Nanette Real Estate group NV

Annual Report and Accounts

For the year 2007

NANETTE

NANETTE REAL ESTATE GROUP

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PROFILE

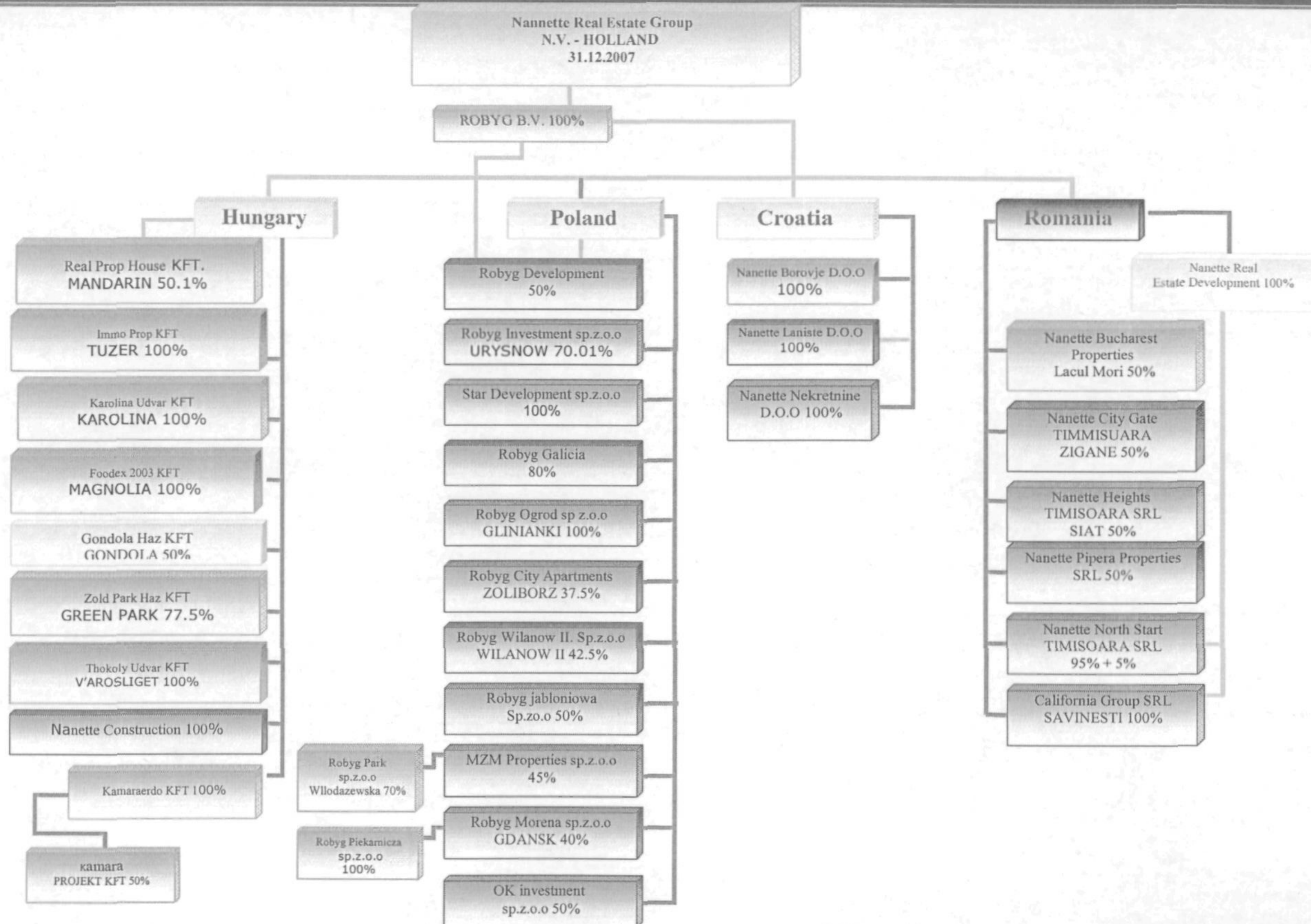
Nanette is an international residential property development group based in The Netherlands and listed in the Alternative Investment Market of London (The "AIM").

Nanette is focused on emerging markets mostly on Central and Eastern Europe countries, and is currently operating in Poland, Hungary, Romania, Croatia and Ukraine.

Nanette's experienced management team have over 100 years of experience in property development and a proven track record of creating high level development to the customers and long term shareholder value through active management of investments in the group companies and by leveraging on its business experience, financial resources and local and international network.

Nanette's businesses develop through organic growth and acquisitions. Nanette provides capital and management resources to consolidate its businesses and accelerate the expansion of its activities. Its access to international capital markets enables it to finance this expansion. Nanette reinforces its growth by forming strategic partnerships with local and international institutions, in order to add value to the business through brand recognition, operational expertise and international reputation.
Nanette has a total potential 13,482 units (including preliminary agreements) in various stages of development divided between its different countries of operation in the following approximate numbers: 55% in Poland, 14% in Hungary, 17% in Romania and 14% in Croatia.

Nanette Real Estate group NV – Group Structure



Key Figures

	2007 Euro '000	2006 Euro '000	2005 Euro '000
Revenues	33,174	31,869	5,122
Gross Margin	7,238	6,349	1,146
Operational Margin	6,394	2,991	(528)
Net Result	20,080	8,361	(1,385)
Cash and Cash Equivalents	70,905	5,511	7,502
Shareholders' Equity	88,327	30,273	12,126
Total Assets	258,666	137,546	76,879
Per share Result	0.12	0.06	(0.01)
Number of shares	171,749,427	(*)120,000,000	(*)12,000,000

(*) equivalents to 12,000,000 shares of Euro 0.2; on May 30, 2006 the shares were divided, each share of Euro 0.2 was divided to 10 shares of Euro 0.02

STRUCTURE

Key Financial per share	2007	2006	2005
Net Result	0.12	0.06	(0.01)
Shareholders' Equity	0.51	0.25	0.10
Number of shares	171,749,427	(*)120,000,000	(*)12,000,000

(*) - equivalent to 12,000,000 shares of Euro 0.2; on May 30, 2006 the shares were divided, each share of Euro 0.2 was divided to 10 shares of Euro 0.02

Liquidity Provider

London base- KBC Peel Hunt Plc. acts as a liquidity provider for Nanette's shares listed on the AIM.

Financial Calendar

Q1 2008 results – 28 May 2008
Q2 2008 results – 28 August 2008
Q3 2008 results – 28 November 2008

Dividend Policy

The proposed dividend policy recommends an annual distribution of 30% of the net income. The annual dividend recommendation will take into consideration the level of net income, liquidity and capital position, future financing requirements, financial covenants of the Company and 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 distribution may vary from year to year.

In addition, Nanette is obliged to offer the debenture holders of series "A" (that were issued during 2005) a repayment of the bonds up to the level of the proposed dividends.

Additional Information

Additional information can be obtained from:Nanette Real Estate Group N.V.
Rapenburgerstraat 204
1011 MN Amsterdam
Tel: 31-20-7784-141 Fax: 31-20-3305-444

Other publications and information:

www.nanettegroup.com

BOARD COMPOSITION

Dutch law requires that a company's management and operations are overseen by a board consisting of at least one or more executive directors. The Company's articles mandate a board consisting of at least three (3) but not more than ten (10) members. In addition, a Dutch company may have a supervisory board (consisting of non-executive directors). Alternatively, a company organized under Dutch law may have a one tier board, consisting of both executive and non-executive directors. The Company operates such a one tier governance structure in which a single board is comprised of both executive and non-executive directors.

Dutch law requires that the composition and functioning of a board comprising both executive members who are responsible for the day-to-day running of the company and non-executive members who are not, shall be such that proper and independent supervision by the non-executive members is assured. As such, the executive directors of the Company are authorized to represent the Company whilst the non-executive directors are not authorized to represent the Company, unless given prior mandate by the Board.

The Company's board of directors comprises of ten (10) members, as of the date May 30, 2008, of which the following 2 members can be regarded as independent: Mr. Jacoby and Mr. Dekel. The other members are not independent as they are related by blood, shareholders that hold more than ten percent of the shares in the Company or are engaged by associated companies.

The Audit Committee:

During 2007, was chaired by Mr. E. Keltsh, and comprised of two additional members: Mr. Y. Cimer and Mr. G. Jacoby. (During 2008, and after his appointment to the board, Mr. D. Dekel replaced Mr. E. Keltsh as the chairman of the audit committee)

The audit committee is responsible for the assessment of the provisions of the financial information. During the year 2007, the audit committee paid special attention to risk management, internal audit and specific accounting issues arising from the financial statements.

The Remuneration Committee:

During 2007, was chaired by Mr. E. Keltsh and comprised of two additional members: Mr. Y. Cimer and Mr. G. Jacoby

The remuneration committee is responsible for the assessment of the provision of salaries and remunerations of board members and employees of the Company. The remuneration committee studied the applicable standard among the different AIM listed companies and gave its recommendations to the board. (During 2008, and after his appointment to the board, Mr. D. Dekel replaced Mr. E. Keltsh as the chairman of the remuneration committee)

The Nomination Committee:

During 2007 was chaired by Mr. E. Keltsh and comprised of two additional members: Mr. Y. Cimer and Mr. G. Jacoby. (During 2008, and after his appointment to the board, Mr. D. Dekel replaced Mr. E. Keltsh as the chairman of the nomination committee).

The nomination committee is responsible for the assessment of the candidates for employment in the Company. During 2007 no meetings were held by the nomination committee.

The board also appointed an internal Auditor:

The Internal Auditor

The audit committee recommended to the board the appointment of an internal auditor, Mr. Uzi Shmoeli, who performed a preliminary audit survey and filed a report to the board with recommendations for a 4 year audit plan; the board approved these recommendations.

BOARD MEMBERS

- **Shaul Lotan** – ***Chairman***
  - Over 38 years of experience in the Israeli real estate market, as well as in the US, Serbia & Cyprus. Leading a large and prestigious real estate listed company in Israel (Levinstein)
- **Oskar Kazanelson** – ***Chief Executive Officer***
  - 30 years of experience in Israel and CEE. Has spent five years working in Warsaw & Budapest Residential Development, and was a founder of Nanette. Chairman of Olimpia Group, a listed Israeli real estate company.
- **Ran Jacobs** – ***Finance Director***
  - A certified public accountant, with five years of experience as a CFO and controller, both of Nanette and Olimpia, with significant experience in the CEE residential market.
- **Gerald Parkes**
  - Gerald Parkes is a Managing Director of Lehman Brothers and a principal of Lehman Brothers Real Estate Partners responsible for the day to day management of the Fund's European activities and investments. Mr Parkes has more than 25 years of experience in cross border investment for institutional funds and is a Fellow of the Royal Institute of Chartered Surveyors, a Trustee and member of the Governance Committee of the Urban Land Institute and the Chairman of the Real Estate Advisory Board for Cambridge University
- **Ferenc Karl LLb**
  - A partner in a law firm, with experience in legal aspects of Hungarian real estate companies. Has a wide range of knowledge in other legal fields, serves as a lawyer to the Company's Hungarian subsidiaries.
- **Eyal Keltsh**
  - B.A. (Business ad. and Economics), CPA, served as a director in GTC (quoted Eastern European property developer) and its parent company Kardan, in Holland, also director in Clal (large multinational co.) in Holland.

- **Gilley Jacoby**
  - MBA, experienced real estate developer and projects' manager, in the US, and Budapest. Well connected to the banking system in Budapest.
- **Josef Cimer**
  - B.A. (accounting and economics), CFO of Levinstein, 25 years of experience, until 2002 was a senior deputy manager of Gmul, a large investment group in Israel. Large experience in financial reports of public companies, and the real estate field. Served as a director in many companies.
- **Simon Katznelson (Resigned on 28 August 2007)**
  - Mr. Katznelson holds an MBA from Clark University in the United States and Msc. Engineering degree from Kiev Poliytech Institutes, USSR. Mr. Katznelson is experienced in the engineering field of computers and financial operations and serves as a director in many of the largest companies in Israel. He is a Director of El-Al (Israeli airline), Pelephone Communication Company (the first mobile phone company in Israel), ELTA-Electronic Airspace Industry, ADC – Ashdod Development and Real-estate Company and the Chairman of the Board of the Israel National Lottery.
- **Ron Hadassi (Appointed on 18 September 2007)**
  - Serves as a high ranking manager in the Bronfman, Fisher Group, dealing in Industry, Real Estate, Finance and Retail trade. Mr. Hadassi serves as well as the chairman of the board of directors Blue Square Furniture Ltd., (Owners of IKEA Israel chain Franchisee) and as deputy chairman of the board of directors Isralom Assets Ltd. and as a director in the public Company Supersol Ltd. In addition Mr. Hadassi is a lecturer at the Herzlia Interdisciplinary Centre on banking and financing.
  - Mr. Hadassi has a LLB degree, admitted as an advocate in May 1995, and has a Bachelor's degree in economics and political science, MBA degree, financing and accountancy; secondary specialisation in marketing.
- **David Dekel (Appointed on 30 May 2008)**
  - Mr. David Dekel is the founder and CEO of Endeavour Enterprises N.V., an operations consulting firm based in Amsterdam, the Netherlands. Prior to his current role, Mr. David Dekel worked in the ICT industry as COO for a software firm, and CEO for a telecommunications company, both based in the Netherlands. His other positions included those in strategic planning, marketing and various managerial roles.
  - Mr.David Dekel holds a masters degree in business administration from Teesside University in the United Kingdom and a bachelor's degree in business administration from Delta University in the Netherlands.

