | –         | 21       | 11       |
| <b>D. Increase in cash due to transaction in the financial services segment</b>            |           |          |          |
| Cash   | 84        | –        | –        |
| Working capital (excluding cash)   | 100       | –        | –        |
| Non-current assets   | (158)     | –        | –        |
| Goodwill on acquisition  | (27)      | –        | –        |
| Minority interests   | 14        | –        | –        |
| Long-term liabilities  | 70        | –        | –        |
| Total consideration  | 83        | –        | –        |
| Change in cash   | (84)      | –        | –        |
| Change in capital reserves   | (1)       | –        | –        |
| Gain on disposal   | 20        | –        | –        |
| <b>Cash flows from disposal, net of cash disposed</b>                                      | <b>18</b> | <b>–</b> | <b>–</b> |
| <b>E. Significant non-cash transactions</b>  |           |          |          |
| Investment in real estate under construction   | 35        | 17       | 9        |
| Acquisition of land against long-term payable  | –         | 1        | –        |
| Exercise of options into Company's shares  | 14        | 8        | 6        |
| Receivables on sale of land  | –         | 2        | –        |

The accompanying notes are an integral part of the financial statements.

# Notes to the Consolidated IFRS Financial Statements

December 31, 2007

## 1 General

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

The Company and its subsidiaries are referred to hereinafter as 'the Group'.

The total number of employees in the Company and its subsidiaries was 13,411 as of December 31, 2007 and (December 31, 2006 – 7,980).

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

The statutory financial statements, which comprise these consolidated IFRS financial statements and the company-only Dutch GAAP financial statements as included in pages 217 to 227 were authorized for issuance by the Management Board in May 19, 2008.

## 2 Basis of Preparation

### Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments, cash settled share-based payments and available-for-sale financial assets that have been measured at fair value. The consolidated financial statements are presented in Euros and all values are rounded to the nearest million (€ in millions) except when otherwise indicated.

The consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future. As at the date of authorization of these

consolidated financial statements, the parent company's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Group.

### Statement of Compliance

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

As at December 31, 2007, due to the endorsement process of the EU, and activities of the Company, the following difference exists in the policies applied by the Company between IFRS and IFRS that have been endorsed by the Commission of the European Communities;

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

This difference does not affect the Group.

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and the companies that it controls as at December 31 each year. Control is present when the company has the power, directly and indirectly, to influence the financial and operational policies of the controlled company. In determining control the effect of potential voting rights existing as at the balance sheet date are taken into account. The company consolidates the companies that it controls from the moment it achieves control until the time this control ceases. The financial statements of the controlled companies are prepared for the same reporting year as the parent company, using consistent accounting policies.

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

Subsidiaries under common control are consolidated by proportional consolidation.

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

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

Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

### Changes in Accounting Policies

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

As from January 1, 2007, the Company changed its functional and presentational currency from US Dollar to EUR as the Company's management determined that from that date, the EUR is the currency that best represents the economic environment in which the Company operates and the currency in which the Company operates.

A change in a Company's functional currency is prospective in nature only. However a change in presentation currency has to be applied retrospectively, unless deemed impractical. Therefore, on January 1, 2004 all the Group's assets and liabilities were translated on the conversion date. Comparative numbers which were presented in the past in US dollar

were translated with the exception of the financial services segment as that already report in Euros as follows:

- 1 Assets and liabilities as at the balance sheet dates were translated at the closing rates for that balance sheet date.
- 2 Revenues, expenses and capital transactions for each reporting period were translated at the transaction dates.
- 3 All differences arising from the translation were presented as a separate item in equity.
- 4 The elements of the equity as at January 1, 2004 were translated using the exchange rate as at that date. Any differences between the historical balances of these items, as discussed above, were allocated to the capital reserve for translation differences.

For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, like an average rate, was often used to translate income and expenses items. The functional currency change was not performed consistently within the Group due to the fact that KFS has already changed its functional currency in 2006 and Tahal Group is still using USD as functional currency.

### Adoption of new interpretations and disclosures

The financial statements have been prepared in million Euros.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment – Presentation of Financial Statements

- IFRIC 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds*\*
- IFRIC 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*\*
- IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies'
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

\* Not applicable to the Group due to nature of activities

The new standards and interpretations and amendments have been analysed by the Company. Except from the new disclosure resulted from IFRS 7 and change to IAS 1 the new standards/interpretations has not affected the financial statements for the year ended December 31, 2007. The changes in the standards and interpretations, except of new disclosure requirements, have no impact on the financial data presented in these consolidated financial statements.

The principal effects of these changes are as follows:

#### **IFRS 7 Financial Instruments: Disclosures**

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

#### **IAS 1 Presentation of Financial Statements**

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 31.

#### **IFRIC 8 Scope of IFRS 2**

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Group.

#### **IFRIC 9 Reassessment of Embedded Derivatives**

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

#### **IFRIC 10 Interim Financial Reporting and Impairment**

The Group adopted IFRIC Interpretation 10, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

#### **IFRIC 11 IFRS 2 – Group and Treasury Share Transactions**

The Group has elected to adopt IFRIC Interpretation 11 as of January 1, 2007, insofar as it applies to consolidated financial statements.

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

#### **IFRIC 12 Service Concession Arrangements**

The Company has early adopted IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

### **3 Significant Accounting Judgements, Estimates and Assumptions**

#### **Judgments**

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

#### **Estimates and Assumptions**

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

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

#### **Investment properties**

Investment property includes real estate (land or building or both) held by the Group or leased under a finance lease in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes or in the ordinary course of business.

Investment properties are presented at fair value as at the balance sheet date. Any changes in the fair value are included in the income statement. Any change in fair value is determined by independent real estate valuation experts in accordance with recognised valuation techniques. These techniques include estimating future cash flows from assets and estimates of discount rates applicable to those assets. In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the company's assets.

Fair value of investment properties is based on independent appraisal values. Independent appraisal values are however on its turn subject to judgements, estimates and assumptions and do not take into account estimation uncertainty, if any, about key assumptions concerning the future as property valuations are based on market conditions in effect as at balance sheet date.

#### **Impairment of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present values of those cash flows. The carrying amount of Goodwill as of December 31, 2007 was EUR 315 million, of which EUR 67 million is allocated to real estate activities. Where Goodwill is paid in compensation for future project development profit the goodwill is reduced commensurate with the amount of development profits subsequently realised. Goodwill amounting to approximately EUR 222 million is allocated to financial services activities.

#### **Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses to the extent it is probable that taxable profit

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

#### **Fair value of equity instruments**

Fair value of equity instruments, primarily Put options granted to minority shareholders, employee options, phantom options and equity components of convertible debentures, have been valued, in most cases, by independent external valuers, using applicable valuation models, or based on the value of the respective companies as assigned in transactions with third parties. The valuations are necessarily based on certain assumptions, and hence they are subject to uncertainty. The fair value of such equity instruments as of December 31, 2007 was EUR 164 million (2006 – EUR 134 million).

#### **Share-based payments**

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 23. For cash-settled share based payment transactions, the Group remeasure the liability at the fair value at each reporting date.

#### **Impairment of available-for-sale financial assets**

The Group classifies certain assets as available-for-sale and recognises movements in their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss.

#### **Valuation assumptions**

The claims provisions are calculated using various assumptions of things such as cancellations, mortality/morbidity in life assurance and numerous assumptions in general and health insurance. In general insurance, the main assumption is that past claims patterns continue in the future. Especially in the countries in which the Group operates this assumption may be incorrect as the 'insurance culture' has not always stabilised and as the local courts have not had sufficient experience of dealing with legal matters related to insurance. The Company's assumptions underlying their claims provision reflect the Company's current best estimates of the outstanding claims, whether reported or whether incurrent but not reported.

## **4 Summary of Significant Accounting Policies**

### **a Interest in Joint Ventures**

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

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

Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group



and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

## b Foreign Currency Translation

With exception from the change in presentation and functional currency as outlined above the translation policies are as follows:

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

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

Following are the representative exchange rates of the USD and NIS in relation to the EUR and the Israeli Consumer Price Index (CPI) in points:

|                   | USD     | NIS    | CPI    |
|-------------------|---------|--------|--------|
| December 31, 2007 | 0.68    | 0.177  | 113.6  |
| December 31, 2006 | 0.759   | 0.1797 | 109.9  |
| December 31, 2005 | 0.845   | 0.184  | 110.0  |
| December 31, 2004 | 0.734   | 0.17   | 107.4  |
| Change in 2007    | (10.4)% | (1.7)% | 3.4%   |
| Change in 2006    | (10.2)% | (2.1)% | (0.1)% |
| Change in 2005    | 15.1    | 7.9%   | 2.4%   |

## c Property, Plant and Equipment

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

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



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

|                    |             |
|--------------------|-------------|
| Software           | 3 years     |
| (Office) Equipment | 3-17 years  |
| Vehicles           | 2-7 years   |
| Buildings          | 25-50 years |
| Land improvement   | 5 years     |

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

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

#### **d Real Estate under Construction**

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

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

Real estate under construction is depreciated (if it comprises owner occupied property) or as the case may be revalued (if it comprises investment property) when the relevant assets are completed and are ready for use.

Amounts paid for leased land for the purpose of developing and constructing an investment properties are classified as real estate under construction.

#### **e Investment Properties**

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

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

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

At the time when the company completed the construction of the investment property, the difference between the fair value and the book value of the building under construction is included in the income statement.

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

## **f Contract Work and Building Inventory in Progress**

Costs relating to the construction of the residential properties and other projects which do not qualify as real estate under construction are included as inventory as follows:

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

Such costs include:

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

### **Lease origination costs/deferred brokerage fees**

The costs incurred to originate a lease (mainly brokers' fees) for available rental space are deferred until the date of revaluation of the related investment property to its fair value.

## **g Merchandise Inventories**

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

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

## **h Business Combinations and Goodwill**

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

of value of the acquired assets and liabilities at acquisition date can be adjusted up to 12 months from the acquisition date.

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

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

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

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

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

#### **Business combinations including entities commonly controlled**

As these types of transactions do not involve the change in control, and the controlled entities are controlled both before and after the transaction by the same parties the Pooling method represents the best presentation of the transaction.

The Group presents the assets and liabilities from the earliest reporting period, as if the common control business combination occurred from the time that the merged companies were common control.

#### **i Other Intangible Assets**

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

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

Other intangible assets are amortized commensurate to their estimated economic life.

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

#### **j Investment in Associates**

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associates is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The income statement reflects the share of the results of operations of the associate. The company records its share of losses exceeding the associate's equity, if any, up to its investment in the associate with the addition of any loss as a result of a guarantee or other financial assistance. Gains or losses from transactions between the Group and an associate are eliminated according the ownership rate in the associate.

Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this in the statement of changes in equity.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

#### **k Impairment of Non-financial Assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the

carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

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

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

Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

#### **Goodwill**

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

(group of cash-generating units) is less than the carrying amount, an impairment loss is recognized.

#### **Associates**

The Company reviews the need to recognise an impairment loss after applying the equity method for an associate. The Company reviews at each balance sheet date if there is objective evidence that the investment in an associate is impaired. If required, an impairment loss is determined as the difference between the fair value of the investment in the associate less costs to sell and the book value. The impairment loss is recorded in the income statement in the item Other expenses, net.

#### **I Investments and Other Financial Assets**

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

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

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

#### **Financial assets at fair value through profit or loss**

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near

term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss as part of the financing income or expenses.

#### **Held-to-maturity investments**

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

#### **Loans and receivables**

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

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are not classified in one of the three categories above. After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised profits or losses are allocated directly to the available-for-sale reserve in equity. When such assets are derecognized or impaired any accumulated profit or loss allocated to equity in the past is allocated to the income statement. Interest income and

expenses are recorded on the effective interest basis. Dividends received for these investments are allocated to the income statement when the Company has the right to receive them.

#### **m Cash and Cash Equivalents**

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

#### **n Insurance Receivables**

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

#### **o Impairment of Financial Assets**

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

#### **Assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment

exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### **Assets carried at cost**

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### **Available-for-sale financial assets**

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

### **p Treasury Shares**

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

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

Shares of the parent purchased by subsidiaries are accounted for as treasury shares.

### **q Convertible Debentures**

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

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

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

### **r Debentures**

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



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

### s Interest Bearing Loans and Borrowings

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

After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortized cost. Amortized cost is calculated by taking into account premiums paid at initiation of the loans and using the effective interest method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

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

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including

exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

### Financial liabilities at amortised cost

Financial liabilities at amortised cost are categorised upon acquisition or inception. These liabilities are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Gains and losses are recognised in income when the financial liabilities at amortised cost are derecognised, as well as through the amortization process.

### Financial guarantee liabilities

Financial guarantee liabilities issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as

a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the amount initially recognised and the best estimate of the amount required to be recorded at the balance sheet date in accordance with IAS 37 in respect of the guarantee agreement terms.

## **t Insurance Liabilities**

### **Life insurance contracts liabilities**

These contracts insure human life events (for example death or survival) over a long duration. The life insurance contract liabilities are increased by credited interest and are decreased by deferred acquisition costs, mortality and surrender charges and any withdrawals.

The provision for life insurance contracts is calculated on the basis of a prospective actuarial valuation method using actuarial tables relating to expected losses adjusted for differences between the relevant national actuarial tables and the Group's portfolio.

### **Insurance contracts with fixed and guaranteed terms**

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

The liabilities are recalculated at each balance sheet date using the assumptions established at the inception of the contracts.

### **General insurance contracts liabilities**

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

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

### **Provision for unearned premiums**

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the income statement in the order that revenue is recognised over the period of risk. In cases where the liability adequacy tests – see below – show that the total liability is inadequate the provision for unearned premiums is increased to cover any deficiency.

### **Liability adequacy test**

At each balance sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets. In performing the test, current best estimates of future contractual cash



flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used.

#### *Product classification*

##### **Insurance contracts**

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

## **u Derecognition of Financial Assets and Liabilities**

### **Financial assets**

A financial asset is derecognised when:

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

Where the Group has transferred its rights to receive cash flows from the asset and has neither transferred nor retained substantially all the risks and rewards of the asset, but retains control, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured

at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

### **Financial liabilities**

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

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

## **v Provisions**

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

## **w Share-based Payment Transactions**

Employees and consultants of the Group receive remuneration in the form of share-based payment transactions, whereby employees (or consultants)

render services as consideration for equity instruments ('equity settled transactions'). In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured at the fair value of issued instrument. For cash-settled transactions, the liability is measured at fair value at each reporting date until settlement.

#### **Equity-settled transactions**

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees (or consultants) become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employees as measured at the date of modification.

#### **Cash-settled transactions**

The cost of cash-settled transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until vesting against the recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and

including the settlement date with changes in fair value recognised in profit or loss.

### **x Leases**

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

#### **Group as a lessee**

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

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

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

#### **Group as a lessor**

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

## y Revenue Recognition

### General

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

### Sale of goods

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

### Interest and dividend income

Revenue is recognised as the interest accrues (taking into account the effective yield on the asset). Dividend income is recognised when the shareholders' right to receive payments is established.

### Contract revenues

Revenue from work performed under a contract is recognized by reference to the stage of completion when this can be measured reliably. The stage of completion is measured based on engineering estimates. When the contract outcome cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable. In the period in which it is determined that a loss will result from the performance of the contract, the entire amount of the estimated ultimate loss is charged against income.

### Rental income

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

### Sale of apartments

Revenue from the sale of houses and apartments is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and when the revenue can be measured reliably. The risks and rewards are considered as transferred to the buyer when the houses or apartments have been substantially constructed, accepted by the customer and the full amount resulting from the sale agreement was paid by the buyer.

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

### Rendering of services (including management fees)

Revenues from services are recognized as the services are provided and when the outcome of such transactions can be estimated reliably.

Contributions to the pension funds are recorded when received. The fees for management of pension funds are recorded on an accrual basis.

### Interest income

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

### Premium income

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

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

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

## **z Insurance Business**

### **Life Insurance Business**

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

### **General Insurance Business**

- a** The underwriting results for general insurance business are determined on an annual basis.
- b** Premiums are accounted for on an accrual basis.

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

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

### **Reinsurance**

- a** The reinsurers' shares in insurance reserves and outstanding claims are presented separately in the balance sheet, net of an allowance for doubtful or bad debts, based on management's estimate.

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

## aa Taxes

### Current income tax

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

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

### Deferred income tax

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

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

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

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

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

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

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

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

At each balance sheet date, the Group companies re-assess unrecognised deferred tax assets and the carrying amount of deferred tax assets. The companies recognise a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The companies conversely reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilised.

## **bb Fair Value of Financial Assets and Liabilities**

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

For financial instruments where there is no active market, the estimated fair value is determined by the Company by using valuation models.

If the fair value can not be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

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

## **cc Derivative Financial Instruments and Hedging**

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

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

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

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



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

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. At the inception of the hedge relationship to Group classifies and documents the type of hedge it wishes the use for the purpose of financial reporting and its strategic goals for risk management relating to the specific hedging relationship. The documentation includes identification of the hedging instrument, the hedged item, the nature of the hedged risk and how the company assesses hedge effectiveness. Hedge effectiveness is remeasured at each reporting date.

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

#### **Fair value hedges**

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

#### **Cash flow hedges**

Cash flow hedges are a hedge of the exposure to variability in cash flow that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs.

If the related transaction is not expected to occur, the amount is taken to profit or loss.

#### **Hedges of a net investment**

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

#### **dd Put Option granted to Minority Shareholders**

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

The Group recognises a financial liability under the above contract at its fair value. The minority interest reported in the financial statements is subsequently reclassified to a financial liability. Any changes in the fair value of that financial liability in subsequent periods are taken to the income statement or to goodwill if the put option can be classified as an IFRS 3 like transaction (business combination).

Any put-options granted to minority interest in a business combination is accounted for based on the 'Parent entity extension method'. Under this method the company recognises goodwill for the difference between the acquisition cost and the fair value of the minority interests acquired. At initial recognition the minority interest is reclassified from equity to liabilities. The liability is subsequently re-measured at each reporting date to the present value of the amount payable on exercise. Changes in the liability are adjusted against goodwill, except for the unwinding of the discount due to the passage of time. The

unwinding of the discount is recognised in the income statement as interest expense.

#### **ee Earnings per Share**

A basic earnings per share is calculated using the weighted average number of ordinary shares outstanding during the period and only those shares in issue during the period. Potential ordinary shares (for example convertible debentures and options) are only included in the diluted earnings per share. In addition, securities that were converted during the period are included in the diluted earnings per share calculation to the date of conversion, and from that date they are included in the basic earnings per share. Potential ordinary shares are only included in diluted earnings per share if their exercise would lead to the issue of shares at a price which is lower than the share price, otherwise they are considered anti-dilutive.

#### **ff Pensions and Other Post Employment Benefits**

Pensions and other post employment benefits are either classified as defined contribution or defined benefit. Under defined contribution plans, contributions during the period are expensed when incurred. At present the Group has no significant defined benefit plans

##### **Defined contribution plans**

Defined contribution plans are funded through independent pension funds or similar organizations. Contributions fixed in advance (e.g., based on salary) are paid to these institutions and the beneficiary's right to benefits exists against the pension fund. The employer has no legal or constructive obligation beyond payment of the contributions.

Under retirement plans in the form of defined contribution plans, the enterprise pledges to pay the beneficiary benefits at a pre-defined level. This effectively releases the enterprise from any further obligations beyond the contributions payable and at the same time precludes the enterprise from



participating in the investment success of the contributions.

## **gg Future Changes in Accounting Policies**

*Standards issued but not yet effective*

### **IAS 23 Borrowing Costs**

As the Group already capitalized for all qualifying assets, this future change will have no impact.

### **IAS 1 (Revised) Presentation of Financial Statements**

The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after January 1, 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements.

The effect of the adoption of IAS 1 (Revised) will require the Company to present the above disclosure in the financial statements.

### **IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements**

The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses

incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

### **IFRS 2 (Revised) Share-based Payment**

The amendments to IFRS 2 Share-based Payments were published in January 2008 and become effective for financial years beginning on or after January 1, 2009. The Standard restricts the definition of 'vesting condition' to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

The Company estimates that the revised Standard is not expected to have a material effect on its financial position, operating results and cash flows.

### **Amendments to IAS 32 and IAS 1 Puttable Financial Instruments**

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

### **IFRIC 13 Customer Loyalty Programmes**

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This Interpretation requires customer

loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

#### **IFRIC 14 / IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as all defined benefit schemes are currently in deficit.

## **5 Segment Information**

### **a General**

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

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

*The Financial Services segment (divided into two segments – insurance and pension activity and banking and lending activity)* – The Company through its subsidiaries is active in Bulgaria, Romania, Turkey, Slovakia, Croatia, Serbia, Georgia, Russia and Ukraine.

*The Infrastructure segment (divided into two segments – Projects and assets activities)* – The Company, through a subsidiary, develops and invests in infrastructure assets and provides engineering, consulting and design services. The Company undertakes projects in Latin America, Eastern Europe, China, Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

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

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

## For the year ended December 31, 2007

| € in millions                  | Real Estate | Financial Services – Insurance Pension | Financial Services – Banking Lending | Infrastructure Projects | Infrastructure Assets | Automotive & Consumer Goods | Communications & Technology | Other | Adjustment | Total        |
|--------------------------------|-------------|--|--------------------------------------|-------------------------|-----------------------|-----------------------------|-----------------------------|-------|------------|--------------|
| 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          |
| Financing expenses             |             |  |                                      |                         |                       |                             |                             |       |            | 106          |
| Taxes on income                |             |  |                                      |                         |                       |                             |                             |       |            | 42           |
| <b>Net profit for the year</b> |             |  |                                      |                         |                       |                             |                             |       |            | <b>250</b>   |
| Minority interests             |             |  |                                      |                         |                       |                             |                             |       |            | 160          |
| Equity holders                 |             |  |                                      |                         |                       |                             |                             |       |            | 90           |
| <b>As of December 31, 2007</b> |             |  |                                      |                         |                       |                             |                             |       |            |              |
| Allocated assets               | 2,155       | 278                                    | 948                                  | 56                      | 97                    | 58                          | 44                          | 5     | –          | 3,641        |
| Unallocated assets             |             |  |                                      |                         |                       |                             |                             |       |            | 631          |
| <b>Total assets</b>            |             |  |                                      |                         |                       |                             |                             |       |            | <b>4,272</b> |
| Allocated liabilities          | 224         | 195                                    | 644                                  | 25                      | 9                     | 11                          | 1                           | 3     | –          | 1,112        |
| Unallocated liabilities        |             |  |                                      |                         |                       |                             |                             |       |            | 2,087        |
| <b>Total liabilities</b>       |             |  |                                      |                         |                       |                             |                             |       |            | <b>3,199</b> |
| Capital expenditure            | 187         | 4                                      | 37                                   | 19                      | 16                    | 4                           | 3                           | –     | –          | 270          |
| Depreciation and amortization  | 4           | 2                                      | 4                                    | 2                       | –                     | –                           | –                           | 1     | –          | 13           |

## For the year ended December 31, 2006

| € in millions                  | Real Estate | Financial Services – Insurance Pension | Financial Services – Banking Lending | Infrastructure Projects | Infrastructure Assets | Automotive & Consumer Goods | Communications & Technology | Other | Adjustment | Total        |
|--------------------------------|-------------|--|--------------------------------------|-------------------------|-----------------------|-----------------------------|-----------------------------|-------|------------|--------------|
| Segment revenues               | 358         | 78                                     | 25                                   | 65                      | –                     | 22                          | 8                           | 5     | 27         | 588          |
| Segment results                | 285         | 2                                      | 4                                    | 3                       | –                     | 5                           | 6                           | 3     | –          | 308          |
| Unallocated expenses           |             |  |                                      |                         |                       |                             |                             |       |            | 6            |
| Profit from operations         |             |  |                                      |                         |                       |                             |                             |       |            | 302          |
| Financing expenses             |             |  |                                      |                         |                       |                             |                             |       |            | 99           |
| Taxes on income                |             |  |                                      |                         |                       |                             |                             |       |            | 46           |
| <b>Net profit for the year</b> |             |  |                                      |                         |                       |                             |                             |       |            | <b>157</b>   |
| Minority interests             |             |  |                                      |                         |                       |                             |                             |       |            | 116          |
| Equity holders                 |             |  |                                      |                         |                       |                             |                             |       |            | 41           |
| <b>As of December 31, 2006</b> |             |  |                                      |                         |                       |                             |                             |       |            |              |
| Allocated assets               | 1,083       | 181                                    | 356                                  | 45                      | 8                     | 49                          | 44                          | 2     | –          | 1,768        |
| Unallocated assets             |             |  |                                      |                         |                       |                             |                             |       |            | 457          |
| <b>Total assets</b>            |             |  |                                      |                         |                       |                             |                             |       |            | <b>2,225</b> |
| Allocated liabilities          | 123         | 362                                    | –                                    | 28                      | –                     | 11                          | 1                           | 2     | –          | 527          |
| Unallocated liabilities        |             |  |                                      |                         |                       |                             |                             |       |            | 940          |
| <b>Total liabilities</b>       |             |  |                                      |                         |                       |                             |                             |       |            | <b>1,467</b> |
| Capital expenditure            | 137         | 41                                     | –                                    | 1                       | –                     | –                           | 22                          | 1     | –          | 202          |
| Depreciation and amortization  | 1           | 3                                      | –                                    | 1                       | –                     | –                           | –                           | –     | –          | 5            |

### c Secondary Segment Information – Geographical Segments

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

| € in millions                            | December 31, 2007 | December 31, 2006 | December 31, 2005 |
|--|-------------------|-------------------|-------------------|
| Europe (mainly Central & Eastern Europe) | 620               | 468               | 364               |
| China                                    | 6                 | 63                | 1                 |
| Israel                                   | 74                | 6                 | 56                |
| Other                                    | 32                | 24                | 11                |
|  | <b>732</b>        | <b>561</b>        | <b>432</b>        |

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

| € in millions                            | Segment Assets    |                   | Capital expenditures |                   |                   |
|--|-------------------|-------------------|----------------------|-------------------|-------------------|
|  | December 31, 2007 | December 31, 2006 | December 31, 2007    | December 31, 2006 | December 31, 2006 |
| Europe (mainly Central & Eastern Europe) | 3,279             | 1,837             | 260                  | 169               | 238               |
| China                                    | 84                | 17                | 3                    | 33                | 4                 |
| Israel                                   | 228               | 189               | 7                    | –                 | 2                 |
| Other                                    | 50                | 14                | –                    | –                 | –                 |
| <b>Total allocated assets</b>            | <b>3,641</b>      | <b>2,057</b>      | <b>270</b>           | <b>202</b>        | <b>244</b>        |
| Unallocated assets                       | 631               | 168               |                      |                   |                   |
|  | <b>4,272</b>      | <b>2,225</b>      |                      |                   |                   |

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

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

## 6 Business Combinations and Investment in Subsidiaries and Joint Ventures

### a Principal Subsidiaries and Joint Ventures

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

| Holding Company                                    | Name of Subsidiary or Joint Venture               | Country of incorporation | % equity interest as of December 31 |       |               |
|--|---|--------------------------|-------------------------------------|-------|---------------|
|  |   |                          | 2007                                | 2006  |               |
| Kardan N.V.  | Kardan Israel Ltd.                                | Israel                   | 71.4                                | 78.0  | Subsidiary    |
|  | Kardan Financial Services B.V.                    | Netherlands              | 80                                  | 55.1  | Subsidiary    |
|  | GTC Real Estate N.V.                              | Netherlands              | 64,6*                               | 61.4* | Subsidiary    |
|  | Tahal Group B.V.                                  | Netherlands              | 100                                 | 100   | Subsidiary    |
| Kardan Israel Ltd.                                 | Kardan Real Estate Enterprise and Development Ltd | Israel                   | 100                                 | 100   | Subsidiary    |
|  | Kardan Motors Ltd.                                | Israel                   | 100                                 | 100   | Subsidiary    |
|  | Kardan Technologies Ltd.                          | Israel                   | 60.7                                | 60.7  | Subsidiary    |
|  | Kardan Communications Ltd.                        | Israel                   | 100                                 | 100   | Subsidiary    |
| Kardan Real Estate Enterprise and Development Ltd. | Nofei Hashemesh B.S. Ltd.                         | Israel                   | 50                                  | 50    | Joint venture |
|  | El-Har Engineering and Construction Ltd           | Israel                   | 50                                  | –     | Subsidiary    |
| Kardan Motors Ltd.                                 | Taldan Motors Ltd.                                | Israel                   | 90                                  | 90    | Subsidiary    |
|  | S.F.D.I. Ltd.                                     | Israel                   | 100                                 | 100   | Subsidiary    |
| Tahal Group B.V.                                   | Israel Water Planning Ltd.                        | Israel                   | –                                   | 100   | Subsidiary    |
|  | IWP Engineers and Consultants Ltd.                | Israel                   | 100                                 | –     | Subsidiary    |
|  | Tahal China Group Limited                         | Hong Kong                | 100                                 | 95    | Subsidiary    |
|  | Task Water B.V.                                   | Netherlands              | 100                                 | 100   | Subsidiary    |
|  | Task Assets B.V.                                  | Netherlands              | 100                                 | –     | Subsidiary    |
|  | Eko-Wark Sp. ZOO                                  | Poland                   | 60.9                                | –     | Subsidiary    |
|  | Fideco DOO  | Serbia                   | 100                                 | –     | Subsidiary    |
|  | Kardan Water International Group Limited          | Cayman Islands           | 66.7                                | –     | Subsidiary    |
|  | Tahal-Kaz Ltd                                     | Kazakhstan               | 70                                  | –     | Subsidiary    |

\* Effective holding percentage

| Holding Company                    | Name of Subsidiary or Joint Venture              | Country of incorporation | % equity interest as of December 31 |      |               |
|------------------------------------|--|--------------------------|-------------------------------------|------|---------------|
|                                    |  |                          | 2007                                | 2006 |               |
| Israel Water Planning Ltd.         | IWP Engineers and Consultants Ltd.               | Israel                   | –                                   | 100  | Subsidiary    |
| IWP Engineers and Consultants Ltd. | Israel Water Planning Ltd.                       | Israel                   | 100                                 | –    | Subsidiary    |
| Kardan Financial Services B.V.     | TBIH Financial Services Group N.V.               | Netherlands              | 40                                  | 74.8 | Joint venture |
|                                    | TBIF Financial Services B.V.                     | Netherlands              | 90.4                                | –    | Subsidiary    |
|                                    | Russian Insurance Company                        | Russia                   | 74.6                                | –    | Subsidiary    |
| TBIH Financial Services Group N.V. | TBI Bulgaria EAD                                 | Bulgaria                 | 100                                 | 100  | Subsidiary    |
|                                    | TBIF Financial Services B.V.                     | Netherlands              | –                                   | 89.4 | Subsidiary    |
|                                    | Helios Insurance Company Ltd.                    | Croatia                  | 100                                 | 100  | Subsidiary    |
|                                    | Georgian Insurance & Pension Holding Ltd.        | Georgia                  | –                                   | 61   | Subsidiary    |
|                                    | Alpha Insurance & Reinsurance Broker Limited     | Gibraltar                | 85                                  | 85   | Subsidiary    |
|                                    | TBIH (RUS) LLC                                   | Russia                   | 100                                 | 100  | Subsidiary    |
|                                    | UPIH B.V.  | Netherlands              | 50                                  | 50   | Joint venture |
|                                    | GPIH B.V.  | Netherlands              | 50                                  | 50   | Joint venture |
|                                    | IRAO International Insurance Company Ltd.        | Georgia                  | 75                                  | 51   | Subsidiary    |
|                                    | Ray Sigorta A.S.                                 | Turkey                   | 74.3                                | –    | Subsidiary    |
|                                    | Sigma SH.a                                       | Albania                  | 75                                  | –    | Subsidiary    |
| TBI Bulgaria EAD and subsidiaries  | TBI EAD  | Bulgaria                 | 100                                 | 100  | Subsidiary    |
|                                    | TBIF Bulgaria AD                                 | Bulgaria                 | –                                   | 100  | Subsidiary    |
|                                    | Doverie Pension Fund A.D.                        | Bulgaria                 | 92.2                                | 92   | Subsidiary    |
|                                    | Bulstrad Insurance & Reinsurance AD              | Bulgaria                 | 96.8                                | 97.3 | Subsidiary    |
|                                    | European Insurance & Reinsurance Brokers Limited | United Kingdom           | 82.3                                | 82.7 | Subsidiary    |
|                                    | Bulstrad Life                                    | Bulgaria                 | 91                                  | 91.4 | Subsidiary    |
|                                    | Bulstrad Health Insurance AD                     | Bulgaria                 | 88.9                                | 92   | Subsidiary    |
| UPIH B.V.                          | VAB Pension                                      | Ukraine                  | 100                                 | 100  | Subsidiary    |
|                                    | VAB Insurance                                    | Ukraine                  | 90                                  | 90   | Subsidiary    |
| GPIH B.V.                          | Georgian Pension and Insurance Holding Ltd.      | Georgia                  | 90                                  | –    | Subsidiary    |
| TBIH (RUS) LLC                     | NPF 'Victoria' Fund                              | Russia                   | 100                                 | 100  | Subsidiary    |
|                                    | NPF 'Municipality' Fund                          | Russia                   | 94                                  | 94   | Subsidiary    |

| Holding Company                    | Name of Subsidiary or Joint Venture              | Country of incorporation | % equity interest as of December 31 |       |               |
|------------------------------------|--|--------------------------|-------------------------------------|-------|---------------|
|                                    |  |                          | 2007                                | 2006  |               |
| TBIF Financial Services B.V.       | TBI Leasing IFN SA                               | Romania                  | 100                                 | 100   | Subsidiary    |
|                                    | Sympatia Finance O.C.P, A.S                      | Slovakia                 | 100                                 | 100   | Subsidiary    |
|                                    | TBIF Financial Services GmbH                     | Austria                  | 100                                 | 100   | Subsidiary    |
|                                    | Regional Credit Bank                             | Russia                   | –                                   | 59.9  | Subsidiary    |
|                                    | TBIF Bulgaria EAD                                | Bulgaria                 | 100                                 | –     | Subsidiary    |
|                                    | VAB Bank   | Ukraine                  | 48.8                                | 48.7  | Joint venture |
|                                    | TBIF (RUS) LLC                                   | Russia                   | 100                                 | 100   | Subsidiary    |
|                                    | Sovcombank                                       | Russia                   | 50                                  | –     | Joint venture |
| TBI Leasing IFN SA                 | TBI Credit IFN SA                                | Romania                  | 100                                 | 100   | Subsidiary    |
| TBIF Bulgaria EAD and subsidiaries | TBI Leasing EAD                                  | Bulgaria                 | 100                                 | 100   | Subsidiary    |
|                                    | TBI Credit EAD                                   | Bulgaria                 | 100                                 | 100   | Subsidiary    |
|                                    | TBI Asset Management AD                          | Bulgaria                 | 100                                 | 100   | Subsidiary    |
|                                    | TBI Invest AD                                    | Bulgaria                 | 100                                 | 100   | Subsidiary    |
|                                    | HypoCredit AD                                    | Bulgaria                 | 50                                  | 50    | Joint venture |
| TBIF (RUS) LLC                     | Arka Finance                                     | Russia                   | –                                   | 60    | Joint venture |
| Sovcombank                         | Arka Finance                                     | Russia                   | 100                                 | –     | Subsidiary    |
|                                    | RLK Leasing                                      | Russia                   | 100                                 | –     | Subsidiary    |
|                                    | LKR Leasing                                      | Russia                   | 100                                 | –     | Subsidiary    |
| Arka Finance and subsidiaries      | Arka Insurance                                   | Russia                   | 100                                 | 100   | Subsidiary    |
|                                    | Arka Agencies                                    | Russia                   | 100                                 | 100   | Subsidiary    |
|                                    | Regional Credit Bank                             | Russia                   | 100                                 | –     | Subsidiary    |
| GTC Real Estate N.V.               | GTC Real Estate China Ltd.                       | Hong Kong                | 100                                 | 100   | Subsidiary    |
|                                    | GTC Investment B.V.                              | Netherlands              | 46.25                               | 46.25 | Joint venture |
|                                    | Globe Trade Centre S.A.                          | Poland                   | 46.1                                | 46.4  | Subsidiary    |
| Globe Trade Centre S.A.            | GTC Hungary Real Estate Development Company Ltd. | Hungary                  | 97.5                                | 97.5  | Subsidiary    |
|                                    | GTC Real Estate Investments Romania B.V.         | Netherlands              | 94.6                                | 94.6  | Subsidiary    |
|                                    | GTC Real Estate Investments Serbia B.V.          | Netherlands              | 97.5                                | 97.5  | Subsidiary    |
|                                    | GTC Real Estate Investments Croatia B.V.         | Netherlands              | 97.2                                | 97.2  | Subsidiary    |
|                                    | GTC Real Estate Investments Slovakia B.V.        | Netherlands              | 95.0                                | 95.0  | Subsidiary    |
|                                    | GTC Real Estate Investments Ukraine B.V.         | Netherlands              | 85.5                                | 85.5  | Subsidiary    |
|                                    | GTC Real Estate Investments Bulgaria B.V.        | Netherlands              | 95                                  | 95    | Subsidiary    |
|                                    | GTC Real Estate Investments Moldova B.V.         | Netherlands              | 95                                  | 95    | Subsidiary    |



| Holding Company            | Name of Subsidiary or Joint Venture                      | Country of incorporation | % equity interest as of December 31 |      |               |
|----------------------------|--|--------------------------|-------------------------------------|------|---------------|
|                            |  |                          | 2007                                | 2006 |               |
| GTC Real Estate China Ltd. | Shenyang Real Estate Development Ltd.                    | China                    | 50                                  | 50   | Joint venture |
|                            | GTC Lucky Hope Dadong Ltd.                               | Hong Kong                | 50                                  | 50   | Joint venture |
|                            | Shenyang GTC Palm Garden Development Co. Ltd             | China                    | 50                                  | 50   | Joint venture |
|                            | Sino Caste Development Ltd.                              | Hong Kong                | 50                                  | 50   | Joint venture |
|                            | Sino Court International Ltd.                            | Hong Kong                | 50                                  | 50   | Joint venture |
|                            | Shanxi GTC Lucky Hope Real Estate Development Ltd.       | China                    | 50                                  | 50   | Joint venture |
|                            | Chengdu GTC Lucky Hope (HK) Real Estate Development Ltd. | Hong Kong                | 75                                  | –    | Subsidiary    |
|                            | Chengdu GTC Lucky Hope Real Estate Development Ltd.      | China                    | 75                                  | –    | Subsidiary    |
|                            | Rainfield Development Ltd.                               | Hong Kong                | 50                                  | –    | Joint venture |
|                            | Green Power Development Limited                          | Hong Kong                | 50                                  | –    | Joint venture |
|                            | Well Strong Development Ltd.                             | Hong Kong                | 100                                 | –    | Subsidiary    |
|                            | Sharp Long Ltd.  | Hong Kong                | 100                                 | –    | Subsidiary    |
|                            | Tidemark International Ltd.                              | Hong Kong                | 100                                 | –    | Subsidiary    |
|                            | South Pool Ltd.  | Hong Kong                | 100                                 | –    | Subsidiary    |
| GTC Investment B.V.        | Blitz Portfolio GmbH                                     | Germany                  | 85                                  | 85   | Subsidiary    |
|                            | Durango Switzerland B.V.                                 | Netherlands              | 80                                  | 80   | Subsidiary    |

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

## **b Significant Business Combinations**

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

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

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

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

The price for the indirect acquisition of TBIF's shares amounted to EUR 68 million. Based on the valuation of an external valuer, the Company has allocated the excess of the purchase price over the book value of the net assets of TBIF, amounting to EUR 27 million, to identified intangible assets (about EUR 2.4 million) and the balance was attributed to goodwill.

The effect of the change from proportionate consolidation (approximately 55%) to full

consolidation of TBIF on the financial statements of the Company is presented in C below.

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

**b** Within the framework of the above-mentioned reorganization, KFS has acquired employee options which were granted to certain key employees in TBIH in exchange for shares in KFS and cash payments.

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

The Company has granted to the key employees, managers and other minority shareholders in KFS PUT options to sell their shares in KFS to the Company with a strike price to the fair value of the shares at the date of sale. The PUT options are exercisable during a period of several years. Some of the PUT options include in the definition of the strike price a minimum amount from which the shares can be sold.

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

The fair value of the liability at the date of the transaction (initial recognition) amounted to EUR 23 million. The difference between the fair value of the liability and the carrying amount of the minority interests in KFS amounted to EUR 10 million and was recorded as goodwill. During 2007 the value of the liability was adjusted to EUR 45 million. The increase in value of that liability, based on the transaction described in F (2) below, was added to the above-mentioned goodwill.

Within the framework of the above-mentioned reorganization, it was agreed that if certain conditions will take place WS will pay to KFS an additional compensation for the acquisition of TBIF's shares. The fair value of the right to receive an additional compensation was valued by KFS to EUR 6 millions and included in these financial statements under long term loans and receivables (see note 13).

- c Following is the effect of the full consolidation in the Company's interest in TBIF on its financial statements at the date of acquisition:

| € in millions                  |           |
|--------------------------------|-----------|
| Cash and cash equivalents      | 37        |
| Loans to bank customers        | 94        |
| Long-term receivables          | 86        |
| Other current assets           | 49        |
| Other non-current assets       | 40        |
| Long-term loans and borrowings | (109)     |
| Banking customers accounts     | (115)     |
| Other liabilities              | (41)      |
| Net assets                     | 41        |
| Excess of purchase price       | 27        |
| <b>Total purchase price</b>    | <b>68</b> |

As of the date of the transaction, TBIF has contributed EUR 10.6 million to the net consolidated profit of the Company. If the transaction would have taken place in January 1, 2007, the net consolidated profit of the Company for the period ended on December 31, 2007 would not be changed and the total consolidated operating revenue amounted to EUR 780 million.

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

| € in millions                       |      |
|-------------------------------------|------|
| Cash and cash equivalents           | (5)  |
| Receivables of insurance activities | (10) |
| Other current assets                | (10) |
| Other non-current assets            | (26) |
| Long-term loans and borrowings      | 4    |
| Insurance provisions                | 25   |
| Other liabilities                   | 4    |

- e In June 2007 TBIH completed the acquisition of a 58.2% stake in Ray Sigorta A.S. ('Ray Sigorta'), a Turkish insurance company, listed on the Istanbul Stock Exchange, for a consideration of EUR 62 million. According to the agreement, during 2010 and 2011 the minority shareholder in Ray Sigorta will have the option to sell its remaining 20% holding in Ray Sigorta to TBIH in consideration for the purchase price of EUR 62 millions paid in 2007 plus interest. The liability included in TBIH financial statements for this option amounts to EUR 20 million. In addition, TBIH agreed to increase the capital of Ray Sigorta in the amounts necessary to meet the applicable regulatory requirements, which are estimated to range in between EUR 13 million and EUR 23 million. According to other regulatory requirements, TBIH had to make a tender offer to the holders of the remaining 21.8% of Ray Sigorta shares to acquire these shares. In August 2007 approximately 16% of the shareholders of Ray Sigorta responded to the tender offer, and TBIH has paid EUR 17 million. Accordingly its interest in Ray Sigorta has increased to 74%. TBIH has accounted for the PUT option granted to the minority shareholders and its commitment to make a tender offer to the public as a liability. TBIH's investment in Ray Sigorta was therefore recorded for 94%.

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

| € in millions                   | Fair value recognized on acquisition | carrying value |
|---------------------------------|--------------------------------------|----------------|
| Property plant and equipment    | 16                                   | 10             |
| Reinsurance assets              | 44                                   | 44             |
| Insurance receivables           | 48                                   | 48             |
| Other assets                    | 51                                   | 33             |
|                                 | 159                                  | 135            |
| Insurance contracts liabilities | (120)                                | (115)          |
| Other liabilities               | (11)                                 | (10)           |
| <b>Net assets</b>               | <b>28</b>                            | <b>10</b>      |
| Minority interests              | 73                                   |                |
| <b>Total acquisition cost</b>   | <b>101</b>                           |                |

Since the acquisition date Ray Sigorta contributed a net loss of EUR 0.2 million.

If the transaction would have taken place as of January 2007, the net consolidated profit of the Company for the year ended on December 31, 2007 would have decreased by EUR 0.5 million and the total consolidated revenues would have increased by an amount of EUR 27 million.

## c Other Transactions in 2007

### Real Estate

- a GTC Real Estate N.V. (A consolidated company, held directly and indirectly at percentage of about 64.6% 'GTC RE') holds 46.13% of Global Trade Center S.A. ('GTC Poland'), acting directly and through its held companies in initiation and construction of residential and rented buildings in Central & Eastern Europe. GTC Poland shares are listed on the Warsaw stock exchange. GTC financial statements are consolidated with the financial statements of the

group, since GTC RE has effective control over GTC Poland operations.

The attributed share of the company in GTC Poland equity (with added cost reserves), as at December 31, 2007, amounts to some EUR 445 million and the market value at the same date of company investments in GTC Poland shares amounts to some EUR 1,257 million.

In addition GTC RE holds 100% of GTC Real Estate China Ltd., ('GTC China') which acts in initiating residential and residential and rental real estate in China and 46.25% in GTC Investments B.V., ('GTC Investments'), which owns yielding real estate in Germany and Switzerland.

- b In July 2007, the Supervisory Board of the Company approved the purchase of traded shares and debentures of GTC RE, in a total amount of up to EUR 20 million. Following the Directors decision, the Company has acquired from that date until December 31, 2007, 1,522,613 shares of GTC RE in consideration of EUR 17.5 million. As a result the holding share increased to 61.7% and the goodwill resulted from the purchase amounted to EUR 13.7 million. In addition, during 2007 NIS 24,875,568 par value convertible debentures of GTC RE were purchased in consideration of EUR 18.8 million. As a result the Company recognized a loss from early redemption of EUR 1.5 million.

- c In November 2007, the company converted 143,183,170 convertible debentures of GTC RE into 8,879,428 shares of GTC RE. As a result of this conversion, the company increased its holding in GTC RE to 65.7% and the company attributed an amount of EUR 31 million to goodwill.

### Financial Services

- a In December 2007 a transaction was executed and closed with Discount Bank Israel Ltd., ('Discount Bank') whereby KFS allocated 11% of the share capital for consideration of EUR 55.6 million.

The parties also agreed that Discount Bank will grant KFS a credit facility of up to EUR 225 million, for periods ranging from 6 to 11 years. The agreement entitled Discount Bank to nominate up to 20% of the Supervisory Board of KFS.

As a result, KFS has revalued a PUT option granted to minority shareholder in TBIF for a total amount of EUR 19 million and attributed this revaluation as an expense in the income statement. Following the closing of the transaction, the Company recorded a gain of EUR 30 million included in the consolidated income statement, under gains from share issue to third party section.

- b** In February 2007 TBIF has signed a term sheet with the shareholders of a regional bank in Russia ('Sovcom Bank') to merge TBIF's lending operations in Russia with the activities of the Bank under a joint holding company. In addition, TBIF will increase the capital of the holding company by USD 39.5 million (EUR 29.7 million), through the contribution of cash and receivables from its Russian lending operations.

Following the completion of the transaction, TBIF will have a 47% interest in the Bank (indirectly, through the joint holding company) and 50% of the voting rights. The transaction was completed in August 2007.

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

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

The effective disposal of 50% of Arka yielded a gain of EUR 7 millions.

- c** In July 2007 TBIH signed a Share Purchase Agreement ('SPA'), according to which TBIH purchased 75% + 1 share of Sigma Albania ('Sigma'), an Albanian insurance company also operating in Macedonia (through a subsidiary) and Kosovo (through a branch), for a total consideration of EUR 16.6 million. The SPA included the option for the minority shareholders to sell the remaining 25% stake in Sigma within the next four years for a price depending on the development of Sigma during this period. The total liability due to the option evaluated to EUR 6.9 million and was classified as financial liability with any subsequent fair value movements being posted against goodwill.

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

The excess of the purchase price over the net assets of Sigma amounted to EUR 20.5 million and was temporarily primarily allocated to goodwill.

- d** In October 2007, KFS signed a Share Purchase Agreement ('SPA'), according to which KFS purchased 100% in a fund holding 74.95% in an insurance company operating in Russia ('insurance company') for a total consideration of EUR 24.4 million. The financing of the acquisition was through a loan granted from TBIH to KFS, which granted the right to TBIH to purchase the shares of the insurance company starting June 2009. The SPA included the option for the minority shareholders to sell the remaining 25.5% stake in the insurance in 2010 for a price determined by the SPA. Parallel an option granted to KFS to purchase the minority share at the same conditions. The total liability due to the option amounts to EUR 7.7 million and was classified as financial liability. The excess of the purchase price over the net assets was allocated temporarily to goodwill.

### Infrastructure

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

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

### Kardan Israel

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

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

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

Furthermore, in April 2007 Kardan Israel raised EUR 6 million by the issuance of 2 million new shares to institutional investors. After this transaction, Kardan's interest in Kardan Israel has been diluted to 72.25% and the Company has realized a gain of approximately EUR 2.7 million.

### d Investments in Joint Ventures

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

#### Group Share in the companies balance sheet according to holding percentage:

| € in millions         | December 31, 2007 | December 31, 2006 |
|-----------------------|-------------------|-------------------|
| Current Assets        | 667               | 155               |
| Non-Current Assets    | 855               | 655               |
| Current Liabilities   | (593)             | (108)             |
| Long Term Liabilities | (617)             | (449)             |
| <b>Assets, net</b>    | <b>312</b>        | <b>253</b>        |

#### Group Share in the companies balance sheet according to holding percentage:

| € in millions                   | December 31, 2007 | December 31, 2006 |
|---------------------------------|-------------------|-------------------|
| <b>Revenues</b>                 | <b>226</b>        | <b>155</b>        |
|                                 | (150)             | (114)             |
| Minority share in profit (loss) | (1)               | 1                 |
| <b>Profit, net</b>              | <b>75</b>         | <b>42</b>         |

### e Transactions in 2006

#### Real Estate

- a In April 2006 GTC Investments B.V. ('GTC Investments') has signed an agreement for the acquisition of an 80% stake in Durango Switzerland B.V. which company subsequently purchased a real estate portfolio comprising 9 office properties in Switzerland. The properties are quality office buildings situated in major cities throughout Switzerland: Bern, Zurich, Fribourg, Neuchatel and others. The majority of the properties are let to Swisscom. The total consideration for the real estate

portfolio amounts to approximately CHF 96.4 million (EUR 59 million) including acquisition costs. Approximately CHF 80 million (EUR 49 million) of the total consideration will be financed through a bank loan. GTC Investments is consolidating the results of Durango Switzerland B.V. as of the date of acquisition, whereby goodwill paid is allocated to the fair value of the investment properties.

**b** GTC RE and Mr. Alroy signed a consulting agreement according to which Mr. Alroy will provide the Company with services in relation with its investment in GTC Investments B.V. In consideration for the consulting services the parties agreed as follows:

- GTC RE will transfer to Mr. Alroy 450 shares in GTC Investments constituting 2.5% of the share capital of GTC Investments in consideration for their nominal value;
- The shares will vest in three annual equal tranches starting in November 2005;
- GTC RE will assign to Mr. Alroy shareholders' loans granted to GTC Investments and will advance future loans on behalf of Mr. Alroy to GTC Investments;

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

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

GTC RE has agreed with one of its directors, holding 1.25% in GTC Investments that GTC RE will finance

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

**c** On March 24, 2006 GTC SA successfully completed the issuance of 17,120,000 new shares at a price of PLN 28.5 per share (EUR 7). The newly issued shares constitute approximately 7.9% of the share capital of GTC SA. As a result of the issuance the Company's indirect holding in GTC SA was reduced to 29.8% and the Company recorded a gain of approximately EUR 32 million (EUR 20 million after minority interests). As of December 31, 2006 the Company has a 28.5% indirect interest in GTC SA

The Company continues to consolidate the financial statements of GTC SA in its financial statements as it considers having effective control over the operations of GTC SA as the Company has the right to nominate the majority of the Supervisory Board members, including the Chairman, who has a casting vote.

**d** In December 2005 GTC SA has signed a conditional preliminary share purchase agreement for the sale of 50% in the subsidiary holding Galeria Kazimierz shopping centre. On April 28, 2006 the final share purchase agreement was concluded between the parties and the transaction was completed. Following the completion of the transaction, GTC SA proportionately consolidates the financial statements of Galeria Kazimierz.



GTC SA's interest in the sold subsidiary as at transaction date comprised the following:

| € in millions                    | April 28, 2006 |
|----------------------------------|----------------|
| Non-current assets               | 135            |
| Current assets (other than cash) | 4              |
| Cash                             | 2              |
| Long-term liabilities            | (74)           |
| Current liabilities              | (7)            |
| <b>Net assets</b>                | <b>60</b>      |

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

| € in millions                  |           |
|--------------------------------|-----------|
| Real estate under construction | 18        |
| Investment properties          | 2         |
| Inventories                    | 20        |
| Current assets                 | 1         |
| Long-term liabilities          | (5)       |
| Current liabilities            | (1)       |
| <b>Total purchase price</b>    | <b>35</b> |

f During 2006 the Company and third parties exercised options and converted convertible debentures into shares of GTC RE. The exercise price paid by the Company amounted to approximately EUR 1 million. In addition the Company has acquired on TASE approximately 654 thousand shares of GTC RE in consideration of EUR 3 million. As a result the Company's interest in GTC RE was reduced from 69.1% to 61.38% and the Company recognised a gain of approximately EUR 6 million.

g During 2006 the Company purchased NIS 89,725,149 par value convertible debentures of GTC RE in consideration for approximately EUR 29 million. As a result and in accordance with IAS 32, the Company recorded a loss of EUR 5 million. Through this purchase, the Company believes it will be able to increase its holding in GTC RE at an attractive price, which will result in higher profits in the future.

#### Financial Services

h In April 2006 the Company completed a transaction according to which Wiener Stadtische Versicherung AG ('WS') purchased by way of allocation and acquisition, approximately 40% of the share capital of KFS. Within five years from the date of the transaction, WS may increase its percentage shareholding in KFS to 50%, through the purchase of additional shares and through capital increases.

In January 2006, KFS signed an agreement with the minority shareholders in TBIH according to which KFS will purchase from the minority shareholders additional shares of TBIH, according to TBIH's value as reflected in the above-mentioned transaction between KFS and WS. According to the agreement KFS will purchase, in the first stage, approximately 13.94% of TBIH's shares in consideration of approximately EUR 47.4 million. The transaction was completed in April 2006.

In addition, the agreement arranges for PUT and CALL options for the purchase of the remaining shares in TBIH over a period of two years. The exercise price for each option is EUR 47.4 million, increased by 5% per annum.

Following the completion of both transactions the Company holds approximately 55% of KFS's shares; and KFS holds approximately 75% of TBIH's shares. Upon exercise of the PUT and CALL options KFS will hold 100% of TBIH.



In July 2006, KFS signed a new agreement with the minority shareholders in TBIH, according to which KFS will acquire their remaining shares in TBIH immediately upon receipt of all necessary regulatory approvals for a purchase price of approximately EUR 96.3 million.

The Company and KFS accounted for the PUT option granted to the minority shareholders as a financial liability which fair value equals to the agreed purchase price, and accordingly the financial statements of TBIH are consolidated on a 100% basis, with no minority interest.

As part of the transaction in KFS shares, the shareholders signed a joint control agreement. Accordingly and following the investment in KFS the Company consolidates the financial statements of KFS using the proportionate consolidation method starting from the second quarter of 2006.

As the indirect effective interest of the Company in TBIH will not change significantly following the completion of both transactions, the Company estimates that the expected gain from dilution of its holding in KFS would be set-off against the goodwill to be recognized from the acquisition of the minority shares in TBIH.

The excess of cost over the carrying value of the investment in TBIH amounted to approximately EUR 45 million was off-set against the unrecognised gain of EUR 31 million, and is presented as goodwill.

- i In August 2006, the Company has signed an agreement with WS, its partner in KFS. According to the agreement, the Company will increase its interest in KFS from 55.1% to 89.5%, by acquiring WS' 40% stake in KFS. The remaining 10.5% is held by managers and employees.

It was further agreed between the parties that WS will acquire a 60% direct stake in TBIH, with the remaining 40% held by KFS. TBIH will focus

exclusively on the insurance and pension business. TBIH will remain under the joint control of KFS and WS (subject to certain conditions) until December 2010.

Following the completion of the transaction, KFS will initially hold 100% of TBIH, which will be diluted to 40% as a result of the above-mentioned transaction. TBIH holds both the pension and insurance businesses, and an 89% interest in TBIF, which manages the retail lending and asset management activities. TBIF will be transferred from TBIH and put directly under KFS. The insurance and pension activities will remain within TBIH.

The net effect of the transaction in terms of Kardan's holdings will be an increase in the retail lending activities from 49.3% to 80.0% and a decrease in its insurance and pension activities from 55.1% to 35.8%.

In addition, TBIH has signed an agreement for the purchase of the minority interests (43.17%) in its Bulgarian subsidiary TBI Bulgaria AD ('TBIB'), for consideration of EUR 56 million. TBIB holds all of Kardan's financial services activities in Bulgaria. Following the acquisition, the retail lending and asset management activities will be transferred to TBIF, and subsequently TBIF will be transferred under KFS as described above.

The transactions are subject to various conditions precedent, including regulatory approvals.

The Company is evaluating the accounting implications of the above-mentioned transactions.

- j In October 2005 TBIF signed a series of agreements for the purchase of up to 50% of Joint Stock Company Vseukrainsky Aktsionerny Bank ('VA Bank'), a Ukrainian bank.

In March 2006 TBIF subscribed for newly issued shares in a capital increase, investing a total of

EUR 62 million, as a result of which its stake in VA Bank increased from 9.6% to 49%. Following the receipt of all regulatory approvals, TBIF and the current controlling shareholders hold jointly about 98% of the shares of VA Bank in equal parts.

The excess of cost over the net fair value of the identifiable assets amounted to approximately USD 29.6 million (EUR 22.5 million for TBIF) and is presented as goodwill.

TBIF has formal contractual arrangements with the other shareholders in VA Bank which allow it to exercise joint control. The assets and liabilities of VA Bank have been consolidated using the proportional consolidation method for the first time on June 30, 2006.

- k In August 2006, TBIH has signed an agreement to sell all of its holdings in two Russian insurance companies and in its Serbian pension fund for a total consideration of approximately EUR 30 million. The transaction has generated an equity gain of EUR 10 million for the Company.

#### Kardan Israel

- l In December 2006 Kardan Israel has issued 2,076,125 ordinary shares to institutional investors in Israel in consideration of approximately NIS 30 million (EUR 5 million). As a result the Company's interest in Kardan Israel was reduced from 80.12% to 77.98% and the Company recognised a gain of approximately EUR 3 million.

#### f The Group's Investments in Subsidiaries whose shares are publicly-traded:

| € in millions              | December 31, 2007 | December 31, 2006 |
|----------------------------|-------------------|-------------------|
| <b>Kardan Technologies</b> |                   |                   |
| Carrying value             | 3                 | 5                 |
| Market value               | 4                 | 5                 |
| <b>GTC RE</b>              |                   |                   |
| Carrying value             | 271               | 117               |
| Market value               | 572               | 68                |
| <b>GTC SA</b>              |                   |                   |
| Carrying value             | 292               | 208               |
| Market value               | 811               | 653               |
| <b>Kardan Israel</b>       |                   |                   |
| Carrying value             | 75                | 72                |
| Market value               | 158               | 154               |

## 7 Property, Plant and Equipment

| € in millions                          | Freehold land and buildings | Property plant and equipment | Motor vehicles | Office furniture and equipment | Leasehold improvements | Total      |
|--|-----------------------------|------------------------------|----------------|--------------------------------|------------------------|------------|
| <b>Cost</b>                            |                             |                              |                |                                |                        |            |
| Balance as per January 1, 2006         | 18                          | 15                           | 3              | 4                              | –                      | 40         |
| Additions <sup>1</sup>                 | 9                           | 7                            | 2              | 2                              | –                      | 20         |
| Disposals <sup>2</sup>                 | (1)                         | (3)                          | –              | (1)                            | –                      | (5)        |
| Exchange differences                   | (2)                         | (1)                          | –              | –                              | –                      | (3)        |
| <b>Balance at December 31, 2006</b>    | <b>24</b>                   | <b>18</b>                    | <b>5</b>       | <b>5</b>                       | <b>–</b>               | <b>52</b>  |
| <b>Cost</b>                            |                             |                              |                |                                |                        |            |
| Balance at January 1, 2007             | 24                          | 18                           | 5              | 5                              | –                      | 52         |
| Additions <sup>1</sup>                 | 28                          | 29                           | 8              | 21                             | 3                      | 89         |
| Disposals <sup>2</sup>                 | (6)                         | (5)                          | (2)            | (12)                           | –                      | (25)       |
| Exchange differences                   | (1)                         | (2)                          | –              | (1)                            | –                      | (4)        |
| <b>Balance at December 31, 2007</b>    | <b>45</b>                   | <b>40</b>                    | <b>11</b>      | <b>13</b>                      | <b>3</b>               | <b>112</b> |
| <b>Accumulated depreciation</b>        |                             |                              |                |                                |                        |            |
| Balance at January 1, 2006             | 1                           | 10                           | 1              | 2                              | –                      | 14         |
| Depreciation for the year <sup>1</sup> | –                           | 3                            | 1              | 1                              | –                      | 5          |
| Eliminated on disposals <sup>2</sup>   | –                           | (2)                          | –              | –                              | –                      | (2)        |
| <b>Balance at December 31, 2006</b>    | <b>1</b>                    | <b>11</b>                    | <b>2</b>       | <b>3</b>                       | <b>–</b>               | <b>17</b>  |
| <b>Accumulated depreciation</b>        |                             |                              |                |                                |                        |            |
| Balance at January 1, 2007             | 1                           | 11                           | 2              | 3                              | –                      | 17         |
| Depreciation for the year <sup>1</sup> | 4                           | 7                            | 4              | 5                              | –                      | 20         |
| Eliminated on disposals <sup>2</sup>   | –                           | (1)                          | (2)            | –                              | –                      | (3)        |
| Exchange differences                   | –                           | (1)                          | –              | (1)                            | –                      | (2)        |
| <b>Balance at December 31, 2007</b>    | <b>5</b>                    | <b>16</b>                    | <b>4</b>       | <b>7</b>                       | <b>–</b>               | <b>32</b>  |
| <b>Net book value</b>                  |                             |                              |                |                                |                        |            |
| December 31, 2006                      | 23                          | 7                            | 3              | 2                              | –                      | 35         |
| <b>Net book value</b>                  |                             |                              |                |                                |                        |            |
| December 31, 2007                      | 40                          | 24                           | 7              | 6                              | 3                      | 80         |

Property and equipment is related to owner occupied property.

1 Includes additions resulting from newly consolidated subsidiaries:  
December 31, 2007 cost – € 37 millions; accumulated depreciation – € 10 millions, (in 2006 nil).

2 Includes disposals resulting from deconsolidation of subsidiaries:  
December 31, 2007 cost – € 22 thousand; accumulated depreciation – € 2 thousand, (in 2006 nil)

## 8 Real Estate under Construction

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

| € in millions                           | 2007       | 2006       |
|---|------------|------------|
| Carrying value as of January 1          | 189        | 132        |
| Acquisition of subsidiaries             | 56         | 18         |
| Additions                               | 224        | 130        |
| Disposals                               | –          | (2)        |
| Transfers to investment properties      | (164)      | (79)       |
| Foreign exchange differences            | 1          | (10)       |
| <b>Carrying value as of December 31</b> | <b>306</b> | <b>189</b> |

As of December 31, 2007 and 2006, real estate under construction includes land in projects in various development stages, as follows:

| € in millions  | December 31, 2007 | December 31, 2006 |
|----------------|-------------------|-------------------|
| Freehold land  | 103               | 56                |
| Leasehold land | 57                | 59                |
| Other*         | 146               | 74                |
| <b>Total**</b> | <b>306</b>        | <b>189</b>        |
|                | 4                 | 4                 |

\* Other comprises costs of development (other than land element) such as capitalised construction costs.  
The value of leasehold land principally relates to lease payments made in advance.

\*\* Includes capitalized finance costs in an average rate of EURIBOR+3.25%

## 9 Investment Properties

a The investment properties owned by the Group include office and commercial space. The movement in investment properties, which are valued at fair value, is as follows:

| € in millions  | 2007       | 2006       |
|--|------------|------------|
| Opening balance  | 638        | 644        |
| Capitalized subsequent expenditure and transfers from real estate under construction | 167        | 115        |
| Additions of newly proportionally consolidated joint venture                         | 1          | 2          |
| Disposal of previously consolidated subsidiary                                       | –          | (4)        |
| Investment property sold   | (118)      | (294)      |
| Adjustment to fair value   | 287        | 209        |
| Foreign currency translation differences   | (17)       | (38)       |
| Deferred brokerage fees  | 2          | 4          |
| <b>Closing balance</b>   | <b>960</b> | <b>638</b> |
| Includes:  |            |            |
| Investment properties on freehold land*  | 506        | 200        |
| Investment properties on leasehold land*   | 454        | 438        |
|  | <b>960</b> | <b>638</b> |

\* Part of the buildings and lands are being used as securities for long term loans from banks.

In all cases that property is built on leasehold land based on IAS 17.18 and IAS 40.6 the land is recognised as an investment property since all leased land meets all the characteristics of investment property.

**b** As of December 31, 2007 investment properties primarily include the following:

| Country     | Property                          | Total rentable/<br>saleable space (sq.m) | Details                           |
|-------------|-----------------------------------|--|-----------------------------------|
| Poland      | Galeria Kazimierz (100% of area)* | 36,200                                   | Shopping centre in Krakow         |
|             | Galeria Mokotow (100% of area)*   | 62,100                                   | Shopping centre in Warsaw         |
|             | Galileo                           | 10,300                                   | Office building in Krakow         |
|             | Globis Poznan                     | 13,000                                   | Office building in Poznan         |
|             | Topaz office building             | 11,000                                   | Office building in Warsaw         |
|             | Newton                            | 10,300                                   | Office building in Krakow         |
|             | Platinum                          | 8,900                                    | Office building in Warsaw         |
|             | Edison                            | 10,300                                   | Office building in Krakow         |
|             | Nothus                            | 8,850                                    | Office building in Warsaw         |
| Hungary     | Centre Point I                    | 18,600                                   | Office building in Budapest       |
|             | Centre Point II                   | 23,000                                   | Office building in Budapest       |
| Croatia     | Avenue Mall                       | 33,330                                   | Shopping centre in Zagreb         |
| Serbia      | 19 Avenue                         | 17,500                                   | Office building in Belgrade       |
|             | GTC House                         | 13,500                                   | Office building in Belgrade       |
| Germany     | Blitz portfolio                   | 55,300                                   | 7 office buildings in Germany     |
| Switzerland | Swiss portfolio                   | 50,500                                   | 9 office buildings in Switzerland |

\* Operated through joint venture

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

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

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

- d** In 2006 the construction of the following assets was completed: Topaz office building in Warsaw, America House office building in Bucharest, and Center Point II in Budapest. On August 11, 2006 GTC SA has agreed on terms for the sale of the office complex Mokotow Business Park in Warsaw, in consideration for approximately € 213 million. The transaction was completed on December 1, 2006.

- e** GTC Poland completed construction of the Newton offices building in Krakow in March 2007. Subsequently GTC Poland revaluated the said property and included gains from revaluation of EUR 11 million.

A subsidiary of GTC Poland completed construction of shopping mall in Zagreb on June 2007, which opened for business in August 2007. Subsequently, the consolidated company included revaluation gains of EUR 115.5 million.

Several subsidiaries of GTC Poland completed construction of four offices buildings in Poland and Serbia. Subsequently, the subsidiaries revaluated these properties and included revaluation gains of EUR 72 million.

In addition, associated companies revaluated several existing freehold properties during the year and entered gains from revaluation at a total amount of EUR 92 million.

- f** A subsidiary of GTC Poland sold in September 2007 the entire holding in its subsidiary, which held an offices building in Bucharest, Romania, for EUR 120 million. As a result, the Company has recognized a revaluation gain of EUR 16.4 million and has released the deferred tax liability previously recorded and accordingly income tax expenses reduced in the amount of EUR 13.9 million.

## 10 Intangible Assets and Goodwill

| € in millions  | Goodwill   | Other     | Total      |
|--|------------|-----------|------------|
| Balance as per January 1, 2006                                   | 71         | 2         | 73         |
| Additions  | 48         | 13        | 61         |
| Change due to disposal of investments                            | (5)        | –         | (5)        |
| Decrease due to completion of projects and revaluation of assets | (5)        | –         | (5)        |
| Translation differences  | (8)        | –         | (8)        |
| <b>Balance as of December 31, 2006</b>                           | <b>101</b> | <b>15</b> | <b>116</b> |
| Additions <sup>1</sup>   | 216        | 14        | 230        |
| Change due to disposal of investments                            | –          | (2)       | (2)        |
| Decrease due to completion of projects and revaluation of assets | (6)        | –         | (6)        |
| Foreign currency exchange differences                            | 4          | –         | 4          |
| <b>Balance as of December 31, 2007</b>                           | <b>315</b> | <b>27</b> | <b>342</b> |

<sup>1</sup> Including companies first consolidated at the amount of EUR 119 million (2006-EUR 21 million).

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

| € in millions                    | December 31, 2007 | December 31, 2006 |
|----------------------------------|-------------------|-------------------|
| GTC RE and its subsidiaries      | 69                | 29                |
| KFS and its subsidiaries         | 219               | 70                |
| Tahal Group and its subsidiaries | 27                | 2                 |
|                                  | <b>315</b>        | <b>101</b>        |

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

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

## 11 Investments in Associates

### a Principal Associates

| Holding Company                                   | Name of Company                                       | % of ownership and control by the holding company as of |                   |            |
|---|---|---|-------------------|------------|
|   |   | December 31, 2007                                       | December 31, 2006 | Country    |
| Taldan Motors Ltd.                                | Universal Motors Israel Ltd.                          | 45  | 45                | Israel     |
| Kardan Communications Ltd                         | Lidan Investment Agencies (1994) Ltd.                 | 49  | 49                | Israel     |
|   | R.R. Satellite Communication Ltd.                     | 24.6  | 24.6              | Israel     |
|   | I.V.P. Ivory Video Productions Ltd.                   | 51.8  | 51.8              | Israel     |
|   | Teledata Networks Ltd.                                | 37.5  | 37.5              | Israel     |
|   | Unicell Advanced Cellular Solutions Ltd.              | 29  | 29                | Israel     |
| Kardan Technologies Ltd.                          | Concord Venture 1                                     | 6.6   | 6.6               | Israel     |
|   | Formula Vision Portfolio Holdings Limited Partnership | 49  | 49                | Israel     |
| Kardan Israel Ltd.                                | Ocif Nichsey Emed                                     | 30  | 30                | Israel     |
|   | Avis Israel   | 1.4   | 1.4               | Israel     |
| Kardan Real Estate Enterprise and Development Ltd | Holyland Park Ltd                                     | 30  | 30                | Israel     |
| Globe Trade Centre S.A.                           | Lighthouse Holdings Ltd. S.A.                         | 31.6  | 31.6              | Luxembourg |
|   | Vokovice BCP Holding S.A.                             | 31.6  | 31.6              | Luxembourg |
|   | Holesovice Residential Holding S.A.                   | 31.6  | 31.6              | Luxembourg |
|   | CID Holding S.A.                                      | 31.6  | 31.6              | Luxembourg |
|   | ND Holdings S.A                                       | 31.6  | –                 | Luxembourg |
|   | Demo invest doo                                       | 25.0  | –                 | Serbia     |
| TBIH Financial Services Group N.V.                | Ereste d.o.o  | 29  | 29                | Croatia    |
|   | Kredit Export Bank                                    | –   | 14.96             | Serbia     |
|   | Omniasig Life   | 49.97   | 49.97             | Romania    |



**b Comprised of:**

| € in millions   | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| Cost of shares  | 46                | 36                |
| Accumulated profits since acquisition net of dividend | 51                | 56                |
| Capital reserves                                      | (25)              | (25)              |
|   | 72                | 67                |
| Loans and other long-term balances                    | 55                | 42                |
|   | 127               | 109               |
| <b>Goodwill arising from acquisition</b>              |                   |                   |
| Cost  | 5                 | 4                 |
| Carrying amount as of the balance sheet date          | 4                 | 3                 |

**c Movement in the Equity Investments in Associates is as follows:**

| € in millions                     | 2007       | 2006       |
|-----------------------------------|------------|------------|
| Balance as per January 1          | 109        | 78         |
| Additions, net                    | 10         | 22         |
| Change in loans, net              | 13         | 18         |
| Equity earnings                   | 6          | 7          |
| Dividend distributed              | (11)       | (3)        |
| Currency translation              | –          | (13)       |
| <b>Balance as per December 31</b> | <b>127</b> | <b>109</b> |

**Composition in associated companies**

| € in millions                          | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| R.R Satellite Communication Ltd. (R.R) | 12                | 12                |
| Universal Motors Israel Ltd.           | 33                | 29                |
| Lidan Investment Agencies (1994) Ltd.  | 6                 | 6                 |
| Associates of GTC SA                   | 24                | 25                |
| Ocif Nichse Emed Ltd.                  | 4                 | 5                 |
| D.R.T Ltd (Avis)                       | 5                 | –                 |
| Formula Vision Portfolio Holdings Ltd. | 12                | 16                |
| Other                                  | 31                | 16                |
|  | 127               | 109               |

**d Loans:**

The investment in associated companies includes loans as follows:

| € in millions                           | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| In NIS (linked to the CPI) <sup>1</sup> | 39                | 24                |
| In EUR <sup>2</sup>                     | 15                | 18                |
| In USD                                  | 1                 | –                 |
|   | 55                | 42                |

<sup>1</sup> As of December 31, 2007, an amount of € 9 million bears annual interest at the rate of 8.0 % and the balance of € 30 million is linked to the Israeli CPI and does not bear interest. Loans repayment date was not determined, as yet.

<sup>2</sup> The loans bear an annual interest at a variable Euribor rate + margin. No payment date was set for the loans, as yet.

e The share of the assets, liabilities, income and expenses of the jointly controlled entity at December 31, 2007 and 2006 and for the years then ended, which are included in the consolidated financial statements, are as follows:

| € in millions           | December 31, 2007 | December 31, 2006 |
|-------------------------|-------------------|-------------------|
| Current assets          | 112               | 95                |
| Non-current assets      | 134               | 120               |
| Current liabilities     | (76)              | (78)              |
| Non-current liabilities | (98)              | (70)              |
| <b>Assets, net</b>      | <b>72</b>         | <b>67</b>         |
|                         | 10                | 12                |

Share of the group in results of associated companies proportionate to the holding rate for the period:

| € in millions             | December 31, 2007 | December 31, 2006 |
|---------------------------|-------------------|-------------------|
| <b>Revenues</b>           | <b>220</b>        | <b>188</b>        |
| <b>Profit (loss), net</b> | <b>6</b>          | <b>2</b>          |
|                           | (3)               | –                 |

f Investments in Associates whose shares are publicly-traded:

| € in millions                                  | December 31, 2007 |              | December 31, 2006 |              |
|--|-------------------|--------------|-------------------|--------------|
|  | Carrying amount   | Market value | Carrying amount   | Market value |
| RRSat Global Communications Network Ltd.       | 12                | 57           | 12                | 42           |
| Dan Vehicle & Transportation D.R.T Ltd. (AVIS) | 11                | 13           | –                 | –            |

**g Dividend received from Associates:**

| € in millions | December 31, 2007 | December 31, 2006 |
|---------------|-------------------|-------------------|
| <b>Total</b>  | <b>11</b>         | <b>3</b>          |

**12 Available-for-sale Financial assets****a Composition**

| € in millions   | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| Financial investments of insurance companies <sup>1</sup> | 33                | 40                |
| Investments in unlisted companies <sup>2</sup>            | 16                | 16                |
| Investments in listed trading companies                   | 16                | –                 |
|   | <b>65</b>         | <b>56</b>         |

1 Constitute investments in marketable debentures of Eastern European.

2 Investments in unlisted companies and venture capital funds are carried at fair value.

**13 Long-term Loans and Receivables****a Composition**

| € in millions   | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| Reinsures deposits  | –                 | 1                 |
| In USD <sup>1</sup>   | 14                | 39                |
| In EUR <sup>2</sup>   | 152               | 65                |
| In NIS  | 6                 | 1                 |
| In other currencies <sup>3</sup>  | 255               | 91                |
|   | <b>427</b>        | <b>197</b>        |
| Less – current maturities   | (223)             | (94)              |
|   | <b>204</b>        | <b>103</b>        |
| Value of derivatives in relation to obligation of third party to make capital contribution to joint venture | 6                 | –                 |
| Capital note issued by related party <sup>4</sup>   | 1                 | 1                 |
| Provision for doubtful debts  | (9)               | (6)               |
|   | <b>202</b>        | <b>98</b>         |

1 As of December 31, 2007, the balance includes loans amounting to EUR 7 million, granted to a minority shareholder in companies consolidated in GTC Poland, bearing an annual interest of Libor + 3%. The minority shareholder is required to on-lend these amounts as loans to the said consolidated companies, under the same terms. The loans will be repaid based on the repayment of shareholders loans by the relevant subsidiary. The rest of the balance is attributed to leasing operations and retail credit.