Key Personal

- **Leon Gurwicz** served as the local manager of the Group's operations in Poland. Mr Gurwicz holds an MSc and is fluent in English, Polish, Russian and Hebrew. During his 40 years of international experience he has managed numerous residential projects. Mr Gurwicz had been managing the company's activity in Poland since 2001 and decided on retire from his professional activities in November 2008. Mr Gurwicz is employed by and is a major shareholder of Delfy Management & Consulting Limited.

- **Tamir Kishon** serves as the local manager of the Group's operations in Hungary. He is responsible for administration, finance and marketing. Mr Kishon has been active in the residential property market in Budapest since 1995, dealing with marketing apartments and project management for private developers. He has been managing the Group's activity in Hungary since 2001.

- **Alex Goor** serves as the Group's local technical manager in Hungary and acts as Nanette's liaison in Romania and Croatia. Mr Goor has over 27 years of experience in the construction industry. He is also a director of Olimpia. With significant experience in Romania, Alex will manage any projects the Board decides to invest in Romania and Croatia.

Chairman & CEO Review

We are pleased to report this year's results for the Group. The year has been challenging and exciting; we started the year with a fund raising of Euro 16.7 m to investors and continued with the joining of LBREP of Lehman Brothers investment banking as a new shareholder in Nanette when it subscribed for a 15% stake in Nanette for euro 32.1 m; a few months later we concluded a debenture fund raising in Israel which has and will enable the Group to take advantage of the growth opportunities that exist in the Central and East European region (CEE).

The Group was admitted to AIM in June 2006 with plots secured in Warsaw, Poland and Budapest in Hungary. These locations have given the Group a solid base and will continue to offer good opportunities. During 2007 we expanded rapidly into additional cities in Poland, we opened offices in Gdansk and Wroclaw; we expanded into two additional countries - Romania, with two locations in Bucharest and Timisoara; and in Zagreb, Croatia. The primary growth driver is the utilization of our skills in other parts of the region for acquisition of new projects.

To make the most of the opportunities that exist in the region the Group must be able to negotiate and complete deals in as short a time frame as possible. As mentioned above, in order to enable this strategy, the Group has raised three post IPO tranches of capital: the issue of debentures listed on the Tel Aviv stock exchange through a bond issuance of NIS 214 (€ 38 m), an institutional equity placing raising €16.7m (£11m) and finally in March 2007, we concluded a deal whereby Lehman Brothers Real Estate Partners Group (LBREP) subscribed to15% of the enlarged share capital raising a further €32.1m (£21.9m). Together with our strategic partners Leman Brothers and the Rothschild group we now have access to significant funds to accelerate the growth of the Group.

2007

The year has seen 594 completions of units (2006: 604), split between the completion of 236 units in Poland and 358 units in Hungary. We pride ourselves on providing a good quality product in good locations – as has been the case in both Warsaw and Budapest. Warsaw, in particular, has a strong demand for good quality housing and provides opportunities for us to make reasonable returns, although competition for sites has intensified over the last year. Budapest is a more mature market but continues to provide opportunities for us as we are considered to be one of the major developers in the city.

At the end of 2006 we had sixteen projects in two countries and by the end of 2007 we had increased that number to twenty three (including preliminary agreements) in four countries, and two more projects were already completed. The land-bank typically consists of sites with varying planning consents and some will be held for some months while planning is approved or amended in order to provide the Group with the best possible development.

The profit (PBT) for the year is €22.6 m (2006: €9.4m). The Group ended the year with €71m of cash excluding €15m of deposits (down payment received from customers).

Dividend

We are also pleased to confirm that the Company distributed an accumulated amount of Euro 12 m out of which approximately 11 m was distributed in August 2008. This amounts to € 0.07 c per share.
Following the dividend distributions in August, purchase offers for the same amount of the total dividend were made and the Company received acceptance notices through October 6, 2008, for the carrying amount of NIS 47.6 million (€ 9.53 million).

Board

The Board of Directors was established in its current form following the admission to AIM. I would like to thank the executive team together with their colleagues for the progress that has been made in 2007. I also appreciate the time and commitment that the non executive directors have made to the Group in what has proven to be a busy period. Oskar Kazanelson continues to identify exciting opportunities and I would like to thank him especially for the growth that has been achieved.

Following LBREP's subscription of equity and their ongoing operational support in Poland, the Board proposed to the General Meeting to elect Mr. Gerald Parkes as a non executive director. Gerald Parkes is a managing director of Lehman Brothers and a principal of Lehman Brothers Real Estate Partners responsible for the day to day management of the Fund's European activities and investments. Mr Parkes has more than 25 years experience in cross border investment for institutional funds and is a Fellow of the Royal Institute of Chartered Surveyors, a Trustee and member of the Governance Committee of the Urban Land Institute and the Chairman of the Real Estate Advisory Board for Cambridge University– he joined the Company's Board during the year 2007.
Following some changes in the Olimpia group (one of Nanette's major shareholders), Mr. Ron Hadassi has been appointed to the Board of Nanette and replaced Mr. S. Kazanelson. Mr. Hadassi has a LLB degree, was admitted as an advocate in May 1995, and has a Bachelor's degree in economics and political science and an MBA degree in financing and accountancy with a secondary specialisation in marketing. Mr. Hadassi serves as a high ranking manager in the Bronfman, Fisher Group, dealing in Industry, Real Estate, Finance and Retail trade. Mr. Hadassi serves as well as chairman of the Board of Directors Blue Square Furniture Ltd., (Owners of IKEA Israel chain Franchisee) and as deputy chairman of the board of directors of Isralom Assets Ltd. and as a director in the public Company Supersol Ltd. In addition Mr. Hadassi is a lecturer at the Herzlia Interdisciplinary Centre on banking and financing.

Outlook

We believe the region will continue to provide considerable growth opportunities, due to the continued projected economic growth and further economic liberalization of the new EU members and candidates.

Whilst we will continue to develop sites in the cities in which we commenced operations – in Poland, Warsaw, Gdansk, Wroclaw and in Hungary, Budapest, we have expanded into Bucharest and Timisoara in Romania, Zagreb in Croatia, and during 2008, a further expansion was made into Kiev in the Ukraine. Our desire and appetite for growth can be seen in this expansion. We will maintain our flexible approach and consider other cities and other countries in the region if the project fits our requirements and

investment parameters. In addition, we may see opportunities to sell parcels of land which we will do so if the returns available are sufficient.

The funds available to the Group are significant and together with our partners in specific sites we are confident that the region provides exciting opportunities for the Group.

While the end of 2008 and the beginning of 2009 is a very difficult period both in the financial markets and for real estate developers in particular, we still believe that our projects will be secure.

Due to the current market conditions, we are examining each of the projects periodically and have decided not to start construction of new phases in projects in which finance has not been secured. With a view forward, and in order not to hamper the Company's future, we continue to work on the design and the planning of the pipeline projects.

Shaul Lotan – Chairman

Oskar Kazanelson – Chief Executive Officer

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Shaul Lotan – Chairman

Oskar Kazanelson – Chief Executive Officer

DIRECTORS' REPORT

The directors are pleased to present the annual report of Nanette Real Estate Group N.V. for the year 2007, including the annual accounts drawn by the Company and approved by the board of directors. The financial statements have been audited by Ernst & Young Accountants LLP. The auditors' report is included in page 108 of this annual report.

The Company and its Business Environment

The Company is engaged in the initiation of residential real estate projects in Eastern and Central Europe by way of association in land purchase transactions, building of residential apartments and the sale thereof. The Company undertakes these projects through SPVs (Special Purpose Vehicles). Each SPV coordinates the various activities in a project, including dealing, to the extent necessary with re-designating the land, in the preparation of plans, issuing of construction permits, associations with external parties and contractors, obtaining independent finance for the project, bookkeeping, handling marketing and sales, handling of the purchasers of the apartments and managing any other issue of the project. The Company has partners in most of the SPVs.

During 2007, the Company started operation in Romania and Croatia in addition to it's activities in Poland and Hungary and during early 2008 the Company started operations in Ukraine. During 2007, the Company purchased the following projects divided by country:

<u>Poland</u>

- Purchase of a 42 hec. plot of land in Gdansk, the property was designated partly for residential construction(1/3) and partly for investment (2/3)
- Purchase of land in Wroclaw, the land was transferred to Robyg S.A. as a step in the reorganization process of the holdings of the Company and LBREP in Poland (see detail below in pg. 17).

<u>Romania</u>

- Purchase of two plots of land in Timisoara.
- Purchase of two plots of land in Bucharest.
- Executing a preliminary agreement for purchasing land in Bucharest.
  In the end of 2008 the preliminary agreement was canceled.

<u>Croatia</u>

- Purchase of land in Zagreb.
- Executing a preliminary agreement for purchasing land in Zagreb.

The Company intends to expand its activity in the five countries in which it is currently active, while examining entering into other countries.

Operational Overview

Remuneration policy & Employees

As of 31/12/2007 the Company engaged the services of 3 executive directors, 6 non executive directors and 5 controllers and other services providers via service agreements (mainly through companies).The remuneration committee determines and agrees with the Board, the framework or broad policy for the remuneration of the CEO, the Chairman and the other executive members of the management. The remuneration of the non executive directors is decided by the Board. No director is involved in the decisions relating to his remuneration.
The remuneration paid in 2007 was as follows:

	2007					
	Executive Members	**Outstanding amount of option**	**Fees IN Thousands**	**Bonus IN Thousands**	**Share based compensation IN Thousands**	**Total for the year ended**
1	O.Kazanelson		447	420		867
2	Shaul Lotan		179	103		282
3	Ran Yaakobs	500,000*	144	88	10	242
	Total		770	611	10	1,391
Non Executive Members						
1	Josef Zimer	500,000*	51	35	9	95
2	Shimon atznelson		21			21
3	Ron Hadasi		9			9
4	Gilly Jacoby		23			23
5	Karl Ferenc		25			25
6	Eyal Keltsh		72			72
7	Gerald Parkes		18			18
	Total		219			263
	Total		989	646	19	1,654

* All the options were granted in 2006, in 2007 no new options were granted or exercised.

Issue of Shares

On January 22, 2007, the Company issued to institutional investors on the AIM Exchange in London 13 million regular shares priced at £ 0.85 per share. The gross remuneration from this issuance totaled at approximately €16,620 thousand.

On March 6, 2007, the Company issued to LBREP II Neptune S.a.r.l (hereinafter "LBREP"), which is a company of the Lehman Brothers Group, 25,762,414 regular shares of the Company at a price identical to the shares reflecting a total remuneration of approximately €32.1 million. After completing this transaction, LBREP possessed 15% of the issued, paid up capital stock of the Company.

In April 2008, the Company made market purchases of 650,000 Ordinary shares of the Company, representing approximately 0.38% of the issued share capital of the Company, at an average price of 65 pence per share; the shares are held in treasury and the Company reserve the right to reissue these shares on a later stage. Following the abovementioned purchase, the equity were decreased by an amount of 527,000 Euro and the number of the Company's outstanding shares were decreased by 650,000 shares to 171,099,427.

On May 23, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 500,000 shares bringing the total number of shares to 171,599,427.

On July 01, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 200,000 shares bringing the total number of shares to 171,799,427.

Issue of Debentures (Series B)

On June 18, 2007, the Company raised, through a private issue of 213,924,000 par value of debentures (series B) (hereinafter - "the Debentures B") for institutional investors in Israel, a sum of approximately €38 million. The Debentures B bear an annual interest of 5.5% (hereinafter – "the Interest Rate"), linked to the consumer price index, and are repayable in 4 equal annual installments on June 18 of each of the years 2012 to 2015. The interest for the Debentures B will be paid in semi-annual installments on July 18 and on December 18 of each calendar year from the date of allocation of the Debentures B to their date of final repayment on June 18, 2015.

During June 2008 the Company listed the Debentures B for trading on the Tel-Aviv Stock Exchange. Following the listing, the annual interest paid for the unsettled balance of the principal of the Debentures B was reduced by 0.65% off the Interest Rate (meaning 4.85% linked to the consumer price index).

The debentures were rated by Ma'alot Israeli Securities Rating Company Ltd. as A /STABLE and By Midroog Ltd as A2.

On December 2008 Ma'alot Israeli Securities Rating Company Ltd. decreased the Rating of the the company to (ilBBB2 Negative).

As of the date of the report the company bought back on the Tel-Aviv Stock Exchange part of its own bonds at a value of NIS 40 million (Euro 7.8 million), for the total consideration of NIS 11.9 million (Euro 2.3 million).

Issue of Debentures (Series C)

On June 16, 2008 the Company raised, through a prospectus offering 129,769 units each with a NIS 1,000 par value of debentures (series C) (hereinafter - "the Debentures C") for investors in Israel, raising a total of NIS 129,769,000 (approximately € 25 million). The Debentures C bear an annual interest rate of 8.0%, linked to the consumer price index and are repayable in four equal annual installments on June 13 on each of the years 2011 to 2014. The interest for the Debentures C will be paid in semi-annual installments on July 13 and on December 13 of each calendar year from the date of allocation of the Debentures C to their date of final repayment on June 13, 2014. In addition to the above, the Company has committed itself to protect the Debentures C series from the currency fluctuations between the Israeli Shekel and the Euro; On the end of 2008 the company enter into a cross currency swap transaction for an amount of approximately 11.5 Million Euro, at this moment the Company estimates the cost of this protection at 1.7% annually.