2 The balance includes an amount of EUR 107 million for leasing operations and retail credit and loans granted to minority shareholders in companies consolidated in GTC Group and in KFS Group amounts to EUR 11 million. The loans bear fixed interest at an annual rate of 5% and some bear a variable annual interest rate of Euribor + 3%. In addition, the balance includes loans to proportionally consolidated companies, amounting to EUR 25 million, mostly bearing an annual interest rate of Euribor + 3%.

3 The balance includes mainly leasing and retail lending.

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

Receivables in respect of the activities of subsidiaries in the financial services segment in the amount of EUR 141 million (2006 – EUR 130 million) are included at the net present value of the future minimum payments. Most of the loans are secured by various collaterals. The above amount represents loans to thousands debtors.

The balance includes mainly leasing and retail lending mention as follows:

| € in millions                  | December 31, 2007 | December 31, 2006 |
|--------------------------------|-------------------|-------------------|
| Financial leases*              | 120               | 42                |
| Consumer credits and Mortgages | 236               | 88                |
|                                | <b>356</b>        | <b>130</b>        |

\* Net investment in financial leases:

| € in millions                                     | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| Not later than one year                           | 50                | 21                |
| Later than one year and not later than five years | 86                | 32                |
| Later than five years                             | 5                 | 1                 |
| Gross receivables from financial leases           | 141               | 54                |
| Less – gross earnings allocated to future periods | (20)              | (12)              |
| Less – allowance for impairment losses            | (1)               | –                 |
| <b>Net investment in financial leases</b>         | <b>120</b>        | <b>42</b>         |
| Not more than one year                            | 46                | 16                |
| Later than one year and not later than five years | 70                | 25                |
| Later than five years                             | 4                 | 1                 |
|   | <b>120</b>        | <b>42</b>         |

Financial leases include agreements with corporate and private costumers for vehicles and equipment leasing.

## b Maturities

| € in millions                   | December 31, 2007 | December 31, 2006 |
|---------------------------------|-------------------|-------------------|
| First year – current maturities | 223               | 94                |
| Second year                     | 74                | 24                |
| Third year                      | 49                | 14                |
| Fourth year                     | 29                | 7                 |
| Fifth year                      | 22                | 15                |
| Sixth year and thereafter       | 11                | 23                |
| Not yet determined              | 19                | 20                |
|                                 | <b>427</b>        | <b>197</b>        |

## 14 Deferred Acquisition Costs (Insurance Companies)

| € in millions     | December 31, 2007 | December 31, 2006 |
|-------------------|-------------------|-------------------|
| Life insurance    | 3                 | 3                 |
| General insurance | 9                 | 3                 |
|                   | <b>12</b>         | <b>6</b>          |

Movement in deferred acquisition costs relating to life insurance:

| € in millions                     | December 31, 2007 | December 31, 2006 |
|-----------------------------------|-------------------|-------------------|
| Balance as per January 1          | 6                 | 9                 |
| Movement for the period           | 6                 | (3)               |
| <b>Balance as per December 31</b> | <b>12</b>         | <b>6</b>          |

## 15 Inventories, Contract Work and Buildings Inventory in Progress

### a Composition

| € in millions                               | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| Building inventory in progress <sup>1</sup> | 270               | 152               |
| Contract work in progress <sup>2</sup>      | 18                | 4                 |
| Merchandise inventories                     | 9                 | 4                 |
|   | <b>297</b>        | <b>160</b>        |

### b Additional Information

1 As at December 31, 2007, building inventory in progress comprises residential development for sale substantially consisting of Paskal and Sasad projects in Hungary (about EUR 46 million), Rose Garden, Felicity, Garden of Eden projects in Romania (about EUR 77 million) Vinyard project in Slovakia (about EUR 24 million) and Olympic Garden project in China (about EUR 22 million).

The Balance as at December 31, 2007, includes capitalized financing expenses for EUR 8 million in total (2006 EUR 1 million).

2 The movement is as follows:

| € in millions                                | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Opening balance                              | 160               | 51                |
| Additional costs capitalized during the year | 160               | 133               |
| Less – costs charged to income statement     | (23)              | (24)              |
|  | <b>297</b>        | <b>160</b>        |

3 Building inventory is stated gross. Customer advances are presented under other liabilities and amount EUR 102 million (2006 EUR 24 million)

### 4 Contract work in progress

Contract work in progress relates to infrastructure works. Details are as follows:

| € in millions                                    | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Contract costs incurred                          | 64                | 167               |
| Recognized profits                               | 15                | 52                |
|  | 79                | 219               |
| Less – revenues from customers                   | (73)              | (222)             |
|  | <b>6</b>          | <b>(3)</b>        |
| Presented in balance sheet                       |                   |                   |
| Current assets – Contract work in progress       | 18                | 4                 |
| Current liabilities – Customers advance payments | (12)              | (7)               |
|  | <b>6</b>          | <b>(3)</b>        |

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

## 16 Loans to Bank Customers

### a Composition

| € in millions                                       | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| Loans and advances to individuals                   | 57                | 13                |
| Mortgage loans                                      | 45                | 8                 |
| Other loans and advances by banks                   | 36                | 1                 |
| Credit cards  | –                 | 3                 |
|   | 138               | 25                |
| Corporate loans                                     | 264               | 84                |
| Loans and advance to banks                          | 3                 | 15                |
|   |                   |                   |
| Total loans and advances gross                      | 405               | 124               |
| Less – allowance for impairment losses <sup>1</sup> | 8                 | 3                 |
|   | <b>397</b>        | <b>121</b>        |

1 Movements in allowance for impairment losses are:

| € in millions                                | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Balance as per January 1                     | 3                 | –                 |
| Move from proportional to full consolidation | 2                 | –                 |
| Companies consolidated for the first time    | 1                 | 3                 |
| Allowance for the period                     | 4                 | –                 |
| Recognized written off uncollectible debts   | (2)               | –                 |
| <b>Balance as per December 31</b>            | <b>8</b>          | <b>3</b>          |

### b Maturities

| € in millions                   | December 31, 2007 | December 31, 2006 |
|---------------------------------|-------------------|-------------------|
| Presented as Current assets     | 165               | 39                |
| Presented as Non-current assets | 232               | 82                |
|                                 | <b>397</b>        | <b>121</b>        |

## 17 Trade Receivables

| € in millions                      | December 31, 2007 | December 31, 2006 |
|------------------------------------|-------------------|-------------------|
| Trade receivables <sup>1</sup>     | 20                | 33                |
| Checks and credit card receivables | 24                | 9                 |
|                                    | <b>44</b>         | <b>42</b>         |

1 Following deduction of a provision for doubtful debts amounting to EUR 4 million (2006 – EUR 0.1 million).

For terms and conditions relating to receivables, refer to note 49.

Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

As at 31 December, the ageing analysis of trade receivables is as follows:

| € in millions | Neither past due nor impaired | < 30 days | Past due but not provided |             |              |           | Total |
|---------------|-------------------------------|-----------|---------------------------|-------------|--------------|-----------|-------|
|               |                               |           | 30 – 60 days              | 60 – 90 day | 90 – 120 day | >120 days |       |
| 2007          | 16                            | 1         | –                         | 1           | –            | 2         | 20    |
| 2006          | 26                            | 1         | 1                         | 1           | 1            | 3         | 33    |

## 18 Other Receivables and Prepayments

| € in millions                                | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Advances to suppliers                        | 46                | 5                 |
| Prepaid expenses and accrued income          | 25                | 23                |
| Central banks in Ukraine and Russia          | 23                | –                 |
| Other receivables in insurance companies     | –                 | 5                 |
| Income receivable – disposal of subsidiaries | 13                | 7                 |
| Derivatives                                  | 16                | –                 |
| Advance for land                             | 2                 | –                 |
| Other  | 15                | 4                 |
|  | <b>117</b>        | <b>44</b>         |

## 19 Insurance Premium Receivables

| € in millions                            | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Due from policy holders                  | 16                | 11                |
| Due from reinsurers                      | 2                 | 4                 |
| Due from agents and insurers receivables | 18                | 1                 |
|  | <b>36</b>         | <b>16</b>         |

## 20 Reinsurance Receivables and Insurance Companies

### a Composition:

| € in millions                                | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Provision for outstanding claims – reinsured | 14                | 7                 |
| Provision for unearned premiums – reinsured  | 18                | 5                 |
|  | <b>32</b>         | <b>12</b>         |

## 21 Short-term Investments

| € in millions  | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Bank deposits in NIS <sup>1</sup>                              | 3                 | 3                 |
| Bank deposits in EUR <sup>2</sup>                              | 6                 | 7                 |
| Bank deposits in USD <sup>3</sup>                              | 4                 | 5                 |
| Bank deposits in other currencies                              | 3                 | 6                 |
| Restricted bank deposits <sup>4</sup>                          | 20                | 38                |
| Securities held for trading <sup>5</sup>                       | 26                | 1                 |
| Bank deposits in central banks in Ukraine and Russia           | 23                | –                 |
| Investment in participating units in partnerships <sup>6</sup> | 3                 | –                 |
|  | <b>88</b>         | <b>60</b>         |

1 The balance as at December 31, 2007 bears interest at an annual rate of 3.95%.

2 The balance as at December 31, 2007 bears interest at an annual average rate of 5%.

3 The majority of the balance as at December 31, 2007, is comprised of deposits pledged to purchase land. The deposits are linked to the USD and bear a USD interest less 0.15% (as at December 31, 2007 – 4.225%).

4 The balance as at December 31, 2007 bears interest at an annual average rate of 3.5%.

5 As at December 31, 2007, the total balance of investment in Government bonds amounts to EUR 13 million and investment in the Israeli government bonds amounts to EUR 12 million and the balance is invested in securities.

6 In June 2007, Kardan Israel bought 9,437 participating units in Omega limited partnership, at the price of NIS2.12 (EUR 0.37) per unit. The partnership invests in traded securities and other financial assets. The participating units are non-transferable, but may be redeemed after one year elapses from the investment date. Investment in participating units is presented on market value basis.

## 22 Cash and Cash Equivalents

| € in millions            | December 31, 2007 | December 31, 2006 |
|--------------------------|-------------------|-------------------|
| Cash at bank and in hand | 73                | 46                |
| Short-term deposits      | 820               | 363               |
|                          | <b>893</b>        | <b>409</b>        |

As at December 31, 2007 the average annual rate interest earned on short term deposits is 3.8%.

VAB Bank and SCB are required to maintain, in the form of non-interest earning cash deposits, certain cash reserves with the NBU and the NBR, respectively (obligatory reserve), which are computed as a percentage of certain liabilities of the Bank's less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the central bank, however, if minimum average reserve requirements are not met, the Banks could be subject to certain penalties. The Banks were obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The Banks meet the obligatory reserve requirements as at December 31, 2007.



## 23 Issued and Paid-in Capital

### a Composition:

| Number of shares                                    | December 31, 2007 |                    | December 31, 2006 |                    |
|---|-------------------|--------------------|-------------------|--------------------|
|   | Authorized        | Issued and paid-in | Authorized        | Issued and paid-in |
| Ordinary shares with nominal value of EUR 0.20 each | 225,000,000       | 80,871,183         | 225,000,000       | 79,658,263         |

### b Movement in Issued and Paid-in Shares:

|  | Number of shares  | Euro par value    |
|--|-------------------|-------------------|
| Balance as of                          |                   |                   |
| January 1, 2006                        | 66,615,480        | 13,323,096        |
| Conversion of options                  |                   |                   |
| to shares                              | 1,587,783         | 317,557           |
| Issuance of shares                     | 11,455,000        | 2,291,000         |
| Balance as of December 31, 2006        | 79,658,263        | 15,931,653        |
| Conversion of options                  |                   |                   |
| to shares                              | 1,212,920         | 242,584           |
| <b>Balance as of December 31, 2007</b> | <b>80,871,183</b> | <b>16,174,237</b> |

### c Changes in Share Capital:

1 During 2007 the Company has issued 1,212,920 ordinary shares following the exercise of 1,499,940 options (series 1). As a result, the shareholders' equity of the Company has increased with EUR 14 millions. Following this exercise, the outstanding balance of the options (series 1) amounts to 1,919,923. The issue created share premium in the amount of EUR 14 millions.

- 2 In June 2007 the Company has declared dividend of approximately USD 0.15 (approximately EUR 0.11) per each ordinary share, totaling to USD 12.5 million (approximately EUR 9.4 million). The dividend was paid in July 2007.

## 24 Share-based Payments

### a The expense recognized during the year is shown in the following table:

| € in millions  | 2007      | 2006      |
|--|-----------|-----------|
| Expense arising from equity-settled share-based payment transactions of subsidiaries | 1         | 4         |
| Expense arising from equity-settled share-based payment transactions of the Company  | 2         | –         |
| Expense arising from cash-settled share-based payment transactions                   | 9         | 7         |
|  | <b>12</b> | <b>11</b> |

### b Option Plans:

The share-based payment option plans granted by the Group to its employees and directors are described below. During the years 2005 until 2007 the option plans were not modified or cancelled.

#### The Company

- 1 In October 2006, the management board, the supervisory board and the general meeting of shareholders of the Company approved a stock option plan according to which the Company will grant to members of the management board, employees of the Company and employees of the Kardan Group, without consideration, 1,099,327 options (of which 716,927 options were granted to members of the management board) exercisable to up to 1,099,327 ordinary shares of the Company

each having par value of EUR 0.20 (subject to adjustments). The exercise price of each option equals to EUR 8.2 (NIS 46.512). The options can be exercised during a period of 5 years from the date of grant. One third of the options can be exercised one year following the date of grant, one third two years following the date of grant, and one third – three years from the date of grant.

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

The total value of the options at date of grant was estimated at EUR 4 million. This fair value was computed by an independent external valuer. For details regarding the main input used to determine the value, please refer to section C below.

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

#### GTC RE and its subsidiaries

- 1 In July 2005, the management and supervisory board of GTC RE approved an employee option plan. According to the option plan, GTC RE will grant to employees of the parent company and subsidiaries of GTC RE, without consideration, 280,000 options exercisable in up to 280,000 ordinary shares of GTC RE each having a par value of EUR 0.20. The exercise price of each option equals to NIS 8.80 (EUR 1.6) adjusted to the changes in the Israeli CPI.

The options can be exercised in two ways:  
(1) payment of the full exercise price and receiving the whole number of shares derived from the number of options exercised; or (2) not to pay the

exercise price but to be entitled to the number of shares reflecting only the benefit component inherent in the options. The options can be exercised during the earliest of a period of 4 years from the determining date or 90 days following the termination of the employment relationship between GTC RE and the employees. Each employee shall be entitled to exercise half of the options granted after 1 year from the determining date and to exercise the remaining options after 2 years from the determining date. The options were granted on October 12, 2005, as of December 31 2007 the employees are entitled to exercise all the options.

The fair value of the options as of the date of grant was estimated at EUR 0.3 million. In 2007 GTC RE recorded an expense of EUR 0.1 million in the income statement.

Subsequent to the balance sheet date, in January 2008, 180,000 employee options were exercised into 180,000 GTC RE ordinary shares.

- 2 On July 2006 GTC RE has granted an additional 40,000 employee options to the chairman of the supervisory board. The options have the same terms as the employees options granted in October 2005. The fair value of the options as of the date of grant is estimated at EUR 0.1 million.
- 3 25,000 options were exercised during 2006 into 14,704 GTC RE ordinary shares, 75,000 options were exercised during 2007 into 61,029 GTC RE ordinary shares
- 4 GTC RE granted to minority shareholders in GTC Investments a Put Option to sell to GTC RE any or all of their shares in GTC Investments. The Put Option can be exercised in whole or in part during a 12 months period commencing upon the later of five years from the effective date (being November 29, 2005) or the date the minority shareholders cease to provide consulting services to GTC RE. The exercise price of the option shall be the fair value of the

shares transferred as of the date of exercise of the option, and shall be paid in cash or in shares at the discretion of GTC RE.

GTC RE estimated the fair value of this option as of December 31, 2007 at EUR 0.9 million, and recorded a cost of EUR 0.6 million in the income statement.

- 5 In March 2006, GTC SA has granted certain key management personnel a total of 2,000,000 'Phantom Shares' that may be exercised in several tranches during the years 2007–2010 (subject to vesting period). The Phantom Shares grant the entitled persons a right for a settlement from GTC SA in the amount equal to the difference between the average closing price for GTC SA's shares on the Warsaw Stock Exchange during the 30-day period prior to the date of delivery of the exercise notice, and PLN 22.5 (EUR 5.8) per share (adjustable for dividend). GTC SA may alternatively settle in the form of cash. As of the granting date the average fair value of the share options amounts to EUR 2 per option. The settlement of the Phantom Shares (cash or equity) is at the discretion of the shareholders of GTC SA.

The fair value of the Phantom shares as of the date of grant was estimated at EUR 4.6 millions.

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

- 6 In addition the Supervisory Board of GTC SA has granted certain key management personnel the right to purchase 210,000 GTC SA's shares at their nominal value in two equal tranches in May 2006 and 2007. The vesting conditions for all share-based payments require from the persons entitled to those instruments to remain as key management personnel. The fair value of the option was estimated at EUR 1.58 millions.

- 7 In June 26, 2006 the chairman of the Supervisory Board of GTC SA exercised 1,179,170 subscription warrants at a price of PLN 0.1 each and 83,960 subscription warrants at a price of PLN 4.282 each. The remaining 224,820 subscription warrants expired and will not be exercised. As a result, 1,263,130 shares were issued and GTC RE's interest was diluted from 46.7% to 46.4% and GTC RE recorded an equity loss of EUR 1.9 million.
- 8 In January 2007 the chairman has additionally exercised 1,341,450 subscription warrants for conversion into shares of GTC SA and the remaining 146,500 subscription warrants expired. As a result, GTC RE's interest in GTC SA was diluted to 46.1% and GTC RE recorded an equity loss of EUR 1 million.
- 9 On May 1, 2006 GTC SA has entered into agreement with the chairman of its supervisory board and AYRAD, a company under his control (together 'AYRAD'). The agreement supersedes the agreement between GTC RE (as a successor of GTC International B.V.) and AYRAD dated March 8, 2004. Following are the main changes in the new agreement:
- i The mechanism for calculation of the annual bonus.
  - ii In the event that GTC SA undertakes any investment through a new subsidiary, AYRAD or a company under his control is entitled to acquire shares in such subsidiary in an amount equal to 5% of the combined holding of GTC SA and AYRAD.
  - iii GTC undertakes to advance AYRAD with loans, in amounts that AYRAD is required to invest in a subsidiary.
  - iv GTC SA granted AYRAD a Put Option to sell to GTC SA any or all of his shares in GTC SA's subsidiaries within 24 months following the termination of AYRAD's relationship with such subsidiary. AYRAD granted GTC SA a Call Option to buy any or all of his shares in such subsidiaries within 30 days following the expiration of the above-mentioned Put Option. The exercise price of

the options shall be the fair value of the shares being transferred, as of the date of the Put or Call exercise notice.

GTC RE considers the combination of existing shares and the put options thereon to be share appreciation rights and recognized a financial liability under the above contract at its fair value, amounting to EUR 19.2 million as of December 31, 2007 (2006 – EUR 9.4). The impact on GTC RE's net profit for the year 2007 amounted to EUR 9.7 million, classifies as general and administrative costs and is included in GTC RE's consolidated income statement.

The fair value of the Put Option has been determined by an independent valuer as of December 31, 2007 and is presented as financial liability. Any subsequent re-measurement of financial liability is accounted for through the income statement (general and administrative).

The main assumptions applied in determining the fair value of the financial liability were as follows:

- Investment properties were stated at their fair value as included in the financial statements.
- Projects in development stage were estimated using the residual value method to arrive at the respective fair value.
- Projects not yet in development stage were estimated using the comparable value method to arrive at respective fair value

As of the balance sheet date, there appeared to be a difference of opinion between AYRAD and GTC RE with regard to the amount of the financial liability related to the Put Option and included in the financials statements. AYRAD is of the opinion that the amount is substantially higher than the amount included in the financials statements. GTC SA management is of the opinion that the financial liability as determined by the independent valuer and included in the financial statements is

adequately presenting the financial liability related to the Put Option. In case such dispute will exist upon exercising the Put Option (within 24 months following the termination of AYRAD agreement with GTC SA) the Put Option agreement stipulates that attorneys appointed by the parties will appoint an independent appraiser from the big four accounting firms in order to determine the fair value of the Put Options. The appraiser's decision shall be final and binding.

#### **Kardan Israel**

- 1 In July 2005 Kardan Israel granted to its employees 460,000 options exercisable into ordinary shares of Kardan Israel. The exercise price of each option amounts to NIS 9.18 (linked to CIP). The economic value of each option was NIS 0.5. Kardan Israel did not record costs related to share-based payment transactions as at grant date the options were fully vested.
- 2 In September 2006 Kardan RE signed an agreement with the chairman of its Board of Directors, according to which the chairman will receive an option to purchase 6% of the shares of Kardan RE or any other company that will hold all the real estate activities of the Group in Israel. The shares can be acquired in consideration of 90% of the carrying amount of the relevant company at its date of incorporation. The right to exercise the option covers a period of 3 years. The parties are entitled to convert the option to a 'phantom option'. The value of the option at date of grant was estimated at EUR 0.7 million.

In the event that no shares can be allocated to the new Chairman of the Directorate, due to various reasons, including failure to establish Kardan Israel, the parties will decide on alternative compensation to the new Chairman of the Directorate, which will reflect the aforementioned sum.

The evaluation submitted to Kardan Real Estate shows that the economical value of each option

granted to the said new Chairman of the Directorate as at December 31, 2007, was NIS 6.18 (EUR 1.1). This economical value was calculated according to Black & Scholes model, based on fair value evaluation of Kardan Real Estate operation in Israel, at a value of EUR 70 million and 44.82% standard deviation rate. This economical value reflects options value of EUR 3 million.

In 2007, Kardan Israel recognized an expense amounting to NIS 10,010 thousand (EUR 1,780 thousand) for the said options, according to options maturity conditions (2006 – NIS 672 thousand (some EUR 120 thousand)).

Subsequent to the balance sheet date, in February 2008, the Chairman of the Directorate received monetary compensation in the amount of some EUR 750 thousand for the first lot of the said options, since conditions for the actual allocation of options did not materialize, according to the aforementioned agreement. Moreover, an agreement was entered between the parties, regarding the balance of the options lots, consisting 4% of the issued paid-up shares capital of Kardan Real Estate, stipulating that the Chairman of the Directorate will be granted 1,632,743 options, convertible into Kardan Real Estate shares, in return for an exercise addition of NIS2.84 (some EUR 0.5) per share.

The Chairman of the Directorate will be entitled to exercise the options in two equal annual lots, as of September 12, 2008 (namely, according to the original exercise conditions).

The options may be exercised up to one year from employment termination date of the Chairman of the Directorate.

Consequently, starting from approval of the agreement, the said plan (related to the two remaining lots) will be handled as a share based payment plan, settled through capital instruments. Therefore, the liability due to these lots will be attributed to the equity.

- 3 Since 2006 Kardan Israel is negotiating with two employees in its 100% subsidiary Kardan Communication regarding the grant of options to acquire shares of Kardan Communication. Currently, the parties have not agreed the terms of the option, however, Kardan Israel estimates that the value of the benefit will amount to approximately EUR 0.8 million. Further, Kardan Israel agreed with the employees that it will entitle to grant the employees Kardan Israel listed shares. The option will be exercisable at grant.
- Kardan Israel booked in 2006 EUR 0.8 million as an expenses and increased its share capital accordingly.

In 2007, one of the said employees concluded his retirement terms from Kardan Communication. The retirement agreement states that despite the employee's waiver of the aforementioned options, the employee will receive a cash payment of NIS 2,620 thousand (some EUR 460 thousand), which will be paid on March 31, 2008 and an additional payment of some NIS 700 thousand (some EUR 124 thousand) which will be paid up to March 31, 2011, linked to the CPI, from the first payment date. Pursuant to the aforementioned arrangement, Kardan Israel decreased its equity by the amount of some NIS 2.2 million (some EUR 390 thousand) and also entered an additional expense of some NIS 1.1 million (some EUR 195 thousand).

- 4 In August 2007, the CEO of El Har, a subsidiary of Kardan Real Estate, was granted options to buy up to 5% of the paid-up issued shares capital of El Har in return for NIS 1.8 million for these 5%. The exercise addition will be linked to the CPI and will bear an annual interest rate of 5%, and will be adjusted to dividend divided by El Har. The options may be exercised during the first quarter of 2011, or earlier, in the event of issuing El Har shares to the public. The economical value of the shares, calculated according to Black & Scholes model, amounted to EUR 0.1 million at the granting date.

- 5 At the end of December, 2006, the Directorate of Kardan Technologies decided to approve in principle a plan to grant 492,292 Kardan Technologies options to a director in the company and to the CEO of the company ('offerees'). The options may be exercised as up to 492,292 ordinary shares of NIS0.01 par value each of Kardan Technologies. The offerees may choose between paying the exercise price and receiving all the shares resulting from the exercise of the options or receive shares at a value that reflects the benefit component included in the options at the exercise date. The options may be exercised over a period of 3 years, in equal parts.

The determined exercise price of each option is NIS 2.44 (some EUR 0.44) per share (the average price of Kardan Technologies shares at the Tel Aviv Stock exchange Ltd. ('The Stock Exchange') during the 90 trade days preceding the decision of Kardan Technologies Directorate to grant the options). The said price is linked to the CPI, from the known CPI at the said plan approval date and up to the known CPI at the exercise date.

Average economical value of every option granted as aforementioned, as at the Directorate approval date was some NIS 0.9 (some EUR 0.18). This economical value was calculated according to Black & Scholes model. based on Kardan Technologies share rate on the Stock Exchange at the Directorate approval date (some NIS 2.68 per share (some EUR 0.48)) and a 4.3% weekly standard deviation.

#### **Financial Services**

In 2007 consolidated companies in the Finance sector incurred a total expenses amount of some EUR 0.5 million, due to options granted at a total amount of some EUR 0.5 million arising from options granted to senior managers in those companies.

Value of options granted by these companies is estimated, as at December 31, 2007, at an amount of some EUR 1.1 million.

### c Additional Information Regarding Employees Options Granted by the Company

#### Movement in the year

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

|                                     | 2007             |            | 2006             |            |
|-------------------------------------|------------------|------------|------------------|------------|
|                                     | Number           | WAEP (EUR) | Number           | WAEP (EUR) |
| Outstanding at January 1            | 1,099,327        | 8.5        | –                | –          |
| Granted (exercised) during the year | (47,833)         | 8.5        | 1,099,327        | 8.5        |
| Outstanding at December 31          | <b>1,051,494</b> | <b>8.5</b> | <b>1,099,327</b> | <b>8.5</b> |
| Exercisable at December 31          | 350,498          | –          | –                | –          |

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

|                                    | 2007 | 2006 |
|------------------------------------|------|------|
| Expected volatility (%)            | 31%  | 31%  |
| Risk-free interest rate (%)        | 4%   | 4%   |
| Expected life of options (years)   | 5.0  | 5.0  |
| Weighted average share price (NIS) | 51.5 | 51.5 |

Model used Merton and adjusted Black & Scholtes

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

## 25 Interest Bearing Loans and Borrowings

### a Composition

|   | Interest rate | December 31, 2007 | December 31, 2006 |
|---|---------------|-------------------|-------------------|
|   | %             | € in millions     | € in millions     |
| <b>Banks</b>  |               |                   |                   |
| In USD  | 8.9           | 106               | 64                |
| In EUR  | 6.5           | 593               | 384               |
| In NIS  | 7.0           | 15                | 15                |
| In NIS (linked to CPI)  | 5.5           | 10                | 11                |
| Linked to other currencies (2)                                      | 9.6           | 129               | 44                |
| <b>Others – mainly in EUR</b>                                       | 8.0           | 195               | 91                |
|   |               | <b>1,048</b>      | <b>609</b>        |
| Less – Deferred debt issuance costs                                 |               | 3                 | 3                 |
| – Current maturities  |               | 216               | 135               |
| – Minority interest in shareholders' deficiency of subsidiaries (3) |               | –                 | –                 |
|   |               | <b>829</b>        | <b>471</b>        |

### b Maturities

| € in millions                   | December 31, 2007 | December 31, 2006 |
|---------------------------------|-------------------|-------------------|
| First year – current maturities | 216               | 135               |
| Second year                     | 127               | 43                |
| Third year                      | 100               | 61                |
| Fourth year                     | 77                | 30                |
| Fifth year                      | 53                | 335               |
| Thereafter                      | 409               | –                 |
| Not yet determined              | 66                | 5                 |
|                                 | <b>1,048</b>      | <b>609</b>        |



## 26 Other Long-term Liabilities

| € in millions                                  | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Deposits from tenants                          | 2                 | 2                 |
| Land purchase commitment                       | 5                 | 3                 |
| <b>Total provisions and outstanding claims</b> | <b>7</b>          | <b>5</b>          |

## 27 Warrants and Options

|   | Balance at December 31, 2007 | December 31, 2007 | December 31, 2006 |
|---|------------------------------|-------------------|-------------------|
|   | Number of options            | € in millions     | € in millions     |
| <b>Options on Company's shares:</b>                                     |                              |                   |                   |
| Options granted in connection with subsidiary's borrowings <sup>1</sup> | 3,419,863                    | 18                | 27                |
|   |                              | 18                | 27                |
| <b>Options on Group companies' shares</b>                               |                              |                   |                   |
| The equity component of 2004 and 2005 debentures of                     |                              |                   |                   |
| GTC RE and Kardan Israel <sup>2</sup>                                   | 13,549,170                   | 25                | 33                |
| Listed warrants series 4 of Kardan Israel                               | 1,931,274                    | 2                 | 5                 |
| <b>Put options granted to minority's shareholders</b>                   |                              |                   |                   |
| Kardan Israel   |                              | 1                 | –                 |
| KFS Group <sup>3</sup>  |                              | 98                | 60                |
| GTC Group <sup>4</sup>  |                              | 20                | 9                 |
|   |                              | 146               | 107               |
|   |                              | <b>164</b>        | <b>134</b>        |

<sup>1</sup> Reference is made to note 28.

<sup>2</sup> In 2004 and 2005 GTC RE and Kardan Israel accordingly issued warrants and convertible debentures. In accordance with IAS 32 and IAS 39, the warrants (series 2 and 3) and the equity component of the convertible debentures were presented at their fair value, but due to the foreign currency element of the debentures, the equity component is presented as a liability rather than equity. The fair value of these securities was calculated by an independent valuer, using models and methods applicable for such calculations and types of securities. The balance as of December 31, 2007 and 2006 solely relates to the fair value of equity component of convertible debentures, as the warrants expired in September 2006.

<sup>3</sup> The balance includes the follows:

- EUR 38 millions put options granted to minority shareholder in TBIF. As at December 31, 2007 Cavebrook holds approximately 10.62% in TBIF shares. Accordingly to the SPA, TBIH (the former parent company of TBIF) granted Cavebrook put options. According to the agreement Cavebrook has the option to sale its share in TBIF to KFS (the current parent company of TBIF).
- EUR 45 millions put options granted by KFS to minority shareholder in KFS.
- EUR 15 millions put options granted minority shareholders in insurance companies purchased during 2007.

<sup>4</sup> Reference is made to note 24 paragraphs 4 and 9.

## 28 Convertible Debentures

|   | Par value<br>as of<br>December<br>31, 2007 | Balance<br>as of<br>December<br>31, 2007,<br>net | Balance<br>as of<br>December<br>31, 2006,<br>net | Interest<br>rate | Linkage basis           | Maturities<br>principal | Conversion<br>rate |
|---|--|--|--|------------------|-------------------------|-------------------------|--------------------|
|   | €<br>in millions                           | €<br>in millions                                 | €<br>in millions                                 |                  |                         |                         |                    |
| Kardan Israel – (June 2005) –<br>conversion to Kardan Israel shares | 26   | 26   | 27   | 6%               | In NIS linked<br>to CPI | 2010                    | (1)                |
| GTC RE – (series A) – conversion to<br>GTC RE shares                | 6  | 5  | 17   | 6%               | In NIS linked<br>to CPI | 2009                    | (2)                |
|   | 32   | 31   | 44   |                  |                         |                         |                    |
| Less – current maturities   |  |  | –  |                  |                         |                         |                    |
| Debentures issuance expenses  |  |  | (1)  |                  |                         |                         |                    |
|   |  |  | <b>43</b>  |                  |                         |                         |                    |

(1) Each € 2.1 par value is convertible into one ordinary share of NIS 1 par value of Kardan Israel. The market value of the debentures as of December 31, 2007 was € 33 million.

(2) Each €2.9 (NIS16.09) par value is convertible into one ordinary share of EUR 0.20 par value of GTC RE. The market value of the debentures as of December 31, 2007 was € 7 million.

### b Maturities

| € in millions | December<br>31, 2007 | December<br>31, 2006 |
|---------------|----------------------|----------------------|
| Second year   | 5                    | –                    |
| Third year    | 26                   | 17                   |
| Fourth year   | –                    | 27                   |
| <b>Total</b>  | <b>31</b>            | <b>44</b>            |

### c Collateral – see note 35

## 29 Other Debentures

|  | Par value<br>as of<br>December<br>31, 2007 | Balance<br>as of<br>December<br>31, 2007,<br>net | Balance<br>as of<br>December<br>31, 2006,<br>net | Interest<br>rate | Linkage basis              | Maturities<br>principal |
|--|--|--|--|------------------|----------------------------|-------------------------|
|  | €<br>in millions                           | €<br>in millions                                 | €<br>in millions                                 | %                |                            |                         |
| Debentures issued by the Company in 2007                       | 210  | 218  | –  | 4.45             | In NIS –<br>linked to CPI  | 2013-2016               |
| Debentures issued by GTC RE in 2007                            | 236  | 238  | –  | 4.9              | In NIS –<br>linked to CPI  | 2014-2020               |
| Debentures issued by GTC Poland in 2007                        | 212  | 223  | –  | 4.0              | In PLN                     | 2012-2014               |
| Debentures issued by the Company in 2005                       | 22   | 22   | 20   | 6.6              | In NIS –<br>linked to CPI  | 2010                    |
| Debentures issued by Kardan Israel in 2005                     | 9  | 9  | 9  | 5.5              | In NIS –<br>linked to CPI  | 2008                    |
| Debentures issued by Kardan Israel in 2005                     | 9  | 9  | 9  | 6.4              | In NIS –<br>linked to CPI  | 2008                    |
| Debentures issued by Kardan Israel in 2003                     | 18   | 19   | 18   | 6.2              | In NIS –<br>linked to CPI  | 2009                    |
| Kardan RE – issued in 2003                                     | 11   | 11   | 11   | 6.5              | In NIS –<br>linked to CPI  | 2008                    |
| Debentures issued by proportionately consolidated<br>Companies |  | 42   | 23   | 9.4              | In EUR or<br>linked to EUR | 2008-2012               |
|  |  | 791  | 90   |                  |                            |                         |
| Less – current maturities                                      |  | (45)   | (9)  |                  |                            |                         |
| Debentures issuance expenses                                   |  | (4)  | (1)  |                  |                            |                         |
|  |  | 742  | 80   |                  |                            |                         |

## b Maturities

| € in millions                   | December 31, 2007 | December 31, 2006 |
|---------------------------------|-------------------|-------------------|
| First year – current maturities | 45                | 9                 |
| Second year                     | 26                | 37                |
| Third year                      | 36                | 22                |
| Fourth year                     | 3                 | 20                |
| Fifth year                      | 25                | 1                 |
| Sixth year onwards              | 656               | –                 |
| <b>Total</b>                    | <b>791</b>        | <b>90</b>         |

### The Company

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

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

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

2 In July 2007, the Company has issued additional NIS 350 million (EUR 62 million) par value debentures. The proceeds from the issue amounted to NIS 357 million (EUR 60.8 million). The debentures have the same terms as the debentures issued in February 2007. The debentures were listed for trade on the Tel Aviv Stock Exchange as soon as they were issued

### GTC RE

1 Following the issuance of the debentures the company has entered into a swap transaction

according to which the company has converted the cash received in NIS into Euro, and effectively swapped the related liability into a Euro loan bearing a fixed interest rate at the range of 5.38% – 5.94% per annum.

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

- The loans are translated at spot rate. The translation gains and losses on the foreign currency denominated debt are taken in to the income statement;
- The fair value of the cross currency swap (Asset of EUR 2 million as at December 31, 2007) is recorded in the balance sheet with entries for the effective part of the hedge to a separate component of equity (a gain of EUR 2 million) and a reclassification to income at the time the hedged risk affects profit or loss to offset retranslation of the hedged debt and interest expense.

2 In January 2007 GTC RE has issued debentures (series B) to institutional investors in Israel in consideration of NIS 550 million (EUR 100 million) (Issuance costs amounted to EUR 500 thousand). The debentures are linked to the Israeli CPI and bear an annual interest rate of 4.9%. The principal is repayable in 7 equal installments during the years 2014 to 2020. The interest payments will be made annually.

The debentures are rated AA– by Ma'alot (Standard & Poor's affiliate in Israel). In connection with the rating GTC RE has committed to maintain certain financial covenants.

According to the Deed of Trust relating to the debentures (series B), the trustee has the right to demand immediate repayment of the outstanding balance of the debentures, among others, in the following events:

- (1) In the event that all of the following three conditions will occur: (a) GTC RE's interest in GTC SA will fall below 20% as a result of sale of GTC SA shares by GTC RE; (b) the consideration GTC RE will receive from such sale will be distributed as dividend; and (c) as a result of (a) and (b) above the rating of the debentures obtained from Ma'alot, as it might be at that time, is lowered and the reasoning for such reduction in rating will include (a) and (b) above.
- (2) If another series of debentures issued by GTC RE, or a bank loan amounting to at least USD 50 million (EUR 34 million), has been brought for early repayment by a debenture holder and/or the trustee and/or one of the banks.

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

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

Following the issuance of the debentures GTC RE has entered into a swap transaction according to which GTC RE has converted the cash received in NIS into Euro, and effectively swapped the related liability into a Euro loan bearing a fixed interest rate of 5.94% per annum.

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

- The loan is translated at spot rate. The translation gains and losses on the foreign currency denominated debt are taken in to the income statement;
- The fair value of the cross currency swap (an liability of EUR 4 millions as at December 31, 2007) is recorded in the balance sheet with entries for the

effective part of the hedge to a separate component of equity (a loss of EUR 2 millions) and a reclassification to expense at the time the hedged risk affects profit or loss to offset retranslation of the hedged debt and interest expense.

- 3 In April 2007, GTC SA has successfully completed a PLN 800 million (EUR 212 million) bond offering to Polish institutional investors. The bonds were issued in two series, the first series (90% of the proceeds) has a 7-year maturity and the second series has 5-year maturity. The bonds are denominated in PLN and bear a variable interest rate, to be paid every 6 months.

Following the bond issue, GTC SA converted the received cash into Euro and swapped the related liability by entering into a Euro-PLN cross-currency Interest Rate Swap transaction, whereby the liability bears a fixed interest rate of 5.745% per year. The swap is deemed ineffective and accordingly all fair value gains and losses are taken into the income statements.

- 4 In November 2007, GTC RE expanded the bond series (series B) by 783,967,977 NIS in nominal value, through a private allocation to institutional investors, in return for a sum of 805,919 thousand NIS (EUR 143 million). The terms of the said issued bond (series B) are equal to the bond (series B) terms which were registered for trading according to the before mentioned in paragraph A, published by GTC RE in May 2007. The rate of uniform weighted discount rate for the bonds (series B) of GTC RE is 1.9%.

In December 2007, following the raising of the bonds (series B), and for the purpose of matching the payments of GTC RE's undertakings to GTC RE cash flow resources, which are stated in Euros, GTC RE engaged Discount Bank in a Swap transaction, 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 6.44%. The fair value of the cross currency swap (an obligation of EUR 2 millions as at December 31, 2007) is recorded in the balance sheet with entries for the effective part of the hedge to a separate component of equity (a loss of EUR 2 millions) and a reclassification to expense at the time the hedged risk affects profit or loss to offset retranslation of the hedged debt and interest expense.

In January 2008, after the balance date, GTC RE entered into a third transaction with the same conditions and in annual rate of 6.21% for 193,430,049 NIS (EUR 34 million) in bond (series B) nominal value.

## 30 Insurance Provisions

| € in millions                                  | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Life insurance                                 |                   |                   |
| Insurance reserves                             | 22                | 32                |
| Outstanding claims                             | 1                 | 1                 |
| Total life insurance                           | 23                | 33                |
| General insurance                              |                   |                   |
| Unearned premium reserves                      | 54                | 21                |
| Outstanding claims                             | 62                | 30                |
| Total general insurance                        | 116               | 51                |
| <b>Total provisions and outstanding claims</b> | <b>139</b>        | <b>84</b>         |

### a Issuance Contract and Deferred Acquisition Costs in General Insurance

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

The reserve for unexpired risks and outstanding claims, including reinsurers' share in the reserve and in the

outstanding claims, and deferred acquisition costs in general insurance were calculated according to generally accepted actuarial methods according to the actuaries' discretion.

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

#### ■ Reserves for unexpired risks (unearned premium reserve)

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

#### ■ Provision for outstanding claims

*Valuation of the outstanding claims:*

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

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

A provision for IBNR is added for these lines according to local regulations. This IBNR provision is not material due to the short-tail nature of these lines.

The total outstanding claims provision includes a provision for indirect or unallocated claims settlement expenses, based on the current expense level of the relevant claims departments, and projected forward according to the claims runoff.

#### ■ **Deferred acquisition costs**

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

#### *The assumptions and models used for determining the provisions*

#### ■ **Reserve for unexpired risks**

The above mentioned 'Reserve for unexpired risks' in principle is not calculated according to an actuarial method and does not depend on any assumptions, but rather it constitutes an unearned premium balance. However, where the portion of unearned premium, net of DCA, is not sufficient to cover expected claims and related costs, based on the actuaries estimation, the DAC is reduced or the reserve for unexpired risks is increased, as appropriate. This is done at the level of line of business.

#### ■ **Provision for outstanding claims**

For the sake of valuating outstanding claims, or supplementing the claims departments' per-claim case reserves for IBNR and IBNER, the actuarial models detailed below have been used in conjunction with various assumptions:

- Chain ladder: this method is based on the development of historical claims (development of payments and/or development of amount of claims,

development of the number of claims, etc.), in order to value the anticipated development of existing and future claims. The use of this method is mainly suitable after a sufficient period since the event occurred or the policy is written, when there is enough information from the existing claims in order to value the total anticipated claims.

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

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

For some lines of business claims are discounted (e.g. Motor TPL and Green Card), while for most lines of business claims are not discounted due to the fact that most claims are settled within a very short period of time and very few claims remain outstanding for more than 2 of 3 years. There were no material changes to assumptions or models used compared to last year.

There are no material assumptions made in determining the outstanding claims provisions, other than the general broad-based assumptions that past experience regarding claims reporting and settlement patterns will be repeated in the future with changes based on trends in claim frequency and severity due to changes in regulations, policy conditions, customer mix and so on. All other assumptions only exist on a claim-by-claim basis, regarding issues such as the probability of winning a claim dispute.

## 2 Movement of outstanding claims in general insurance (gross)

| € in millions                                       | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| Balance at January 1                                | 30                | 32                |
| Additions for newly consolidated companies          | 27                | –                 |
| Disposals for companies deconsolidated              | –                 | (4)               |
| Claims incurred in the current accident year        | 29                | 20                |
| Movement on claims incurred in prior accident years | –                 | 6                 |
| Claims paid during the year                         | (25)              | (24)              |
| Foreign exchange adjustment                         | 1                 | –                 |
| <b>Balance at December 31</b>                       | <b>62</b>         | <b>30</b>         |

## b Insurance Liabilities and Deferred Acquisition Costs in Life Assurance

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

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

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

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

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

- The vast majority of the mathematical reserve is for traditional products with a savings component (mainly the 'Endowment' product) and pure risk products with fixed premium (mainly term insurance). This reserve is computed for each coverage as a capitalization of the cash flows for anticipated claims, net of anticipated future premiums. This is done by a theoretical calculation known as 'net premium reserve', whereby instead of directly taking expenses and commissions into account, the calculation is based on 'net premium' which does not include the loading for commission and expenses, based on the calculation assumptions.
- In addition to this reserve, for traditional products participating in investment income, a reserve is also computed in respect of the balance of the actual accumulated bonus. The bonus reflects the gap between the actual yield and the interest as per tariff. Note that investment participation for the company's products is mostly not on a discretionary basis, but rather according to set formulae in the products' terms and conditions, or according to local regulations.
- Reserves for unearned premium are calculated where premium is received in advance. This is particularly the case for short term life term. The reserve is calculated on a proportional basis in



respect of the unexpired term of the policy for which premium has been received.

- The reserve for IBNR (incurred but not yet reported claims) is calculated based on past experience and exists mainly in respect of accident and health benefits.
- The reserve for group insurance is comprised from a reserve for unearned premium, provision for participation in profits and a reserve for IBNR.
- Liability Adequacy – The Group's subsidiaries consider each year, if the total reserve, net of deferred acquisition costs, is sufficient to cover the future anticipated cash flows: premiums net of claims, commissions and maintenance expenses for the policies in force, under reasonable assumptions. If the liability is not adequate then the DAC is written-off (in respect of prior periods) or limited (in respect of the current period's new DAC).

## 2 Movement in Life assurance reserve

| € in millions                              | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| Balance as at January, 1                   | 23                | 28                |
| Additions from premium received            | 5                 | 6                 |
| Claims and surrenders                      | (7)               | (3)               |
| Investment income and exchange differences | 1                 | 1                 |
| <b>Balance as at December, 31</b>          | <b>22</b>         | <b>32</b>         |

### c Changes in Assumptions and Actuarial Models and their effect on the Provisions

There were no material changes in assumptions or reserving methods compared to the previous year.

## 31 Banking Customers Accounts

### a Composition

| € in millions                    | December 31, 2007 | December 31, 2006 |
|----------------------------------|-------------------|-------------------|
| Due to banks:                    |                   |                   |
| Deposits                         | 32                | 4                 |
| Loans and advances               | 43                | 39                |
|                                  | 75                | 43                |
| Due to customers:                |                   |                   |
| Deposits from corporate clients  | 189               | 64                |
| Deposits from individual clients | 222               | 36                |
|                                  | 411               | 100               |
|                                  | <b>486</b>        | <b>143</b>        |

### b Maturities

| € in millions                   | December 31, 2007 | December 31, 2006 |
|---------------------------------|-------------------|-------------------|
| First year – current maturities | 443               | 90                |
| Second year                     | 37                | 43                |
| Third year                      | 5                 | –                 |
| Fourth year                     | 1                 | –                 |
| Fifth year                      | –                 | –                 |
| Sixth year and thereafter       | –                 | 10                |
|                                 | <b>486</b>        | <b>143</b>        |

## 32 Other Payables and Accrued Expenses

| € in millions                               | December 31, 2007 | December 31, 2006 |
|---|-------------------|-------------------|
| Accrued expenses                            | 81                | 41                |
| Insurance companies                         | 11                | 9                 |
| Payroll and related expenses                | 11                | 4                 |
| Advances from customers                     | 114               | 31                |
| Derivatives                                 | 5                 | –                 |
| Current maturities of long-term liabilities | 1                 | 4                 |
| Payable on acquisition of subsidiary        | 5                 | 13                |
| Other                                       | 22                | 13                |
|   | <b>250</b>        | <b>115</b>        |

For terms and conditions relating to Other Payables, refer to Note 50

## 33 Trade Payables

| € in millions    | December 31, 2007 | December 31, 2006 |
|------------------|-------------------|-------------------|
| Trade payables   | 63                | 58                |
| Cheques payables | 2                 | –                 |
|                  | <b>65</b>         | <b>58</b>         |

For terms and conditions relating to Payables, refer to note 49

Trade Payables are non-interest bearing and are generally on current + 60 days' terms.

## 34 Interest-bearing Loans and Borrowings

|   | Interest rate* | December 31, 2007 | December 31, 2006 |
|---|----------------|-------------------|-------------------|
|   | %              | € million         | € million         |
| Short-term credit from banks –              |                |                   |                   |
| – in NIS                                    | 5.6            | 28                | 27                |
| – in USD                                    | 6.8            | 17                | 4                 |
| – in EUR                                    | 6.0            | 13                | 18                |
| – in other currencies                       | 4.7            | 1                 | 38                |
| Short term credit from others               |                | 33                | 4                 |
|   |                | <b>92</b>         | <b>91</b>         |
| Current maturities of long-term liabilities |                |                   |                   |
| – Loans                                     |                | 216               | 135               |
| – Debentures                                |                | 45                | 9                 |
|   |                | <b>353</b>        | <b>235</b>        |

\* Weighted average annual interest rate as of December 31, 2007

Collateral – see note 35

## 35 Liens, Contingent Liabilities and Commitments

### a Liens and Collaterals

1 In connection with loan agreements signed with banks and financial institutions for loans amounting to approximately EUR 73 million the Company has undertaken to maintain certain financial covenants and has pledged certain assets, as follows:

- a First rank pledge over a total of 18,630,007 shares of GTC RE (on March 2008, 12,460,837 shares of GTC RE where released);
- b Maintain control over GTC RE;
- c Maintain unpledged holdings of at least 51% in KFS.
- d Maintaining equity to balance sheet ratio at 25%-30%.

- e Shareholders' equity will not be less than USD 180 million;
- f Pledge over 29% of KFS shares;
- g Prior approval of one of the lenders for any change in control, reorganization, capital reduction or de-listing.

As of December 31, 2007 the Company meets the abovementioned requirements.

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

- a With respect to 2003 debentures amounting to EUR 16 million as of December 31, 2007, a first rank pledge on 40% of the shares of Taldan Motors Ltd. ('Taldan');
- b With respect to 2003 debentures amounting to EUR 2 million as of December 31, 2007, a first rank pledge on 5% of Taldan's shares and a pledged bank deposit amounting to the accrued interest of the debentures, such that both pledges will not be less than 125% of the balance of the related debentures;
- c With respect to 2005 debentures amounting to EUR 18 million as of December 31, 2007, a first rank pledge on 45% of Taldan's shares.
- d With respect to 2003 debentures issued by Kardan RE amounting to EUR 11 million as of December 31, 2007, a first rank pledge on 5.5% of GTC RE's shares.

- 3** In addition, with respect to debentures amounting to EUR 36 million as of December 31, 2007 Kardan Israel has undertaken to maintain certain financial covenants as follows:

- a Shareholders' equity will not be less than EUR 41 million;
- b Equity to total assets ratio of Kardan Israel will not be less than 28%-30%;
- c With respect to 2003 debentures – the equity of Taldan will not decrease to less than EUR 16 million;

- d With respect to 2005 debentures – Kardan Israel will not sell most of the shares in Universal Motors Israel Ltd. ('UMI') and it will not lose its right to sell General Motors vehicles; and it will not distribute dividends in amount higher than 50% of its profits in each of the years 2005-2009;
- e With respect to 2003 debentures issued by Kardan RE – GTC RE will not repay its loan to Kardan RE in amount exceeding 58.8% of the net profit of GTC RE. In addition, Kardan RE committed that in the event GTC RE will sell GTC SA's shares, Kardan RE will pledge in favour of the debenture holders a liquid deposit amounting to the outstanding balance of the debentures.

As of December 31, 2007 the Group companies meet the aforementioned requirements.

- 4** In connection with a EUR 100 million credit facility, GTC RE has committed towards the lending bank to maintain certain financial covenants, including minimal shareholders' equity of USD 87 million (EUR 66 million), and equity to balance sheet ratio of 28%. As of December 31, 2007 GTC RE has withdrawn approximately EUR 70 million.

As of the date of these financial statements, GTC RE meets its obligations.

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

financial statements, the borrowing Group companies are fulfilling their liabilities in connection with the financial covenants.

- 6 Certain subsidiaries recorded liens on their assets and their rights, in part or in full, as collateral for credit received from banks and from others, which credit amounted to approximately EUR 587 million as of December 31, 2007.

## b Guarantees

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

| € in millions          | 2007              |                        | 2006              |                        |
|------------------------|-------------------|------------------------|-------------------|------------------------|
|                        | Limited in amount | Not limited in amount* | Limited in amount | Not limited in amount* |
| In respect of:         |                   |                        |                   |                        |
| – Subsidiaries         | 89                | 3                      | 105               | 3                      |
| – Associated companies | 1                 | 13                     | –                 | 49                     |
|                        | <b>90</b>         | <b>16</b>              | <b>105</b>        | <b>52</b>              |

\* The amount of the guaranteed liabilities as of December 31

Also, subsidiaries provided bank guarantees in a total amount of EUR 43 million in favour of customers in respect of advances received for contracts and projects.

### c Legal Claims and Contingencies

- 1 Subsidiaries have liabilities in respect of warranty for the quality of the services and the work which they perform. In order to cover these obligations, the subsidiaries are insured with liability insurance up to the amount of EUR 7 million for each claim. Management of the subsidiaries believes based, among others, on estimates of the insurance companies and on prior experience, that the provisions included in the financial statements in respect of the claims filed against them in excess of the existing insurance coverage and in respect of the deductible portion of the insurance are sufficient.

- 2 Three claims were filed against Kardan Sahar Ltd. ('Kardan Sahar') in November, 2007. An application to approve the claim as a collective claim was attached to each of these claims.

Kardan Sahar imports and markets electrical household appliances. The subject of the claims is excess amounts, allegedly collected illegally from buyers of the products for service provided to the product. The damage to the whole Group, as estimated by the claimants, amounts to NIS 54 million (EUR 10 million).

Initial results of investigations currently conducted by the company show that the estimated total amount of the whole group is completely refuted and that Kardan Sahar has good defence arguments against the claimant's claims. Moreover, the person responsible for collecting the amounts specified in the claim is a sub-contractor, who provides warranty services to the products and not Kardan Sahar. Based on legal opinion on the subject, the expected damage to Kardan Sahar due to the aforementioned claims is not expected to be material

- 3 In 2004 the liquidator of Callis Soft S.A. ('Callis') filed a claim against the directors of Callis. Callis, a French company, is a 20% investment of Global

E-nvestment Development (G.E.D.) B.V. ('GED'), a subsidiary of Kardan Technologies. The investment in Callis was written off in prior years.

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

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

### d Commitments

- 1 As of December 31, 2007 the Group has contractual commitments to invest in construction of real estate an amount of approximately EUR 263 million.
- 2 Group companies entered operational leasing agreements with renters of properties held by the companies. Future leasing fees as at December 31, 2007, amounts to EUR 386 million (2006 – EUR 407 million), of which 18% (2006 – 16%) will be received within one year and 25% (2006 – 42%) will be received after more than five years.
- 3 A Subsidiary entered to agreements with customers on the execution of construction works, amounting to EUR 47 million. Execution of the construction work is expected during 2008 – 2009.

### e Contracted Future Rental Income and Costs

The Group has entered into various operational lease contracts with tenants related to properties in Poland, Romania, Croatia, Serbia, and Hungary. The aggregate amount of contracted future rental income as of December 31, 2007 amounts to approximately EUR 386 million and (EUR 407 million as of December 31, 2006), of which approximately 18% and (16%) is due within one year and 25% and (42%) is due after five years.

## 36 Sales and Services

| € in millions                    | For the year ended December 31, |           |           |
|----------------------------------|---------------------------------|-----------|-----------|
|                                  | 2007                            | 2006      | 2005      |
| From sale of merchandise         | 22                              | 19        | 15        |
| From services provided           | 2                               | 2         | 1         |
| From management of pension funds | 4                               | 3         | 5         |
| From selling apartments          | 33                              | 26        | 22        |
|                                  | <b>61</b>                       | <b>50</b> | <b>43</b> |

## 37 Insurance Activities

| € in millions                                    | For the year ended December 31, 2007 |                              |           | For the year ended December 31, 2006 |                              |           | For the year ended December 31, 2005 |                              |           |
|--|--------------------------------------|------------------------------|-----------|--------------------------------------|------------------------------|-----------|--------------------------------------|------------------------------|-----------|
|  | Life insurance activities            | General insurance activities | Total     | Life insurance activities            | General insurance activities | Total     | Life insurance activities            | General insurance activities | Total     |
| Income from premiums                             | 8                                    | 88                           | 96        | 8                                    | 69                           | 77        | 12                                   | 111                          | 123       |
| Less – reinsurance                               | –                                    | (30)                         | (30)      | –                                    | (16)                         | (16)      | (1)                                  | (16)                         | (17)      |
| Income from premiums, net                        | 8                                    | 58                           | 66        | 8                                    | 53                           | 61        | 11                                   | 95                           | 106       |
| Change in provisions, net of share of reinsurers | –                                    | (6)                          | (6)       | –                                    | (5)                          | (5)       | –                                    | (25)                         | (25)      |
| Income from investments                          | 2                                    | 4                            | 6         | 2                                    | 3                            | 5         | 3                                    | 3                            | 6         |
|  | 2                                    | (2)                          | –         | 2                                    | (2)                          | –         | 3                                    | (22)                         | 19        |
|  | <b>10</b>                            | <b>56</b>                    | <b>66</b> | <b>10</b>                            | <b>51</b>                    | <b>61</b> | <b>14</b>                            | <b>73</b>                    | <b>87</b> |

### 38 Banking and Retail Lending Activities

| € in millions                                       | For the year ended December 31, |           |          |
|---|---------------------------------|-----------|----------|
|   | 2007                            | 2006      | 2005     |
| <b>Revenues of lending and fiduciary activities</b> |                                 |           |          |
| Interest income                                     | 109                             | 27        | 8        |
| Finance costs                                       | (56)                            | (16)      | (3)      |
|   | <b>53</b>                       | <b>11</b> | <b>5</b> |
| Commission and service fees                         | 24                              | 13        | 3        |
| Finance advisory and fiduciary fees                 | 8                               | 2         | 1        |
| Loss from granted loans reduced value               | (13)                            | (1)       | –        |
|   | <b>72</b>                       | <b>25</b> | <b>9</b> |

### 39 Gain on Disposal of Assets and Other Income

| € in millions  | For the year ended December 31, |           |           |
|--|---------------------------------|-----------|-----------|
|  | 2007                            | 2006      | 2005      |
| Gain on disposal of subsidiaries                     | 38                              | 11        | 41        |
| Gain from release of provision from preferred return | –                               | 3         | –         |
| Gain from arbitration                                | –                               | –         | 8         |
| Other  | 9                               | 5         | 2         |
|  | <b>47</b>                       | <b>19</b> | <b>51</b> |

### 40 Cost of Sales and Services

| € in millions                      | For the year ended December 31, |           |           |
|------------------------------------|---------------------------------|-----------|-----------|
|                                    | 2007                            | 2006      | 2005      |
| Cost of sale of merchandise        | 17                              | 14        | 9         |
| Cost of apartments sold            | 22                              | 21        | 14        |
| Cost of services                   | 1                               | 1         | 1         |
| Expenses of managing pension funds | 6                               | 5         | 4         |
|                                    | <b>46</b>                       | <b>41</b> | <b>28</b> |

## 41 Operating Expenses of Insurance Activities

| € in millions   | For the year ended<br>December 31, 2007 |                                    |       | For the year ended<br>December 31, 2006 |                                    |       | For the year ended<br>December 31, 2005 |                                    |       |
|---|---|------------------------------------|-------|---|------------------------------------|-------|---|------------------------------------|-------|
|   | Life<br>insurance<br>activities         | General<br>insurance<br>activities | Total | Life<br>insurance<br>activities         | General<br>insurance<br>activities | Total | Life<br>insurance<br>activities         | General<br>insurance<br>activities | Total |
| Claims paid and outstanding   | 2                                       | 47                                 | 49    | 2                                       | 38                                 | 40    | 1                                       | 39                                 | 40    |
| Less – reinsurers   | –                                       | (11)                               | (11)  | –                                       | (3)                                | (3)   | –                                       | 3                                  | 3     |
|   | 2                                       | 36                                 | 38    | 2                                       | 35                                 | 37    | 1                                       | 42                                 | 43    |
| Policies terminated   | 6                                       | –                                  | 6     | 1                                       | –                                  | 1     | 2                                       | –                                  | 2     |
| Increase (decrease) in reserves<br>less portion attributable to<br>reinsurers | (1)                                     | –                                  | (1)   | 4                                       | –                                  | 4     | 6                                       | –                                  | 6     |
| Commissions paid  | 1                                       | 13                                 | 14    | 1                                       | 11                                 | 12    | 2                                       | 18                                 | 20    |
| Reinsurers' share of<br>commissions   | –                                       | (3)                                | (3)   | –                                       | (2)                                | (2)   | –                                       | (1)                                | (1)   |
| General, administrative and<br>other expenses                                 | 2                                       | 11                                 | 13    | 2                                       | 11                                 | 13    | 3                                       | 18                                 | 21    |
| Increase in deferred acquisition<br>costs                                     | (1)                                     | (2)                                | (3)   | –                                       | (2)                                | (2)   | (1)                                     | (6)                                | (7)   |
|   | 2                                       | 19                                 | 21    | 3                                       | 18                                 | 21    | 4                                       | 29                                 | 33    |
|   | 9                                       | 55                                 | 64    | 10                                      | 53                                 | 63    | 13                                      | 71                                 | 84    |

## 42 Selling and Marketing Expenses

| € in millions                | For the year ended December 31, |      |      |
|------------------------------|---------------------------------|------|------|
|                              | 2007                            | 2006 | 2005 |
| Payroll and related expenses | 6                               | 5    | 4    |
| Commissions                  | 2                               | 2    | –    |
| Marketing and advertising    | 5                               | 3    | 4    |
| Other                        | 6                               | 5    | 3    |
|                              | 19                              | 15   | 11   |



### 43 Costs of Banking and Lending Activities

| € in millions            | For the year ended December 31, |           |          |
|--------------------------|---------------------------------|-----------|----------|
|                          | 2007                            | 2006      | 2005     |
| Staff costs              | 28                              | 5         | 3        |
| Impairment losses        | –                               | 6         | –        |
| Other operating expenses | 37                              | 10        | 4        |
|                          | <b>65</b>                       | <b>21</b> | <b>7</b> |

### 44 General and Administrative Expenses

| € in millions                 | For the year ended December 31, |           |           |
|-------------------------------|---------------------------------|-----------|-----------|
|                               | 2007                            | 2006      | 2005      |
| Payroll and related expenses  | 19                              | 10        | 6         |
| Share based payment           | 12                              | 11        | 1         |
| Management fees               | 6                               | 4         | 1         |
| Office maintenance            | 3                               | 3         | 5         |
| Professional fees             | 7                               | 6         | 5         |
| Depreciation and amortization | 2                               | 1         | 1         |
| Other                         | 7                               | 9         | 5         |
|                               | <b>56</b>                       | <b>44</b> | <b>24</b> |

Payroll and related expenses are as follows:

| € in millions              | For the year ended December 31, |           |          |
|----------------------------|---------------------------------|-----------|----------|
|                            | 2007                            | 2006      | 2005     |
| Wages and salaries         | 14                              | 5         | 6        |
| Pension expenses           | 3                               | 1         | –        |
| Unemployment contributions | 2                               | –         | –        |
| Other social expenses      | –                               | 4         | –        |
|                            | <b>19</b>                       | <b>10</b> | <b>6</b> |

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

## 45 Other Financing Expenses

| € in millions  | For the year ended December 31, |            |           |
|--|---------------------------------|------------|-----------|
|  | 2007                            | 2006       | 2005      |
| <b>Income</b>  |                                 |            |           |
| Income from bank deposits                            | 25                              | 9          | 5         |
| Income in respect of long-term loans and receivables | 8                               | 1          | –         |
| Income from securities held for trading              | 6                               | –          | –         |
| Gain on forward exchange contracts                   | –                               | 2          | –         |
| Exchange differences                                 | –                               | 12         | –         |
| Other  | 3                               | 3          | 2         |
| <b>Total financing income</b>                        | <b>42</b>                       | <b>27</b>  | <b>7</b>  |
| <b>Expenses</b>                                      |                                 |            |           |
| Long-term loans and borrowings                       | 47                              | 36         | 19        |
| Change in fair value of options                      | 44                              | 63         | 22        |
| Debentures and convertible debentures                | 8                               | 14         | 8         |
| Exchange differences                                 | 39                              | 8          | 5         |
| Loss on forward exchange contracts                   | –                               | –          | –         |
| Short term loans and borrowings                      | 2                               | 2          | 1         |
| Other  | 8                               | 3          | 2         |
| <b>Total financing expenses</b>                      | <b>148</b>                      | <b>126</b> | <b>57</b> |

## 46 Other Expenses, net

| € in millions                  | For the year ended December 31, |          |          |
|--------------------------------|---------------------------------|----------|----------|
|                                | 2007                            | 2006     | 2005     |
| Impairment of assets           | 1                               | –        | –        |
| Impairment of properties       | –                               | 4        | 5        |
| Loss on disposal of investment | –                               | 1        | 1        |
| Other expenses, net            | 3                               | 1        | 1        |
|                                | <b>4</b>                        | <b>6</b> | <b>7</b> |

## 47 Taxes on Income

### a The company has its statutory seat in The Netherlands, and therefore is subject to taxation as per Dutch law.

Dutch companies tax applies to all global income (of any source) of any company residing in The Netherlands, such as the company, at a rate of 20% of its taxable revenue up to 25,000 Euro, and at a rate of 23.5% for all taxable revenue above this sum and up to 60,000 Euro, at the rate of 25.5% on taxable revenue exceeding 60,000 EURO, subject to certain exemptions granted under Dutch tax laws. One exemption set forth under Dutch tax laws is the Participation Exemption ('**Participation Exemption**'). According to the participation exemption, a Dutch company meeting certain specified criteria may benefit from a tax exemption for its entire revenue, derived from dividends and capital gains, from shares held by such company in another company ('**The Held Company**').

Starting from 2007, the participation exemption applies to any holding of 5% or more in the shares of the held company. However, holdings in passive companies (companies where upwards of 50% of their fair value is derived from bond holdings) which are subject to an effective taxation at a rate of less than 10% (which is to be calculated according to the Dutch tax laws), shall not entitle a company to the participation exemption. An exception to this rule is holdings of 5% or more in companies where at least 90% of the (consolidated) assets are real estate assets. Holdings in such companies shall benefit from the participation exemption even if the held companies have been classified as passive companies subject to an effective taxation rate of less than 10%.

The company is a Dutch resident company as mentioned, and therefore, as per the provisions of the Income Tax Ordinance [New Version], 5721-1961 ('**The Ordinance**'), and as per the provisions of the treaty signed between Israel and The Netherlands for the prevention of double taxation and fiscal evasion,

The company is required to pay taxes in Israel only for revenue gained or made in Israel, and for capital gains from realization of real estate assets in Israel or rights through a real estate association in Israel or goods serving as part of part of the assets of the company's permanent institution in Israel. As of the date of this report the company does not hold any assets in Israel and does not make any revenue in Israel.

The enacted tax rates in the various counties were as follows:

|                 | 2007  | 2006  |
|-----------------|-------|-------|
| <b>Tax rate</b> |       |       |
| Bulgaria        | 10%   | 10%   |
| China           | 33%   | 33%   |
| Croatia         | 20%   | 20%   |
| Germany         | 26.4% | 26.4% |
| Hong-Kong       | 17.5% | 17.5% |
| Hungary         | 20%   | 20%   |
| Poland          | 19%   | 19%   |
| Romania         | 16%   | 16%   |
| Serbia          | 10%   | 10%   |
| Slovakia        | 19%   | 19%   |
| The Netherlands | 25.5% | 29.6% |
| Ukraine         | 25%   | 25%   |
| Switzerland     | 23%   | 23%   |

**b Tax presented in the Consolidated Income Statement is broken down as follows:**

| € in millions                      | For the year ended December 31, |           |           |
|------------------------------------|---------------------------------|-----------|-----------|
|                                    | 2007                            | 2006      | 2005      |
| In respect of the year of accounts |                                 |           |           |
| Current                            | 8                               | 23        | 6         |
| Tax in respect of prior years      | –                               | (1)       | (2)       |
| Deferred                           | 34                              | 24        | 26        |
|                                    | <b>42</b>                       | <b>46</b> | <b>30</b> |

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

| € in millions   | For the year ended December 31, |           |           |
|---|---------------------------------|-----------|-----------|
|   | 2007                            | 2006      | 2005      |
| Accounting profit   | 292                             | 203       | 166       |
| Tax expense (tax benefit) computed at the weighted average taxable rate of 18.5% (2006 – 16%)                           | 54                              | 33        | 53        |
| <b>Increase (decrease) in tax expense (tax benefit) due to:</b>   |                                 |           |           |
| – Unrecognized tax losses   | 27                              | 15        | –         |
| – Equity in net earnings of associated companies and gain on issuances of shares to third parties which are not taxable | (1)                             | (1)       | (3)       |
| – Utilisation of tax losses carried forwards  |                                 |           |           |
| – Tax effect of unrealized foreign currency related to investment property  | (6)                             | (5)       | 4         |
| – Tax effect of revenues exempted from tax  | (15)                            | (9)       | (32)      |
| – Effect of changes in tax rates  |                                 | –         |           |
| – Taxes in respect of prior years   | –                               | (1)       | (2)       |
| – Non deductible expenses (incomes) and others  | (17)                            | 14        | 10        |
|   | <b>42</b>                       | <b>46</b> | <b>30</b> |
| Average effective tax rate  | 14%                             | 22%       | 18%       |

**d Composition of Deferred Taxes**

| € in millions  | Consolidated balance sheet |                   | Recorded in the income statement         |             |             |
|--|----------------------------|-------------------|--|-------------|-------------|
|  | December 31, 2007          | December 31, 2006 | Movement for the year ended December 31, |             |             |
|  |                            |                   | 2007                                     | 2006        | 2005        |
| <b>Deferred income tax assets(deferred tax liabilities) in respect of:</b> |                            |                   |  |             |             |
| Investment properties  | (98)                       | (57)              | (41)                                     | (23)        | (19)        |
| Property, plant and equipment  | (2)                        | –                 | (2)                                      | (7)         | 10          |
| Contract work in progress  | (1)                        | –                 | (1)                                      | 1           | –           |
| Temporary differences relating to investments in companies                 | (2)                        | (1)               | (1)                                      | (2)         | –           |
| Financial assets   | (2)                        | (1)               | (1)                                      | 5           | (16)        |
| Carry forward losses available for offset against future taxable income    | 6                          | 4                 | 2  | (1)         | –           |
| Valuation allowance  | –                          | (2)               | 2  | –           | –           |
| Basis differences  | 8                          | –                 | 8  | 3           | –           |
| Financial liabilities  | 2                          | –                 | 2  | –           | –           |
| Other  | (4)                        | (2)               | (2)                                      | –           | (1)         |
|  | <b>(93)</b>                | <b>(59)</b>       | <b>(34)</b>                              | <b>(24)</b> | <b>(26)</b> |

**e Tax presented in the consolidated balance sheet is broken down as follows:**

| € in millions                     | December 31, 2007 | December 31, 2006 |
|-----------------------------------|-------------------|-------------------|
| Net deferred income tax asset     | 17                | 4                 |
| Net deferred income tax liability | (110)             | (63)              |
|                                   | <b>(93)</b>       | <b>(59)</b>       |

## **f Additional Information**

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

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

GTC SA has contributed organized parts of its business, which are comprised of certain office buildings, a shopping centre and associated assets and liabilities into certain subsidiaries. In accordance with local regulations, the contributed buildings were revalued as of the date of contribution. The revalue amounts form the tax base for these assets. Hence the deferred taxation liability relating to the accumulating timing differences until contribution date in connection with these investment properties was released. If the shares in these subsidiaries are sold, the cost that will be deductible for tax purposes will be based on the net historical cost of the contributed items prior to the revaluation and in such case the tax liability that would arise at that date is estimated at EUR 33 million (2006 – EUR 33 million). There is no present intention of selling the shares of these subsidiaries, and therefore no related liability was recognized.

## **g Loss Carries Forwards and Final Tax Assessments**

The Group has tax losses of EUR 142 million that are available for offset between 5 years and indefinitely.

Deferred tax assets have not been recognized in respect of tax loss carry forwards amounting to EUR115 million as they may not be used to offset

taxable profits elsewhere in the Group and the losses are of subsidiaries that have generated losses for extended periods.

The company has received a final tax assessment for 2003. The company filed an appeal regarding this tax assessment.

Kardan Israel has been issued with final tax assessments in Israel up to and including fiscal year 2003. Part of the main subsidiaries in Israel has been issued with final tax assessments until and including 2003-2005 and some did not received final tax assessments from the day of incorporation.

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

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

At present it is not possible to ascertain the outcome of the appeal against the corporate tax assessments raised by the Inspector of Taxes. Should GTC RE be successful in its appeal then it would be able to deduct EUR 993 thousand for 2001, EUR 611 thousand for 2002, and EUR 3,142 thousand for 2003.

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

## h Tax Regulations in Eastern Europe

Restrictive tax regulations exist in Eastern European countries regarding value added tax, company tax and national insurance (social security) payments. Since these regulations were enacted in recent years, they often include internal contradictions that cause problems in their interpretation. Differences in interpretation of the tax regulations between various tax related entities and tax authorities, and the taxpayers cause numerous disputes. Arrangements regarding taxation and other areas of activity (such as foreign currency transactions) may be subject to supervision by the tax authorities and by other authorities that are empowered to levy material penalties including interest on the penalties. In these circumstances, business activity in Eastern European countries includes more serious tax risks than in countries with a more stable tax base. Eastern European countries do not have a formal procedure for determining the amount of the final tax. Tax arrangements may be audited at any time during a number of years. A risk exists that the tax authorities' interpretation of the tax legislation will be different from the interpretation of the subsidiaries in Eastern Europe, a fact that may affect the tax liability of those companies.

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

countries that have a more established taxation system.

## I Special Tax Arrangement with the Income Tax Commissioner in Israel

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

As a result of the aforementioned Law in April 2003 Kardan Israel reached a special tax arrangement with the Income Tax and Property Tax Commissioner ('the Commissioner'). According to the agreement, Kardan Ltd. will pay tax, at the rate of 5% of accumulated profits realized and of profits not yet realized ('increase in value profits') through December 31, 2002, of investee companies of Kardan Ltd. that are located outside of Israel. According to the arrangement, Kardan Israel will pay tax in the amount of approximately USD 2.7 million, of which USD 0.2 million constitutes 5% of Kardan Israel's share of the retained earnings for financial reporting purposes in Israel that are available for distribution ('arranged dividends').

The balance of USD 2.6 million constitutes 5% of the increase in value profits originating in foreign resident companies in which Kardan Ltd. has direct or indirect holdings and that hold assets in foreign countries ('the foreign assets'). Increase in value profits are profits arising from the difference between the carrying value of the foreign assets as recorded in the financial

statements, and their fair value as of December 31, 2002.

The arrangement provides that Kardan Israel will not be subject to additional tax in respect of dividends received from the foreign resident investee companies up to the amount of the arranged dividends and in respect of gains from the sale of the foreign assets up to the amount of the increase in value profits.

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

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

## **48 Earnings per Share**

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

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



The following reflects the income and share data used in the basic and diluted earnings per share computations:

|  | 2007      | 2006      | 2005      |
|--|-----------|-----------|-----------|
| Net profit (loss) attributable to ordinary equity holders of the parent<br>(€ in millions) | 90        | 41        | 46        |
| Effect of dilution of earnings of group companies  | (1)       | (6)       | (1)       |
|  | <b>89</b> | <b>35</b> | <b>45</b> |
| Weighted average number of ordinary shares for basic earnings per share                    | 81        | 73        | 64        |
| Effect of dilution:  | –         | –         | –         |
| shares options   | –         | –         | –         |
| <b>Adjusted weighted average number of ordinary shares for diluted earnings per share</b>  | <b>81</b> | <b>73</b> | <b>64</b> |

In the calculation of the earning per share convertible securities were not included in the calculation of diluted earnings per share for the year 2007 because they were anti-dilutive.

- Series 4 warrants issued by Kardan Israel (see note 27)

In addition, employee options granted by the Company during 2006 were excluded, as in accordance with their vesting conditions, they have, as at December 31, 2007 a negative benefit rate and on that basis no shares would have been issued.

## 49 Financial Instruments and Risk Management

### a KARDAN Group

#### Financial risk management

The Group's principal financial instruments, other than derivatives, comprise bank loans, debentures, convertible liabilities, cash deposits and granted loans. The main purpose of these financial instruments is to raise finance for the Group's operations and to act as a bank and as insurance company. The Group has

various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

Operations of the Group expose it to various financial risks, e.g., market risk (including currency risk, interest rate fair value risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group employs derivative financial instruments, principally interest rate swap transactions, to hedge certain exposures to risks.

The Management Board and directorates of the Group's associated companies provide overall risk management principles, and also the specific policy on certain exposure to risks, e.g., exchange rate risk, interest rate risk, credit risk and use of derivative financial instruments.

#### **Credit risk**

The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits and other financial assets (including granted loans). The Group trades only with recognized, top ranking creditworthy third parties.