As of the date of the report the company bought an NIS 30.4 Million (5.9 Million Euro) per value of its own bonds on the Tel Aviv Stock Exchange, for the total consideration of NIS 14.6 million (Euro 2.9h Million)

Reorganization of the Holdings of the Company in the Project Companies in Poland

On October 31, 2007, an agreement of principles was signed between ROBYG BV, LBREP, the Company, OFCYN Management and Financing GMBH (a company controlled by Oscar Katzenelson, the CEO of the Company) (hereinafter: "OFCYN"), Leon Gurevich (hereinafter: "Leon"), Arthur Ceglarz (hereinafter: "Arthur") and Delfy Zarzadzania SP. Zoo (hereinafter: "Delfy") (which is a company that provided management services for projects in which the Company is a partner in Poland) concerning the reorganization of the holdings of LBREP and the Company in some of the project companies in Poland (hereinafter: "the Reorganization in Poland"), in preparation for the possible issue of some of the joint activity in Poland on the Warsaw Stock Exchange. The process of the Reorganization in Poland was completed on April 21, 2008. The issuance on the Warsaw Stock Exchange was not effectuated as of the date of this report.

Bonuses for Employees and Officers

In March 2007, following the confirmation of the Remuneration Committee, the Company Board decided as follows:

1. To distribute bonuses for the profits of 2006 in a total of approximately € 565 thousand,

2. To adopt a bonus distribution plan for the profits of 2007 in a total amount of 6% of the net profit above € 10 million,
   The bonuses were given inter alia to functionaries, some of whom were interested parties and controlling shareholders of the Company. In effect a total sum of € 540 thousand was paid out as bonuses over the profits of 2007.

In addition to bonuses in a sum of € 65 thousand that were distributed in January 2007.

Out of all the bonuses paid in 2007, € 646 thousand was paid to directors Mr. Oskar kazanelson, Mr. Shaul lotan, Mr. Ran Yaakobs and Mr Josef Cimer the rest were paid to other employees.

During August 2008, the Company Board decided to distribute bonuses out of the profits of 2008 at the same level that was approved for 2007, i.e. - 6.5% of the net profit above Euro 10 million (the 0.5% difference derives from the addition of new employees).

Distribution of Dividends

In March 2007, the Company Board recommended to the shareholders to distribute a dividend in a sum of 0.0715 Euros per share (the total distribution of dividends totaling approximately € 3,006 thousand). The General Meeting of Shareholders that convened on April 13, 2007 approved this dividend distribution. The dividend was distributed on May 10, 2007.

On June 6, 2007, the Company published a purchase offer for purchasing debentures (series A) in a sum identical to the total dividend distributed, reflecting a price of NIS 1.015 per 1 par value of debenture. The purchase offer was published, as stated, in accordance with the undertaking of the Company to the debenture holders in the prospectus of July 6, 2005. Debenture holders holding a sum of NIS 30,857 par value agreed to the offer in exchange for a total of approximately NIS 31.3 thousand (€ 5.9 thousand).

On August 28, 2007, the Company Board decided to recommend to the shareholders another dividend distribution in a sum of 0.006 euros per share (a total of approximately 1,030 thousand euros was distributed). The General Meeting of Shareholders that convened on September 17, 2007 approved this dividend distribution. The dividend was distributed on October 8, 2007. The Company published a purchase offer for purchasing debentures (series A) in a sum that is identical to the total dividend that was distributed. The number of debenture holders who agreed to this offer was not material.

On March 27, 2008, the Company Board decided to recommend to the shareholders another dividend distribution in a sum of 0.064 euros per share (a total of approximately Euro 11 million). The General Meeting of Shareholders that convened on August 15, 2008 approved this dividend distribution. The dividend was distributed on August 15, 2008. The Company published a purchase offer for purchasing debentures (series A) in a sum that is identical to the total dividend that was distributed. The number of debenture holders who agreed to this offer was NIS 47,6 million (app. Euro 9.53 million).

Cooperation Agreement with the Investment Fund Managed by the Rothschild Bank

During April 2007, a future cooperation agreement was signed with the investment fund managed by de Rothschild Bank. Within the agreement, the Company did not undertake to offer the fund new projects, but to increase the cooperation with the investment fund in the future.

As of the date of this report, the Fund managed by de Rothschild Bank holds with the Company the three following projects: (1) 49.9% of the Mandarin project in Hungary, (2) 25% of the Zoliborz project in Poland, in which the Company has a 37.5% through Robyg S.A. (following the Reorganization in Poland detailed in pg. 17 herein above), and (3) 22.5% of the Taltoring project in Hungary, in which the Company holds 27.5% (both holdings are via a joint venture company held by the Fund and the Company in a 45:55 ratio).

Financial Developments

Nanette had demonstrated a significant improvement in its result for the year 2007, the net profit amounted to Euro 20.08 million, compare to a profit of Euro 8.4 million in the previous year; the total revenues increased from Euro 31.9 million in 2006 to Euro 33.2 million. The revenue on 2007 included recognition in four projects in Hungary Karolina, Thokoly, Real Prop and Zold park and two projects in Poland in Wilanow (Robyg development) and MZM; compared to 2006 were we recognized in three projects in Hungary Thokoly, Real Prop and Zold park and one project in Poland in Wilanow (Robyg development).

The Group is recording revenues according IFRS rules and registering the revenues only when apartments are sold, completed and delivered; Nanette recorded revenues of €33.2 million, €18.1 million from the Hungarian activities, €15 million from its Polish activities and 0.1 million from other sources.

The gross profit of the year amounted to € 7.2 million (2006 € 6.3 million) and the operating profit € 6.4 million (2006 € 3 million).

The Company recorded a net financing income of € 7.6 million (2006 € 2.2 million). In addition, the Group recorded additional income of € 8.6 million capital gains from a partial sale to the Rothschild Fund and to LBREP of the Group's subsidiaries in Poland and in Romania.

The Company recorded € 5.1 million of fair value adjustments (2006 € 0) from an increase in value of its investment property in Hungary and Poland.

The Company recorded a pretax gain of € 22.6 million (2006 € 9.4 million); tax on income amounted to € 2.5 million (2006 € 1.1 million).

Nanette's net profit amounted to € 20.1 million, € 19.3 million attributed to equity holders of the parent and € 0.8 million to the minority (2006 € 8.4 million, € 7 million attributed to equity holders of the parent and € 1.3 million to the minority).

Total assets as at 31 December 2007 amounted to € 258.7 million compared to € 137.5 million at the end of 2006. This 88% increase in the total assets was mainly the result of (i) the significant increase in cash following the money the Company raised through the issue of shares in a total amount of € 47.6 million and issue of debentures in an amount of approximately € 38 million, (ii) the increase in inventory of land and housing units, (iii) the increase of land reserves and land for investment purposes, and (iv) the increase in loans raised from banks.

As at 31 December 2007 the shareholders' equity increased by 293% as a result of the new capital raised from share issuances and the year's profits.

Outlook 2008-9

The changes in the holding structure, the capital increase of 2007 and the fund raisings during 2007 and 2008, have positioned Nanette in a stable and strong position to overcome the coming challenges arising from the world financial crisis, Nanette intends to secure its investments into the various countries and monitor closely the developments in the financial markets and in the general economies in which it operates.

The company has a partnership in many of its subsidiaries with Lehman Brothers Real Estate Partners, ("LBREP"), which is a series of distinct and segregated private equity funds, funded by multiple partners, one of which is the US investment bank Lehman Brothers, which had declared during September 2008 that it is in the process of liquidation and disposal of its assets. LBREP is not being liquidated and is undergoing a process of finding a replacement for the Lehman Brothers' shares held in the funds.

The Board of Nanette would like to emphasize that all of the LBREP's funding obligations to the joint venture companies have been met for the entirety of 2008. At this stage Nanette does not expect that additional substantial investments shall be required in existing projects beyond the amounts which have already been secured in the cash flow and the amounts which have been invested.

Nanette is confident that LBREP, its funds and management team will continue to be a valuable partner in what has proved to be a mutually beneficial relationship over a number of years.

After reviewing the Company's performance we recommend the General Meeting of the Shareholders (GM) to adopt the annual accounts during the Extraordinary General Meeting of Shareholders (EGM) to be held in 2009.

RISK MANAGEMENT

General

Nanette's board of directors 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. The risk management activities form an integral part of it's day-to-day business and are aimed at ensuring effective and efficient operations, reliable financial reporting and compliance with laws and regulations.

In line with Nanette's decentralized management structure for its diversified businesses in various geographic areas, the management of the subsidiaries is responsible to ensure that their risk management and control systems are properly implemented. Managers at all levels have the responsibility for managing risks as an integral part of their day to day operations and decisions, monitoring control processes, performing risk assessments and executing action plans.

Nanette's board of directors is responsible for risk overview, supervision on financial reporting and approval of risk management objectives and strategy. The audit committee is responsible for monitoring activities and evaluating risk management performance.

Risk Management and Internal control systems

During 2007 Nanette appointed an internal auditor. The internal auditor had performed a survey and issued a report that included a four year audit plan to review and further assess the risks in the various countries, the audit committee and the board will observe and examine whether the internal controls are sufficient or whether additional control methods are required. Nanette is currently in the process of further implementing the various elements thereof and will offer the management of its subsidiaries the support to ensure that their respective risk management and control systems are implemented in line with these elements.

Risk Profile

Since a main element of Nanette's strategy is to invest in emerging markets, taking risks is a basic aspect of its businesses. To optimize the Group's overall risk profile, the Board of Nanette is continuously focusing on proper sector allocation, geographic diversification and proactive management involvement in the Group and its subsidiaries.

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

Macroeconomic Conditions

Nanette is a global company and being so it is subject to the different business risks associated with macroeconomic trends and events. Nanette operates in various sectors through its subsidiaries. The diverse nature of the business and distinctive competitive position may increase the risk factors. Nanette aims to reduce these risks but a substantial portion of its activities may still experience financial risks due to economic conditions, currency exchange rate and general market conditions.

Market – Political Risks

Nanette has subsidiaries in Poland, Hungary and after 31.12.2006 also in Romania, Croatia and in the Ukraine. These countries are emerging markets. These 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. Emerging markets have a different risk profile than the Western European region. Political and economic changes may impact the Group's activities there which may have a significant consequence on the financial positions of the Group. The Board is closely monitoring the activities in these markets in order to limit these risks.

Human Resources

The Group aims to retain highly specialized, professional and committed staff as much as possible in respect to the Board of Management, finance, legal advisors, administration, etc. Due to the strong, decentralized structure of the Group we intend to develop a highly structured Human Resource platform in order to address this issue properly. . The Group understands that human resources in general and strong local management in particular are critical to the future success of the Company.

Foreign Currency risk

Nanette Group conducts business in a variety of countries; a significant part of its assets, liabilities and results is sensitive to currency movements. Most of the subsidiaries that do not have the USD as measurement currency generally have an equity position that reflects their risk profile. Nanette presents its financial statements in Euro and its functional currency is the USD (as of 2008 the functional currency is Euro). On the translation of the shares into 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.

As of the date of the report, the remaining outstanding debentures are valued at approximately 275 million NIS (approximately 53 million Euro), linked to the consumer price index. .

At the end of 2008, the Company entered into a cross currency swap transaction for an amount of approximately 11 million Euro.

Interest rate risk

The Group's exposure to interest rate risks 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. Nanette aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible.

Liquidity Risk

The generation of sustainable cash-flow is pivotal for Nanette's strategy and value creation for all its shareholders. Nanette manages and generates cash-flows through issuance of shares, debentures, sales of parts of properties or companies and the day to day operations of its subsidiaries in the form of dividend payments and loan repayments.

Credit Risk

Receivables are monitored on an ongoing basis, resulting in the Group's exposure to bad debts being immaterial.

With respect to credit risk arising from the other financial assets of the Group, which comprise loans to cash equivalents and deposits, the Group's exposure to credit risk arises from default of the banks the company holds its cash and cash equivalent, the company works with well known and reliable banks and also spread the money in a few banks.

The credit risk relates of other financial assets is to the loans to joint ventures which are given In most cases by all partners in the project on pro-rata basis and to be repaid simultaneously to all partners. Hence no exposures for the company since in case of default of the project company the loan will be off-set against the liability to other partner and no loss will be recognized.

Acquisitions

In the pursuit of further acquisitions and investments, Nanette seeks a balance between organic and acquired growth within the limits of a conservative financial structure. In acquisitions, specifically in emerging markets, Nanette is faced with different cultures, political economic and social elements. This may affect corporate value, image and quality standards. Due to the risk factor that is present in every acquisition, a general and intensive due diligence is carried out before an acquisition is made. The main operational risks are related to the loss of ability to generate stable cash-flows, proper valuation procedure and risk associated with pipeline projects.

Financial Reporting

To ensure reliable financial reporting there are detailed accounting and reporting requirements specifying reporting time schedules and formats such as the IFRS compliance requirements. Nanette'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. External auditors also report on internal control issues. 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.

World Financial crisis

The ongoing crisis in the financial markets and the related worldwide recession could have an impact on property markets and property prices although its effects have not been uniform across all markets. As the global recession takes hold, its impacts on the various European and Global property markets will vary depending on many factors. These will include the size of the underlying markets, the extent of excessive capital growth in the past, diversification of tenant mix, general shape of the overall economy, reliance on the credit markets and investor mentality. These global factors contribute to instability and inactivity in real estate markets and could possibly have future negative consequences for the value of real estate assets and the results of the company due to: potential increases of real estate yields and therefore decreases in value of investment properties; worsening of occupier fundamentals and falling rents, impairment of goodwill and investments in associated companies; and impairment of financial instruments and other assets.