The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, in respect of specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts is not significant.

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

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

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

Counterparties to financial instruments consist of a large number of prime financial institutions. The Group does not expect any counterparties to fail to meet their obligations, given their high credit ratings. The Group has no significant concentration of credit risk with any single counterpart or group of counterparties.

As at December 31, 2007, cash and cash equivalent amounted to some EUR 893 millions, and restricted deposits in banks amounted to some EUR 19.4 millions. All deposits are deposited with the highest rated financial corporations in Europe and Israel.

#### **Capital management**

The primary objective of the Group's capital management is to ensure capital preservation and maintaining healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or debentures.

No changes were made in the objectives, policies or processes during the years end December 31, 2007 and December 31, 2006.

**Political risk**

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

**Insurance risk**

For detail description of the insurance risk please see note of financial instruments for the financial services activities.

**Interest rate risk**

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

Details of Group member companies hedging transactions are presented as follows:

| Party          | Loan hedged                              | Commence  | Hedged amount<br>€ in millions | Expiration date | Interest rate on bank loan (swapped) | Interest to be paid by the Company | Accounting treatment | Fair value as of December 31, 2007<br>€ in millions | Fair value as of December 31, 2006<br>€ in millions |
|----------------|--|-----------|--------------------------------|-----------------|--------------------------------------|------------------------------------|----------------------|---|---|
| Discount Bank  | Debentures                               | Aug-07    | 60                             | Jan-16          | 4.45% +CPI                           | 5.64%                              | Hedge accounting     | 3   | -   |
| FIBI Bank      | Debentures                               | March-07  | 36                             | Jan-16          | 4.45% +CPI                           | 5.43%                              | Hedge accounting     | -   | -   |
| Poalim Bank    | Debentures                               | March-07  | 55                             | Jan-16          | 4.45% +CPI                           | 5.38%                              | Hedge accounting     | -   | -   |
| Discount Bank  | Debentures                               | March-07  | 37                             | Jan-16          | 4.45% +CPI                           | 5.43%                              | Hedge accounting     | -   | -   |
| Leumi Bank     | Debentures                               | Feb-07    | 38                             | Jan-16          | 4.45% +CPI                           | 5.54%                              | Hedge accounting     | -   | -   |
| Discount Bank  | Debentures                               | Dec-07    | 35                             | Jan-20          | 4.9% +CPI                            | 6.44%                              | Hedge accounting     | (2)   | -   |
| Leumi Bank     | Debentures                               | Feb-07    | 100                            | Feb-20          | 4.9% +CPI                            | 5.94%                              | Hedge accounting     | (4)   | -   |
| Raffaisen Bank | Loan from EBRD (GTC Serbia)              | 08-May-06 | 22                             | 05-Aug-11       | Floating                             | Fixed 3.85%                        | Hedge accounting     | -   | -   |
| MBK Bank       | Loan from MBK (GTC Hungary)              | Apr-06    | 30                             | Jan-09          | Floating                             | Collar 3.41%-3.70%                 | Income statement     | -   | -   |
|                |  | Jan-09    | 29                             | Jan-14          | Floating                             | Collar 3.77%-4.15%                 | Income statement     | -   | -   |
|                |  | Jan 08    | 35                             | Oct 09          | Floating                             | Collar 4.03%-4.6%                  | Income statement     | -   | -   |
|                |  | Oct 09    | 32                             | Oct 11          | Floating                             | Collar 3.89%-4.6%                  | Income statement     | -   | -   |
| Bank BPH       | Debentures                               | Apr-07    | 23                             | Apr-12          | Floating PLN                         | Fixed Euro 5.745%                  | Income statement     | 1   | -   |
|                |  | Apr-07    | 201                            | Apr-14          | Floating PLN                         | Fixed Euro 5.745%                  | Income statement     | 10  | -   |
| EUROHYPO       | Loan from EUROHYPO (GTC Topaz office)    | Jan-06    | -                              | Dec-07          | Floating                             | Cap 3.5%                           | Hedge accounting     | -   | -   |
|                |  | Jan-08    | 13                             | Dec-11          |                                      | Collar 3.2%-4.1%                   | Income statement     | -   | -   |
| Aareal bank    | Loan from Aareal (GTC Galeria Kazimierz) | Apr-05    | -                              | Mar-07          | Floating                             | Fixed 3.32%                        | Hedge accounting     | -   | -   |
|                |  | Apr-07    | 49                             | Mar-11          |                                      | Collar 3.25%-5.5%                  | Income statement     | -   | -   |
|                |  | May-06    | 9                              | May-11          |                                      | Fixed 3.92%                        | Hedge accounting     | -   | -   |
| Total          |  |           |                                |                 |                                      |                                    |                      | 8   | -   |

The table below presents the sensitivity of equity due to change in EURIBOR, CPI and NIS regarding the hedge instruments.

| € in millions        | Effect on Equity |     |     |      |
|----------------------|------------------|-----|-----|------|
|                      | +10%             | +5% | -5% | -10% |
| EURIBOR              | (8)              | (4) | 4   | 8    |
| Israeli CPI          | 8                | 4   | (4) | (8)  |
| Israeli NIS Interest | (8)              | (4) | 4   | 8    |

| € in millions | Effect on income statement |     |     |      |
|---------------|----------------------------|-----|-----|------|
|               | +10%                       | +5% | -5% | -10% |
| EURIBOR       | 9                          | 4   | (4) | (9)  |

The tables below present the sensitivity of the consolidated profit (loss) of the Group before tax due to change in Different Interests rates:

| € in millions | Sensitivity to change in EURIBOR |     |     |      |
|---------------|----------------------------------|-----|-----|------|
|               | Effect on income statement       |     |     |      |
|               | +10%                             | +5% | -5% | -10% |
| 2007          | (4)                              | (2) | 2   | 4    |
| 2006          | (1)                              | -   | -   | 1    |

| € in millions | Sensitivity to change in Israeli Interest |     |     |      |
|---------------|---|-----|-----|------|
|               | Effect on income statement                |     |     |      |
|               | +10%                                      | +5% | -5% | -10% |
| 2007          | (1)                                       | (1) | 1   | 1    |
| 2006          | -   | -   | -   | -    |

| € in millions | Sensitivity to change in CPI |     |     |      |
|---------------|------------------------------|-----|-----|------|
|               | Effect on income statement   |     |     |      |
|               | +10%                         | +5% | -5% | -10% |
| 2007          | (2)                          | (1) | 1   | 2    |
| 2006          | (1)                          | -   | -   | 1    |

| € in millions | Sensitivity to change in Libor |     |     |      |
|---------------|--------------------------------|-----|-----|------|
|               | Effect on income statement     |     |     |      |
|               | +10%                           | +5% | -5% | -10% |
| 2007          | (1)                            | -   | -   | 1    |
| 2006          | (1)                            | -   | -   | 1    |

### Liquidity risk

The Group finances its operations through short term and long term credit obtained from banking and non-banking organizations. The company raises financing according to needs and market conditions at that time.

As at December 31, 2007, the company holds assets for mortgaging, which according to estimates of the company's management are sufficient to finance its future operations.

The tables below summarize the maturity profile of the Group's financial liabilities at December 31, 2007 and 2006 based on contractual undiscounted payments.

| € in millions                         | Year ended December 31, 2007 |              |              |              |              |              |                | Total        |
|---------------------------------------|------------------------------|--------------|--------------|--------------|--------------|--------------|----------------|--------------|
|                                       | Less than a year             | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | > 5 years    | Not determined |              |
| Short term credit                     | –                            | –            | –            | –            | –            | –            | 92             | 92           |
| Trade payables                        | 62                           | –            | –            | –            | –            | –            | –              | 62           |
| Other payables and accrued expenses   | 95                           | –            | –            | –            | –            | –            | –              | 95           |
| Banking customers accounts            | 477                          | 48           | 6            | 1            | 1            | 11           | –              | 544          |
| Interest bearing loans and borrowings | 293                          | 121          | 144          | 79           | 59           | 379          | 16             | 1,091        |
| Convertible Debentures                | 6                            | 2            | 28           | –            | –            | –            | –              | 36           |
| Other Debentures                      | 54                           | 51           | 52           | 20           | 42           | 677          | –              | 896          |
| Other financial liabilities           | 31                           | –            | –            | 15           | –            | 1            | 142            | 189          |
|                                       | <b>1,112</b>                 | <b>222</b>   | <b>230</b>   | <b>115</b>   | <b>102</b>   | <b>1,068</b> | <b>250</b>     | <b>3,099</b> |

| € in millions                         | Year ended December 31, 2006 |              |              |              |              |            |                | Total        |
|---------------------------------------|------------------------------|--------------|--------------|--------------|--------------|------------|----------------|--------------|
|                                       | Less than a year             | 1 to 2 years | 2 to 3 years | 3 to 4 years | 4 to 5 years | > 5 years  | Not determined |              |
| Short term credit                     | –                            | –            | –            | –            | –            | –          | 91             | 91           |
| Trade payables                        | 64                           | –            | –            | –            | –            | –          | –              | 64           |
| Other payables and accrued expenses   | 41                           | –            | –            | –            | –            | –          | –              | 41           |
| Banking customers accounts            | 177                          | 79           | 1            | –            | –            | 16         | –              | 273          |
| Interest bearing loans and borrowings | 308                          | 108          | 171          | 81           | 82           | 249        | 8              | 1,007        |
| Convertible Debentures                | 1                            | 39           | 2            | 30           | –            | –          | –              | 72           |
| Other Debentures                      | 16                           | 53           | 59           | 9            | 8            | –          | –              | 145          |
| Other financial liabilities           | 82                           | –            | –            | 15           | –            | 1          | 150            | 248          |
| Other -Insurance contract liabilities | 84                           | 15           | 5            | 16           | –            | 8          | 59             | 187          |
|                                       | <b>773</b>                   | <b>294</b>   | <b>238</b>   | <b>151</b>   | <b>90</b>    | <b>274</b> | <b>308</b>     | <b>2,128</b> |

## Market Risk

The Group operates in various sectors in emerging markets. The Group is exposed to inherent risks in developing countries, mainly political and other risks which include local economic and legal issues.

Success of the company in the emerging markets depends on the continued development of these markets, continued development of real estate business, development of financial services and infrastructures. Decreased development rate of the said markets may have an adverse impact on the business of the company. It should also be noted that the official information published in developing countries is not always reliable or complete. Dependence in such information is a risk factor.

The economical environment and the economical condition in Central-Eastern Europe and in China – the company conducts considerable operations in Central-Eastern Europe, mainly in real estate and financial services sectors, while in China the Group operates in the real estate sector. The company Group continues to direct management and financial resources to investments in Central-Eastern Europe, following the economic growth experienced by this region in recent years and in expectation that the trend of decreasing general and economical differences between Eastern to Western Europe will continue and apply to investments in China as well, which is considered to be the largest economy in the world, that is gradually shifting over the last 25 years from central government controlled economy to an open market economy, that opens up to international markets. A change in these trends in countries where the company Group operates may have an adverse impact on its operations.

Throughout 2007, significant market turmoil was experienced in the credit markets, beginning with concerns over US sub-prime mortgages and then widening into a general banking liquidity crisis. Management is carefully reviewing and monitoring the impact of the crisis on its financing position, valuation of assets and liquidity position. Through a range of bond offerings it has secured a strong cash position and real estate in Central and Eastern Europe has, in

the opinion of management and as validated by external appraisers, not yet suffered. Also the Group has not significantly invested in residential mortgage backed securities and collateralized debt obligations which are nowadays subject to significant value adjustments. Reference is however made to the paragraph on significant judgements as included on page 15 of these financial statements.

The home mortgage market in the countries of operation is not yet sufficiently developed. Difficulty in obtaining loans on easy terms for purchasing apartments, may affect the demand for home units in the projects undertaken by the company.

The Management of the Group believes that the following factors contribute significantly to its operating success and dealing with risk mentioned above.

- 1 Skilled and experience management team and a constant local presence in the countries of operation.
- 2 Close working relations with international financing institutions.
- 3 Focus on selection of major projects which are developed in stages, according to demand.
- 4 Strict due diligence before embarking on a project, and adherence to project completion dates committed to.

Due to the above factors the management believes the market risk is reasonable.

## Foreign Currency Risk

Since the Group conducts business in a variety of countries, it is exposed to a foreign currency exchange rate risk, resulting from exposure to different currencies. The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of each company in the Group. Group companies conduct currency translation transactions at times, to hedge the exposure to the foreign currency risk. Additional details of hedging transactions are presented in the credit risk note.

## Currency Exposure

a Linkage basis as of December 31, 2007:

| € in millions   | USD or<br>linked to it | In EUR or<br>linked to it | In other<br>Currency or<br>linked to it | In NIS and<br>in linkage<br>to Israel<br>CPI | Non linked | Non-<br>Financial | Total        |
|---|------------------------|---------------------------|---|--|------------|-------------------|--------------|
| <b>Assets</b>   |                        |                           |   |  |            |                   |              |
| Cash and cash equivalent  | 191                    | 543                       | 147                                     | –  | 12         | –                 | 893          |
| Short term investments  | 6                      | 23                        | 28                                      | 17   | 14         | –                 | 88           |
| Insurance companies and reinsurers  | 2                      | 8                         | 22                                      | –  | –          | –                 | 32           |
| Insurance receivables   | 6                      | 12                        | 18                                      | –  | –          | –                 | 36           |
| Customers   | 1                      | 3                         | 6                                       | 6  | 28         | –                 | 44           |
| Trade and Building for sale inventory and<br>construction in progress cost  | –                      | –                         | –                                       | –  | –          | 297               | 297          |
| Account receivables and tax receivables   | 2                      | 51                        | 59                                      | –  | 7          | 32                | 151          |
| Loans to bank customers   | 171                    | 6                         | 220                                     | –  | –          | –                 | 397          |
| Investments in associates and others  | 3                      | 46                        | 27                                      | 44   | –          | 72                | 192          |
| Long term investments and receivables and<br>current liabilities of long term receivables                                       | 19                     | 236                       | 157                                     | –  | 7          | 6                 | 425          |
| Real estate for investment, under construction,<br>fixed assets, deferred purchase expenses,<br>other assets and deferred taxes | –                      | –                         | –                                       | –  | –          | 1,717             | 1,717        |
|   | <b>401</b>             | <b>928</b>                | <b>684</b>                              | <b>67</b>                                    | <b>68</b>  | <b>2,124</b>      | <b>4,272</b> |
| <b>Liabilities</b>  |                        |                           |   |  |            |                   |              |
| Interest bearing loans and borrowings   | 17                     | 40                        | 5                                       | 2  | 28         | –                 | 92           |
| Trade payable   | 2                      | 23                        | 29                                      | 1  | 10         | –                 | 65           |
| Other payables and accrued expenses and<br>taxes payable  | 5                      | 78                        | 47                                      | 2  | 16         | 112               | 260          |
| Banking customers accounts  | 115                    | 89                        | 282                                     | –  | –          | –                 | 486          |
| Prepayments less construction in progress cost  | –                      | –                         | –                                       | –  | –          | 12                | 12           |
| Convertible debentures and other debentures   | –                      | 633                       | 16                                      | 169  | –          | –                 | 818          |
| Interest bearing loans and borrowing (including<br>current maturities)  | 150                    | 739                       | 131                                     | 10   | 15         | –                 | 1,045        |
| Convertible debentures conversion component<br>and options liabilities  | 9                      | 75                        | 4                                       | 18   | –          | 58                | 164          |
| Insurance contracts liabilities   | 3                      | 65                        | 71                                      | –  | –          | –                 | 139          |
| Deferred taxes  | –                      | –                         | –                                       | –  | –          | 110               | 110          |
| Accrued severance pay   | –                      | –                         | –                                       | –  | –          | 1                 | 1            |
| Other liabilities   | 6                      | –                         | –                                       | –  | 1          | –                 | 7            |
|   | <b>307</b>             | <b>1,742</b>              | <b>585</b>                              | <b>202</b>                                   | <b>71</b>  | <b>293</b>        | <b>3,199</b> |



Linkage basis as of December 31, 2006:

| € in millions   | December 31, 2006      |                           |   |  |            |                   | Total        |
|---|------------------------|---------------------------|---|--|------------|-------------------|--------------|
|   | USD or<br>linked to it | In EUR or<br>linked to it | In other<br>Currency or<br>linked to it | In NIS and<br>in linkage<br>to Israel<br>CPI | Non linked | Non-<br>Financial |              |
| <b>Assets</b>   |                        |                           |   |  |            |                   |              |
| Cash and cash equivalents   | 185                    | 139                       | 70                                      | –  | 15         | –                 | 409          |
| Short-term investments  | 21                     | 20                        | 7                                       | –  | 12         | –                 | 60           |
| Reinsurance receivables and insurance<br>companies  | 2                      | 3                         | 7                                       | –  | –          | –                 | 12           |
| Insurance premium receivables   | 4                      | 11                        | 1                                       | –  | –          | –                 | 16           |
| Other receivables and tax receivables   | 4                      | 12                        | 38                                      | –  | 3          | 3                 | 60           |
| Trade receivables   | 6                      | 1                         | 17                                      | –  | 18         | –                 | 42           |
| Loans to bank customers   | 44                     | 27                        | 50                                      | –  | –          | –                 | 121          |
| Inventories and contract work and buildings<br>inventory in progress  | –                      | –                         | –                                       | –  | –          | 160               | 160          |
| Long-term loans and receivables (including<br>current maturities)   | 39                     | 65                        | 86                                      | 2  | –          | –                 | 192          |
| Investments in associates and available-for-sale<br>financial assets  | –                      | 18                        | –                                       | 32   | –          | 115               | 165          |
| Real estate under construction, investment<br>properties, property, plant and equipment,<br>deferred acquisition costs, intangible assets<br>and deferred income tax assets | –                      | –                         | –                                       | –  | –          | 988               | 988          |
|   | <b>305</b>             | <b>296</b>                | <b>276</b>                              | <b>34</b>                                    | <b>48</b>  | <b>1,266</b>      | <b>2,225</b> |
| <b>Liabilities</b>  |                        |                           |   |  |            |                   |              |
| Current interest-bearing loans and borrowings   | 4                      | 19                        | 41                                      | –  | 27         | –                 | 91           |
| Trade payable   | 5                      | 13                        | 36                                      | 1  | 3          | –                 | 58           |
| Other payables and accrued expenses and<br>income tax payables  | 4                      | 31                        | 76                                      | 4  | 12         | 5                 | 132          |
| Banking customers accounts  | 58                     | 12                        | 73                                      | –  | –          | –                 | 143          |
| Advances from customers in respect of<br>contracts  | –                      | –                         | –                                       | –  | –          | 16                | 16           |
| Non-current interest bearing loans and<br>borrowings (including current maturities)   | 153                    | 386                       | 43                                      | 12   | 21         | –                 | 615          |
| Warrants and options  | –                      | 13                        | 10                                      | 111  | –          | –                 | 134          |
| Convertible debentures and other debentures   | –                      | 23                        | –                                       | 100  | –          | –                 | 123          |
| Insurance provisions  | 5                      | 58                        | 21                                      | –  | –          | –                 | 84           |
| Deferred income tax liabilities   | –                      | –                         | –                                       | –  | –          | 63                | 63           |
| Accrued severance pay, net  | –                      | –                         | –                                       | –  | –          | 2                 | 2            |
| Other long term liabilities   | 1                      | –                         | 3                                       | –  | 1          | –                 | 5            |
|   | <b>230</b>             | <b>555</b>                | <b>303</b>                              | <b>228</b>                                   | <b>64</b>  | <b>86</b>         | <b>1,466</b> |

## Currency Exposure

The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of the Group's profit before tax

| € in millions | Sensitivity to change in Share Price |     |     |      |
|---------------|--------------------------------------|-----|-----|------|
|               | Effect on income statement           |     |     |      |
|               | +10%                                 | +5% | -5% | -10% |

|      |      |      |    |    |
|------|------|------|----|----|
| 2007 | (41) | (20) | 20 | 41 |
| 2006 | (59) | (29) | 29 | 59 |

| € in millions | Sensitivity to change in Euro/USD |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

|      |      |     |   |    |
|------|------|-----|---|----|
| 2007 | (12) | (6) | 6 | 12 |
| 2006 | (5)  | (3) | 3 | 5  |

| € in millions | Sensitivity to change in Euro/NIS |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

|      |   |   |     |     |
|------|---|---|-----|-----|
| 2007 | 1 | 1 | (1) | (1) |
| 2006 | 8 | 4 | (4) | (8) |

| € in millions | Sensitivity to change in Euro/RMB |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

|      |     |     |   |   |
|------|-----|-----|---|---|
| 2007 | (2) | (1) | 1 | 2 |
| 2006 | -   | -   | - | - |

| € in millions | Sensitivity to change in Euro/HUF |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

|      |   |   |     |     |
|------|---|---|-----|-----|
| 2007 | 1 | 1 | (1) | (1) |
| 2006 | - | - | -   | -   |

| € in millions | Sensitivity to change in Euro/PLN |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

|      |     |     |   |   |
|------|-----|-----|---|---|
| 2007 | (3) | (1) | 1 | 3 |
| 2006 | -   | -   | - | - |

| € in millions | Sensitivity to change in Euro/HRVNA |     |     |      |
|---------------|-------------------------------------|-----|-----|------|
|               | Effect on income statement          |     |     |      |
|               | +10%                                | +5% | -5% | -10% |

|      |     |     |     |     |
|------|-----|-----|-----|-----|
| 2007 | (2) | (1) | 1   | 2   |
| 2006 | 3   | 2   | (2) | (3) |

| € in millions | Sensitivity to change in Euro/RON |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

|      |     |     |     |     |
|------|-----|-----|-----|-----|
| 2007 | (1) | (1) | 1   | 1   |
| 2006 | 1   | 1   | (1) | (1) |

| € in millions | Sensitivity to change in Euro/RUB |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

|      |     |     |   |   |
|------|-----|-----|---|---|
| 2007 | (1) | (1) | 1 | 1 |
| 2006 | -   | -   | - | - |

| € in millions | Sensitivity to change in Euro/CPI |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |
| 2007          | 3                                 | 1   | (1) | (3)  |
| 2006          | 2                                 | 1   | (1) | (2)  |

| € in millions | Sensitivity to change in Euro/OTHERS |     |     |      |
|---------------|--------------------------------------|-----|-----|------|
|               | Effect on income statement           |     |     |      |
|               | +10%                                 | +5% | -5% | -10% |
| 2007          | –                                    | –   | –   | –    |
| 2006          | 2                                    | 1   | (1) | (2)  |

### Fair Value Risks

Set out below is a comparison by category of the Differences between the carrying amounts and fair values of the Group's financial instruments.

| € in millions                               | Carrying amount |       | Fair value |       |
|---|-----------------|-------|------------|-------|
|   | 2007            | 2006  | 2007       | 2006  |
| Convertible and non convertible Debentures  | (576)           | (146) | (586)      | (156) |
| Fixed rate borrowings                       | (111)           | (41)  | (118)      | (42)  |
| Investments and other long term receivables | 26              | 35    | 26         | 29    |

Market values have been used to determine the fair value of listed convertible preference shares and listed available-for-sale financial assets. The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loan notes and other financial assets have been calculated using market interest rates.

## B Additional Information on Financial Instruments for the Main Subsidiaries in the Group

- 1 GTC Real Estate N.V – Real Estate activity.
- 2 KFS Subsidiaries – Financial Services activity.
  - TBIF
  - TBIH
- 3 Kardan Israel and Tahal are not separately presented

### 1 Financial Instruments in the Real Estate Activity

GTC RE's principal financial instruments, other than derivatives, comprise bank loans, debentures, finance leases, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for GTC RE's operations. GTC RE has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

GTC RE also enters into derivative transactions, including principally interest rate swaps. The purpose is to manage the interest rate risks arising from GTC RE's operations and its sources of finance.

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

#### Market Risk

GTC RE operates in real estate in emerging markets. It is vulnerable to the dangers which exist in developing countries, mostly of political nature, and involving local economies. GTC RE is exposed to fluctuations of supply and demand in the real estate markets in which it operates. These in turn can have a detrimental effect on occupancy rates in the income-yielding properties, on levels of rent, and on the sale potential of the properties in question; and on levels of demand, and consequently on prices, in the residential housing sector. In addition, the demand for office and

commercial space may go down, as a result of an increase in supply, and in the face of increasing competition from 'high-end' suppliers (international companies and networks with strong financial backing).

In its activity in China, GTC RE is exposed to a market in which the government is greatly active in the economy in general, and particularly in real estate. The exposure includes, among other things, the risks of legislative change and change in the regulations that regulate the activity in the real estate sector. Additionally, the activity necessitates great bureaucratic occupation and it is necessary to receive many permits over the course of the business activity. Also the ability to receive credit in China for construction is limited.

The home mortgage market in the countries of operation is not yet sufficiently developed. Difficulty in obtaining loans on easy terms for purchasing apartments, may affect the demand for home units in the projects undertaken by the company.

The Management of GTC RE believes that the following factors contribute significantly to its operating success and dealing with risk mentioned above.

- 1 Skilled management team with real estate experience and a constant local presence in the countries of operation.
- 2 Close working relations with international financing institutions.
- 3 Focus on selection of major projects which are developed in stages, according to demand.
- 4 Strict due diligence before embarking on a project, and adherence to project completion dates committed to.

Due to the above factors the management of GTC RE believes the market risk is reasonable.

## Liquidity Risk

GTC RE monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (eg accounts receivables, other financial assets) and projected cash flows from operations.

The table below summarizes the maturity profile of GTC RE's financial liabilities at December 31, 2007 based on contractual undiscounted payments.

| € in millions                         | Year ended 31 December 2007 |                    |                |              |            |               | Total        |
|---------------------------------------|-----------------------------|--------------------|----------------|--------------|------------|---------------|--------------|
|                                       | On demand                   | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years  | Not determine |              |
| Interest-bearing loans and borrowings | –                           | –                  | 31             | 116          | 290        | 100           | 537          |
| Convertible debentures                | –                           | –                  | 5              | –            | –          | –             | 5            |
| Debentures                            | –                           | –                  | –              | 22           | 437        | –             | 459          |
| Other financial liabilities           | –                           | –                  | –              | –            | –          | 41            | 41           |
| Trade and other payables              | 41                          | 63                 | –              | –            | –          | –             | 104          |
| Deferred tax                          | –                           | –                  | –              | –            | –          | 98            | 98           |
|                                       | <b>41</b>                   | <b>63</b>          | <b>36</b>      | <b>138</b>   | <b>727</b> | <b>239</b>    | <b>1,244</b> |

| € in millions                         | Year ended 31 December 2006 |                    |                |              |            |               | Total      |
|---------------------------------------|-----------------------------|--------------------|----------------|--------------|------------|---------------|------------|
|                                       | On demand                   | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years  | Not determine |            |
| Interest-bearing loans and borrowings | –                           | –                  | 114            | 105          | 253        | 7             | 479        |
| Convertible debentures                | –                           | –                  | –              | 37           | –          | –             | 37         |
| Other financial liabilities           | –                           | –                  | –              | –            | –          | 84            | 84         |
| Trade and other payables              | 44                          | 27                 | –              | –            | –          | –             | 71         |
| Deferred tax                          | –                           | –                  | –              | –            | –          | 59            | 59         |
|                                       | <b>44</b>                   | <b>27</b>          | <b>114</b>     | <b>142</b>   | <b>253</b> | <b>150</b>    | <b>730</b> |

## Interest Rate Risks

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

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

The table below presents the sensitivity of equity due to change in EURIBOR, CPI and NIS.

| € in millions | 2007                             |     |            |     |      |
|---------------|----------------------------------|-----|------------|-----|------|
|               | Sensitivity to change in EURIBOR |     |            |     |      |
|               | Effect on equity                 |     |            |     |      |
|               | +10%                             | +5% | Fair Value | -5% | -10% |

### Derivatives that are designated as hedging instruments

|                   |     |     |     |   |   |
|-------------------|-----|-----|-----|---|---|
| Swap transactions | (4) | (2) | (5) | 2 | 4 |
|-------------------|-----|-----|-----|---|---|

| € in millions | 2007                             |     |            |     |      |
|---------------|----------------------------------|-----|------------|-----|------|
|               | Sensitivity to change in EURIBOR |     |            |     |      |
|               | Effect on income statement       |     |            |     |      |
|               | +10%                             | +5% | Fair Value | -5% | -10% |

**Derivatives that are not designated as hedging instruments**

|                     |   |   |    |     |     |
|---------------------|---|---|----|-----|-----|
| Hedging instruments | 9 | 4 | 12 | (4) | (9) |
|---------------------|---|---|----|-----|-----|

| € in millions | 2007                             |     |            |     |      |
|---------------|----------------------------------|-----|------------|-----|------|
|               | Sensitivity to change in the NIS |     |            |     |      |
|               | Effect on Equity                 |     |            |     |      |
|               | +10%                             | +5% | Fair Value | -5% | -10% |

|                   |   |   |     |     |     |
|-------------------|---|---|-----|-----|-----|
| Swap transactions | 4 | 2 | (5) | (2) | (4) |
|-------------------|---|---|-----|-----|-----|

| € in millions | 2007                             |     |            |     |      |
|---------------|----------------------------------|-----|------------|-----|------|
|               | Sensitivity to change in the CPI |     |            |     |      |
|               | Effect on Equity                 |     |            |     |      |
|               | +10%                             | +5% | Fair Value | -5% | -10% |

|                   |   |   |     |     |     |
|-------------------|---|---|-----|-----|-----|
| Swap transactions | 3 | 2 | (5) | (2) | (3) |
|-------------------|---|---|-----|-----|-----|

The table below presents the sensitivity of profit (loss) before tax due to change in Different Interests:

| € in millions | 2007                             |     |     |      |  |
|---------------|----------------------------------|-----|-----|------|--|
|               | Sensitivity to change in EURIBOR |     |     |      |  |
|               | Effect on income statement       |     |     |      |  |
|               | +10%                             | +5% | -5% | -10% |  |

**Assets**

|                           |     |     |       |       |
|---------------------------|-----|-----|-------|-------|
| Loans granted             | 0.1 | 0.1 | (0.1) | (0.1) |
| Short term investments    | 0.1 | -   | -     | (0.1) |
| Cash and cash equivalents | 1   | 1   | (1)   | (1)   |
|                           | 1.2 | 1.1 | (1.1) | (1.2) |

**Liabilities**

|                                       |     |     |   |   |
|---------------------------------------|-----|-----|---|---|
| Long-term loans from Banks and others | (3) | (2) | 2 | 3 |
|---------------------------------------|-----|-----|---|---|

| € in millions             | 2006                             |            |              |              |
|---------------------------|----------------------------------|------------|--------------|--------------|
|                           | Sensitivity to change in EURIBOR |            |              |              |
|                           | Effect on income statement       |            |              |              |
|                           | +10%                             | +5%        | –5%          | –10%         |
| <b>Assets</b>             |                                  |            |              |              |
| Loans granted             | 0.1                              | –          | –            | (0.1)        |
| Cash and cash equivalents | 0.3                              | 0.1        | (0.1)        | (0.3)        |
|                           | <b>0.4</b>                       | <b>0.1</b> | <b>(0.1)</b> | <b>(0.4)</b> |

|                                       |     |     |   |   |
|---------------------------------------|-----|-----|---|---|
| <b>Liabilities</b>                    |     |     |   |   |
| Long-term loans from Banks and others | (2) | (1) | 1 | 2 |

| € in millions | 2007                           |     |     |      |
|---------------|--------------------------------|-----|-----|------|
|               | Sensitivity to change in Libor |     |     |      |
|               | Effect on income statement     |     |     |      |
|               | +10%                           | +5% | –5% | –10% |

|                           |     |     |       |       |
|---------------------------|-----|-----|-------|-------|
| <b>Assets</b>             |     |     |       |       |
| Cash and cash equivalents | 0.5 | 0.3 | (0.3) | (0.5) |

| € in millions | 2006                           |     |     |      |
|---------------|--------------------------------|-----|-----|------|
|               | Sensitivity to change in Libor |     |     |      |
|               | Effect on income statement     |     |     |      |
|               | +10%                           | +5% | –5% | –10% |

|                           |     |     |       |       |
|---------------------------|-----|-----|-------|-------|
| <b>Assets</b>             |     |     |       |       |
| Cash and cash equivalents | 0.8 | 0.4 | (0.4) | (0.8) |

|                                       |       |       |     |     |
|---------------------------------------|-------|-------|-----|-----|
| <b>Liabilities</b>                    |       |       |     |     |
| Long-term loans from Banks and others | (0.7) | (0.3) | 0.3 | 0.7 |



| € in millions          | 2007                             |              |            |            |
|------------------------|----------------------------------|--------------|------------|------------|
|                        | Sensitivity to change in the CPI |              |            |            |
|                        | Effect on income statement       |              |            |            |
|                        | +2%                              | +1%          | -1%        | -2%        |
| <b>Liabilities</b>     |                                  |              |            |            |
| Debentures             | (1.4)                            | (0.7)        | 0.7        | 1.4        |
| Convertible debentures | (0.7)                            | (0.4)        | 0.4        | 0.7        |
|                        | <b>(2.1)</b>                     | <b>(1.1)</b> | <b>1.1</b> | <b>2.1</b> |

| € in millions          | 2006                             |              |            |            |
|------------------------|----------------------------------|--------------|------------|------------|
|                        | Sensitivity to change in the CPI |              |            |            |
|                        | Effect on income statement       |              |            |            |
|                        | +2%                              | +1%          | -1%        | -2%        |
| <b>Liabilities</b>     |                                  |              |            |            |
| Convertible debentures | <b>(0.8)</b>                     | <b>(0.4)</b> | <b>0.4</b> | <b>0.8</b> |

| € in millions                         | 2007                                    |            |          |            |
|---------------------------------------|---|------------|----------|------------|
|                                       | Sensitivity to change in Other interest |            |          |            |
|                                       | Effect on income statement              |            |          |            |
|                                       | +10%                                    | +5%        | -5%      | -10%       |
| <b>Assets</b>                         |   |            |          |            |
| Cash and cash equivalents             | 0.2                                     | 0.1        | (0.1)    | (0.2)      |
| <b>Liabilities</b>                    |   |            |          |            |
| Debentures                            | (1.9)                                   | (0.9)      | 0.9      | 1.9        |
| Long-term loans from Banks and others | (0.2)                                   | (0.1)      | 0.1      | 0.2        |
|                                       | <b>(2.1)</b>                            | <b>(1)</b> | <b>1</b> | <b>2.1</b> |

| € in millions                         | 2006                                    |              |              |              |
|---------------------------------------|---|--------------|--------------|--------------|
|                                       | Sensitivity to change in Other interest |              |              |              |
|                                       | Effect on income statement              |              |              |              |
|                                       | +10%                                    | +5%          | -5%          | -10%         |
| <b>Liabilities</b>                    |   |              |              |              |
| Debentures                            | 0.4                                     | 0.2          | (0.2)        | (0.4)        |
| Long-term loans from Banks and others | 0.1                                     | 0.1          | (0.1)        | (0.1)        |
|                                       | <b>0.5</b>                              | <b>0.3</b>   | <b>(0.3)</b> | <b>(0.5)</b> |
| <b>Liabilities</b>                    |   |              |              |              |
| Long-term loans from Banks and others | <b>(0.3)</b>                            | <b>(0.1)</b> | <b>0.1</b>   | <b>0.3</b>   |

### Foreign Currency Risks

Since GTC RE conducts business in a variety of countries, a significant part of its assets, liabilities and results is sensitive to currency movements. Subsidiaries that do not have the EUR as functional currency generally have an equity position that reflects their risk profile. On the translation of the share in shareholders' equity, a translation gain or loss can arise because this position is not hedged.

GTC RE also has transactions currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's measurement currency. Regarding the other financing of these subsidiaries, GTC RE companies attempt to match the currency of the income with that of the costs and financing currency to minimize the foreign currency risk.