As of the 31.12.07 the carrying amount of our real estate investment property is EUR 18.4 Million. In determining the fair value of the investment property, the company hired a valuator which relied on comparable arm's length market transactions for similar properties.

As of the day of the report, the company doesn't expect a significant decrease in the value of the investment property of the company included in the report. Although Nanette at this moment does not encounter financing problems, due to the general market conditions in general and particularly due to the financial turmoil with lending banks, if the crisis dramatically worsens, Nanette is just like any other company, not immune.

Valuation of assets

Nanette realizes that the value of its investments may decline and cash-flow returns may not be optimized. Yield shifts in the market may have a strong effect on cash-flow generation as well. The valuation process is not an exact science but may very much depend upon in depth market expertise, professional judgment which is carried out with an extensive decision making process and the use of

appropriate valuation models. In order to asses risk management in regards to pipeline projects, Nanette strives to ensure close and regular monitoring of market transactions benchmark performance internally and externally and fair value accounting in the financial statements. Each year every property is valued, either by an independent valuer Valuations drawn up earlier in the year are updated if necessary to reflect the situation at year end.For the current year many appeasers have however been including a paragraph in its recent reports which advises that the reduced level of transactions and greater volatility in pricing means that less certainty should be attached to valuation opinions than would be the case in more stable times.

EVENTS SUBSEQUENT THE BALANCE SHEET DATE

a. Company Capital

1. In April 2008, the Company made market purchases of 650,000 Ordinary shares of the Company, representing approximately 0.38% of the issued share capital of the Company, at an average price of 65 pence per share. Following the abovementioned purchase, the equity were decreased by an amount of 527,000 Euro and the number of the Company's outstanding shares were decreased by 650,000 shares to 171,099,427.

2. On May 23, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 500,000 shares bringing the total number of shares to 171,599,427.

3. On July 01, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 200,000 shares bringing the total number of shares to 171,799,427.

b. Debenture

1. In June 2008, the Company issued on the Tel-Aviv Stock Exchange debentures (Series C), with a par value of approximately NIS 130 million (approximately € 25 million). The debentures bear interest at an annual rate of 8% and are linked (principal and interest) to the Israeli Consumer Price Index. The debentures mature in four equal annual installments commencing in June 2011 and ending in June 2014. The interest on the debentures is payable every six months. The carrying amount of the debentures is net of directly attributable transaction costs of approximately € 693 thousand.

The debentures are rated by Midrug Ltd., an Israeli rating agency which is affiliated with Moody's, at a local rating of A2.

2. As described in Note 12c to the 2007 annual financial statements, in the event of dividend distribution, the Company is obliged to make a purchase offer for the redemption of the outstanding debentures (series A), up to an amount equal to the amount of the dividend distribution, such that the par value of the remaining outstanding debentures on such date shall not be an amount between zero and NIS 3.2 million (€ 640 thousand).

3. As of the date of the report the Company has purchased its own Series B bonds on the Tel Aviv Stock Exchange, of par value of NIS 40 Million (Euro 7.8 millions) for the total consideration of NIS 11.9 million (Euro 2.3 Million Euro thousands)

4. As of the date of the report the Company has purchased its own Series C bonds on the Tel Aviv Stock Exchange, of par value of NIS 30.4 Million (Euro 5.9 millions) for the total consideration of NIS 14.6 million (Euro 2.9 Million Euro thousands)

c. Dividends

1. On July 21, 2008, the Board of Directors proposed a dividend payment of € 0.064 per share. The proposed dividend was approved by the Company's general shareholders meeting held on August 15, 2008 as describe in b. 2. The Company had to publish a "Purchase offer to the holders of debenture series A up to the level of the dividend (Euro 11 million) , The total number of debenture holder from serious "A" that agreed to this offer was 47,638,597 (app. Euro 9.5 millions).

d. Purchase of companies

1. In March 2008, the Company acquired 15% of the share capital of Olimpia Real Estate LLC (including 11% acquired from related party) for a consideration of approximately € 1, no goodwill was recorded as at the purchase date it's not yet commenced business activities. The Company also granted loans to Olimpia Real Estate LLC in the total amount of € 3.9 million. Olimpia Real Estate LLC is a Cyprus company that holds 100% of the shares of an Ukrainian company that is the owner of a plot of land in Kiev, Ukraine.

2. In the begining of 2009, the Company completed the purchase of an additional 15% of the share capital of Olimpia Real Estate LLC from Olimpia Euro Construction BV* for a consideration of approximately € 1, no goodwill will be record as at the purchase date it's not yet commenced business activities. The Company also granted loans to Olimpia Real Estate LLC in the total amount of 6 Million USD (4.3 Milio Euro) Olimpia Real Estate LLC is a Cyprus company that holds 100% of the shares of an Ukrainian company that is the owner of a plot of land in Kiev, Ukraine.

Following the purchase the Olimpia Real Estate LLC's shareholder structure is now:

Olimpia Euro 64%

Nanette 30%

Local partners 6%

* Value. 45% of Olimpia Euro is held by Olimpia Real Estate Ltd (Olimpia), a 32.3% share holder of Nanette. Mr. O. Kazenelson, Nanette's CEO is one of Olimpia's founding shareholders and serves as its president of the board, Mr. Ron Hadassi a non executive director in Nanette is the representative of the Bronfman-Fisher group which is part of the controlling group of Olimpia.

3. In April 2008, California signed a collaboration agreement with the owner of a plot of land of 1,400 sq. m which is located next to California's land. In accordance with the agreement the seller will be entitled to 49% of the profits from the entire project. California also signed another agreement with two owners of attached plots of land, with a total area of approximately 6,400 s.q. m for the consideration of approximately 17% of the sales from the project. California intends to construct a residential housing project on the total land area of approximately 9,200 sq. m consisting approximately 470 housing units, in a gross area of approximately 37,000 sq. m. The total estimated investment in the project is € 31.3 million and the company's estimated share in the sales from the project is € 41 million (the revenue is less the share of the other partners of approximately (17%) in the sales of the project). April 2008, the Company purchased, through a 90% Hungarian subsidiary (Taltoring Ingatlaforgalmazo Kft. ("Taltoring")), a 153,000 sq. m. plot in Budapest Hungary for a consideration of 1,870 million Hungarian Forint (approximately € 7.4 million) Since the Taltoring On the purchase date has not yet commenced business activities all the differences has been allocated to the investment property held by the Taltoring .

The company also granted shareholder loans to Taltoring in amount of 5,630 million Hungarian forint (approximately € 22.3 million). According to the agreement signed with the municipality, the owner of the remaining 10% interest in the subsidiary, the municipality has an option (put) to sell to the Company its entire interest in the subsidiary upon the approval of a new zoning plan for the plot, for a consideration of approximately € 2.2 million. The agreement also provides the Company with an option (call) to buy the municipality's interest at the same price. The put and call options may be exercised at any time during the period ending in April 2011. During December 2008 the Municipality exercise her Put option.

e. Disposal of companies

1. In June 2008, the company sold to AI Property Holdings LP (Hungary) ("Access") 50% of its interest (90%) in the Hungarian subsidiary Taltoring Ingatlaforgalmazo Kft. ("Taltoring) for a consideration of approximately €16,250 million. According to the agreement Access would provide shareholder loans in amount equivalent to the company shareholder loans. According to the agreement the company will be entitled for 30% of Access share in the profits once several conditions had been fulfilled among other an IRR above 25%..The sale of the shares were completed during July 2008 .

The company recognized a profit of 645 thousand Euro.

2. In June 2008 the company signed on a preliminary agreement according to which the company will transfer its share in Taltoring (45%) to a new company and will sell 45% of its share in the new company to Edr Real Estate (Estern Europe) S.C.A. ("Edr"), a company owned 100% by Rotshild Group for a consideration of € 337,500. According to the agreement Edr would provide to the new company shareholder loans in the amount of approximately € 7.5 million. Moreover, according to the agreement the company will be entitled for 30% of Access share in the profits once several conditions

had been fulfilled among other an IRR above 25%. The sale of shares were completed on the end of September 2008.

Subsequent to the completion of the above transactions, the company's share in the issued and outstanding share capital of Taltoring is 24.75% and the share of Access and Edr in the issued and outstanding share capital of Taltoring is 45% and 20.25%, respectively. The company recognized a profit of 623 thousand Euro.

f. Reorganization of the holdings of the Polish companies

In February 2008 the company purchased 14% of ROBYG S.A. for a consideration of approximately 40 thousands Euro. The purchase was the first stage of the reorganization.

In April 2008, the court approved the reorganization plan. Accordingly, the Company and Lehman each contributed their interests in all jointly-controlled Polish companies to a holding company (ROBYG S.A.) established for this purpose. In consideration of the contribution, the Company and Lehman received an equal number of shares of ROBYG S.A., thus retaining (indirectly) the joint ownership of the Polish companies. In addition, the collaboration agreement between the Company and Lehman was amended such that the decisions regarding entry into new projects will be agreed by the board of directors of ROBYG S.A. according to a regular majority, therefore the Company and Lehman do not have joint control of ROBYG S.A. Accordingly, commencing from the second quarter of 2008, the Company will include the accounts of ROBYG S.A. under the equity method and, consequently, the aforementioned Polish companies will no longer be proportionately consolidated.

In connection with the abovementioned reorganization, in April 2008, ROBYG S.A. acquired the operations of the company that provides management services to the Polish companies. The total consideration for the acquisition was € 9.5 million, of which € 3.5 million was paid in cash and the balance of the € 6 million is to be paid in three equal annual installments commencing April 2009 until April 2011.

g. Purchase of land

1. In July 2008, the Company purchased through a 100% subsidiary a 6,122 sq.m. plot, which is located in the 11th district of Budapest for a consideration of Euro 1.6 million. The plot is designated for residential use. The Group estimates it will build approximately 260 apartments in a area of approximately 15,000 Sq.m.

2. On September 8, 2008 the Company through a wholly owned subsidiary, it has signed a preliminary agreement to purchase a 3,24 hectare of free hold land, which is located in the 9th district of Budapest for the total consideration of app. Euro 17 million.

H. Financial Market Crisis

1. The ongoing crisis in the financial markets and the related worldwide recession could have an impact on property markets and property prices although its effects have not been uniform across all markets. As the global recession takes hold, its impacts on the various European and Global property markets will vary depending on many factors. These will include the size of the underlying markets, the extent of excessive capital growth in the past, diversification of tenant mix, general shape of the overall economy, reliance on the credit markets and investor mentality. These global factors contribute to instability and inactivity in real estate markets and could possibly have future negative consequences for the value of real estate assets and the results of the company due to: potential increases of real estate yields and therefore decreases in value of investment properties; worsening of occupier fundamentals and falling rents, impairment of goodwill and investments in associated companies; and impairment of financial instruments and other assets.

As of the 31.12.07 the carrying amount of our real estate investment property is EUR 18.4 Million. In determining the fair value of the investment property, the company hired a valuator which relied on comparable arm's length market transactions for similar properties.

As of the day of the report the company doesn't expect a significant decrease in the value of the investment property of the company included in the reprot.

Although Nanette at this moment does not encounter financing problems, due to the general market conditions in general and particularly due to the financial turmoil with lending banks, if the crisis dramatically worsens Nanette is just like any other company not immuum.

2. Nanette works in partnership with Lehman Brothers Real Estate Partners, ("LBREP") a series of distinct and segregated private equity funds, funded by multiple partners and not part of the Chapter 11 proceedings. As of the date of the report all LBREP's funding obligations to the joint venture companies have been met and the company doesn't have any indication LBREP won't meet their future funding obligations.

In the unlikely event that LBREP do not meet their future obligations, the Company will need to assess the impact of such event and evaluate its course of action.

Nanette Real Estate Group N.V.
Amsterdam, the Netherlands

Consolidated Financial Statements

For the year ended 31 December, 2007

NANETTE REAL ESTATE GROUP N.V.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007

EURO IN THOUSANDS

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CONSOLIDATED BALANCE SHEETS

Euro in thousands

	Note	December 31, 2007	December 31, 2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	70,905	5,511
Deposits	4	15,051	24,709
Trade and other receivables	5	13,336	8,088
Inventory of land and housing units	6	85,868	67,396
		185,160	105,704
NON-CURRENT ASSETS:			
Land	6	16,634	9,177
Investment property	7	18,402	6,749
Furniture and equipment	8	162	137
Other financial assets	10	35,298	14,415
Goodwill	11	2,302	1,141
Deferred tax asset	13c	708	223
		73,506	31,842
Total assets		258,666	137,546

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

CONSOLIDATED BALANCE SHEETS

Euro in thousands

	Note	December 31, 2007	December 31, 2006
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Interest-bearing loans and borrowings	12	29,844	34,464
Trade and other payables	14	22,598	11,081
Customer advances		22,194	19,637
		74,636	65,182
NON-CURRENT LIABILITIES:			
Interest-bearing loans and borrowings	12	91,546	35,853
Other liabilities	17	715	1,586
Deferred tax liability	13c	2,874	2,752
		95,135	40,191
Total liabilities		169,771	105,373
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital	16	3,435	2,660
Share Permium	16	67,415	20,524
Other reserves	16	58	3,221
Retained earnings		17,419	3,868
		88,327	30,273
Minority interests		568	1,900
Total equity		88,895	32,173
Total liabilities and equity		258,666	137,546

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

January 31, 2009			
Date of approval of financial statements	Shaul Lotan Chairman of the Board of Directors	Oscar Katzenelson Director and CEO	Ran Jacobs Director and CFO

CONSOLIDATED INCOME STATEMENTS

Euro in thousands (except per share data)

	Note	Year ended December 31, 2007	2006
Revenues		33,174	31,869
Cost of revenues		25,936	25,520
Gross profit		7,238	6,349
Fair value adjustment of investment property	7	5,122	-
		12,360	6,349
Marketing, general and administrative expenses	20	5,966	3,358
Operating profit		6,394	2,991
Finance costs	21	(16,034)	(3,602)
Finance income	21	23,654	5,835
Share of profit of an associate		-	-
Other income	22	8,621	4,216
Profit before taxes on income		22,635	9,440
Taxes on income	13d, 13e	2,555	1,079
Profit for the year		20,080	8,361
Attributable to:			
Equity holders of the parent		19,270	7,031
Minority interests		810	1,330
		20,080	8,361
Earnings per share attributable to equity holders of the parent (in Euro):	23		
Basic and diluted		0.12	0.06

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Euro in thousands

	Share capital (Note 16)	Share premium	Inventory (**) revaluation	Currency translation adjustments	Acquisition of minority interest	Investment in* associates	Retained earnings (accumulated deficit)	Total	Minority interests	Total equity
Balance at January 1, 2006	2,400	8,422	1,743	690	65	527	(1,721)	12,126	841	12,967
Currency translation differences	-	-	-	(1,246)	-	-	-	(1,246)	73	(1,173)
Profit for the year	-	-	-	-	-	-	7,031	7,031	1,330	8,361
Total recognized profit for 2006	-	-	-	(1,246)	-	-	7,031	5,785	1,403	7,188
Share-based compensation	-	275		-	-	-	-	275	-	275
Transfer of revaluation reserve upon disposal of inventory	-	-	(493)	-	-	-	493	-	-	-
Issue of share capital (see Note 16a6)	260	11,827	-	-	-	-	-	12,087	-	12,087
Dividend to minority interest	-	-	-	-	-	-	-	-	(12)	(12)
Disposal of subsidiary	-	-	-	-	-	-	-	-	32	32
Acquisition of subsidiary	-	-	-	-	-	-	-	-	4	4
Acquisition of minority interest	-	-	-	-	-	-	-	-	(368)	(368)
Reclassification according to statutory requirements(***)	-	-		-	-	1,935	(1,935)	-	-	-
	260	12,102	(493)	-	-	1,935	(1,442)	12,362	(344)	12,018
Balance at December 31, 2006	2,660	20,524	1,250	(556)	65	2,462	3,868	30,273	1,900	32,173
Currency translation differences	-	-	-	(4,735)	-	-	-	(4,735)	183	(4,552)
Profit for the year	-	-		-	-	-	19,270	19,270	810	20,080
Total recognized profit for 2007	-	-	-	(4,735)	-	-	19,270	14,535	993	15,528
Share-based compensation	-	47	-	-	-	-	-	47	-	47
Transfer of revaluation reserve upon disposal of inventory	-	-	(160)	-	-	-	160	-	-	-
Issue of share capital, net	775	46,844	-	-	-	-	-	47,619	-	47,619
Dividend paid	-	-	-	-	-	-	(4,037)	(4,037)	-	(4,037)
Dividend to minority interest	-	-	-	-	-	-	-	-	(576)	(576)
Sale of shares of subsidiaries	-	-	-	(110)	-	-	-	(110)	(161)	(271)
Acquisition of minority interest	-	-	-	-	-	-	-	-	(1,588)	(1,588)
Reclassification according to statutory requirements(***)			-	-	-	1,842	(1,842)	-	-	-
	775	46,891	(160)	(110)	-	1,842	(5,719)	43,519	(2,325)	41,194
	775	46,891	(160)	(4,845)	-	1,842	13,551	58,054	(1,332)	56,722
Balance at December 31, 2007	3,435	67,415	1,090	(5,401)	65	4,304	17,419	88,327	568	88,895

(*) including investment property revaluation.

(**) This amount relates to step up of an acquisition in which any adjustment to those fair values relating to interests of the acquirer is recognized in revaluation reserve.

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

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

CONSOLIDATED CASH FLOWS STATEMENTS

Euro in thousands

	Year ended December 31, 2007	Year ended December 31, 2006
Cash flows from operating activities:		
Profit for the year	20,080	8,361
Adjustments for:		
Non-cash:		
Depreciation	87	44
Finance costs	16,034	3,602
Finance income	(23,654)	(5,835)
Share-based compensation	47	275
Taxes on income	2,555	1,079
Gain on sale of interest in joint ventures and subsidiaries (Note 22)	(8,314)	(4,183)
Fair value adjustment of investment property (Note 7)	(5,122)	-
	(18,367)	(5,018)
Working capital adjustments:		
Increase in trade and other receivables	(8,670)	(3,009)
Increase in inventory of land and housing units	(43,733)	(20,768)
Increase in trade and other payables	9,504	12,934
Increase (decrease) in customer advances	12,012	(183)
	(30,887)	(11,026)
Interest paid	(4,607)	(2,121)
Interest received	9,686	242
Income tax paid	(2,500)	(725)
	2,579	(2,604)
Net cash used in operating activities	(26,595)	(10,287)
Cash flows from investing activities:		
Acquisition of subsidiaries, net of cash acquired (a)	(1,277)	(1,091)
Proceeds from disposal of interest in subsidiary, net (b)	(72)	2,739
Proceeds from sale of interest in subsidiary to minority shareholders	-	11
Proceeds (reduction in cash) upon sale of interest in jointly controlled entity	8,564	(1)
Acquisition of additional interest in proportionately consolidated company	(825)	(2,072)
Company proportionately consolidated for the first time (formerly an associate)	-	(2,654)
Acquisition of minority interest in subsidiaries	(5,497)	(2,306)
Loans granted, net	(2,609)	(2,627)
Restricted bank deposits, net	9,788	(13,492)
Purchase of land held as investment property	(5,744)	(12,474)
Purchases of furniture and equipment	(131)	(62)
Net cash provided by (used in) investing activities	2,197	(34,029)

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

CONSOLIDATED CASH FLOWS STATEMENTS

Euro in thousands

	Year ended December 31,	
	2007	2006
Cash flows from financing activities:		
Short-term loans, net	7,076	(726)
Issue of share capital, net of issue costs	47,619	12,087
Dividends paid to minority interest	(457)	-
Issue of debentures, net of issue costs	38,376	9,809
Repayments of debentures	(5,552)	-
Receipt of long-term loans	51,600	33,216
Repayments of long-term loans	(42,186)	(12,072)
Dividend paid (Note 27)	(4,037)	-
Net cash provided by financing activities	92,439	42,314
Effect of exchange rate changes on cash and cash equivalents	(2,647)	11
Increase (decrease) in cash and cash equivalents	65,394	(1,991)
Cash and cash equivalents at beginning of year	5,511	7,502
Cash and cash equivalents at end of year	70,905	5,511

Supplementary information on investing and financing activities not involving cash flows:

1. In December 2005, the Company issued share capital. The proceeds from the issue amounting to € 5,729 were deposited with a trustee and were included among other receivables in the balance sheet. In January 2006, the issue proceeds were received in cash.

2. As of December 31, 2007, subsidiaries had current liabilities of € 119, in respect of a dividend, which had been declared but had not yet been paid to the minority interests (2006 - € 11, 2005 - € 224).

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

CONSOLIDATED CASH FLOWS STATEMENTS

Euro in thousands

	Year ended December 31, 2007	Year ended December 31, 2006
(a) Acquisition of subsidiaries, net of cash acquired		
Assets and liabilities at date of acquisition:		
Working capital (excluding cash and cash equivalents)	(1,277)	(1,080)
Land	-	(1,202)
Long-term liabilities	-	161
Long-term receivables	-	1,034
Minority interests	-	(4)
	(1,277)	(1,091)
Proceeds from disposal of interest in subsidiary		
(b) Assets and liabilities at date of sale:		
Working capital (excluding cash and cash equivalents)	14,102	12,601
Investment properties	-	6,503
Long-term receivables	(15,030)	(11,014)
Fixed assets	-	5
Goodwill	121	70
Long-term liabilities	(657)	(9,501)
Minority interest	(161)	32
Investment in associate	-	947
Currency translation adjustment	110	-
Gain on disposal	1,443	3,096
	(72)	2,739

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

NOTE 1:- CORPORATE INFORMATION

Nanette Real Estate Group N.V. ('the Company') was incorporated in the Netherlands on September 6, 2000.

The Company is a limited liability company incorporated and domiciled in the Netherlands. The address of its registered office is Rapenburgerstraat 204, 1011 Mn Amsterdam, The Netherlands. The Company's shares are publicly traded on AIM in London. In addition, the Company has debentures outstanding which are registered for trading on the Tel-Aviv Stock Exchange.

The Company and its investee companies ("the Group") are engaged in the development, construction and sale of real estate housing projects in Hungary and Poland (see Note 25, for information on the Group's geographical segments). In 2007, the Company commenced to operate in Romania and in Croatia through a local subsidiary.

The Company's activities are carried out through unaffiliated management companies in Hungary and Poland that provide management and operating services to the Company. Those companies have entered into agreements with subcontractors for the execution and management of the projects and for supervision of execution. Additionally, affiliated companies (see Note 23a) provide management and inspection services to the Group. At the end of 2006, the Company set up a Hungarian subsidiary, which, as of the balance sheet date, is to provide construction services for two investee companies.

The statutory financial statements which comprise these consolidated IFRS financial statements and the company-only Dutch GAAP financial statements were authorized for issuance by the Board of Directors on January 31 2009. The company will convene a General Meeting for the approval of these reports.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union on the historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Euro and values are rounded to the nearest thousand (€000), except when otherwise indicated.

b. Basis of consolidation:

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

2. Subsidiaries are entities over which the Company has control. Subsidiaries are fully consolidated from the date on which the Group obtains control (see also j. below) and they continue to be consolidated until the date that control ceases.

   The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In a business combination achieved in stages, the increase in the fair value of the identifiable net assets relating to the interest held prior to the business combination is recognized as an asset revaluation surplus in equity.

All intercompany balances and transactions between Group companies included in the consolidated financial statements have been eliminated.

3. Commencing in 2006, transactions with minority interests are treated in the same manner as transactions with external parties. Sales to minority interests result in a gain or loss that is recognized in the income statement. Acquisition of minority shares at a cost which exceeds the carrying amount of the acquired net assets results in goodwill. In prior years, the Group applied a policy of treating transactions with minority interests as capital transactions. Accordingly, any difference from disposals of, or purchases from, minority interests, which were not at carrying value of the investment, was attributed directly to equity. The effect of this change in accounting policy on prior years is immaterial.

4. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

c. Changes in accounting policy and disclosures:

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial 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 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The Group has also early adopted IFRS 8 Operating Segments. The adoption of this Standard did not have any effect on the financial performance or position of the Group. It did however give rise to additional disclosures, including revisions to accounting policies.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 18.

IFRS 8 Operating Segments

This Standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary and secondary reporting segments of the Group. The Group determined that the operating segments were the same as the geographical segments previously identified under IAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in Note 26, including revised comparative information.

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. 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 as of January 1, 2007, which requires that an entity must not reverse an impairment loss recognized 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.

d. Significant estimates and assumptions:

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 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. The fair values are determined based on recent real estate transactions with similar characteristics and location to those of the company's assets. See additional information in note 7.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. See additional information in Note 11.

e. Functional currency:

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Until December 31, 2007, the functional currency of the Company was the U.S. dollar. At the end of 2007, the Company re-evaluated the factors used in determining its functional currency, including the currency in which the Company's revenues and its costs are denominated and settled. Based on this revaluation, the Company concluded that the Euro better reflects the primary economic environment in which the Company is now operating, and therefore, the Euro will be the Company's functional currency commencing in 2008. In accordance with IAS 21, The Effects of Change in Foreign Exchange Rates, the change in functional currency from the U.S. dollar to the Euro will be accounted for prospectively.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

f. Presentation currency:

The consolidated financial statements are presented in Euro. The Group chose the Euro as its presentation currency since it provides investors with more relevant information.

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a different functional currency from the presentation currency are translated into the presentation currency as follows:

a) Assets and liabilities for each balance sheet presented are translated at the closing rate at that balance sheet date;

b) Income and expenses for each income statement are translated at weighted average exchange rates; and

c) All resulting exchange differences are recognized as a separate component of equity.

When an entity is disposed of, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

g. Cash and cash equivalents:

Cash equivalents include cash in hand and deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Furniture and equipment:

Furniture and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. These assets are depreciated by the straight-line method over their estimated useful life (mainly three years).

i. Impairment of non-financial assets:

The Group assesses at each reporting date whether events or changes in circumstances indicate that an asset may be impaired. An impairment loss is recognized if the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

j. Business combinations and goodwill:

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

After 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 that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit 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 the Group acquires a business, embedded derivatives separated from the host contract by the acquire are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill in the last quarter of the year.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Inventories:

Inventories of housing units under construction are stated at the lower of cost and net realisable value.