## Currency Exposure

a Linkage basis as of December 31, 2007:

| € in millions   | In Euros   | In USD     | In NIS and<br>in linkage<br>to Israel<br>CPI | In other<br>currencies | Non linked | Non<br>Monetary | Total        |
|---|------------|------------|--|------------------------|------------|-----------------|--------------|
| <b>Assets</b>   |            |            |  |                        |            |                 |              |
| Other non-current assets                                  | –          | –          | –  | –                      | –          | 14              | 14           |
| Goodwill  | –          | –          | –  | –                      | –          | 23              | 23           |
| Property, equipment and real estate under<br>construction | –          | –          | –  | –                      | –          | 1,225           | 1,225        |
| Long-term receivables                                     | 29         | 5          | –  | 5                      | –          | –               | 39           |
| Investments in associates                                 | 15         | –          | –  | –                      | –          | 9               | 24           |
| Inventories   | –          | –          | –  | –                      | –          | 249             | 249          |
| Accounts receivable                                       | 1          | –          | –  | 3                      | –          | –               | 4            |
| Other receivables   | 17         | 1          | –  | 40                     | 1          | 32              | 91           |
| Restricted bank deposits                                  | 12         | 1          | –  | 2                      | –          | –               | 15           |
| Cash and cash equivalents                                 | 388        | 112        | –  | 66                     | –          | –               | 566          |
|   | <b>462</b> | <b>119</b> | <b>–</b>                                     | <b>116</b>             | <b>1</b>   | <b>1,552</b>    | <b>2,250</b> |
| <b>Liabilities</b>  |            |            |  |                        |            |                 |              |
| Short term credit   | 14         | 2          | –  | 17                     | –          | –               | 33           |
| Interest bearing loans and borrowing                      | 455        | 34         | –  | 44                     | –          | –               | 533          |
| Convertible debentures                                    | –          | –          | 5  | –                      | –          | –               | 5            |
| Other debentures  | 387        | –          | 73   | –                      | –          | –               | 460          |
| Other non-current liabilities                             | 3          | 1          | –  | –                      | 17         | 22              | 43           |
| Deferred tax liability                                    | –          | –          | –  | –                      | –          | 98              | 98           |
| Trade and other payables                                  | 58         | –          | –  | 41                     | 5          | 103             | 207          |
| Minority Interest   | –          | –          | –  | –                      | –          | 550             | 550          |
|   | <b>917</b> | <b>37</b>  | <b>78</b>                                    | <b>102</b>             | <b>22</b>  | <b>773</b>      | <b>1,929</b> |

Linkage basis as of December 31, 2006:

| € in millions  | In Euros   | In USD     | In NIS and<br>in linkage<br>to Israel<br>CPI | In other<br>currencies | Non linked | Non<br>Monetary | Total        |
|--|------------|------------|--|------------------------|------------|-----------------|--------------|
| <b>Assets</b>  |            |            |  |                        |            |                 |              |
| Property, equipment and real estate under construction | –          | –          | –  | –                      | –          | 826             | 826          |
| Long-term receivables                                  | 29         | 5          | –  | –                      | –          | –               | 34           |
| Investments in associates                              | 18         | –          | –  | –                      | –          | 7               | 25           |
| Inventories  | –          | –          | –  | –                      | –          | 130             | 130          |
| Accounts receivable                                    | 1          | –          | –  | 3                      | –          | –               | 4            |
| Other receivables                                      | –          | –          | –  | 35                     | –          | –               | 35           |
| Restricted bank deposits                               | 5          | 1          | –  | 3                      | –          | –               | 9            |
| Cash and cash equivalents                              | 87         | 171        | –  | 29                     | –          | –               | 287          |
|  | <b>140</b> | <b>177</b> | <b>–</b>                                     | <b>70</b>              | <b>–</b>   | <b>964</b>      | <b>1,351</b> |
| <b>Liabilities</b>                                     |            |            |  |                        |            |                 |              |
| Short term credit                                      | 3          | –          | –  | –                      | –          | –               | 3            |
| Interest bearing loans and borrowing                   | 312        | 118        | –  | 44                     | –          | –               | 474          |
| Convertible debentures                                 | –          | –          | 37   | –                      | –          | –               | 37           |
| Other non-current liabilities                          | 10         | 1          | –  | 3                      | 71         | –               | 85           |
| Deferred tax liability                                 | –          | –          | –  | –                      | –          | 59              | 59           |
| Trade and other payables                               | 20         | 3          | –  | 93                     | –          | –               | 116          |
| Minority Interest                                      | –          | –          | –  | –                      | –          | 392             | 392          |
|  | <b>345</b> | <b>122</b> | <b>37</b>                                    | <b>140</b>             | <b>71</b>  | <b>451</b>      | <b>1,166</b> |

## Currency Exposure

b The following table demonstrates the sensitivity to a reasonably possible change in the Euro exchange rate, with all other variables held constant, of GTC RE's profit before tax

| € in millions                   | 2007                              |              |            |             |
|---------------------------------|-----------------------------------|--------------|------------|-------------|
|                                 | Sensitivity to change in Euro/USD |              |            |             |
|                                 | Effect on income statement        |              |            |             |
|                                 | +10%                              | +5%          | -5%        | -10%        |
| <b>Assets</b>                   |                                   |              |            |             |
| Long-term loans and receivables | (0.5)                             | (0.2)        | 0.2        | 0.5         |
| Trade and other receivables     | (0.1)                             | –            | –          | 0.1         |
| Short term investments          | (0.1)                             | (0.1)        | 0.1        | 0.1         |
| Cash and cash equivalents       | (11)                              | (6)          | 6          | 11          |
|                                 | <b>(11.7)</b>                     | <b>(6.2)</b> | <b>6.2</b> | <b>11.7</b> |

|  |            |            |              |              |
|--|------------|------------|--------------|--------------|
| <b>Liabilities</b>                     |            |            |              |              |
| Other long term liabilities            | 0.1        | –          | –            | (0.1)        |
| Long-term loans from Banks and others  | 3          | 2          | (2)          | (3)          |
| Short-term loans from Banks and others | 0.2        | 0.1        | (0.1)        | (0.2)        |
|  | <b>3.3</b> | <b>2.1</b> | <b>(2.1)</b> | <b>(3.3)</b> |

| € in millions                   | 2006                              |              |            |             |
|---------------------------------|-----------------------------------|--------------|------------|-------------|
|                                 | Sensitivity to change in Euro/USD |              |            |             |
|                                 | Effect on income statement        |              |            |             |
|                                 | +10%                              | +5%          | -5%        | -10%        |
| <b>Assets</b>                   |                                   |              |            |             |
| Long-term loans and receivables | (0.9)                             | (0.4)        | 0.4        | 0.9         |
| Trade and other receivables     | (0.1)                             | (0.1)        | 0.1        | 0.1         |
| Short term investments          | (0.1)                             | (0.1)        | 0.1        | 0.1         |
| Cash and cash equivalents       | (17)                              | (9)          | 9          | 17          |
|                                 | <b>(18.1)</b>                     | <b>(9.6)</b> | <b>9.6</b> | <b>18.1</b> |

|  |             |             |               |               |
|--|-------------|-------------|---------------|---------------|
| <b>Liabilities</b>                     |             |             |               |               |
| Other long term liabilities            | 0.1         | 0.1         | (0.1)         | (0.1)         |
| Long-term loans from Banks and others  | 10          | 5           | (5)           | (10)          |
| Short-term loans from Banks and others | 9           | 5           | (5)           | (9)           |
|  | <b>19.1</b> | <b>10.1</b> | <b>(10.1)</b> | <b>(19.1)</b> |

| € in millions | 2007                              |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Sensitivity to change in Euro/Nis |     |     |      |
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

#### Assets

|                           |      |      |    |    |
|---------------------------|------|------|----|----|
| Cash and cash equivalents | (19) | (10) | 10 | 19 |
|---------------------------|------|------|----|----|

#### Liabilities

|                        |           |           |             |             |
|------------------------|-----------|-----------|-------------|-------------|
| Convertible debentures | 2         | 1         | (1)         | (2)         |
| Other debentures       | 24        | 12        | (12)        | (12)        |
|                        | <b>26</b> | <b>13</b> | <b>(13)</b> | <b>(26)</b> |

| € in millions | 2006                              |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Sensitivity to change in Euro/Nis |     |     |      |
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

#### Liabilities

|                                      |          |          |            |            |
|--------------------------------------|----------|----------|------------|------------|
| Interest bearing loans and borrowing | 2        | 1        | (1)        | (2)        |
| Convertible debentures               | 4        | 2        | (2)        | (4)        |
|                                      | <b>6</b> | <b>3</b> | <b>(3)</b> | <b>(6)</b> |

| € in millions | 2007                              |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Sensitivity to change in Euro/HUF |     |     |      |
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

#### Assets

|                             |              |              |            |            |
|-----------------------------|--------------|--------------|------------|------------|
| Trade and other receivables | (0.4)        | (0.2)        | 0.2        | 0.4        |
| Short term investments      | (0.2)        | (0.1)        | 0.1        | 0.2        |
| Cash and cash equivalents   | (0.6)        | (0.3)        | 0.3        | 0.6        |
|                             | <b>(1.2)</b> | <b>(0.6)</b> | <b>0.6</b> | <b>1.2</b> |

#### Liabilities

|  |            |            |              |              |
|--|------------|------------|--------------|--------------|
| Trade and other receivables            | 0.5        | 0.3        | (0.3)        | (0.5)        |
| Short-term loans from Banks and others | 2          | 1          | (1)          | (2)          |
|  | <b>2.5</b> | <b>1.3</b> | <b>(1.3)</b> | <b>(2.5)</b> |

| € in millions | 2006                              |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Sensitivity to change in Euro/HUF |     |     |      |
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

**Assets**

|                           |       |       |     |     |
|---------------------------|-------|-------|-----|-----|
| Cash and cash equivalents | (628) | (314) | 314 | 628 |
|---------------------------|-------|-------|-----|-----|

| € in millions | 2007                              |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Sensitivity to change in Euro/PLN |     |     |      |
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

**Assets**

|                                 |       |     |   |     |
|---------------------------------|-------|-----|---|-----|
| Long-term loans and receivables | (0.1) | –   | – | 0.1 |
| Trade and other receivables     | (2)   | (1) | 1 | 2   |
| Cash and cash equivalents       | (3)   | (1) | 1 | 3   |
|                                 | (5.1) | (2) | 2 | 5.1 |

**Liabilities**

|                |   |   |     |     |
|----------------|---|---|-----|-----|
| Trade payables | 2 | 1 | (1) | (2) |
| Other Payables | 1 | 1 | (1) | (1) |
|                | 3 | 2 | (2) | (3) |

| € in millions | 2006                              |     |     |      |
|---------------|-----------------------------------|-----|-----|------|
|               | Sensitivity to change in Euro/PLN |     |     |      |
|               | Effect on income statement        |     |     |      |
|               | +10%                              | +5% | -5% | -10% |

**Assets**

|                             |       |       |     |     |
|-----------------------------|-------|-------|-----|-----|
| Trade and other receivables | (0.2) | (0.1) | 0.1 | 0.2 |
| Cash and cash equivalents   | (2)   | (1)   | 1   | 2   |
|                             | (2.2) | (1.1) | 1.1 | 2.2 |

**Liabilities**

|                             |   |   |     |     |
|-----------------------------|---|---|-----|-----|
| Trade and other receivables | 4 | 2 | (2) | (4) |
|-----------------------------|---|---|-----|-----|

| € in millions             | 2007                              |              |            |          |
|---------------------------|-----------------------------------|--------------|------------|----------|
|                           | Sensitivity to change in Euro/RON |              |            |          |
|                           | Effect on income statement        |              |            |          |
|                           | +10%                              | +5%          | -5%        | -10%     |
| <b>Assets</b>             |                                   |              |            |          |
| Other receivables         | (0.4)                             | (0.2)        | 0.2        | 0.4      |
| Cash and cash equivalents | (0.6)                             | (0.3)        | 0.3        | 0.6      |
|                           | <b>(1)</b>                        | <b>(0.5)</b> | <b>0.5</b> | <b>1</b> |

| € in millions             | 2006                              |     |     |            |
|---------------------------|-----------------------------------|-----|-----|------------|
|                           | Sensitivity to change in Euro/RON |     |     |            |
|                           | Effect on income statement        |     |     |            |
|                           | +10%                              | +5% | -5% | -10%       |
| <b>Assets</b>             |                                   |     |     |            |
| Cash and cash equivalents | <b>(0.1)</b>                      | –   | –   | <b>0.1</b> |

| € in millions                         | 2007                              |              |              |              |
|---------------------------------------|-----------------------------------|--------------|--------------|--------------|
|                                       | Sensitivity to change in Euro/RMB |              |              |              |
|                                       | Effect on income statement        |              |              |              |
|                                       | +10%                              | +5%          | -5%          | -10%         |
| <b>Assets</b>                         |                                   |              |              |              |
| Long-term loans and receivables       | (0.4)                             | (0.2)        | 0.2          | 0.4          |
| Other receivables                     | (2)                               | (1)          | 1            | 2            |
| Cash and cash equivalents             | (2)                               | (1)          | 1            | 2            |
|                                       | <b>(4.4)</b>                      | <b>(2.2)</b> | <b>2.2</b>   | <b>4.4</b>   |
| <b>Liabilities</b>                    |                                   |              |              |              |
| Interest bearings loans and borrowing | 0.5                               | 0.2          | (0.2)        | (0.5)        |
| Other Payables                        | 4                                 | 2            | (2)          | (4)          |
|                                       | <b>4.5</b>                        | <b>2.2</b>   | <b>(2.2)</b> | <b>(4.5)</b> |



| € in millions                   | 2006                              |              |            |            |
|---------------------------------|-----------------------------------|--------------|------------|------------|
|                                 | Sensitivity to change in Euro/RMB |              |            |            |
|                                 | Effect on income statement        |              |            |            |
|                                 | +10%                              | +5%          | -5%        | -10%       |
| <b>Assets</b>                   |                                   |              |            |            |
| Long-term loans and receivables | (0.7)                             | (0.4)        | 0.4        | 0.7        |
| Cash and cash equivalents       | (0.4)                             | (0.2)        | 0.2        | 0.4        |
|                                 | <b>(1.1)</b>                      | <b>(0.6)</b> | <b>0.6</b> | <b>1.1</b> |

|                    |            |            |              |              |
|--------------------|------------|------------|--------------|--------------|
| <b>Liabilities</b> |            |            |              |              |
| Other payables     | <b>0.4</b> | <b>0.2</b> | <b>(0.2)</b> | <b>(0.4)</b> |

| € in millions             | 2007                                 |              |            |            |
|---------------------------|--------------------------------------|--------------|------------|------------|
|                           | Sensitivity to change in Euro/Others |              |            |            |
|                           | Effect on income statement           |              |            |            |
|                           | +10%                                 | +5%          | -5%        | -10%       |
| <b>Assets</b>             |                                      |              |            |            |
| Long-term receivables     |                                      |              |            |            |
| Other receivables         | (0.3)                                | (0.1)        | 0.1        | 0.3        |
| Trade receivables         | (0.2)                                | (0.1)        | 0.1        | 0.2        |
| Cash and cash equivalents | (0.9)                                | (0.4)        | 0.4        | 0.9        |
|                           | <b>(1.4)</b>                         | <b>(0.6)</b> | <b>0.6</b> | <b>1.4</b> |

|                                       |            |            |              |              |
|---------------------------------------|------------|------------|--------------|--------------|
| <b>Liabilities</b>                    |            |            |              |              |
| Interest bearings loans and borrowing | 2.2        | 1.1        | (1.1)        | (2.2)        |
| Other payables                        | 0.2        | 0.1        | (0.1)        | (0.2)        |
| Trade payables                        | 0.3        | 0.1        | (0.1)        | (0.3)        |
|                                       | <b>2.5</b> | <b>1.3</b> | <b>(1.3)</b> | <b>(2.5)</b> |

| € in millions                         | 2006                                 |              |              |              |
|---------------------------------------|--------------------------------------|--------------|--------------|--------------|
|                                       | Sensitivity to change in Euro/Others |              |              |              |
|                                       | Effect on income statement           |              |              |              |
|                                       | +10%                                 | +5%          | –5%          | –10%         |
| <b>Assets</b>                         |                                      |              |              |              |
| Long-term receivables                 |                                      |              |              |              |
| Long-term loans and receivables       | (0.1)                                | –            | –            | 0.1          |
| Short term investments                | (0.1)                                | (0.1)        | 0.1          | 0.1          |
| Cash and cash equivalents             | (0.2)                                | (0.1)        | 0.1          | 0.2          |
|                                       | <b>(0.4)</b>                         | <b>(0.2)</b> | <b>0.2</b>   | <b>0.4</b>   |
| <b>Liabilities</b>                    |                                      |              |              |              |
| Interest bearings loans and borrowing | 2                                    | 1            | (1)          | (2)          |
| Other Payables                        | 0.6                                  | 0.3          | (0.3)        | (0.6)        |
| Trade Payables                        | 0.7                                  | 0.4          | (0.4)        | (0.7)        |
|                                       | <b>3.3</b>                           | <b>1.7</b>   | <b>(1.7)</b> | <b>(3.3)</b> |

### Credit Risks

GTC RE is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, derivative assets and non-current financial assets. GTC RE trades only with recognized, creditworthy third parties.

GTC RE companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, in respect of specific debts whose collection is doubtful. As a result, GTC RE's exposure to bad debts is not significant.

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

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

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

Counterparties to financial instruments consist of a large number of prime financial institutions. GTC does not expect any counterparties to fail to meet their obligations, given their high credit ratings. GTC has no significant concentration of credit risk with any single counterpart or group of counterparties.

#### **Capital management**

The primary objective of GTC RE's capital management is to ensure capital preservation and maintaining healthy capital ratios in order to support its business and maximise shareholder value.

GTC RE manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, GTC RE decides on leverage policy, repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or debentures.

No changes were made in the objectives, policies or processes during the years end December 31, 2007 and December 31, 2006.

#### **Political Risk**

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

### Fair Value Risks

Set out below is a comparison by category of the Differences between the carrying amounts and fair values of GTC RE's financial instruments.

| € in millions              | Carrying amount |      | Fair value |      |
|----------------------------|-----------------|------|------------|------|
|                            | 2007            | 2006 | 2007       | 2006 |
| Non convertible Debentures | 236             | –    | 247        | –    |
| Convertible Debentures     | 21              | 107  | 23         | 113  |
| Fixed rate borrowings      | 31              | 36   | 32         | 37   |

Market values have been used to determine the fair value of listed convertible preference shares and listed available-for-sale financial assets. The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of loan notes and other financial assets have been calculated using market interest rates.

## 2 Financial Instruments in the Financial Services Activity

### TBIF

#### Capital

TBIF maintains an actively managed capital base to cover risks inherent in the business. The adequacy of capital of the banks in TBIF is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ('BIS rules/ratios') and adopted by the National Bank of Ukraine and National Bank of Russia in supervising the banks.

During the past year, the banks in TBIF had complied in full with all its externally imposed capital requirements.

### Capital management

The primary objectives of TBIF's capital management are to ensure that TBIF complies with externally imposed capital requirements and that TBIF maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

TBIF manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, TBIF may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

### Regulatory capital requirements

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision, as implemented by the National Bank of Russia and National Bank of Ukraine for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio is 8% of all risk-weighted assets including off-balance sheet items and market risk associated with trading portfolios.

### Regulatory capital Russia (2007 – Sovcombank, 2006 – Bank Regional Credit)

| € in millions               | 2007       | 2006      |
|-----------------------------|------------|-----------|
| Tier 1 capital              | 14         | 5         |
| Tier 2 capital              | 4          | –         |
| <b>Total capital</b>        | <b>18</b>  | <b>5</b>  |
| <b>Risk-weighted assets</b> | <b>139</b> | <b>17</b> |
| Tier 1 capital ratio        | 10.1%      | 29.9%     |
| Total capital ratio         | 13.1%      | 29.9%     |

### Regulatory capital Ukraine (VAB Bank)

| € in millions               | 2007       | 2006       |
|-----------------------------|------------|------------|
| Tier 1 capital              | 43         | 21         |
| Tier 2 capital              | –          | –          |
| <b>Total capital</b>        | <b>43</b>  | <b>21</b>  |
| <b>Risk-weighted assets</b> | <b>359</b> | <b>134</b> |
| Tier 1 capital ratio        | 11.9%      | 15.6%      |
| Total capital ratio         | 11.9%      | 15.5%      |

## Financial Instruments and Risk Management

### 1 Introduction

Risk is inherent in TBIF's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to TBIF's continuing profitability and portfolio quality. TBIF is exposed to credit risk, liquidity risk, market risks and operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These types of risks are monitored through TBIF's strategic planning process.

### Risk management structure

The Management Board of TBIF is ultimately responsible for identifying and controlling risks in TBIF. However, there are separate independent bodies within TBIF that are responsible for managing and motoring risks.

#### i Corporate level

The Supervisory Board of TBIF has the responsibility to monitor the overall risk process. The Management Board of TBIF is responsible for the overall risk management approach and for approving the risk strategies and principles. The chief risk manager of TBIF works closely with the country risk managers

with whom he has developed functional lines of responsibility and has the overall responsibility for the development of the risk strategy and implementation of principles, frameworks, policies and limits. The work of the chief risk manager is subject to monitoring by the Management Board. The chief risk manager is responsible for the fundamental risk issues and manages and monitors relevant decisions.

## ii *Country level*

TBIF operates in 5 countries. Each country has a risk manager in charge of all risk related issues in the that country. The country risk manager is guided from a professional point of view by the chief risk manager of TBIF.

## iii *Company level*

In each one of TBIF's subsidiaries there is a risk manager in charge of all risk related issues in the specific subsidiary. The subsidiary risk manager is guided from a professional point of view by the chief risk manager of TBIF, as well as by the country risk manager.

### **Risk measurement and reporting systems**

Risk measurement follows approved credit policies and is carried out on the country level, on the portfolio level as well at product level. The most important measurements focus on delinquencies of over 30, 60 and 90 days. Amounts at risk are monitored monthly. The measurements are consolidated on TBIF level and appropriate risk decisions are taken based on the analysis of the results.

Reporting and MIS systems are unique in each country. However all systems used within TBIF comply with TBIF requirements. TBIF, on the corporate level, has a unified reporting based on data collected from the reporting systems within TBIF Group and cover portfolio performance as well as quality analysis.

### **Risk mitigation**

TBIF uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries. The risk is spread among the corporate and retail financial services. Furthermore, this structure is also controlled on a product level and according to portfolio limits. The diversification of the businesses (banking, consumer finance, leasing) as well as collateral management are useful risk mitigation tools as well.

### **Excessive risk concentration**

Concentrations arise when a number of entities in TBIF are engaged in similar business activities, or activity in the same geographical region. Concentrations indicate the relative sensitivity of TBIF's performance to development affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, TBIF's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (Russia, Ukraine, Romania, Bulgaria and Slovakia); industry concentration (banking, leasing, consumer finance and mortgage); product concentration (ie. overdrafts, credit cards, mortgage) and product feature (secured, unsecured).

## **2 Credit risk**

Credit risk is the risk that TBIF will incur a loss because of the inability of its customers to discharge their contractual obligations. TBIF manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

TBIF has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification

system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows TBIF to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

**i Derivative financial instruments**

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet. In the case of credit derivatives, TBIF is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative.

**ii Credit-related commitments risks**

TBIF makes available to its customers guarantees which may require that TBIF makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose TBIF to similar risks to loans and these are mitigated by the same control processes and policies.

**iii Maximum exposure to credit risk**

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

| € in millions   | 2007         | 2006       |
|---|--------------|------------|
| Cash and cash equivalents<br>(excluding cash on hand) | 9            | 51         |
| Deposits in banks                                     | 107          | –          |
| Balances with central banks                           | 23           | 3          |
| Marketable debt securities                            | 9            | –          |
| Consumer credit and<br>mortgage loans                 | 227          | 64         |
| Banking loans granted                                 | 397          | 110        |
| Finance leases  | 119          | 37         |
| Other loans and long-term<br>receivables              | 13           | 11         |
| Available for sale financial<br>assets                | 18           | 8          |
| Other receivables                                     | 36           | 21         |
|   | 958          | 305        |
| Financial guarantees                                  | 31           | 7          |
| Letters of credit                                     | 18           | 5          |
| Undrawn commitments to<br>lend                        | 15           | 2          |
|   | 64           | 14         |
| <b>Total credit risk exposure</b>                     | <b>1,022</b> | <b>319</b> |

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

*iv Risk concentrations of the maximum exposure to credit risk*

The tables below show the maximum exposure to credit risk for the components of the balance sheet and the off-balance sheet commitments and contingencies, broken down according to TBIF main lines of business and geographical regions, before the effect of mitigation through the use of collateral agreements.

Risk concentration of the maximum exposure to credit risk as of December 31, 2007:

| € in millions | Banking    | Consumer mortgage | Leasing    | Asset Management | Others    | Total        |
|---------------|------------|-------------------|------------|------------------|-----------|--------------|
| Ukraine       | 445        | –                 | 7          | –                | –         | 452          |
| Russia        | 160        | 82                | 7          | –                | –         | 249          |
| Romania       | –          | 88                | 88         | –                | –         | 176          |
| Bulgaria      | –          | 83                | 30         | 1                | –         | 114          |
| Others        | –          | –                 | –          | 1                | 30        | 31           |
|               | <b>605</b> | <b>253</b>        | <b>132</b> | <b>2</b>         | <b>30</b> | <b>1,022</b> |

Risk concentration of the maximum exposure to credit risk as of December 31, 2006:

| € in millions | Banking    | Consumer mortgage | Leasing   | Asset Management | Others    | Total      |
|---------------|------------|-------------------|-----------|------------------|-----------|------------|
| Ukraine       | 182        | –                 | 1         | –                | –         | 183        |
| Russia        | 7          | 42                | –         | –                | –         | 49         |
| Romania       | –          | 28                | 39        | –                | –         | 67         |
| Others        | –          | –                 | –         | 1                | 19        | 20         |
|               | <b>189</b> | <b>70</b>         | <b>40</b> | <b>1</b>         | <b>19</b> | <b>319</b> |



v *Collateral and other credit enhancements*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Cash deposits, both in retail and in corporate lending (mostly small and medium enterprises)
- Non-commercial premises in the large cities (high liquidity) for retail lending
- Moveable assets (cars, equipment)
- Commercial premises (in good shape and condition) for corporate lending

TBIF obtains guarantees from parent companies for loans to their subsidiaries, but the benefits are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

vi *Credit quality per class of financial assets*

The credit quality of financial assets is managed by TBIF's subsidiaries using internal credit ratings. The tables below show the credit quality by class of assets, based on the internal credit rating systems.

Credit quality per class of financial assets as of  
December 31, 2007:

| € in millions                | Neither past due nor impaired |                |           |                       | Total      |
|------------------------------|-------------------------------|----------------|-----------|-----------------------|------------|
|                              | High grade                    | Standard grade | Low grade | Past due/<br>impaired |            |
| Cash in banks                | 5                             | 4              | –         | –                     | 9          |
| Deposits in banks            | 30                            | 77             | –         | –                     | 107        |
| Consumer credit and mortgage | 11                            | 184            | 4         | 29                    | 228        |
| Banking loans granted        | –                             | 370            | 20        | 7                     | 397        |
| Finance leases               | 2                             | 90             | –         | 27                    | 119        |
| Other loans and receivables  | 2                             | 10             | –         | –                     | 12         |
| Government debt securities   | 10                            | –              | –         | –                     | 10         |
| Other quoted debt securities | –                             | 5              | –         | –                     | 5          |
| Unquoted debt securities     | –                             | 12             | –         | –                     | 12         |
| Other receivables            | 3                             | 30             | –         | 1                     | 34         |
|                              | <b>63</b>                     | <b>782</b>     | <b>24</b> | <b>64</b>             | <b>933</b> |

Credit quality per class of financial assets as of  
December 31, 2006:

| € in millions                | Neither past due nor impaired |                |           |                       | Total      |
|------------------------------|-------------------------------|----------------|-----------|-----------------------|------------|
|                              | High grade                    | Standard grade | Low grade | Past due/<br>impaired |            |
| Cash in banks                | 10                            | 41             | –         | –                     | 51         |
| Consumer credit and mortgage | –                             | 60             | 2         | 2                     | 64         |
| Banking loans granted        | 4                             | 110            | 5         | 2                     | 121        |
| Finance leases               | –                             | 28             | –         | 9                     | 37         |
| Other loans and receivables  | 11                            | –              | –         | –                     | 11         |
| Other receivables            | 5                             | 5              | –         | 1                     | 11         |
|                              | <b>30</b>                     | <b>244</b>     | <b>7</b>  | <b>14</b>             | <b>295</b> |

**vii** *Aging analysis of past due but not impaired loans and receivables*

Aging analysis of past due but not impaired loans and receivables as of December 31, 2007:

| € in millions                 | Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 days | Total     |
|-------------------------------|-------------------|---------------|---------------|-------------------|-----------|
| Consumer credits and mortgage | 10                | 5             | 2             | 1                 | 18        |
| Banking loans granted         | –                 | 1             | 1             | 1                 | 3         |
| Finance leases                | 9                 | 11            | 3             | 1                 | 24        |
|                               | <b>19</b>         | <b>17</b>     | <b>6</b>      | <b>3</b>          | <b>45</b> |

Aging analysis of past due but not impaired loans and receivables as of December 31, 2006:

| € in millions                 | Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 days | Total     |
|-------------------------------|-------------------|---------------|---------------|-------------------|-----------|
| Consumer credits and mortgage | 1                 | –             | –             | 1                 | 2         |
| Banking loans granted         | –                 | –             | –             | 1                 | 1         |
| Finance leases                | 6                 | 1             | 1             | 1                 | 9         |
|                               | <b>7</b>          | <b>1</b>      | <b>1</b>      | <b>3</b>          | <b>12</b> |

**viii** *Carrying amount per class of financial assets whose terms have been renegotiated*

| € in millions                         | 2007      | 2006      |
|---------------------------------------|-----------|-----------|
| Consumer credit and mortgage loans    | –         | –         |
| Banking loans granted                 | 54        | 11        |
| Finance leases                        | 2         | –         |
| Other loans and long-term receivables | –         | –         |
| <b>Total credit risk exposure</b>     | <b>56</b> | <b>11</b> |

#### **ix** *Impairment assessment*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. TBIF addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

##### *Individually assessed allowances*

TBIF determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

##### *Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio,

current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with TBIF's overall policy. Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

#### **3 Liquidity risk and funding management**

Liquidity risk is the risk that TBIF will be unable to meet its payment obligations when they are due under normal circumstances. To limit this risk, management has arranged diversified sources in addition to deposit bases (only in the banking subsidiaries), manages assets with liquidity in mind and monitors future cash flow and liquidity on a daily basis. This incorporates assessments of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

TBIF's subsidiaries maintain a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. TBIF and some of its subsidiaries have certain committed lines of credit that are available to meet liquidity needs. In addition, all banks in TBIF maintain statutory deposits with the central banks in their countries of incorporation in compliance with the requirements of the local legislation.

TBIF uses maturity tables in managing its liquidity risk by performing maturity gap analysis, including estimations of deposit roll forwards for the banks in TBIF. TBIF focuses on maintaining a diversified mix of funding sources and assets that allows for secured funding. The tables below show an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled, as well as the contractual expiry by maturity of TBIF's contingent liabilities and commitments.

Maturity analysis of TBIF's assets and liabilities as of December 31, 2007:

| € in millions             | up to 1 year | 1-2 years  | 2-3 years   | 3-5 years  | Thereafter/<br>No term | Impairment  | Total        |
|---------------------------|--------------|------------|-------------|------------|------------------------|-------------|--------------|
| No term to maturity       | –            | –          | –           | –          | 93                     | –           | 93           |
| Loans and leases          | 379          | 123        | 94          | 112        | 66                     | (18)        | 756          |
| Other financial assets    | 88           | –          | –           | –          | –                      | –           | 88           |
| Cash and cash equivalents | 135          | –          | –           | –          | –                      | –           | 135          |
| <b>Total assets</b>       | <b>602</b>   | <b>123</b> | <b>94</b>   | <b>112</b> | <b>159</b>             | <b>(18)</b> | <b>1,072</b> |
| Borrowings                | 640          | 95         | 117         | 55         | 8                      | –           | 915          |
| Other liabilities         | 26           | –          | –           | –          | 3                      | –           | 29           |
| <b>Total liabilities</b>  | <b>666</b>   | <b>95</b>  | <b>117</b>  | <b>55</b>  | <b>11</b>              | <b>–</b>    | <b>944</b>   |
| <b>Maturity gap</b>       | <b>(64)</b>  | <b>28</b>  | <b>(23)</b> | <b>57</b>  | <b>148</b>             | <b>(18)</b> | <b>128</b>   |

Maturity analysis of TBIF's assets and liabilities as of  
December 31, 2006:

| € in millions                | up to 1 year | 1-2 years   | 2-3 years | 3-5 years | Thereafter/<br>No term | Impairment | Total      |
|------------------------------|--------------|-------------|-----------|-----------|------------------------|------------|------------|
| No term to maturity          | –            | –           | –         | –         | 28                     | –          | 28         |
| Loans and leases             | 112          | 36          | 29        | 35        | 28                     | (7)        | 233        |
| Other financial assets       | 22           | –           | –         | –         | –                      | –          | 22         |
| Cash and cash<br>equivalents | 51           | –           | –         | –         | –                      | –          | 51         |
| <b>Total assets</b>          | <b>185</b>   | <b>36</b>   | <b>29</b> | <b>35</b> | <b>55</b>              | <b>(7)</b> | <b>334</b> |
| Borrowings                   | 159          | 57          | 17        | 8         | 37                     | –          | 278        |
| Other liabilities            | 8            | –           | –         | –         | –                      | –          | 8          |
| <b>Total liabilities</b>     | <b>167</b>   | <b>57</b>   | <b>17</b> | <b>8</b>  | <b>37</b>              | <b>–</b>   | <b>286</b> |
| <b>Maturity gap</b>          | <b>18</b>    | <b>(21)</b> | <b>12</b> | <b>27</b> | <b>18</b>              | <b>(7)</b> | <b>48</b>  |

TBIF estimates that the contractual maturity of  
financial assets and liabilities matches their expected  
maturity, due to the following:

- TBIF expects that its financial liabilities will be settled on the earliest date on which Group entities can be required to pay;
- There is no active market for the majority of financial assets held by TBIF and they are not readily saleable;
- TBIF does not have very diverse funding sources.

Maturity analysis of TBIF's contingent liabilities and  
commitments as of December 31, 2007:

| € in millions               | up to 1 year | 1-2 years | 2-3 years | 3-5 years | Total     |
|-----------------------------|--------------|-----------|-----------|-----------|-----------|
| Financial guarantees        | 29           | 2         | –         | –         | 31        |
| Letters of credit           | 17           | –         | 1         | –         | 18        |
| Undrawn commitments to lend | 15           | –         | –         | –         | 15        |
| <b>Total</b>                | <b>61</b>    | <b>2</b>  | <b>1</b>  | <b>–</b>  | <b>64</b> |

Maturity analysis of TBIF's contingent liabilities and commitments as of December 31, 2006:

| € in millions               | up to 1 year | 1-2 years | 2-3 years | 3-5 years | Total     |
|-----------------------------|--------------|-----------|-----------|-----------|-----------|
| Financial guarantees        | 4            | –         | –         | 3         | 7         |
| Letters of credit           | 5            | –         | –         | –         | 5         |
| Undrawn commitments to lend | 2            | –         | –         | –         | 2         |
| <b>Total</b>                | <b>11</b>    | <b>–</b>  | <b>–</b>  | <b>3</b>  | <b>14</b> |

TBIF expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

#### 4 Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in the market variables such as interest rates and foreign exchange rates. As the trading portfolio of TBIF is not significant, the information below relates only to the non-trading portfolio.

##### i Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The influence on the fair value is minor.

##### ii Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The tables below indicate the currencies to which TBIF had significant exposure at December 31, 2007 and 2006 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the euro, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in the reserve generated

from translation of the reports of foreign entities with functional currency other than the euro to TBIF reporting currency). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. The base currency is assumed to be the euro.

| € in millions | Change in exchange rate | 2007                        |                                      | 2006                        |                                      |
|---------------|-------------------------|-----------------------------|--------------------------------------|-----------------------------|--------------------------------------|
|               |                         | Effect on profit before tax | Effect on other components of equity | Effect on profit before tax | Effect on other components of equity |
| RUB           | +5%                     | –                           | (2)                                  | –                           | –                                    |
|               | +10%                    | –                           | (3)                                  | –                           | –                                    |
|               | –5%                     | –                           | 2                                    | –                           | –                                    |
|               | –10%                    | –                           | 4                                    | –                           | –                                    |
| UAH           | +5%                     | –                           | (3)                                  | –                           | –                                    |
|               | +10%                    | –                           | (5)                                  | –                           | 1                                    |
|               | –5%                     | –                           | 3                                    | –                           | (1)                                  |
|               | –10%                    | –                           | 6                                    | –                           | (1)                                  |

### iii Prepayment risk

Prepayment risk is the risk that TBIF will incur a financial loss because its customers repay or request repayment earlier than expected. TBIF's subsidiaries mitigate this risk by setting fees and fines for early prepayment.

### iv Equity price risk

As the amount of TBIF trading portfolio is not significant and most of its equity investments are traded over the counter, TBIF estimates that consequently there is no significant equity price risk exposure.



## 5 Fair value of financial instruments

The carrying value of financial instruments (cash and cash equivalents, short-term investments, trade receivables, other monetary assets and monetary liabilities) approximates their fair value.

As of December 31, 2006 and 2007 there is no significant exposure to instruments where the valuation is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and not based on available observable market data.

## TBIH

### a Governance framework

The primary objective of TBIH's risk and financial management framework is to protect TBIH's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

### b Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that TBIH is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that TBIH maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks of natural disasters.

The operations of TBIH are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (eg capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

### c Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risks that TBIH faces due to the nature of its investments and liabilities are currency risk, credit risk interest rate risk and insurance risk. The principal technique of TBIH's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. This is primarily by matching of assets to liabilities on a company by company basis.

TBIH's ALM also forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

### a Insurance Risk

The principal risk TBIH faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectation. This is influenced by the frequency of claims, severity of claims, actual benefits paid, unfavorable decisions of the local courts and subsequent development of long-term claims. Therefore the objective of TBIH is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The majority of insurance business ceded is placed on an excess of loss basis with retention limits varying by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance

contracts. Although TBIH has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreement. TBIH's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of TBIH substantially dependent upon any single reinsurance contract.

## 1 Life insurance contracts

TBIH writes life insurance business mainly in Croatia through Helios and Bulgaria through Bulstrad Life. Although in aggregate the assets backing the life insurance business make up a larger part of TBIH assets, compared to the turnover TBIH's main business continues to be non-life, motor and property business.

Life insurance contracts offered by TBIH include conventional endowments, whole life, term assurance, accident and health and annuities.

Endowments pay benefits on death or at maturity, while whole-life and term-insurance products have benefits payable on death. Most contracts have regular annual or monthly premiums, while others are single-premium or are paid-up. Some endowment products have an option to convert the benefit due at maturity to an annuity payable until death at rates that are not guaranteed in advance. Benefits paid on surrender, maturity or death for endowments and whole-life contracts are usually dependant on the investment performance of the underlying assets, with an underlying minimum guaranteed rate. Accident and health products pay specified lump-sums or indemnity payments on the occurrence of certain pre-defined events.

Annuities are single premium products, or continuation products from endowments, which pay a specified payment to the policyholder for a fixed

period or as long as they are still alive. Payments are generally fixed.

The main risks that TBIH is exposed to are as follows.

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk – risk of loss arising due to policyholder health experience being different than expected.
- Investment return risk – risk of loss arising from actual returns being different than expected.
- Expense risk – risk of loss arising from expense experience being different than expected.
- Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured by TBIH, type of risk insured or by industry.

TBIH's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk, concentration of insured persons and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. Insurance contracts also entitle TBIH to pursue third parties for payment of some or all costs.

For contracts when death, illness or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

The table below sets out the concentration of life insurance liabilities by type of contract:

| € in millions               | December 31, 2007 |                                  |                 | December 31, 2006 |                                  |                 |
|-----------------------------|-------------------|----------------------------------|-----------------|-------------------|----------------------------------|-----------------|
|                             | Gross Liabilities | Reinsurers' share of liabilities | Net Liabilities | Gross Liabilities | Reinsurers' share of liabilities | Net Liabilities |
| Endowments and Whole life   | 21                | –                                | 21              | 31                | –                                | 31              |
| Accident & Health           | 2                 | –                                | 2               | 1                 | –                                | 1               |
| <b>Total life insurance</b> | <b>23</b>         | <b>–</b>                         | <b>23</b>       | <b>32</b>         | <b>–</b>                         | <b>32</b>       |

TBIH does not have any contracts classified as investment contracts with DPF.

The geographical concentration of TBIH's life insurance liabilities is noted below. The disclosure is based on the countries where the business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated:

| Life insurance contracts<br>€ in millions | December 31, 2007 |                                  |                 | December 31, 2006 |                                  |                 |
|---|-------------------|----------------------------------|-----------------|-------------------|----------------------------------|-----------------|
|   | Gross Liabilities | Reinsurers' share of liabilities | Net Liabilities | Gross Liabilities | Reinsurers' share of liabilities | Net Liabilities |
| Bulgaria                                  | 4                 | –                                | 4               | 3                 | –                                | 3               |
| Croatia                                   | 19                | –                                | 19              | 30                | –                                | 30              |
| <b>Total life insurance</b>               | <b>23</b>         | <b>–</b>                         | <b>23</b>       | <b>33</b>         | <b>–</b>                         | <b>33</b>       |

#### Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions.

Assumptions in use are based on local regulations, past experience based on internal data or on external market information where adequate internal data is unavailable. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure that the liabilities are adequate.

Life insurance contract estimates are either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. Assumptions are made in relation to future deaths, investment returns (implicit assumption behind the discount rate) and administration expenses. If the liabilities are not adequate, the assumptions are altered to reflect the current estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows.

- **Mortality and morbidity rates**  
Assumptions are based on standard industry and national tables, according to the type of contract written, reflecting recent historical experience. Assumptions are differentiated by sex and contract type. An increase in rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and reduce profits for the shareholders.
- **Expenses**  
Operating expenses assumptions reflect the projected cost of maintaining and servicing in-force policies and associated overhead expenses, according to the pricing assumptions.  
  
An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

- **Discount rate (Investment return)**

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on original pricing rates adjusted downwards according to current market rates as per local regulations.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

The assumptions that have the greatest effect on the balance sheet and income statement of TBIH are listed below.

| Mortality and morbidity rates |                   | Discount rates             |                             |
|-------------------------------|-------------------|----------------------------|-----------------------------|
| 2007                          | 2006              | 2007                       | 2006                        |
| 80-100%<br>AM/F92             | 70-100%<br>AM/F92 | 3 %-5%<br>(mainly<br>4.5%) | 3 %-5%<br>(Mainly<br>4.75%) |

### Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and net equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are not-linear. TBIH does not have any life insurance products with financial options or guarantees.

## Life insurance contracts:

| € in millions | December 31, 2007     |                             |                           |                             |                            |
|---------------|-----------------------|-----------------------------|---------------------------|-----------------------------|----------------------------|
|               | Change in assumptions | Impact on gross liabilities | Impact on net liabilities | Impact on profit before tax | Impact on equity after tax |

|               |     |     |     |   |   |
|---------------|-----|-----|-----|---|---|
| Discount rate | +1% | (1) | (1) | 1 | 1 |
|---------------|-----|-----|-----|---|---|

| € in millions | December 31, 2006     |                             |                           |                             |                            |
|---------------|-----------------------|-----------------------------|---------------------------|-----------------------------|----------------------------|
|               | Change in assumptions | Impact on gross liabilities | Impact on net liabilities | Impact on profit before tax | Impact on equity after tax |

|               |     |     |     |   |   |
|---------------|-----|-----|-----|---|---|
| Discount rate | +1% | (1) | (1) | 1 | 1 |
|---------------|-----|-----|-----|---|---|

Impact on equity reflects adjustment for tax, when applicable.

## 2 General insurance contracts

TBIH's main subsidiaries, Ray Sigorta in Turkey, Bulstrad in Bulgaria and Helios in Croatia, all write mainly non-life insurance. The main types of non-life insurance are motor – third party liability and casco and property insurance. Most of the company's subsidiaries, including GPIH in Georgia also write health insurance.

Risks under non-life insurance policies usually cover twelve month duration.

For general insurance contracts the most significant risks arise from changes in the relevant legal environment, changes in behaviour of policyholders, natural disasters and terrorist activities. For healthcare contracts the most significant risks arise from epidemics, natural disasters and increases in health care costs.

The nature of these risks does not vary significantly in relation to the location of the risk insured by TBIH.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and investigation of possible fraudulent claims are all policies and processes put in place to reduce the risk exposure of TBIH. Where appropriate, TBIH further enforces a policy of actively managing and promoting pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact TBIH.

TBIH has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (eg hurricanes, earthquakes and flood damages). In known earthquake zones such as Turkey the company acquires specific reinsurance cover that is designed to limit the effect of any earthquakes on TBIH's activities.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on TBIH's risk appetite as decided by management.

The tables below sets out the concentration of non-life insurance contract liabilities (including liabilities for unexpired risk and for outstanding claims) by type of contract:

| € in millions                 | December 31, 2007                 |                     |            |                                   |                     |           |                    |                     |                                   |
|-------------------------------|-----------------------------------|---------------------|------------|-----------------------------------|---------------------|-----------|--------------------|---------------------|-----------------------------------|
|                               | Gross                             |                     |            | Reinsurance share                 |                     |           | Net                |                     |                                   |
|                               | Gross Unearned Premiums Provision | Out-standing claims | Total      | Gross Unearned Premiums provision | Out-standing claims | Total     | Premiums provision | Out-standing claims | Gross Unearned Premiums provision |
| Total motor lines of business | 39                                | 37                  | 76         | 5                                 | 4                   | 9         | 34                 | 33                  | 67                                |
| Marine & Cargo                | 1                                 | 1                   | 2          | 1                                 | 1                   | 2         | 1                  | –                   | 1                                 |
| Property                      | 12                                | 6                   | 18         | 8                                 | 4                   | 12        | 3                  | 2                   | 5                                 |
| Aviation                      | 3                                 | 3                   | 6          | 3                                 | 3                   | 6         | –                  | –                   | –                                 |
| Other                         | 6                                 | 6                   | 12         | 1                                 | 2                   | 3         | 5                  | 4                   | 9                                 |
| <b>Total</b>                  | <b>61</b>                         | <b>53</b>           | <b>114</b> | <b>18</b>                         | <b>14</b>           | <b>32</b> | <b>43</b>          | <b>39</b>           | <b>82</b>                         |

| € in millions                 | December 31, 2006                 |                     |           |                                   |                     |           |                    |                     |                                   |
|-------------------------------|-----------------------------------|---------------------|-----------|-----------------------------------|---------------------|-----------|--------------------|---------------------|-----------------------------------|
|                               | Gross                             |                     |           | Reinsurance share                 |                     |           | Net                |                     |                                   |
|                               | Gross Unearned Premiums Provision | Out-standing claims | Total     | Gross Unearned Premiums provision | Out-standing claims | Total     | Premiums provision | Out-standing claims | Gross Unearned Premiums provision |
| Total motor lines of business | 12                                | 24                  | 36        | 1                                 | 5                   | 6         | 12                 | 19                  | 31                                |
| Marine & Cargo                | 1                                 | –                   | 1         | –                                 | –                   | –         | –                  | –                   | –                                 |
| Property                      | 4                                 | 2                   | 6         | 2                                 | 2                   | 4         | 2                  | 1                   | 3                                 |
| Aviation                      | 1                                 | 1                   | 2         | 1                                 | –                   | 1         | –                  | –                   | –                                 |
| Other                         | 3                                 | 3                   | 6         | 1                                 | –                   | 1         | 2                  | 3                   | 5                                 |
| <b>Total</b>                  | <b>21</b>                         | <b>30</b>           | <b>51</b> | <b>5</b>                          | <b>7</b>            | <b>12</b> | <b>16</b>          | <b>23</b>           | <b>39</b>                         |

**Key assumptions**

The principal assumption underlying the estimates is TBIH's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In the countries in which TBIH operates, some assumptions, such as public attitude to claiming and economic conditions are more subject to volatility than those in more developed countries with large and long established insurance operations.

Other key assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

The company's functional currency is the Euro. Since year 1997 the exchange rate of the Bulgarian Lev, the functional currency of the Bulstrad Group, has been a fixed number of Euros. The Turkish Lira, the functional currency of the Ray Group, is floating. The Turkish Lira has over the last few years been subject to significant fluctuations. The Croatian Kuna, the functional currency of the Helios group, is freely floating. However, a large number of insurance policies are denominated in Euro rather than Kuna. A large number of policies issued by GPIH, in Georgia are linked to the US dollar rather than the Euro. The US dollar is therefore the presentation currency of the local subsidiary.

**Sensitivities**

The non-life insurance claims provision is sensitive to the above key assumptions. It has not been possible to quantify the sensitivity of certain assumptions, such as legislative changes or uncertainty in the estimation process, in isolation.



The analysis below is performed for reasonably possible movements in key assumptions (or combinations of the effect of several assumptions) with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in some of these assumptions may not be linear:

| € in millions   | December 31, 2007     |                             |                           |                             |                   |
|---|-----------------------|-----------------------------|---------------------------|-----------------------------|-------------------|
|   | Change in assumptions | Impact on gross liabilities | Impact on net liabilities | Impact on profit before tax | Impact on equity* |
| Average claim severity/cost of incurred claims due to motor property damage                     | +10%                  | 3                           | 3                         | (3)                         | (2)               |
| Average claim severity/cost of incurred claims due to liability & motor bodily injury or death* | +10%                  | 1                           | 1                         | (1)                         | (1)               |
| Average claim severity (cost) of incurred claims in all other (non-motor) lines of business*    | +10%                  | 2                           | 1                         | (1)                         | (1)               |
| Average claim frequency or severity of future claims in all lines of business                   | +10%                  | 4                           | 4                         | (4)                         | (3)               |

| € in millions   | December 31, 2006     |                             |                           |                             |                   |
|---|-----------------------|-----------------------------|---------------------------|-----------------------------|-------------------|
|   | Change in assumptions | Impact on gross liabilities | Impact on net liabilities | Impact on profit before tax | Impact on equity* |
| Average claim severity/cost of incurred claims due to motor property damage   | +10%                  | 1                           | 1                         | (1)                         | (1)               |
| Average claim frequency or severity of future claims in all lines of business | +10%                  | 2                           | 1                         | (1)                         | (1)               |

\* In 2006 represent figures lower than EUR 0.5 million and therefore not included.

Impact on equity reflects adjustment for tax, when applicable (15% on average).

The method used for deriving sensitivity information and significant assumptions did not change from the previous period, however the scope of the information has been increased.

#### **Claims development table**

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to Euros at the rate of exchange that applies at the end of the accident year. The impact of exchange differences is shown at the bottom of the table.

The table shows the most material lines of business (Motor Casco and Third Party Liability) which are also the only material lines of business that TBIH underwrites with a relatively long tail.

In the claims development tables below, the cumulative claims estimates and cumulative payments are translated in Euros at the rate of exchange that applied at the end of the accident year. The impact of exchange differences is shown at the bottom of the table.

TBIH aims to maintain strong reserves in respect of its non-life insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, TBIH transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

**Claims development table***Gross non-life insurance claims for 2007:*

| € in millions                           | Before 2002 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|---|-------------|------|------|------|------|------|------|-------|
| <b>Accident year</b>                    |             |      |      |      |      |      |      |       |
| Cumulative claims payments              |             |      |      |      |      |      |      |       |
| Accident year                           | 18          | 8    | 12   | 18   | 25   | 34   | 32   | 147   |
| One year later                          | 26          | 14   | 17   | 25   | 33   | 45   | –    | 160   |
| Two years later                         | 29          | 15   | 18   | 26   | 35   | –    | –    | 123   |
| Three years later                       | 31          | 16   | 18   | 27   | –    | –    | –    | 92    |
| Four years later                        | 32          | 17   | 19   | –    | –    | –    | –    | 68    |
| Five years later                        | 33          | 17   | –    | –    | –    | –    | –    | 50    |
| Six years later                         | 34          | –    | –    | –    | –    | –    | –    | 34    |
| Cumulative claims paid to<br>31/12/2007 | 34          | 17   | 19   | 27   | 35   | 45   | 32   | 209   |
| Current outstanding claims<br>reserve   | 3           | 1    | 1    | 2    | 2    | 4    | 14   | 27    |
| Current estimate of incurred<br>claims  | 37          | 18   | 20   | 29   | 37   | 49   | 46   | 236   |

**Cumulative Incurred Claims (claims paid + o/s claims liability)**

| € in millions  | Before 2002 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|--|-------------|------|------|------|------|------|------|-------|
| <b>Accident year</b>   |             |      |      |      |      |      |      |       |
| Accident year  | 34          | 18   | 20   | 27   | 35   | 47   | 46   | 227   |
| One year later   | 34          | 17   | 19   | 29   | 37   | 49   | –    | 185   |
| Two years later  | 35          | 17   | 20   | 29   | 37   | –    | –    | 138   |
| Three years later  | 35          | 17   | 20   | 28   | –    | –    | –    | 100   |
| Four years later   | 36          | 18   | 20   | –    | –    | –    | –    | 74    |
| Five years later   | 37          | 18   | –    | –    | –    | –    | –    | 55    |
| Six years later  | 37          | –    | –    | –    | –    | –    | –    | 37    |
| Current estimate of incurred<br>claims                         | 37          | 18   | 20   | 28   | 37   | 49   | 46   | 235   |
| Current estimate of deficiency<br>in original claims estimates | 3           | –    | –    | 2    | 2    | 2    | –    | 9     |
| Deficiency as % of initial<br>estimate of incurred claims      | 10%         | –2%  | 2%   | 5%   | 5%   | 4%   | 0%   | 4%    |

**Reconciliation of liability in above development triangles to liability in Balance Sheet:**

| € in millions                        | Gross     | Net       |
|--------------------------------------|-----------|-----------|
| <b>Accident year</b>                 |           |           |
| Current insurance claim              |           |           |
| liabilities from Motor Lines         |           |           |
| in above tables                      | 27        | 23        |
| Current insurance claim              |           |           |
| liabilities from other lines of      |           |           |
| business from companies              |           |           |
| included above                       | 16        | 5         |
| Current insurance claim              |           |           |
| liabilities from all lines of        |           |           |
| business from newly                  |           |           |
| acquired companies (not              |           |           |
| included above)                      | 11        | 11        |
| <b>Total current insurance claim</b> |           |           |
| <b>liabilities as per Balance</b>    |           |           |
| <b>Sheet</b>                         | <b>54</b> | <b>39</b> |

## b Financial Risks

### 1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The large majority of investments held were issued by the local government or guaranteed by it. This means that credit risks, even though they exist, are mainly limited to the local governments in the countries in which TBIH operates. The assets of the Croatian subsidiary include a number of loans to individuals which are partly secured by real estate assets. The returns on these loans are higher than on comparable government securities. Also these loans are designed to match the maturity profile of the Croatian company's life assurance policies. The Croatian company's long term evidence of performance relating to these loans has been good.

The following policies and procedures are in place to mitigate TBIH's exposure to credit risk:

- A Group credit risk policy setting out the assessment and determination of what constitutes credit risk for TBIH. Compliance with the policy is monitored and exposures and breaches are reported to TBIH risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
  - Net exposure limits are set for each counterparty or Group of counterparties, geographical and industry segment (i.e., limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held).
  - Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. Reinsurance counterparties are approved by TBIH's senior management after input by the shareholder – Vienna Insurance Group.
- At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- TBIH sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings per individual subsidiary.
  - The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated.

Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

### Credit exposure

The table below shows the maximum exposure to credit risk for the components of the balance sheet and items such as future commitments.

| € in millions   | 2007       | 2006       |
|---|------------|------------|
| Financial leases, consumer credits and mortgages      | –          | 130        |
| Loans and advances to bank customers                  | –          | 121        |
| Bank deposits   | 9          | 12         |
| Financial assets classified at fair value through P&L | 12         | 22         |
| Other loans and receivables                           | 7          | 16         |
| Available for sale financial assets                   | 17         | 18         |
| Reinsurance assets                                    | 32         | 12         |
| Insurance receivables                                 | 36         | 16         |
| Loans to related parties                              | 20         | –          |
| Cash and cash equivalents (excluding cash on hand)    | 50         | 80         |
|   | 183        | 427        |
| Financial guarantees                                  | –          | 8          |
| Letters of credit                                     | –          | 5          |
| Undrawn commitments to lend                           | –          | 3          |
|   | –          | 16         |
| <b>Total credit risk exposure</b>                     | <b>183</b> | <b>443</b> |

### Credit quality per class of financial assets

The credit quality of financial assets is managed by TBIH's subsidiaries using internal credit ratings.

The tables below show the credit quality by class of assets, based on the internal credit rating systems.

Credit quality per class of financial assets as of  
December 31, 2007:

| € in millions  | Neither past due nor impaired |                   |           | Past due,<br>not<br>impaired | Individually<br>impaired | Total |
|--|-------------------------------|-------------------|-----------|------------------------------|--------------------------|-------|
|  | High grade                    | Standard<br>grade | Low grade |                              |                          |       |
| Classes of assets  |                               |                   |           |                              |                          |       |
| Bank deposits  | 5                             | –                 | 4         | –                            | –                        | 9     |
| Financial assets classified at fair<br>value through P&L | 2                             | 8                 | 1         | –                            | –                        | 11    |
| Other loans and receivables                              | 2                             | 5                 | –         | –                            | –                        | 7     |
| Available-for-sale financial assets                      | –                             | 17                | –         | –                            | –                        | 17    |
| Reinsurance assets                                       | 29                            | 3                 | –         | –                            | –                        | 32    |
| Insurance receivables                                    | 12                            | 21                | –         | 1                            | 2                        | 36    |
| Loans to related parties*                                | 20                            | –                 | –         | –                            | –                        | 20    |
| Cash and cash equivalents                                | 50                            | –                 | 1         | –                            | –                        | 51    |
|  | 120                           | 54                | 6         | 1                            | 2                        | 183   |

\* Repaid after the balance date

Credit quality per class of financial assets as of  
December 31, 2006:

| € in millions  | Neither past due nor impaired |                   |           | Past due,<br>not<br>impaired | Individually<br>impaired | Total      |
|--|-------------------------------|-------------------|-----------|------------------------------|--------------------------|------------|
| Including maturities                                     | High grade                    | Standard<br>grade | Low grade |                              |                          |            |
| <b>Classes of assets</b>                                 |                               |                   |           |                              |                          |            |
| Financial leases, consumer credits<br>and mortgages      | –                             | 112               | 3         | 15                           | –                        | 130        |
| Loans and advances to bank<br>customers                  | 4                             | 116               | –         | 1                            | –                        | 121        |
| Bank deposits  | 11                            | –                 | –         | –                            | –                        | 11         |
| Financial assets classified at fair value<br>through P&L | 16                            | 5                 | 1         | –                            | –                        | 22         |
| Other loans and receivables                              | 4                             | 1                 | –         | –                            | 12                       | 17         |
| Available-for-sale financial assets                      | 18                            | –                 | –         | –                            | –                        | 18         |
| Reinsurance assets                                       | 9                             | 3                 | –         | –                            | –                        | 12         |
| Insurance receivables                                    | 6                             | 10                | –         | –                            | –                        | 16         |
| Cash and cash equivalent                                 | 75                            | 4                 | 1         | –                            | –                        | 80         |
|  | <b>143</b>                    | <b>251</b>        | <b>5</b>  | <b>16</b>                    | <b>12</b>                | <b>427</b> |

Aging analysis of financial assets past-due but not impaired – December 31, 2006:

| € in millions                                    | < 30 days | 31 to 60 days | 61 to 90 days | > 91 days | Total     |
|--|-----------|---------------|---------------|-----------|-----------|
| <b>Classes of assets</b>                         |           |               |               |           |           |
| Financial leases, consumer credits and mortgages | 9         | 2             | 2             | 2         | 15        |
| Loans and advances to bank customers             | –         | –             | –             | 1         | 1         |
|  | <b>9</b>  | <b>2</b>      | <b>2</b>      | <b>3</b>  | <b>16</b> |

### Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for lending. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral then needed and performs an impairment valuation when applicable.

## 2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate TBIH's exposure to liquidity risk:

- A country-by country liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for TBIH.  
The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance contracts obligations.
- Setting up contingency funding plans on a Group side basis which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

### Maturity profiles

TBIH uses maturity tables in managing its liquidity risk. The tables below show an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled, as well as the contractual expiry by maturity of TBIH's contingent liabilities and commitments.

Maturity analysis of TBIH's assets and liabilities as of December 31, 2007:

| € in millions                          | As at December 31, 2007 |             |            |             |              |            | Total in the Balance sheet |
|--|-------------------------|-------------|------------|-------------|--------------|------------|----------------------------|
|  | Up to 1 year*           | 1-2 years   | 2-3 years  | 3-5 years   | Over 5 years | No term    |                            |
| <b>Assets</b>                          |                         |             |            |             |              |            |                            |
| Assets with no term to maturity        | –                       | –           | –          | –           | –            | 119        | 119                        |
| Financial assets                       | 41                      | 1           | 2          | –           | –            | –          | 44                         |
| Other assets                           | 98                      | 3           | 2          | 1           | 1            | –          | 105                        |
| Cash and cash equivalents              | 50                      | –           | –          | –           | –            | –          | 50                         |
| <b>Total assets</b>                    | <b>189</b>              | <b>4</b>    | <b>4</b>   | <b>1</b>    | <b>1</b>     | <b>119</b> | <b>318</b>                 |
| <b>Liabilities</b>                     |                         |             |            |             |              |            |                            |
| Liabilities with no term to maturity   | –                       | –           | –          | –           | –            | 2          | 2                          |
| Insurance contract liabilities         | 94                      | 15          | 4          | 16          | 7            | –          | 136                        |
| Long term borrowings from shareholders | –                       | 4           | –          | 6           | 69           | –          | 79                         |
| Other financial liabilities            | –                       | –           | –          | 15          | –            | –          | 15                         |
| Long term borrowings                   | 4                       | 1           | 1          | –           | –            | –          | 6                          |
| Other liabilities                      | 29                      | –           | –          | –           | –            | –          | 29                         |
| <b>Total liabilities</b>               | <b>127</b>              | <b>20</b>   | <b>5</b>   | <b>37</b>   | <b>76</b>    | <b>2</b>   | <b>267</b>                 |
| <b>Maturity gap</b>                    | <b>62</b>               | <b>(16)</b> | <b>(1)</b> | <b>(36)</b> | <b>(75)</b>  | <b>117</b> | <b>51</b>                  |

\* Up to a year are all commitments which are either due within the time frame or are payable on demand.



| € in millions                   | As at December 31, 2006 |             |           |           |              |           | Total in the Balance sheet |
|---------------------------------|-------------------------|-------------|-----------|-----------|--------------|-----------|----------------------------|
|                                 | Up to 1 year*           | 1-2 years   | 2-3 years | 3-5 years | Over 5 years | No term   |                            |
| <b>Assets</b>                   |                         |             |           |           |              |           |                            |
| Assets with no term to maturity | –                       | –           | –         | –         | –            | 95        | 95                         |
| Financial assets                | 185                     | 40          | 31        | 36        | 27           | –         | 319                        |
| Other assets                    | 54                      | 2           | 1         | 1         | –            | –         | 58                         |
| Cash and cash equivalents       | 80                      | –           | –         | –         | –            | –         | 80                         |
| <b>Total Assets</b>             | <b>319</b>              | <b>42</b>   | <b>32</b> | <b>37</b> | <b>27</b>    | <b>95</b> | <b>552</b>                 |
| <b>Liabilities</b>              |                         |             |           |           |              |           |                            |
| Insurance contract liabilities  | 46                      | 9           | 16        | 3         | 10           | –         | 84                         |
| Borrowings and debentures       | 98                      | 25          | 14        | 7         | 9            | –         | 153                        |
| Banking customer accounts       | 97                      | 44          | –         | –         | 9            | –         | 150                        |
| Other liabilities               | 45                      | –           | –         | –         | –            | –         | 45                         |
| <b>Total liabilities</b>        | <b>286</b>              | <b>78</b>   | <b>30</b> | <b>10</b> | <b>28</b>    | <b>–</b>  | <b>432</b>                 |
| Maturity gap                    | <b>33</b>               | <b>(36)</b> | <b>2</b>  | <b>27</b> | <b>(1)</b>   | <b>95</b> | <b>120</b>                 |

\* Up to a year are all commitments which are either due within the time frame or are payable on demand.

TBIH has not recognized any contingent assets on its balance sheet due to the uncertainty of the assets' recoverability.

TBIH has no significant concentration of liquidity risk.

### 3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The following policies and procedures are in place to mitigate TBIH's exposure to market risk:

- Set asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.
- Stipulated diversification benchmarks by type of instrument and geographical area, as TBIH are exposed to guaranteed bonuses, cash and annuity options when interest rates fall.

#### **Fair value of financial instruments**

The carrying value of financial instruments (cash and cash equivalents, short-term investments, receivables, other financial assets and financial liabilities) approximates their fair value.

As of December 31, 2006 and 2007 there is no significant exposure to financial instruments where the valuation is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and not based on available observable market data.

#### **a Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

TBIH's principal transactions are carried out in Euros or linked thereto and its exposure to foreign exchange risk arise primarily with respect to US Dollars, Turkish Liras, Croatian Kunas and Georgian Laris.

TBIH's financial assets are primarily denominated in the same currencies as its insurance liabilities, which mitigates the foreign currency exchange rate risk for the overseas operations. Thus the main foreign exchange risk arises from recognized assets and

liabilities denominated in currencies other than those in which insurance and investment contract liabilities are expected to be settled.

The table below summarizes TBIH's exposure to foreign currency exchange rate risk at balance sheet date by categorizing assets and liabilities by major currencies:

| € in millions  | December 31, 2007 |           |                 |                   |                     |                    | Total in the Balance sheet |
|--|-------------------|-----------|-----------------|-------------------|---------------------|--------------------|----------------------------|
|  | In EUR            | In USD    | In YTL (Turkey) | In Ruble (Russia) | In other currencies | Non-Monetary Items |                            |
| <b>Assets</b>  |                   |           |                 |                   |                     |                    |                            |
| Non-monetary items                                       | –                 | –         | –               | –                 | –                   | 118                | 118                        |
| Financial assets   | 42                | –         | –               | –                 | 1                   |                    | 43                         |
| Other assets   | 51                | 8         | 40              | 3                 | 4                   |                    | 106                        |
| Cash and cash equivalents                                | 8                 | 13        | 22              | 6                 | 2                   | –                  | 51                         |
| <b>Total assets</b>                                      | <b>101</b>        | <b>21</b> | <b>62</b>       | <b>9</b>          | <b>7</b>            | <b>118</b>         | <b>318</b>                 |
| <b>Liabilities</b>                                       |                   |           |                 |                   |                     |                    |                            |
| Insurance contract liabilities                           | 65                | 3         | 58              | 7                 | 4                   | –                  | 137                        |
| Long term borrowings from shareholders                   | 79                | –         | –               | –                 | –                   | –                  | 79                         |
| Other financial liabilities                              | 3                 | 9         | –               | 3                 | –                   | –                  | 15                         |
| Long term borrowings                                     | 2                 | 2         | –               | –                 | –                   | –                  | 4                          |
| Other liabilities  | 11                | 4         | 8               | 4                 | 2                   | –                  | 29                         |
| <b>Total liabilities</b>                                 | <b>160</b>        | <b>18</b> | <b>66</b>       | <b>14</b>         | <b>6</b>            | <b>–</b>           | <b>264</b>                 |
| <b>Monetary assets in excess of monetary liabilities</b> | <b>(59)</b>       | <b>3</b>  | <b>(4)</b>      | <b>(5)</b>        | <b>1</b>            | <b>118</b>         | <b>54</b>                  |

| € in millions  | December 31, 2006 |            |                   |                  |                     |                    | Total in the Balance sheet |
|--|-------------------|------------|-------------------|------------------|---------------------|--------------------|----------------------------|
|  | In EUR            | In USD     | In Ruble (Russia) | In UAH (Ukraine) | In other currencies | Non-Monetary Items |                            |
| <b>Assets</b>  |                   |            |                   |                  |                     |                    |                            |
| Non-monetary items                                       | –                 | –          | –                 | –                | –                   | 95                 | 95                         |
| Financial assets   | 93                | 62         | 54                | 40               | 61                  | –                  | 310                        |
| Other assets   | 22                | 8          | 2                 | 2                | 20                  | –                  | 54                         |
| Cash and cash equivalents                                | 28                | 11         | 4                 | 24               | 10                  | –                  | 77                         |
| <b>Total assets</b>                                      | <b>143</b>        | <b>81</b>  | <b>60</b>         | <b>66</b>        | <b>91</b>           | <b>95</b>          | <b>536</b>                 |
| <b>Liabilities</b>                                       |                   |            |                   |                  |                     |                    |                            |
| Insurance contract liabilities                           | 58                | 6          | –                 | 1                | 20                  | –                  | 85                         |
| Borrowings and debentures                                | 72                | 9          | 34                | 1                | 37                  | –                  | 153                        |
| Banking customer accounts                                | 15                | 64         | 9                 | 62               | –                   | –                  | 150                        |
| Other liabilities  | 10                | 4          | 5                 | 1                | 25                  | –                  | 45                         |
| <b>Total liabilities</b>                                 | <b>155</b>        | <b>83</b>  | <b>48</b>         | <b>65</b>        | <b>82</b>           | <b>–</b>           | <b>433</b>                 |
| <b>Monetary assets in excess of monetary liabilities</b> | <b>(12)</b>       | <b>(2)</b> | <b>12</b>         | <b>1</b>         | <b>9</b>            | <b>95</b>          | <b>103</b>                 |

The tables below indicate the currencies to which TBIH had significant exposure at December 31, 2007 and 2006 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the euro, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in the reserve generated from translation of the reports of foreign entities with functional currency other than the euro to TBIH reporting currency). A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase. The base currency is assumed to be the euro.

| € in millions  | Change in variables | December 31, 2007           |                   | December 31, 2006           |                   |
|----------------|---------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|                |                     | Impact on profit before tax | Impact on equity* | Impact on profit before tax | Impact on equity* |
| USD            | +5%                 | –                           | –                 | 1                           | –                 |
|                | +10%                | (1)                         | –                 | 1                           | 1                 |
|                | –5%                 | –                           | –                 | (1)                         | –                 |
|                | –10%                | 1                           | –                 | (1)                         | (1)               |
| Ruble (Russia) | +5%                 | –                           | –                 | –                           | –                 |
|                | +10%                | –                           | (1)               | –                           | –                 |
|                | –5%                 | –                           | –                 | –                           | –                 |
|                | –10%                | –                           | 1                 | –                           | –                 |
| UAH (Turkey)   | +5%                 | –                           | –                 | –                           | 1                 |
|                | +10%                | –                           | –                 | –                           | 1                 |
|                | –5%                 | –                           | –                 | –                           | (1)               |
|                | –10%                | –                           | –                 | –                           | (1)               |

\* Impact on equity reflects adjustments for tax, when applicable.

TBIH has no significant concentration of currency risk.

#### b Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose TBIH to cash flow interest risk, whereas fixed interest rate instruments expose TBIH to fair value interest risk.

TBIH's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Interest on floating rate instruments is re-priced at intervals of less than one year. Interest on fixed interest rate instruments is priced at

inception of the financial instrument and is fixed until maturity.

| € in millions | Change in variables | December 31, 2007           |                                       | December 31, 2006           |                                       |
|---------------|---------------------|-----------------------------|---------------------------------------|-----------------------------|---------------------------------------|
|               |                     | Impact on profit before tax | Impact on other components of equity* | Impact on profit before tax | Impact on other components of equity* |
| EURIBOR       | +5%                 | –                           | –                                     | –                           | –                                     |
|               | +10%                | (1)                         | –                                     | –                           | –                                     |
|               | –5%                 | –                           | –                                     | –                           | –                                     |
|               | –10%                | 1                           | –                                     | –                           | –                                     |

\* Impact on equity reflects adjustments for tax, when applicable.

TBIH has no significant concentration of interest rate risk.

#### c Price risk

The main market risks facing the company are currency risk and interest rate risk as the main financial assets are bank deposits, loans and government securities held for longer periods rather than holdings in shares or other price risk sensitive financial assets. TBIH does not own any material derivative assets or liabilities. Where TBIH companies do own shares or other traded financial assets these are subject to price risk.

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

TBIH's equity price risk exposure relates to financial assets including bank deposits and government securities and financial liabilities whose values will fluctuate as a result of changes in market prices.

TBIH's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each country,

Because of TBIH's operations in different countries, it has no significant concentration of price risk.

#### d Capital management

In most jurisdictions in which TBIH operates, including Bulgaria, Croatia and Turkey, the local insurance, or financial regulator makes capital requirements from insurance companies and other regulated entities such as pension fund management companies. These requirements are put in place to ensure sufficient solvency margins. It is TBIH's intention to comfortably meet these requirements but not to exceed them so materially as to prevent the use of the limited capital in other ventures.

TBIH manages its capital requirements by assessing shortfalls between reported and required capital levels of a regular basis. In order to maintain or adjust the capital structure, TBIH may adjust the amount of dividends paid or inject further capital in those entities that require it.

TBIH fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

The table below summarizes the required capital of the main insurance companies of TBIH as of December 31, 2007:

| € in millions                | December 31, 2007        |                |
|------------------------------|--------------------------|----------------|
|                              | Minimum required capital | Actual capital |
| <b>Company</b>               |                          |                |
| Ray Sigorta (Turkey)         | 14                       | 11             |
| Bulstrad Non-life (Bulgaria) | 6                        | 7              |
| Bulstrad Life (Bulgaria)     | –                        | 2              |
| Helios Non-life (Croatia)    | 1                        | 1              |
| Helios Life (Croatia)        | 1                        | 1              |

In Turkey, new regulations were published on January 19, 2008. Companies have to meet the minimum capital till the end of 2008. The shareholders of Ray Sigorta intend to increase its capital by EUR 5.5 million (TBIH's share EUR 4.1 million) in the second quarter of 2008.

## 50 Related Parties Disclosure

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

Outstanding loans from related parties are unsecured and presented with accrued interest. The most significant of these balances and transactions are as follows:

## 1 Balances

| € in millions                          | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| <b>Assets</b>                          |                   |                   |
| Long-term loans and receivables        | 55                | 42                |
| Capital note issued by a related party | 1                 | 1                 |
| <b>Liabilities</b>                     |                   |                   |
| Short-term credit from related party   | –                 | 1                 |

## 2 Transactions

| € in millions                                   | For the year ended December 31, |      |      |
|---|---------------------------------|------|------|
|   | 2007                            | 2006 | 2005 |
| Management fees from associated companies       | 3                               | 1    | 1    |
| Financing income from associated companies, net | 1                               | 2    | 2    |



**3 Remuneration to Directors<sup>1</sup>**

|   | Options granted<br>by the Company | For the year ended<br>December 31, |       |
|---|-----------------------------------|------------------------------------|-------|
|   |                                   | 2007                               | 2006  |
|   | No. of<br>options                 | €'000                              | €'000 |
| <b>Fees to Management Board:</b>                                  |                                   |                                    |       |
| A. Shlank   | 179,232                           | 204                                | 136   |
| E. Gabber   | 149,360                           | 144                                | 140   |
| Z. Rubin  | 209,103                           | 161                                | 150   |
| W .van Damme <sup>2</sup>   | –                                 | 76                                 | –     |
| A. Ickovics   | 179,232                           | 200                                | 102   |
| <b>Fees to Supervisory Board:</b>                                 |                                   |                                    |       |
| J. Krant  |                                   | 26                                 | 24    |
| I. Fink   |                                   | 18                                 | 18    |
| H. Alster   |                                   | –                                  | 5     |
| J. Pomrenze   |                                   | 18                                 | 18    |
| M.I. Groen  |                                   | 22                                 | 22    |
| A. Schnur   |                                   | 18                                 | 18    |
| K. Rechter  |                                   | 22                                 | 22    |
| H. Benjamins  |                                   | 18                                 | 4     |
| <b>Fees and salaries to shareholders employed by the Company:</b> |                                   |                                    |       |
| Y. Grunfeld   |                                   | 307                                | 293   |
| E. Rechter  |                                   | 299                                | 256   |
| <b>Shares of the Company held by Directors:</b>                   |                                   |                                    |       |
| (directly and through companies under their control)              |                                   | 30.6%                              | 30.8% |

1 Amounts paid directly by the Company and by Group companies.

2 Member of the Management board since June 2007.

The Company and its Group companies signed several agreements with its related parties. The most significant are as follows:

- a In August 2004, GTC RE entered into an agreement with Kardan Israel according to which, Kardan Israel shall provide the Company with legal and accounting services in Israel. In consideration of the services, the Company shall pay Kardan Israel USD 60 thousand per year. The agreement is in effect indefinitely.

In September 2007, the management board of GTC RE approved an amendment to the service agreement, increasing the fee that GTC RE has to pay to Kardan Israel for the services as described above to an amount of EUR 0.13 million per annum starting as of 1.1.2007.

In addition GTC RE also approved the partial amendment of the services agreement with Kardan Israel of a commission to be paid by GTC RE to Kardan Israel Limited of 0.25% of the net amount (after all expenses) of the future external funds raised by GTC RE for the services granted by Kardan Israel Limited to GTC RE in respect of raising the funds.

In relation with the above, approved granting a unique bonus to be paid by the Company to Kardan Israel Limited in the amount of NIS 1,375,000 (approximately EUR 0.2 million) for the services granted by Kardan Israel Limited to the Company in connection with the issuance and listing to trade of the series B debentures.

- b** In August 2004, the Company entered into an agreement with GTC RE. according to which, Kardan N.V provides the Company with various management and consulting services in the Netherlands effective July 1, 2004. In return, GTC RE committed to pay the company. USD 0.1 million (excluding VAT) per year, which shall be paid on a quarterly basis.

The service agreement shall be in effect for two years and shall be extended automatically for an additional year, each time.

In September 2007, the management board of GTC RE approve an amendment to the service agreement, by increasing the fee that GTC RE has to pay to the company for the services as described above to an amount of EUR 0.25 million per annum starting as of January 1, 2007.

## 51 Subsequent Events

All subsequent events which were already published to the public:

- a** During January-February 2008, subsequent to the balance sheet date, GTC China purchased two adjacent plots in Chengdu, at a total area of 104,000 sqm (including construction rights over about 290,000 sqm) and at a total area of 90,035 sqm (including construction rights over about 252,098 sqm). GTC China intends to develop on the two adjacent plots a residential construction project which will include commercial spaces. The real estate properties were purchased together with Lucky Hope Group (for further details on Lucky Hope Group see section 9.3.1 of this statement) and another partner from Hong Kong. The share of GTC China and Lucky Hope Group in the project will be 45% each and the share of the other partner will be 10%.
- b** On February 2008, subsequent to the balance sheet date, GTC China purchased land in Shenyang of a total area of 260,454 sqm, with construction rights for over about 650,000 sqm at a sum of EUR 35 million. GTC China intends to develop on the land a project that will include mainly residential construction and at least 50,000 sqm for commercial use. The shares of GTC China and Lucky Hope in the project will be equal.
- c** In February 2008 Subsequent to the balance sheet date GTC Romania completer the acquisition of a Romanian company holding a land plot comprising approximately 30,000 sqm in the city of Galati, Romania, in consideration of EUR 6.8 million
- d** In February 2008 a Subsidiary of GTC Croatia signed a sale and purchase agreement for acquiring 40,000 sqm plot and land to be developed into a retail project in Osijek, Croatia. The project will consist 26,000 NRA sqm and the total investment cost is estimated in EUR 53.7 million. The cost of land and related costs is EUR 8.2 million.