Costs relating to the construction of inventory of housing units are including the following:
(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, planning and design costs, construction overhead and other related costs.

l. 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 costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognized 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 recognized in the income statement in the year of retirement or disposal.

m. Interest-bearing loans and borrowings:

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

n. Capitalization of borrowing costs:

Borrowing costs are accrued and expensed in the period in which they are incurred except to the extent they are directly attributed to construction. In such a case, borrowing costs are capitalized as part of the cost of the asset.

Borrowing costs include interest and foreign exchange differences to the extent that they are regarded as an adjustment to interest cost.
The Company capitalized interest costs to the investment of qualified assets.
Capitalization of borrowing costs starts on commencement of development and finishes when construction is substantially complete.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Debt issuance expenses are deducted from the amount of debt originally recognized. These costs are amortized through the income statement over the estimated duration of the loan, except to the extent that they are directly attributable to construction. Debt issuance expenses represent an adjustment to effective interest rates.

o. Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost less any allowance for impairment. An allowance for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of loans and receivables.

Impairment of financial assets

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

p. Derecognition of financial assets

A financial asset (or a part of financial asset from a group of similar financial assets, if relevant) is derecognized 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 pat them in full without material delay to a third party under a pass through arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either:

  1. has transferred substantially all the risks and rewards of the asset, or
  2. has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

q. Income tax:

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 substantively enacted by the balance sheet date.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which carry forward losses and deductible temporary differences can be utilized.

Deferred income tax liabilities are not recognized for taxable temporary differences associated *with investments in subsidiaries, associates and interests in joint ventures, where the timing of* the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset only if they relate to the same taxable entity and that entity has a legally enforceable right to offset those assets against the liabilities.

s. Revenue recognition:

1. Sale of housing units:

Revenue from sales of housing units is recognized when the significant risks and rewards of ownership have been passed to the buyer, it is probable that the economic benefits associated with the transaction will flow to the Company and provided that the Company has no further substantial obligations under the contract.

2. Interest income:

Interest income is recognized as interest accrues using the effective interest method.

t. Share-based payment transactions:

The Company applies the provisions of IFRS 2, Share-Based Payment. IFRS 2 requires an expense to be recognized where the Company buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares of rights over shares ("cash-settled transactions"). The main impact of IFRS 2 on the Company is the expensing of employees' and directors' share options (equity-settled transactions).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the instruments were granted. The fair values of Ordinary shares for the purpose of calculating the fair values of options and warrants were determined by management based on a number of factors, including external valuations.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The cost of equity-settled transactions is recognized, 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 become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

u. Derivative financial instruments:

The Group uses derivative financial instruments such as interest rate swaps. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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 are taken directly to profit or loss.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract, which is not measured at fair value through profit or loss, when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract. Embedded derivatives are recognized at fair value when any change in fair value is taken directly to profit or loss.

v. IFRSs and IFRIC Interpretations issued but not yet effective:

1. IFRS 5 (Revised) - Non-current Assets Held for Sale and Discontinued Operations:

Pursuant to IFRS 5 (Revised), when the parent company decides to sell part of its holdings in a subsidiary whereby following the sale, the parent company will maintain a percentage of holding that does not confer control, for example, rights entitling to significant influence, all the assets and liabilities attributed to the subsidiary will be classified as held for sale and the relevant provisions of IFRS 5 will apply, including presentation as discontinued operations. The amendment to IFRS 5 will be prospectively adopted starting from the financial statements for periods commencing on January 1, 2010. Early adoption is permitted.

The Company estimates that IFRS 5 (Revised) is not expected to have a material effect on its financial position, operating results and cash flows.

2. IAS 16 (Revised) - Property, Plant and Equipment:

Pursuant to IAS 16 (Revised), fixed assets used for rent and later routinely sold in the ordinary course of business will be classified as inventories when rental ceases and accordingly, their sale will be presented in the income statement as (gross) revenue and not merely as a (net) gain. Simultaneously, cash expensed, as cash received, in respect of an investment in such assets as above will be presented as cash flows from operating activities in the statement of cash flows rather than as cash flows from investing activities. The Standard will be retrospectively adopted starting from the financial statements for periods commencing on January 1, 2009. Early adoption is permitted.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company estimates that IAS 16 (Revised) is not expected to have a material effect on its financial position, operating results and cash flows.

3. IAS 19 (Revised) - Employee Benefits:

Pursuant to IAS 19 (Revised), a group of other long-term benefits will also comprise employee benefits to which entitlement is established in a short period of time but whose expected utilization date occurs over one year from the period qualifying for the benefits, such as cumulative benefits in respect of vacation pay and sick leave that are expected to be utilized in the period exceeding one year subsequent to balance sheet date. Accordingly, these benefits are now required to be recognized in the financial statements based on an actuarial calculation given future salaries and as discounted to present value. The Standard will be retrospectively adopted starting from the financial statements for periods commencing on January 1, 2009. Early adoption is permitted.

The Company estimates that IAS 19 (Revised) is not expected to have a material effect on its financial position, operating results and cash flows.

4. IAS 20 (Revised) - Accounting for Government Grants and Disclosures of Government Assistance:

Pursuant to IAS 20 (Revised), a loan received by a company from the State at no interest or at an interest lower than market interest will be accounted for upon initial recognition and in subsequent periods pursuant to the provisions of IAS 39, "Financial Instruments: Recognition and Measurement". Accordingly, the loan will be initially measured at fair value discounted according to market interest. The difference between the loan amount received and the fair value will be accounted for as a Government grant according to the provisions of the Standard. The Standard will be prospectively adopted starting from the financial statements for periods commencing on January 1, 2009 for Government loans received subsequent to that date. Early adoption is permitted.

The Company estimates that IAS 20 (Revised) is not expected to have a material effect on its financial position, operating results and cash flows.

5. IAS 28 (Revised) - Investment in Associates:

Pursuant to IAS 28 (Revised), the test of impairment of an investment in an associate will be carried out with reference to the entire investment. Accordingly, a recognized impairment loss will not be specifically attributed to goodwill included in the investment but rather attributed to the investment as a whole and therefore, the entire impairment loss recognized in the past may be reversed provided that the relevant conditions are met. The Standard may be adopted retrospectively or prospectively starting from the financial statements for periods commencing on January 1, 2009. Early adoption is permitted.

The Company estimates that IAS 28 (Revised) is not expected to have a material effect on its financial position, operating results and cash flows.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

6. IAS 38 (Revised) - Intangible Assets:

Pursuant to IAS 38 (Revised), expenses incurred from advertising, marketing or sales promotion activities will be recognized as an expense when the Company maintains access to the advertising products or when the service for these activities is rendered to the Company. For these purposes, the activities also include production of catalogs and promotional pamphlets. The revised Standard also eliminates the assumption that the amortization of an intangible asset with a definite useful life manufactured under the manufacture unit method is rarely, if at all, lower than using the straight-line method, thereby allowing the amortization according to manufactured units without said restriction. The Standard will be adopted retrospectively starting from the financial statements for periods commencing on January 1, 2009. Early adoption is permitted.

The Company estimates that IAS 38 (Revised) is not expected to have a material effect on its financial position, operating results and cash flows.

7. IAS 40 (Revised) - Investment Property:

Pursuant to IAS 40 (Revised), investment property under construction or under development for future use as investment property will also be accounted for as investment property when the fair value model is applied and can be measured reliably.

The Standard will be adopted prospectively starting from the financial statements for periods commencing on January 1, 2009. Early adoption is permitted.

The Company estimates that IAS 40 (Revised) is not expected to have a material effect on its financial position, operating results and cash flows.

8. IFRS 1 (Revised) - First-time Adoption of IFRS and IAS 27 (Revised) - Consolidated and Separate Financial Statements:

Pursuant to the amendments to these Standards, an exemption has been added with respect to the retrospective adoption of IFRS in the opening balance sheet pursuant to IFRS 1 on the date of transition to first-time IFRS reporting in a company's separate financial statements. According to this exemption, in these financial statements, the cost of investment in subsidiaries, jointly controlled entities and associates may also be determined, other than at historical cost or fair value, at deemed cost based on the carrying amount of the investment as presented according to previous generally accepted accounting principles, namely, at equity. The election may be adopted for each investment individually. Furthermore, dividends in respect of investments in companies as above will be recognized in the separate financial statements as revenue regardless of whether they had been distributed in respect of earnings retained prior or subsequent to the date of purchase of the investment. The Standard will be adopted in the separate financial statements as above with the date of transition being January 1, 2008 or thereafter. Early adoption is permitted. The amendments to the Standards have no effect on the consolidated financial statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

9. 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 Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.

10. IFRIC 15 - Agreements for the Construction of Real Estate:

IFRIC 15 ("the Interpretation") establishes rules for distinguishing between agreements for the construction of real estate under the scope of IAS 11 and similar agreements under the scope of IAS 18. When an agreement is specifically held for the construction of a property or a combination of properties where the buyer has the ability to determine the specifications and changes therein, the agreement falls under the scope of IAS 11. Accordingly, revenue will be recognized using the percentage of completion method. However, when the buyer may not determine the specifications or has limited involvement, the agreement is for the sale of real estate and therefore under the scope of IAS 18. The Interpretation applies to annual financial statements for periods commencing on January 1, 2009 or thereafter and will be adopted retrospectively. Early adoption is permitted.

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

11. IFRIC 16 - Hedges of a Net Investment in a Foreign Operation:

IFRIC 16 ("the Interpretation") prescribes that a risk in respect of changes in foreign currency exchange rate in relation to the company's presentation currency cannot be hedged unless it relates to the company's functional currency. Moreover, a risk in respect of changes in foreign currency exchange rate in relation to the functional currency of any subsidiary in the Group can be hedged even if that subsidiary is indirectly controlled by another Group member. The Interpretation also prescribes that the hedging instrument may be held by any Group member. The Interpretation applies to annual financial statements for periods commencing on January 1, 2009 or thereafter. Early adoption is permitted.

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

NOTE 3:- CASH AND CASH EQUIVALENTS

	December 31, 2007	December 31, 2006
Cash at banks and in-hand	37,650	3,103
Short-term deposits	33,255	2,408
	70,905	5,511

NOTE 4:- DEPOSITS

	December 31, 2007	December 31, 2006
In Polish Zloty (1)	4,625	3,903
In Euro (2)	441	245
In Hungarian Forint (3)	9,985	19,284
In U.S. dollars	-	1,277
	15,051	24,709

The deposits are pledged to secure credit facilities granted to the Group and construction cost financing of the Group.

(1) Interest in respect of these deposits for the year ended December 31, 2007 is fixed at 0.6 %.

(2) Interest in respect of these deposits for the year ended December 31, 2007 is based on EONIA with a margin of 0.4%. The rate of the EONIA as of December 31, 2007 is 3.916%.

(3) Interest in respect of these deposits for the year ended December 31, 2007 is based on BUBOR per month with a margin of 0.5% - 0.65%. The rate of the BUBOR as of December 31, 2007 is 7.5%.

NOTE 5:- TRADE AND OTHER RECEIVABLES

	December 31, 2007	December 31, 2006
Trade receivables	1,537	2,734
Prepaid expenses	745	416
Related parties (Note 24b)	-	550
Government authorities	8,337	2,718
Payment on account of purchase of land	1,750	1,308
Advances to suppliers	818	133
Other	149	229
	13,336	8,088

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Euro in thousands, except share and per share data

NOTE 6:- INVENTORY OF LAND AND HOUSING UNITS

a. Composition:

	December 31, 2007	December 31, 2006
Land and construction costs	97,756	72,410
Capitalized borrowing costs	4,746	4,163
	102,502	76,573

b. Presentation:

	December 31, 2007	December 31, 2006
Current	85,868	67,396
Non-current (*)	16,634	9,177
	102,502	76,573

(*) Land on which construction is not intended to begin before the end of the Company's current operating cycle.

c. The movement during the year:

	December 31, 2007	December 31, 2006
Opening balance at January 1,	76,573	43,663
Additional costs capitalized during the year	70,734	46,780
Disposal of subsidiaries	(27,330)	(16,290)
Acquisition of subsidiaries	5,533	27,965
Increase in jointly controlled entity	-	3,118
Credited to the income (loss) statement	(25,936)	(25,520)
Currency translation differences	2,928	(3,143)
Closing balance at December 31,	102,502	76,573

As for pledges, see Note 15b.

The main projects included in the inventories are as follows:

Country	Project	Costs	Details
Poland	Willanow	24,584	Residential project in Warsaw
Poland	Wlodazewska	7,010	Residential project in Warsaw
Hungary	Foodex	6,135	Residential project in Budapest
Hungary	Immo prop	5112	Residential project in Budapest
Hungary	Thokoly	7,915	Residential project in Budapest
Poland	Zoliborz	10,397	Residential project in Warsaw
Poland	Morena	7,943	Residential project in Warsaw
Poland	Robyg Willanow II	10,216	Residential project in Warsaw
Romania	Nanette City Gate	3,796	Residential project in Bucharest
Romania	Nanette Bucharest	3,267	Residential project in Bucharest

As of December 31, 2007 advances from customers amounted to € 22,194 (2006 - € 19,637). The advances are presented as short term since they will offset during the Company's operational circle.

NOTE 7:- INVESTMENT PROPERTY

	December 31,	
	2007	2006
Opening balance at January 1,	6,749	-
Additions:		
Land cost	5,744	11,722
Additional costs	-	752
Fair value adjustment	5,122	-
Currency translation differences	787	778
Disposal	-	(6,503)
Closing balance at December 31,	18,402	6,749

(1) During the second half of 2006, Gondola Haz KFT, a jointly controlled entity (50%), purchased land in Budapest, Hungary for an amount of 11,722 . The management of Gondola Haz KFT designated the land as investment property. The jointly controlled company adjusted the fair value of the land as of December 31, 2007, based on a valuation performed by King Sturge Ltd., an industry specialist in valuing such type of properties. The fair value represents the amount at which the asset could be exchanged between a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards. In determining the fair value of the investment property, the valuator relied on comparable arm's length market transactions for similar properties. The Company's share of the income from the fair value adjustment for the year ended December 31, 2007 amounted to € 1,307.

(2) During the first quarter of 2007, ROBYG Palacowa S.p.z.o.o., a jointly controlled entity (50%), purchased vacant land comprising 42 hectares in Gdansk, Poland for a consideration of approximately € 17 million (the Company's share - € 8.5 million). The management of ROBYG Palacowa S.p.z.o.o. designated approximately two-thirds of the land (€ 11.3 million, the Company's share - € 5.7 million) as investment property which it intends to hold for long-term capital appreciation. The balance of the land is designated as inventory intended for sale in the ordinary course of business. The Company adjusted the fair value of the land as of December 31, 2007, based on a valuation performed by Knight Frank Ltd., an industry specialist in valuing such type of properties. The fair value represents the amount at which the asset could be exchanged between a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards.

In determining the fair value of the investment property, the valuator relied on comparable arm's length market transactions for similar properties. The Company's share of the income from the fair value adjustment for the year ended December 31, 2007 amounted to € 3,815.

NOTE 8:- FURNITURE AND EQUIPMENT

	Total
Cost:	
Balance as of January 1, 2006	35
Acquisitions during the year	62
Company proportionately consolidated for the first time (formerly, an associate)	94
Sale of interest in subsidiary	(5)
Currency translation differences	1
Balance as of December 31, 2006	187
Acquisitions during the year	131
Sale of interest in subsidiary	(10)
Currency translation differences	(4)
Balance as of December 31, 2007	304
Accumulated depreciation:	
Balance as of January 1, 2006	6
Provision during the year	44
Balance as of December 31, 2006	50
Provision during the year	87
Sale of interest in subsidiary	(2)
Currency translation differences	7
Balance as of December 31, 2007	142
Depreciated cost as of December 31, 2007	162
Depreciated cost as of December 31, 2006	137

NOTE 9:- INTEREST IN PROPORTIONATELY CONSOLIDATED ENTITIES

The Group's share of the assets, liabilities, income and expenses of the proportionately consolidated entities at December 31, 2007 and 2006 and for the years then ended (see Appendix), which are included in the consolidated financial statements are as follows.

	December 31,	
	2007	2006
Balance sheet:		
Current assets	64,669	59,990
Non-current assets	25,965	9,192
	90,634	69,182
Current liabilities	(33,678)	(35,075)
Non-current liabilities	(27,811)	(14,140)
	(61,489)	(49,215)
	29,145	19,967

NOTE 9:- INTEREST IN PROPORTIONATELY CONSOLIDATED ENTITIES (Cont.)

	Year ended December 31,	
	2007	2006
Income statement:		
Revenues	7,570	8,216
Cost of revenues	(5,634)	(6,002)
Fair value adjustment of investment property	5,122	-
Marketing, general and administrative expenses	(763)	(288)
Finance costs	(2,645)	(634)
Finance income	1,063	753
Taxes on income	2,376	607
Net profit	2,337	1,438

NOTE 10:- OTHER FINANCIAL ASSETS (NON-CURRENT)

	December 31,	
	2007	2006
Loans to related parties (1)	35,298	11,616
Other (2)	-	2,799
	35,298	14,415

(1) For terms and conditions relating to loans to related parties, see Note 24.

(2) In August 2006, a jointly controlled company provided a loan to a shareholder of that company (Company's share of that loan - € 2,036). The loan bears interest at the rate of Euribor (three months) and is payable together with principal repayment on December 31, 2015. In 2007, the jointly controlled company declared a dividend, which was offset from the loan. The balance of the loan, as of December 31, 2007, is presented in loans to related parties and amounted to € 835. The rate of the Euribor as of December 31, 2007 is 4.68% (2006 - 3.73%). In 2007, the shareholder of the jointly controlled company became a shareholder of the Company.

NOTE 11:- GOODWILL

a. Cost:

	Total
At January 1, 2006	-
Acquisition of minority interests (Note 25a)	1,211
Disposal of interest in subsidiary (Note 22a)	(70)
At December 31, 2006	1,141
Acquisition of minority interests (Note 25b)	1,268
Disposal of interest in subsidiary (Note 22a(2))	(121)
Currency translation differences	14
At December 31, 2007	2,302

NOTE 11:- GOODWILL (Cont.)

b. Impairment testing of goodwill:

Goodwill acquired through the acquisition of minority interest has been allocated to individual cash-generating units, for impairment testing, as follows:

Carrying amount of goodwill allocated to each of the cash-generating units:

	Carrying amount of goodwill	
	2007	**2006**
ROBYG Development Sp.Z.o.o.	1,089	452
ROBYG Park Sp.Z.o.o.*	130	243
Immo Prop. Kft.*	223	-
Thokoly Udvar Kft.*	279	271
Foodex 2003 Kft.*	406	-
Real Prop House Kft.	175	175
	2,302	1,141

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections from budgets approved by senior management. The budgets are based on past experience and cover periods of up to four years and doesn't include any growth after the budget period. The pre-tax discount rates applied to cash flow projections range from 12%-15%.
As of the date of the financial statements there is no impairment of goodwill recorded as at December 31 2007. In 2008 the goodwill of the projects immo prop.Kft , Thokoly Udvar Kft, Foodex 2003 Kft and Robyg park Sp.Z.o.o. decreased due to the completion of those projects. No impairment of goodwill recorded of the projects listed above as at December 31, 2007.

NOTE 12:- INTEREST-BEARING LOANS AND BORROWINGS

a. Current:

		December 31,	
	Note	**2007**	**2006**
Short-term loans:			
Related parties (in Euro)	24	3,849	-
Bank (in Euro)		1,612	-
		5,461	-
Current maturities of long-term loans from:			
Banks		9,322	24,922
Global Europe Investment ("the Fund")	c(1)	2,223	1,281
Related parties	24	7,128	5,515
Debentures	c(2)	5,431	2,746
Others		279	-
		24,383	34,464
		29,844	34,464

NOTE 12:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

b. Non-current:

	Note	December 31, 2007	December 31, 2006
Banks		50,321	35,935
Global Europe Investment ("the Fund")	c(1)	2,223	3,949
Related parties	24	10,603	-
Others		775	11,211
Debentures	c(2)	52,007	19,222
		115,929	70,317
Less - current maturities		24,383	34,464
		91,546	35,853

c. Additional details:

1. The loans from the Fund are denominated in U.S. dollars and bear interest at a rate of 8% per annum. In addition, the Fund is entitled to participate in the profits from real estate projects in Poland and Hungary, at rates that progress from 10%-20% of the after-tax income according to the level of profits. The right to participate in the projects' profits is accounted for as a derivative and recognized in the financial statements at fair value (see Note 17). The fair value was calculated using discounted cash flow ("DCF") projections. The DCF projections take into account estimated net future cash flows, and use discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. As of December 31, 2007, the discount rate used was 15%.

2. a) In July 2005, the Company issued on the Tel Aviv Stock Exchange, debentures (series A) with a par value in New Israeli Shekels (NIS) equivalent in amount to $ 12,042,917 (€ 10,045 on the date of issue). The debentures are linked (principal and interest) to the exchange rate of the U.S. dollar (the minimum base rate is NIS 4.567 per 1 U.S. dollar) and bear dollar-linked interest at the annual rate of 8%. The debentures mature in 7 equal semi-annual installments commencing on June 30, 2007 until June 30, 2010.

   The interest on the debentures is payable every three months, starting from September 30, 2005. The carrying amount of the debentures of € 642 is net of directly attributable transaction costs.

   b) On August 15, 2006, the Company issued to institutional investors debentures (series A) with a par value in NIS equivalent in amount to $ 12,478,997 (€ 9,846 on the date of issue). This issue is an extension of series A which the Company issued in July 2005 as described in (a) above and is under the same conditions as the original issue. The debentures were issued at a discount of € 98.

NOTE 12:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

c) In June 2007, the Company issued to institutional investors debentures (series B) with a par value in New Israeli Shekels (NIS) of approximately NIS 214 million (€ 38,000). The debentures are rated by Maalot, an Israeli rating agency which is affiliated with Standard and Poor's, at a local rating of A1/Stable (the current rating is BBB Negative). An Israeli affiliate of Moody's, Midrug Ltd., rated the debentures as A2. The debentures bear interest at an annual rate of 5.5% and are linked (principal and interest) to the Israeli Consumer Price Index. After the Company registerd these debentures in June 2008, the interest was decreased by 0.65% to 4.85%.

The interest on the debentures is payable every six months, starting in December 2007, and the principal will be paid in four equal annual installments starting in June 2012.

The carrying amount of the debentures is net of directly attributable transaction costs of € 290.

d) The Company has made various undertakings to the trustee of the debentures ("the trustee"), including a commitment to comply with the following covenants:

1) In the event of the delisting of the debentures, in accordance with the Stock Exchange's capital maintenance rules, the holders of the debentures shall be entitled to early redemption at the par value of the debentures with the addition of linkage differences and interest on the principal.

2) In the event of a dividend distribution, the Company shall be obligated to make a purchase offer for the redemption of the outstanding debentures (series A), up to an amount equal to the amount of the dividend distribution, such that the value of the remaining outstanding debentures at such date shall not be less than NIS 3.2 million (€ 588).
Following the dividend distributions (see Note 27), purchase offers were made and the Company received acceptance notices for an immaterial amount of debentures.

3) The trustee shall be entitled to call for the immediate redemption of all the unpaid balance of the debentures in the event that the Company's equity falls below € 4,800, according to the most recent audited or reviewed financial statements of the Company, unless the Company and/or the shareholders supplement or exceed said amount within 60 days of the trustee's notification of his intention to call for the immediate redemption of the debentures.

As of the date of signing these financial statements report the Company is in compliance with all of the bank's covenants:

NOTE 12:- INTEREST-BEARING LOANS AND BORROWINGS (Cont.)

d. The long-term borrowings, excluding debentures, may be classified by currency of repayment, linkage terms and interest rates, as follows*:
* The table in Note 18 (d) includes also debentures and contractual undiscounted payments.

	Weighted average effective interest	December 31,	
	2007	2007	2006
	%		
Banks:			
Hungarian Forint (2)	5.54	20,166	20,598
Euro (3)	5.89	6,856	4,324
Polish Zloty (4)	6.75	23,299	11,013
		50,321	35,935
Others:			
US Dollars(1)	7.22	299	9,785
Hungarian Forint (2)	6.24	1,549	-
Euro (3)	7.68	248	1,165
Polish Zloty (4)	8.1	9,282	261
		11,378	11,211
Global Europe Investment:			
US Dollars(1)	8.00	2,223	3,949
		63,922	51,095

(1) See c(1) above.

(2) Interest in respect of these loans for the year ended December 31, 2007 is either fixed at 6% - 8% (2006 - 4.5%) or based on BUBOR with a margin of 1.6% or linked to the 3-months average yields of the government bonds with a margin of 1.5% - 1.65% (2006 - fixed at 4.5% or linked to the 3-months average yield of the government bonds with a margin of 1.65% - 1.8%). The rate of the BUBOR as of December 31, 2007 is 7.5% (2006 - 8.5%). The contractual repricing date is up to one month (2006 - up to six months).

(3) Interest in respect of these loans for the year ended December 31, 2007 is based on EURIBOR with a margin of 1.5% - 3% (2006 - EURIBOR with a margin of 1.5% - 3.5%). The rate of the EURIBOR as of December 31, 2007 is 4.29% (2006 – 3.73%). The contractual repricing date is up on six months.

(4) Interest in respect of these loans for the year ended December 31, 2007, is based on WIBOR with a margin of 1.5% - 3%(2006 1.5%-2.3%). The rate of the WIBOR as of December 31, 2007 is 5.1% (2006 - 4.12%).

e. As for collateral, see Note 15b.

NOTE 13:- TAXES ON INCOME

a. Tax rates applicable to income:

The Company and its subsidiary in the Netherlands are assessed for tax purposes under Dutch tax laws and are liable to corporate income tax at the rate of 25.5% (2006 - 29.6%).

Subsidiaries that are incorporated outside the Netherlands are assessed for tax purposes under the tax laws in their countries of residence. The principal tax rates applicable to subsidiaries outside the Netherlands are as follows:

Poland - corporate income tax rate of 19% (2006 - 19%).

Hungary - corporate income tax rate of 16% (2006 - 16%). In 2006, the law in Hungary was changed such that from September 1, 2006, companies are subject to a special tax at the rate of 4% of the profit for financial reporting purposes, adjusted for dividends received and contributions made. Commencing in 2007, capital gains can be income tax exempt provided that certain criteria are fulfilled.

Romania - corporate income tax rate of 16%.

b. Losses for tax purposes carried forward to future years:

Carry forward tax losses amounted to € 9,168 at December 31, 2007 (2006 - € 3,830).

Deferred income tax assets are recognized for carry forward tax losses to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of € 2,515 (2006 - € 260)* in respect of losses and other temporary differences that can be carried forward against future taxable income.