## Infrastructure

In February 2008 Tahal Group B.V. 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 EUR 34 million and will be financed by the Government of Angola. The execution of the project is estimated to take 18 months.

## Kardan Israel

In March 2008 the Israeli real estate subsidiary, Kardan Real Estate Ltd. ('Kardan RE'), part of Kardan Israel, signed an agreement with Delek Real Estate ('DRE') for the merger of their activities.

The merger will create one of the largest residential property developers in Israel with a land bank for approximately 7,000 housing units of which 1,600 are already under construction.

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 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 (EUR 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 RE for an additional year).

For subsequent events after April 1, 2008, please refer to note 14 of the Company-Only Dutch Gaap Financial Statements.

# Company-only Statutory Dutch GAAP Financial Statements

## Balance Sheet

December 31, 2007 – Before Appropriation of Net Result

| € in millions  | Note | December 31, 2007 | December 31, 2006 |
|--|------|-------------------|-------------------|
| <b>Assets</b>  |      |                   |                   |
| <b>Non-current assets</b>                                    |      |                   |                   |
| Intangible fixed assets                                      | 3    | 99                | 6                 |
| <b>Financial fixed assets</b>                                |      |                   |                   |
| Investments in consolidated subsidiaries                     | 4    | 418               | 262               |
| Loans to consolidated subsidiaries and joint venture         |      | 117               | 18                |
| Investment in debentures issued by consolidated subsidiaries |      | –                 | 58                |
|  |      | <b>535</b>        | <b>338</b>        |
| <b>Current assets</b>  |      |                   |                   |
| Cash and cash equivalents                                    | 5    | 47                | 22                |
| Short-term investments                                       | 6    | 18                | 30                |
| Other receivables  |      | 5                 | 1                 |
|  |      | <b>70</b>         | <b>53</b>         |
| <b>Total assets</b>  |      | <b>704</b>        | <b>397</b>        |
| <b>Equity and liabilities</b>                                |      |                   |                   |
| <b>Equity</b>  |      |                   |                   |
| Share capital  | 7    | 17                | 17                |
| Share premium  |      | 176               | 160               |
| Property revaluation reserve                                 |      | 109               | 65                |
| Revaluation reserve, other                                   |      | (5)               | –                 |
| Currency translation reserve                                 |      | (25)              | (14)              |
| Retained earnings (accumulated deficit)                      |      | (19)              | (2)               |
| Result for the period  |      | 90                | 41                |
|  |      | <b>343</b>        | <b>267</b>        |
| <b>Long-term liabilities</b>                                 |      |                   |                   |
| Non-convertible debentures                                   | 8    | 215               | –                 |
| Loans from banks and others                                  | 9    | 66                | 99                |
| Warrants and options   | 10   | 63                | 27                |
|  |      | <b>344</b>        | <b>126</b>        |
| <b>Current liabilities</b>                                   |      |                   |                   |
| Current maturities of long-term loans                        |      | 5                 | –                 |
| Other payables   | 11   | 12                | 4                 |
|  |      | <b>17</b>         | <b>4</b>          |
| <b>Total equity and liabilities</b>                          |      | <b>704</b>        | <b>397</b>        |

See accompanying notes.

# Company-only Statutory Dutch GAAP Income Statement

Year ended December 31, 2007

| € in millions                            | Note | December 31, 2007 | December 31, 2006 |
|--|------|-------------------|-------------------|
| Net result from investments for the year | 4    | 57                | 39                |
| Other income, net                        | 12   | 33                | 2                 |
| <b>Net profit</b>                        |      | <b>90</b>         | <b>41</b>         |

See accompanying notes.

# Notes to the Company-only Statutory Dutch GAAP Financial Statements

December 31, 2007

## 1 General

The description of the Company's activity and the group structure, as included in the Notes to the consolidated statutory IFRS financial statements, also apply to the Company-only statutory Dutch GAAP financial statements, unless otherwise stated.

## 2 Significant Accounting Policies

The Company-only statutory Dutch GAAP financial statements are drawn up in accordance with accounting policies generally accepted in the Netherlands (Dutch GAAP) and are the same as described in the Notes to the Consolidated IFRS financial statements with the exception of the following: investments in consolidated subsidiaries and joint ventures are stated at the Company's share in their net asset value.

In accordance with Article 402 of part 9, Book 2, of the Netherlands Civil Code, the Company-only statutory Dutch GAAP income statement of operations is condensed, as its income statement is already included in the consolidated IFRS income statement.

## 3 Intangible Fixed Assets

Intangible fixed assets include goodwill arising on the acquisition of subsidiaries and associated companies. Movements are as follows:

| € in millions   | 2007 | 2006 |
|---|------|------|
| Cost at January 1, net of accumulated amortization    | 6    | 5    |
| Acquisition of subsidiaries                           | 101  | 4    |
| Decrease due to changes in investments                | (8)  | (3)  |
| Cost at December 31, net of accumulated amortization  | 99   | 6    |
| At January 1,   |      |      |
| Cost  | 7    | 6    |
| Less - accumulated amortization                       | (1)  | (1)  |
|   | 6    | 5    |
| At December 31,                                       |      |      |
| Cost  | 100  | 7    |
| Less - accumulated amortization and impairment losses | (1)  | (1)  |
|   | 99   | 6    |

## 4 Financial Fixed Assets

### a Investments in Consolidated Subsidiaries

The movement in the investment in consolidated subsidiaries can be summarized as follows:

| € in millions   | 2007       | 2006       |
|---|------------|------------|
| January 1   | 262        | 165        |
| Acquisition of shares in subsidiaries and investments | 100        | 63         |
| Deferred revenue on linked transaction                | 2          | (32)       |
| Disposals   | (4)        | –          |
| Capital reserves*                                     | (8)        | 19         |
| Net result of investments for the year                | 66         | 47         |
| December 31   | <b>418</b> | <b>262</b> |

\* Primarily relates to foreign currency exchange differences arising on translation of foreign operations.

A further specification is as follows:

| Names of significant subsidiaries                                 | 2007        |                           | 2006        |                           |
|---|-------------|---------------------------|-------------|---------------------------|
|   | Ownership % | Total value € in millions | Ownership % | Total value € in millions |
| Kardan Israel Ltd. (1)  | 71.35       | 76                        | 77.98       | 73                        |
| GTC Real Estate N.V. (2)  | 64.6        | 196                       | 61.38       | 92                        |
| Kardan Financial Services B.V. * (3)                              | 80.0        | 128                       | 55.12       | 76                        |
| Tahal Group B.V.  | 100.0       | 18                        | 100.0       | 21                        |
| <b>Total investments in significant consolidated subsidiaries</b> |             | <b>418</b>                |             | <b>262</b>                |

\* In 2006, the investment in KFS was through a joint venture.

#### **b Additional Information:**

- (1) As described in Note 6C (Kardan Israel) to the consolidated IFRS financial statements, in April 2007 Kardan Israel has issued shares to institutional investors. As a result the Company's shareholding in Kardan Israel decreased to 72.25% and it recorded a gain of approximately EUR 2.7 million.
- (2) As described in Note 6C(c) (Real Estate) to the consolidated IFRS financial statements, in November 2007, the company converted 143,183,170 convertible debentures of GTC RE into 8,879,428 shares of GTC RE. As a result of this conversion, the company increased its holding in GTC RE to 65.7% and the company attributed an amount of EUR 31 million to goodwill.
- (3) As described in note 6C(a) (Financial services) to the consolidated IFRS financial statements, in December 2007 a transaction was executed and closed with Discount Bank Israel Ltd., ("Discount Bank") whereby KFS allocated 11% of the share capital for consideration of EUR 55.6 million.

The parties also agreed that Discount Bank will grant KFS a credit facility of up to EUR 225 million, for periods ranging from 6 to 11 years.

The agreement entitled Discount Bank to nominate up to 20% of the Supervisory Board of KFS.

As a result, KFS has revalued a PUT option granted to minority shareholders in TBIF for a total amount of EUR 19 million and attributed this revaluation as an expense in its income statement. Following the closing of the transaction, the Company recorded a gain of EUR 30 million included in the consolidated IFRS income statement, under Gains from share issue to third party section.

#### **c Loans to Consolidated Subsidiaries:**

Loans to consolidated subsidiaries include a loan to Tahal Group B.V. amounting to EUR 61 million and a loan to KFS amounting to EUR 56 million. Both loans are denominated mainly in Euros.

- The loan to KFS bears interest of Euribor + 2.875 % per annum and half of it matures no later than February 2008 and the second half will mature in 2013.
- The loan to Tahal bears interest of Euribor + 3 % per annum and matures no earlier than December 31, 2009.

Movements are as follows:

| € in millions                                     | 2007 | 2006 |
|---|------|------|
| January 1   | 18   | 26   |
| Loans granted to subsidiaries                     | 113  | 15   |
| Loans repaid by subsidiaries                      | –    | (3)  |
| Conversion of loan into capital                   | (19) | (21) |
| Accrued interest and foreign currency differences | 5    | 1    |
| December 31                                       | 117  | 18   |

#### **d Investments in Debentures Issued by Consolidated Subsidiaries:**

- (1) As described in the above-mentioned note 4 B(2), in November 2007, the company converted 143,183,170 convertible debentures of GTC RE into 8,879,428 shares of GTC RE. As a result of this conversion, the company increased its holding in GTC RE to 65.7% and the company attributed an amount of EUR 31 million to goodwill.



The movement in the investment in debentures issued by consolidated subsidiaries can be summarized as follows:

| € in millions   | 2007  | 2006 |
|---|-------|------|
| January 1   | 58    | –    |
| Acquisition of debentures issued by consolidated subsidiaries             | 19    | 30   |
| Loss from investment in debentures issued by consolidated subsidiaries    | (1)   | (4)  |
| Revaluation of the investment   | 49    | 32   |
| Conversion of the debentures into shares of the consolidated subsidiaries | (125) | –    |
| December 31   | –     | 58   |

(2) In June 2005 the Company purchased NIS 800 thousand par value convertible debentures issued by its subsidiary Kardan Israel. The value of these debentures as of December 31, 2007 amounts to EUR 0.2 million.

### e Net Result from Investments for the year

| € in millions  | 2007 | 2006 |
|--|------|------|
| Net result of investments for the year (see Note 4A)                   | 66   | 47   |
| Loss from investment in debentures issued by consolidated subsidiaries | (1)  | (4)  |
| Decrease due to changes in holdings                                    | (8)  | (3)  |
| Sale of treasury shares held by subsidiary                             | –    | (1)  |
|  | 57   | 39   |

## 5 Cash and Cash Equivalents

The cash comprised only short-term deposits.

The average interest earned on short-term deposits is 3%-3.5%, the same in 2006.

## 6 Short Term Investment

| € in millions                       | 2007 | 2006 |
|-------------------------------------|------|------|
| Bank deposits in EUR <sup>1</sup>   | 12   | 10   |
| Bank deposits in USD                | –    | 20   |
| Pledge deposits in EUR <sup>2</sup> | 6    | –    |
|                                     | 18   | 30   |

<sup>1</sup> Deposit for a period of one year in an average interest between 7.5% to 10.5%.

<sup>2</sup> A pledge deposit in EUROS, for the purpose of insuring swap deal.

## 7 Dutch GAAP Shareholders' Equity

| € in millions   | Attributable to equity holders of the parent |                  |                                     |                                   |  |                      | Total      |
|---|--|------------------|-------------------------------------|-----------------------------------|--|----------------------|------------|
|   | Issued<br>and<br>paid-in<br>capital          | Share<br>premium | Property<br>revaluation<br>reserve* | Revaluation<br>reserve,<br>other* | Foreign<br>currency<br>translation<br>reserve* | Retained<br>earnings |            |
| <b>Balance as of January 1, 2006</b>                      | <b>13</b>                                    | <b>72</b>        | <b>46</b>                           | <b>(2)</b>                        | <b>(8)</b>                                     | <b>16</b>            | <b>137</b> |
| Currency translation differences                          | -  | -                | -                                   | -                                 | (2)  | -                    | (2)        |
| Change in fair value of hedge instrument                  | -  | -                | -                                   | -                                 | -  | -                    | -          |
| Change in unrealized revaluation reserve                  | -  | -                | 2                                   | (1)                               | -  | -                    | 1          |
| Put options granted to minority shareholders subsidiaries | -  | -                | -                                   | -                                 | -  | (1)                  | (1)        |
| Share-based payment                                       | -  | -                | -                                   | -                                 | -  | -                    | -          |
| <b>Total income and expense for the year</b>              |  |                  |                                     |                                   |  |                      |            |
| recognized directly in equity                             | -  | -                | 2                                   | (1)                               | (2)  | (1)                  | (2)        |
| <b>Net profit for the period</b>                          | <b>-</b>                                     | <b>-</b>         | <b>-</b>                            | <b>-</b>                          | <b>-</b>                                       | <b>41</b>            | <b>41</b>  |
| <b>Total income /expense for the year</b>                 | <b>-</b>                                     | <b>-</b>         | <b>2</b>                            | <b>(1)</b>                        | <b>(2)</b>                                     | <b>40</b>            | <b>39</b>  |
| Issuance of shares in subsidiaries                        | -  | -                | -                                   | -                                 | -  | -                    | -          |
| Issuance of shares  | 3  | 79               | -                                   | -                                 | -  | -                    | 82         |
| Exercise of warrants and options into                     |  |                  |                                     |                                   |  |                      |            |
| Company's shares  | -  | 8                | -                                   | -                                 | -  | -                    | 8          |
| Sale of shares held by subsidiary                         | -  | 1                | -                                   | -                                 | -  | -                    | 1          |
| Dividend distributed by subsidiaries                      | -  | -                | -                                   | -                                 | -  | -                    | -          |
| Reclassification according to statutory requirements*     | 1  | -                | 17                                  | 3                                 | (4)  | (17)                 | -          |
| <b>Balance as of December 31, 2006</b>                    | <b>17</b>                                    | <b>160</b>       | <b>65</b>                           | <b>-</b>                          | <b>(14)</b>                                    | <b>39</b>            | <b>267</b> |

\* 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.

| € in millions  | Attributable to equity holders of the parent |                  |                                     |                                   |  |                      | Total      |
|--|--|------------------|-------------------------------------|-----------------------------------|--|----------------------|------------|
|  | Issued<br>and<br>paid-in<br>capital          | Share<br>premium | Property<br>revaluation<br>reserve* | Revaluation<br>reserve,<br>other* | Foreign<br>currency<br>translation<br>reserve* | Retained<br>earnings |            |
| <b>Balance as of January 1, 2007</b>                                   | <b>17</b>                                    | <b>160</b>       | <b>65</b>                           | <b>-</b>                          | <b>(14)</b>                                    | <b>39</b>            | <b>267</b> |
| Currency translation differences                                       | -  | -                | -                                   | -                                 | (11)   | -                    | (11)       |
| Change in fair value of hedge instrument                               | -  | -                | -                                   | (4)                               | -  | -                    | (4)        |
| Adjustment due to restatement of subsidiary<br>(see also note 5)       | -  | -                | -                                   | -                                 | -  | (5)                  | (5)        |
| Change in unrealized revaluation reserve                               | -  | -                | -                                   | (1)                               | -  | -                    | (1)        |
| Share base payment   | -  | 2                | -                                   | -                                 | -  | -                    | 2          |
| Put options granted to minority shareholders in<br>subsidiaries        | -  | -                | -                                   | -                                 | -  | -                    | -          |
| Total income and expense for the year<br>recognized directly in equity | -  | 2                | -                                   | (5)                               | (11)   | (5)                  | (19)       |
| Net profit for the period  | -  | -                | -                                   | -                                 | -  | 90                   | 90         |
| Total income /expense for the year                                     | -  | 2                | -                                   | (5)                               | (11)   | 85                   | 71         |
| Issuance and sale of shares to minority                                | -  | -                | -                                   | -                                 | -  | -                    | -          |
| Exercise of warrants and options                                       | -  | 14               | -                                   | -                                 | -  | -                    | 14         |
| Shares purchase in consolidated companies                              | -  | -                | -                                   | -                                 | -  | -                    | -          |
| Dividend   | -  | -                | -                                   | -                                 | -  | (9)                  | (9)        |
| Dividend paid to minority  | -  | -                | -                                   | -                                 | -  | -                    | -          |
| Reclassification according to statutory<br>requirements*               | -  | -                | 44                                  | -                                 | -  | (44)                 | -          |
| <b>Balance as of 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> |

\* 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.

## 8 Non-convertible Debentures

As for the non-convertible Debentures issued by the company see Note 29 to the consolidated IFRS financial statements.

## 9 Loans from Banks and Others

| € in millions                | December 31, 2007 | December 31, 2006 |
|------------------------------|-------------------|-------------------|
| Kardan Israel Ltd (1)        | –                 | 30                |
| Kardan RSA (2)               | –                 | 2                 |
| Phoenix (3)                  | 21                | 20                |
| Mercantile Discount Bank (4) | 4                 | 7                 |
| Israel Discount Bank (5)     | 5                 | 5                 |
| Leumi Bank (6)               | 10                | 16                |
| Mizrachi Bank (7)            | 20                | 19                |
| Union Bank (8)               | 6                 | –                 |
|                              | <b>66</b>         | <b>99</b>         |

The fair value of the long-term loans from banks and others at year-end, being the current values of the liabilities calculated using estimated interest rates, approximates the book value (see also Note 49 to the consolidated IFRS financial statements).

(1) The loan was granted for a period of 6 years and it bears interest at the rate of LIBOR + 2.25% per annum. The principal of the loan will be repaid in 2 instalments, on 1 November 2008 and on November 1, 2011. The interest will be repaid in seven annual instalments, commencing on August 31, 2005. As security for the loan, the Company issued and accepted a first ranked fixed pledge on (i) 22.9% of the shares of GTC RE, and (ii) the shares of Tahal which are held by the Company. In addition a second ranked fixed pledge was issued and accepted on 6.2% of the shares of GTC RE. In March 2007 the Company has early repaid the loan.

(2) The loan bears interest at the rate of LIBOR + 1% per annum. The maturity date is not yet determined. In March 2007 the Company has repaid the loan.

(3) In January 2005, the Company issued a debenture to Phoenix Israel Insurance Company Ltd. ('Phoenix'), pursuant to which the Company received a loan amounting to NIS 110.0 million (EUR 20 million) from Phoenix. The debenture is for a term of 5 years and bears interest at a fixed rate of 6.6% per annum. The principal and interest are linked to the Israeli CPI. The principal of the debenture will be repaid in one instalment, 5 years following the date of issuance. The interest is to be repaid in five annual instalments, the first falling due on February 1, 2006. As security for the debenture, the Company issued and accepted a primary fixed lien on its holding of GTC RE shares at 125% of the value of the debenture. In the event of certain conditions not being fulfilled, the debenture can be called for immediate repayment. Some of these conditions relate to the company-only equity of Kardan, which (i) must not fall below NIS 150 million (EUR 25 million) during a continual three-month period; (ii) must not fall below NIS 140 million (EUR 23 million) during one month; and (iii) must not fall below 28% of the balance sheet total for a three month period. In addition, prior approval by Phoenix should be received for any change in control, re-organization, reduction of capital and delisting of the Company. As of December 31, 2007 the Company met these financial and control covenants.

(4) In April 2005, the Company received a loan in the amount of EUR 7.5 million from Mercantile Discount Bank Ltd ("Mercantile"). The loan was granted for a period of 6 years and bears interest at a rate of EURIBOR + 2.0% per annum. As a security for the loan the Company issued to Mercantile options for no consideration. The

options are exercisable into up to 369,437 shares, which will comprise of, following their issuance, approximately 0.6% of the issued and paid-in capital of the Company (0.5% on a fully diluted basis). The Company can choose to pay Mercantile the benefit component of the options in cash or an equivalent amount of shares representing only the benefit component. The exercise price of the options is NIS 18.0 per share (linked to the Israeli CPI) until April 18, 2007; NIS 30.0 per Share (linked to the Israeli CPI) until April 18, 2009; and NIS 38.0 per Share (linked to the Israeli CPI) until April 18, 2011. These exercise prices are subject to adjustments following dividend distribution or issuance of option rights during the exercise period. In February 2006 Mercantile Discount Bank exercised its option and received 119,222 Shares. The exercise of the option did not have an impact on the outstanding balance of the loan.

- (5) In August 2005, the Company received a loan from Israel Discount Bank Ltd. ('Discount Bank') in the amount of NIS 29.4 million (EUR 5 million). The term of the loan is for 4 years and it bears interest at a rate of 5% per annum. The loan is linked (principal and interest) to the Israeli CPI. The principal of the loan has to be repaid in one instalment, 4 years following the date of the loan. The interest has to be paid in four instalments, falling due on each August 31, of the years 2006 through 2009. As security for the loan the Company issued and accepted a primary fixed lien on Series A debentures of GTC RE having fair value of NIS 28,582,453 (EUR 5 million). If the fair value of the security falls below 60% of the loan balance, the Company is committed to provide additional security. In addition, the Company has guaranteed inter alia that its equity (company only), shall not fall below 30% of its balance sheet total. As of December 31, 2007 the Company meets these covenants.

- (6) In April 2006 the Company signed a credit facility agreement with Leumi Bank regarding a total facility of EUR 23 million. The loan drawn under this facility bears interest of EURIBOR or LIBOR + 2.25% and is repayable in 5 equal annual instalments during the years 2007-2011. Interest is payable per quarter.

As security the Company pledged its holdings in KFS in favour of the bank and, in addition, committed itself to maintain an equity to balance sheet ratio of 26% and also has guaranteed that the equity of the Company will not fall below EUR 74 million. Further the Company has committed itself not to pledge shares of TBIH for purposes other than those described in the agreement.

As of December 31, 2007 the Company met these financial covenants. As of December 31, 2007 the Company has withdrawn EUR 17 million from the facility.

- (7) In November 2006 the Company signed a loan agreement with Mizrahi Bank. The loan, amounting to EUR 20 million, bears interest of EURIBOR +1.3% per annum and matures in 2009. The interest is to be paid annually. As security, the Company has pledged in favour of the bank of the bank 2,966,234 shares of GTC RE. In the event that the fair value of the pledged shares will fall below 105% of the outstanding balance of the loan, the Company has to provide additional securities.
- (8) In January 2007, the Company signed a loan agreement with Union Bank. The loan, amounting to EUR 6 million bears interest of 5.615% per annum maturing in January 2009 in one instalment. The interest is to be paid annually. As security the Company has pledged in favour of the bank 707,330 shares of GTC RE, and in addition, committed to maintain an equity to a balance sheet ratio of 25% and that the Kardan Group will hold control of at least 50% over GTC RE.

## 10 Warrants and Options

As for the Warrants and Options issued/granted by the company, see Note 27 to the consolidated IFRS financial statements.

## 11 Other Payables

| € millions       | December 31, 2007 | December 31, 2006 |
|------------------|-------------------|-------------------|
| Accrued expenses | 11                | 2                 |
| others           | 1                 | 2                 |
|                  | 12                | 4                 |

## 12 Other Income

In 2007 the EUR 33 millions other income derived mainly from finance income due to the company's holding in GTC RE debentures (revaluation of the equity component in GTC RE debentures).

## 13 Remuneration of Management Board and Supervisory Board

The Company's Management Board and Supervisory Board received remuneration in 2007 as described in Note 50 to the Consolidated IFRS Financial Statements.

### Management Board

A. Ickovics  
A. Shlank  
Z. Rubin  
E. Gabber  
W. van Damme  
(appointed  
June 2007)

### Supervisory Board

J. Krant  
A. Schnur  
K. Rechter  
I. Fink  
J. Pomrenze  
M. Groen  
H. Benjamins

## 14 Commitments, Contingent Liabilities, Guarantees, Banking Covenants and Subsequent Events

For commitments, contingent liabilities, guarantees, banking covenants and subsequent events please refer to Notes 35 and 51, respectively of the Consolidated IFRS Financial Statements.

The below mentioned subsequent events have occurred after April 1st 2008 until the authorization for issuance by the Management Board on May 19, 2008:

A. In April 2008, the company announced that it is currently in a process of investigating the possibilities to merge GTC RE into Kardan.

The proposed merger is in line with the strategy of the company to simplify the group structure and further increase its transparency. The intended merger will create a larger holding company, strengthening the equity and the value of the combined entity. There is no certainty if and when the merger will take place.

B. In April 2008, GTC Russia (a 95% subsidiary of GTC SA) signed a preliminary 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 sqm of net office space, to be completed in 2011-13. The project is expected to generate approximately EUR 53 million of net rental income upon its full completion. GTC Russia will pay approximately EUR 27 million for its share in the project. The acquisition is expected to be completed by the end of May 2008.

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## Other Information

### Statutory arrangements in respect of the appropriation of net result

The Articles of Association of the Company provide that the appropriation of the net result for the year is decided upon at the Annual General Meeting of Shareholders.

The company is considering recommending a dividend payment within the framework of its dividend policy.

# Auditor's Report

To: The Management and Shareholders of Kardan N.V.

## Report on the Statutory Financial Statements

We have audited the statutory financial statements of Kardan N.V. as set out on pages 54 to 227. The statutory financial statements consist of the consolidated IFRS financial statements and the company only statutory Dutch GAAP financial statements. The consolidated IFRS financial statements comprise the consolidated balance sheet as at December 31, 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company only statutory Dutch GAAP financial statements comprise the company only Dutch GAAP balance sheet as at December 31, 2007, the company only Dutch GAAP income statement for the year then ended and the company only Dutch GAAP notes thereto.

### Management's responsibility

Management is responsible for the preparation and fair presentation of the statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the statutory financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on the statutory financial statements based on our audit. We

conducted our audit in accordance with Dutch law.

This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

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

### *Opinion with respect to the consolidated statutory IFRS financial statements*

In our opinion, the consolidated statutory IFRS financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.



*Opinion with respect to the company only statutory  
Dutch GAAP financial statements*

In our opinion, the company only statutory Dutch GAAP financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on Other Legal and Regulatory  
Requirements**

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the statutory financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Apeldoorn, May 19, 2008  
for Ernst & Young Accountants  
Signed by: A.J. Buisman

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## Supplementary Information

Company-only IFRS Financial Statements provided for filing under the Israeli Stock Exchange regulations.

# Company-only IFRS Balance Sheet

December 31, 2007 – Before Appropriation of Net Result

| € in millions                                  | Notes | December 31, 2007 | December 31, 2006 |
|--|-------|-------------------|-------------------|
| <b>Assets</b>                                  |       |                   |                   |
| <b>Financial fixed assets</b>                  |       |                   |                   |
| Long term receivables                          |       | –                 | 61                |
| Investments in subsidiaries and joint ventures | 3     | 380               | 206               |
| Loans to Subsidiaries and joint ventures       | 3     | 117               | 18                |
|  |       | <b>497</b>        | <b>285</b>        |
| <b>Current assets</b>                          |       |                   |                   |
| Other receivables                              |       | 5                 | 1                 |
| Short term investments                         | 4     | 18                | 30                |
| Cash and cash equivalents                      | 5     | 47                | 22                |
|  |       | <b>70</b>         | <b>53</b>         |
| <b>Total assets</b>                            |       | <b>567</b>        | <b>338</b>        |
| <b>Equity and liabilities</b>                  |       |                   |                   |
| <b>Equity</b>                                  |       |                   |                   |
| Shareholders equity                            | 9     | 250               | 208               |
| <b>Long-term liabilities</b>                   |       |                   |                   |
| Non convertible debentures                     | 6     | 237               | 20                |
| Loans from banks and others                    | 7     | 45                | 79                |
| Other long term liabilities                    |       | 18                | 27                |
|  |       | <b>300</b>        | <b>126</b>        |
| <b>Current liabilities</b>                     |       |                   |                   |
| Current maturities of long term loans          |       | 5                 | –                 |
| Other payables                                 | 8     | 12                | 4                 |
|  |       | <b>17</b>         | <b>4</b>          |
| <b>Total equity and liabilities</b>            |       | <b>567</b>        | <b>338</b>        |

# Company-only IFRS Income Statement

Year ended December 31, 2007

| € in millions                       | December 31, 2007 | December 31, 2006 |
|-------------------------------------|-------------------|-------------------|
| Management fees                     | 1                 | (*)               |
| Gain from sale of shares            | 6                 | –                 |
|                                     | 7                 | (*)               |
| General and administration expenses | (6)               | (3)               |
| <b>Loss from operations</b>         | <b>1</b>          | <b>(3)</b>        |
| Financial income (expenses)         | 37                | 9                 |
| <b>Net profit for the year</b>      | <b>38</b>         | <b>6</b>          |

(\*) Represents number smaller than € 0.1 million.

# Company-only IFRS Statement of Changes in Equity

Year ended December 31, 2007

| € in millions  | Share capital | Foreign currency translation reserve | Share Premium | Hedge      | Retained earnings | Total      |
|--|---------------|--------------------------------------|---------------|------------|-------------------|------------|
| Balance at January 1, 2006                             | 15            | –                                    | 71            | –          | 30                | 116        |
| Currency translation differences                       | –             | (4)                                  | –             | –          | –                 | (4)        |
| Exercise of warrants and options into company's shares | –             | –                                    | 8             | –          | –                 | 8          |
| Issuance of shares                                     | 2             | –                                    | 80            | –          | –                 | 82         |
| Net profit for the period                              | –             | –                                    | –             | –          | 6                 | 6          |
| <b>Balance at December 31, 2006</b>                    | <b>17</b>     | <b>(4)</b>                           | <b>159</b>    | <b>–</b>   | <b>36</b>         | <b>208</b> |
| Balance at January 1, 2007                             | 17            | (4)                                  | 159           | –          | 36                | 208        |
| Share based payments                                   | –             | –                                    | 2             | –          | –                 | 2          |
| Exercise of options                                    | –             | –                                    | 14            | –          | –                 | 14         |
| Dividend   | –             | –                                    | –             | –          | (9)               | (9)        |
| Hedge accounting                                       | –             | –                                    | –             | (3)        | –                 | (3)        |
| Net profit for the period                              | –             | –                                    | –             | –          | 38                | 38         |
| <b>Balance at December 31, 2007</b>                    | <b>17</b>     | <b>(4)</b>                           | <b>175</b>    | <b>(3)</b> | <b>65</b>         | <b>250</b> |

# Company-only IFRS Cash Flow Statement

For the year ended December 31, 2007

| € in millions  | December 31, 2007 | December 31, 2006 |
|--|-------------------|-------------------|
| <b>Cash flow from operating activities</b>                                 |                   |                   |
| Net profit (loss)  | 38                | 6                 |
| <b>Adjustment to reconcile net loss to net cash</b>                        |                   |                   |
| Charges to net loss not affecting operating cash flows:                    |                   |                   |
| – Share based payment  | 9                 | 21                |
| – Interest income and exchange differences from long-term liabilities, net | (46)              | (24)              |
| – Gain from disposal of subsidiary   | (6)               | –                 |
| <b>Changes in working capital</b>  |                   |                   |
| – Change in receivables  | (4)               | –                 |
| – Change in payables   | 10                | 1                 |
| <b>Net cash used in operating activities</b>                               | <b>1</b>          | <b>4</b>          |
| <b>Cash flow from investing activities</b>                                 |                   |                   |
| – Purchase of subsidiary debentures  | (19)              | (30)              |
| – Gain from sale of subsidiaries   | 9                 | –                 |
| – Short term investments, net  | 12                | (31)              |
| – Repayment of loans   | –                 | 3                 |
| – Loans granted  | (118)             | (14)              |
| – Investments in subsidiaries  | (32)              | (14)              |
| <b>Net cash used in investing activities</b>                               | <b>(148)</b>      | <b>(86)</b>       |
| <b>Cash flow from financing activities</b>                                 |                   |                   |
| – Exercise of options to the company shares                                | –                 | 82                |
| – Dividend   | (9)               | –                 |
| – Proceeds from issuance of debentures                                     | 211               | –                 |
| – Proceeds from long-term debt   | 13                | 20                |
| – Repayment of long-term debt  | (43)              | –                 |
| <b>Net cash provided by financing activities</b>                           | <b>172</b>        | <b>102</b>        |
| <b>(Decrease) / increase in cash and cash equivalents</b>                  | <b>25</b>         | <b>20</b>         |
| – Cash and cash equivalents at beginning of the period                     | 22                | 2                 |
| <b>Cash and cash equivalents at end of the period</b>                      | <b>47</b>         | <b>22</b>         |

# Notes to the Company-only IFRS Financial Statements

## December 31, 2007

### 1 General

The description of the Company's activity and the group structure, as included in the Notes to the IFRS consolidated financial statements, also apply to the company-only IFRS financial statements.

The company-only IFRS financial statement, are presented for the purposes of the Israeli stock exchange regulations.

### 2 Significant Accounting Policies

The company-only IFRS accounts have been drawn up in accordance with the same accounting policies as applied to the consolidated IFRS financial statements with the exception of investments in consolidated subsidiaries, joint ventures and associates, which are valued at historical cost in these company-only IFRS financial statements. For that reason, and only for that reason, the consolidated IFRS equity differs from the company-only IFRS shareholders' equity.

Historical cost represents the cost base at initial recognition, increased by any subsequent capital contributions and decreased by any capital repayments and dividends received.

These company-only IFRS financial statements do not represent the statutory company-only financial statements as these statutory company-only financial statements are drawn up in accordance with Netherlands Accounting Principles as enacted in Title 9, Book Two of the Netherlands Civil Code and the Guidelines for Annual Reporting as issued by the Netherlands Council for Annual Reporting.

The disclosure notes to these company-only IFRS financial statements are, unless otherwise stated, limited to providing composition and, where relevant, movements schedules of balance sheet and income statement items. For more detailed background information, reference is made to the notes of the consolidated IFRS financial statements.

For the purpose of these company only IFRS financial statements, the company is a first time adopter. As stated above the statutory company-only financial statements are still under Dutch GAAP. In this respect it is noted:

- the only difference between Dutch GAAP and IFRS with respect to company-only financial statements relates to the valuation of subsidiaries and associates (see above).
- none of the exemptions provided by IFRS 1 were used in drawing up these IFRS company-only financial statements.

### 3 Financial Fixed Assets

#### Investments in subsidiaries and joint ventures

The movement in investments in subsidiaries can be summarized as follows:

| € in millions   | 2007       | 2006       |
|-----------------|------------|------------|
| Opening balance | 206        | 170        |
| Additions       | 174        | 36         |
|                 | <b>380</b> | <b>206</b> |

The cost of investments does not include put options granted to minority shareholders. For details of these put options, which comprise a commitment to the company please refer to note 27.

The movement in the loans to subsidiaries and joint ventures can be summarized as follows:

| € in millions                 | 2007       | 2006      |
|-------------------------------|------------|-----------|
| Opening balance               | 18         | 26        |
| Additional loans granted      | 113        | 15        |
| Conversion of loans to equity | (19)       | (21)      |
| Accumulated interest          | 6          | –         |
| Currency translation          | (1)        | (2)       |
|                               | <b>117</b> | <b>18</b> |

#### 4 Short-term Investments

| € in millions                       | 2007      | 2006      |
|-------------------------------------|-----------|-----------|
| Bank deposits in EUR <sup>1</sup>   | 12        | 10        |
| Bank deposits in USD                | –         | 20        |
| Pledge deposits in EUR <sup>2</sup> | 6         | –         |
|                                     | <b>18</b> | <b>30</b> |

1 Deposit for a period of one year in an average interest between 7.5% to 10.5%.

2 A Pledge deposit in EURO, for the purpose of insuring swap deal.

#### 5 Cash and Cash Equivalents

The cash comprised only short-term deposits.

The average interest earned on short term deposits is 3%-3.5%, the same in 2006.

#### 6 Non-convertible Debentures

Reference is made to note 28 of the consolidated financial statements.

#### 7 Loans from Banks and Others

| € in millions               | Effective Interest rate | December 31, 2007 | December 31, 2006 |
|-----------------------------|-------------------------|-------------------|-------------------|
| Banks                       |                         |                   |                   |
| In EUR                      | EUR+1.3%                | 46                | 45                |
| In NIS                      | 5%+CPI                  | 5                 | 35                |
| Debt issuance expenses      |                         | (1)               | (1)               |
| <b>Total long-term debt</b> |                         | <b>50</b>         | <b>79</b>         |
| Less: Current portion       |                         | (5)               | –                 |
|                             |                         | <b>45</b>         | <b>79</b>         |



**a Repayments of long-term debt are scheduled as follows:**

| € in millions      | December 31, 2007 | December 31, 2006 |
|--------------------|-------------------|-------------------|
| First year         | 5                 | –                 |
| Second year        | 36                | 35                |
| Third year         | 4                 | 36                |
| Fourth year        | 5                 | 4                 |
| Fifth year         | –                 | 4                 |
| Thereafter         | –                 | –                 |
| Not yet determined | –                 | –                 |
|                    | <b>50</b>         | <b>79</b>         |

## 8 Other Payables

| € in millions    | December 31, 2007 | December 31, 2006 |
|------------------|-------------------|-------------------|
| Accrued expenses | 11                | 2                 |
| Others           | 1                 | 2                 |
|                  | <b>12</b>         | <b>4</b>          |

## 9 Shareholders Equity

The differences between the shareholders equity between the consolidated financial statements and the shareholders equity in the company-only financial statement derive mainly due to the differences in the investment account in the equity method compare to the historic cost method, (2007: EUR 93 millions, and 2006: EUR 59 millions).

## 10 Commitments, Contingent Liabilities, Guarantees, Banking Covenants and Subsequent Events

For commitments, contingent liabilities, guarantees, banking covenants and subsequent events please refer to notes 35 and 51, respectively of the consolidated IFRS financial statements.

# Auditor's Report

To: The Management and Shareholders of Kardan N.V.

## Report on the Company-only IFRS Financial Statements

We have audited the accompanying Company-only IFRS financial statements for the year ended December 31, 2007 which comprise the company only IFRS balance sheet as at December 31, 2007, the Company-only IFRS income statement, the Company-only IFRS statement of changes in equity and the Company-only IFRS cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The company only IFRS financial statements are provided for filing under the Israeli stock exchange regulations.

### Management's responsibility

Management is responsible for the preparation and fair presentation of the Company-only IFRS financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the company only IFRS financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company only IFRS financial statements. The procedures selected depend on the auditor's judgment,

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

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

### Opinion

In our opinion, the Company-only IFRS financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Other matters

The Company-only IFRS financial statements are provided for information purposes only and are used for filing under the Israeli stock exchange regulations. The Company-only IFRS financial statements are consistent in all material aspects with the company only statutory Dutch GAAP financial statements. The only difference is the use of the financial reporting framework.

Apeldoorn, May 19, 2008  
for Ernst & Young Accountants  
Signed by: A.J. Buisman