* The amount in 2007 includes the difference between the estimate regarding tax losses for 2006 and the final tax report for 2006.

c. Deferred income tax:

1. Composition:

	December 31,	
	2007	2006
Deferred tax liability	(2,874)	(2,752)
Deferred tax assets	708	223
	(2,166)	(2,529)

NOTE 13:- TAXES ON INCOME (Cont.)

2. The movement in deferred tax assets and liabilities during the year is as follows:

	Inventory of land and housing units	Foreign exchange differences on loans	Investment property	Tax losses	Other	Total
Balance at January 1, 2006	(137)	(99)	-	200	129	93
Credited (charged) to the income (loss) statement	(789)	(219)	-	81	(29)	(956)
Disposal of subsidiaries	-	103	-	(64)	(73)	(34)
Increase to jointly controlled entity	(1,289)	(9)	-	-	(193)	(1,491)
Acquisition of subsidiary (Note 24)	(116)	-	-	-	-	(116)
Exchange differences	38	28	-	(56)	(35)	(25)
Balance at December 31, 2006	(2,293)	(196)	-	161	(201)	(2,529)
Credited (charged) to the income (loss) statement	1,257	(22)	(934)	335	(13)	623
Disposal of subsidiaries	-	76	-	(42)	2	36
Acquisition of additional interest in jointly controlled entity	(195)	-	-	4	-	(191)
Exchange differences	(34)	(51)	(42)	10	12	(105)
Balance at December 31, 2007	(1,265)	(193)	(976)	468	(200)	(2,166)

d. Taxes on income included in the income statements:

	Year ended December 31,	
	2007	2006
Current	3,178	123
Deferred	(623)	956
	2,555	1,079

NOTE 13:- TAXES ON INCOME (Cont.)

e. Theoretical tax reconciliation:

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to all companies (see a. above) and the actual tax expense:

	Year ended December 31,	
	2007	2006
Profit before income taxes	22,635	9,440
Theoretical tax expense in respect of the profit or loss - at 25.5% (2006 - 29.6%)	5,772	2,794
Increase (decrease) in taxes resulting from:		
Share of profit of associates taxed at the associates level	-	-
Prior year tax losses utilized during the year for which no deferred taxes were recorded	-	-
Current year tax losses for which no deferred tax asset was recognized	1,496	210
Different tax rates applicable to foreign subsidiaries	(508)	(595)
Non-deductible expenses	364	43
Non-taxable income	(4,649)*	(1,327)
Other	80	(46)
Income tax expense	2,555	1,079

* This includes the gain on sale of interests in subsidiaries and joint ventures and the impact of the difference between the functional currency in the stand alone financial statement of Nanette which is in dollars as compared with the functional currency in the tax reports which is the Euro.

f. Tax assessments:

The Company and its subsidiaries have not been assessed for tax purposes since incorporation.

NOTE 14:- TRADE AND OTHER PAYABLES

	December 31,	
	2007	2006
Trade	12,832	7,511
Interest payable	702	909
Government authorities	1,224	1,026
Related parties (Note 24)	96	7
Accrued expenses	922	1,093
Deferred income (*)	5,018	-
Interest rate swap derivative	-	393
Dividend payable to minority shareholders	119	11
Other **	1,685	131
	22,598	11,081

NOTE 14:- TRADE AND OTHER PAYABLES (Cont.)

*) In November 2007, the Company sold its wholly-owned subsidiary in Piekarniza Sp.z.o.o., to a jointly controlled company, Robyg Morena Sp.z.o.o. The consideration in respect of this sale was

recorded as a long-term loan in the accounts of the Company. Since the collection of the loan is dependent upon future funds to be received in connection with vacant land held by Piekarniza Sp.z.o.o., the Company has deferred the recognition of the gain on the sale until the loan is collected.

**) A government authority in Poland decided to increase the annual lease fees paid by certain subsidiaries of the Company to approximately 5.2 million Polish zloty (€ 1.5 million). The subsidiaries filed appeals against the authority's decision. In the opinion of the Company, the prospects of the appeal to prevail are low. Accordingly, a provision for the above amount was included.

NOTE 15:- COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES

a. As of December 31, 2007, the Group has purchase commitments in respect of Group companies and construction projects amounting to approximately € 4,956.

b. Contingent liabilities, guarantees and pledges:

1. The balances of the secured liabilities and guarantees of the Group are as follows:

	December 31,	
	2007	2006
Liabilities:		
Long-term loans and other liabilities (including current maturities) *)	52,646	40,932
Guarantees **)	27,324	2,662

*) The Group companies have made an undertaking to the banks not to repay shareholders' loans until the loans to the banks have been repaid.

**) The Company guaranteed the bank loan of the jointly controlled entity and received guarantees from another investor regarding its share of the loan.

2. To secure the aforementioned liabilities and guarantees, the Company and the subsidiaries registered fixed charges on lands, share capital in subsidiaries and the Company's share capital, as well as floating charges on the assets.

3. The registration of the transfer of ownership in certain lands has yet to be completed.

4. In 2007, a subcontractor of the Hungarian subsidiary's chief subcontractor filed a claim against the subsidiary, alleging that the payment for commodities and services supplied was not received. The estimated payout is € 940, should the claim be successful.

The Company has been advised by its legal counsel that it is possible, but not probable, that the action will succeed and, accordingly, no provision for any liability has been made in these financial statements.

NOTE 15:- COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES (Cont.)

5. As of December 31, 2007 and 2006, subsidiaries have short-term deposits in banks of € 15,051 and € 24,769, respectively, which are restricted solely for the repayment of loans to the bank or the advancement of construction projects.

6. Collaboration agreements with Lehman:

   In October 2006, a collaboration agreement was signed with Lehman Brothers Real Estate Partners L.P. ("Lehman"), which is based on a memorandum signed at the end of

   2005. The agreement provides for the right of Lehman to participate in any of the Company's real estate projects in Poland, Hungary and Romania and includes a mechanism for distribution of earnings, according to which the Company is entitled to receive earnings exceeding its interest in the projects if the yield on the investment in the project exceeds an internal rate of return of 20%.

   In October 2007, the Company signed a memorandum of understandings with Lehman to reorganize the ownership and operations of jointly controlled entities in Poland.

   The restructuring of the Polish operations will include the contribution by the Company and by Lehman of all jointly controlled Polish companies into a newly established company (ROBYG S.A.), as well as the purchase of the operations of the management company of the Polish subsidiaries. This restructuring plan was approved by the court on the 22 of April.2008.

   In addition, Lehman has agreed conditionally to purchase from the Company for a consideration of € 26,000, the Company's right to receive earnings in excess of its interest in projects with Lehman. The purchase is conditional on the floatation of ROBYG S.A. on the Warsaw Stock Exchange by August 2009(original date was August 2008, due the postponement of ROBYFG SA offering the date was changed) at a valuation of at least a certain amount. If the floating is successful, the consideration will be paid to the Company in the form of ROBYG S.A shares equivalent to € 26,000.

7. In November 2006, the Company acquired a subsidiary which holds 50% of a company established jointly with a local municipality in Budapest ("the Municipality") for a consideration of up to 840 million Hungarian Forint (approximately € 3,230).

   According to the agreement between the subsidiary and the Municipality, the Municipality shall transfer to the jointly owned company land with a total area of about 154 thousand sq.m., and the subsidiary is to pay the above consideration as the land is transferred.

   The subsidiary has undertaken to provide financing in the amount of approximately 1,323 million Hungarian Forint (approximately € 5, million) for the development of a residential building project. The financing will be made available as the land is transferred to the jointly owned company. As of the balance sheet date, the Municipality had transferred to the jointly owned company land comprising about 28 thousand sq.m., and the Company had provided financing of approximately € 1.6 million for development of the land.

NOTE 16:- SHARE CAPITAL AND PREMIUM

a. Composition:

	Number of shares	Share capital	Share premium	Total
Balance at January 1, 2006	12,000,000	2,400	8,422	10,822
Split of shares (1)	108,000,000	-	-	-
Share-based compensation (2)	-	-	275	275
Proceeds from shares issued (3)	12,987,013	260	11,827	12,087
Balance at December 31, 2006	132,987,013	2,660	20,524	23,184
Share-based compensation (2)	-	-	47	47
Proceeds from shares issued (4)	13,000,000	260	15,761	16,021
Proceeds from shares issued (5)	25,762,414	515	31,083	31,598
Balance at December 31, 2007	171,749,427	3,435	67,415	70,850

(1) On May 30, 2006, the issued share capital which was composed of 12,000,000 Ordinary shares of € 0.2 par value each was split into 120,000,000 Ordinary shares of € 0.02 par value each. All share and per share amounts in these financial statements have been restated to reflect this split.

(2) During 2006, 2,500,000 options were granted to senior employees and directors of the Company and of related companies. Each option may be exercised to purchase one Ordinary share of the Company at an exercise price of $ 0.192.

The options vest in six equal portions over an eighteen-month period, commencing three months after the date of grant. Any options not exercised within nine years from date of grant will expire, unless extended by the Board of Directors.

The fair value of the options granted determined using the Black-Scholes option valuation model was approximately $ 427 thousand (€ 352). The significant inputs in the model were share price - $ 0.34, exercise price - $ 0.192, standard volatility - 61%, expected option life - two years, annual risk-free interest rate - 4.5%, and expected dividend yield - zero.

The Company recorded in the financial statements an expense in general and administrative expenses amounting to approximately € 47 (2006: € 275) and a corresponding increase in shareholders' equity.

(3) On June 27, 2006, the Company issued 12,987,013 Ordinary shares on the AIM in London in consideration of € 14,493 (£ 10 million). The issue expenses amounted to € 2,406 and the net proceeds after issue expenses amounted to € 12,087. The shareholders of the Company that held shares prior to this issue acquired 1,143,000 Ordinary shares as part of the issue for a total consideration of € 1,275 (£ 880 thousand).

(4) On January 23, 2007, the Company issued to investors 13 million Ordinary shares at £ 0.85 per share (€ 1.3 per share). The total proceeds from the issue amounted to approximately £ 11 million (€ 16,620). The issue expenses of approximately € 600 were offset against the share premium.

NOTE 16:- SHARE CAPITAL AND PREMIUM (Cont.)

(5) On March 6, 2007, an investment agreement with an affiliate of Lehman, LBREP II Neptune S.a.r.l (LBREP), was signed. According to the agreement, the Company issued to LBREP 25,762,414 Ordinary shares at £ 0.85 per share (€ 1.25 per share). The proceeds cash from this issue amounted to approximately £ 21,900 thousand (€ 32,100). As result of the issue, LBREP acquired 15% of the Company's issued and outstanding share capital. The issue expenses of € 500 were offset against the share premium.

NOTE 17:- OTHER LIABILITIES

	December 31,	
	2007	2006
Derivatives (1)	715	1,546
Other	-	40
	715	1,586

(1) See Note 12c(1).

NOTE 18:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, debentures, trade payables and loans granted. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, cash and cash equivalents and short-term deposits, which arise directly from its operations.

The Group's policy was not to enter into derivative transactions, primarily interest rate swaps and forward currency contracts in order to manage the interest rate and currency risks arising from the Group's operations and its sources of finance although there are some exceptions that are approved by the board. At the end of 2008 the Company entered into a cross currency swap transaction for an amount of approximately 11 Million Euro.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees on policies for managing each of these risks which are recognized below.

a. Foreign exchange risk:

The Group operates in Hungary, Poland, Romania and Croatia and therefore is exposed to foreign exchange risk arising from various currency exposures. However, most of the receivables and the payables of each entity in the Group are denominated in the entity's functional currency.

The Group is mainly exposed to loans received and granted that are denominated in currency other than each company's functional currency.

The following table demonstrates the pre-tax impact of 10% strengthening of the currencies with most significant exposure with all other variables held constant:

NOTE 18:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

	December 31,	
	2007	2006
U.S. dollar	(4,797)	(2,120)
Euro	842	(173)
Polish Zloty	1,458	(280)
Hungarian Forint	111	130
New Israeli Shekel	(3,268)	(207)
Croatian Kuna	19	-

b. Interest rate risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Groups long-term debt obligations and other financial assets with floating interest rates. Loans obtained and granted at variable rates expose the Group to cash flow interest risk, which could have adverse effects on the Group's net income or financial position. Changes in interest rates cause variations in interest income and expenses on interest-bearing assets and liabilities. Financial instruments with fixed interest rates expose the Group to fair value interest risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax. There is no impact on the Group's equity.

	Increase/ in basic points	Effect on profit before tax
2007:		
U.S. dollar	1%	101
Euro	1%	101
Polish Zloty	1%	(83)
Hungarian Forint	1%	(77)
RON	1%	-
New Israeli Shekel	1%	194
2006:		
U.S. dollar	1%	(92)
Euro	1%	(24)
Polish Zloty	1%	(74)
Hungarian Forint	1%	(13)
RON	1%	-
New Israeli Shekel	1%	-

c. Credit risk:

Receivables are monitored on an ongoing basis, resulting in the Group's exposure to bad debts being immaterial.
With respect to credit risk arising from cash, cash equivalents and deposits , the Group's exposure to credit risk arises from default of the banks where the Company holds it's funds. The

NOTE 18:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

Company works with well known and credible banks and also spreads the money in several banks.
The exposure to credit risk arises from other financial assets and relates to loans granted to proportionately consolidated project companies. In most cases loans are granted by all partners in the project on a pro-rata basis and these loans are to be repaid simultaneously to all partners. In case of default by the project company the loans will be off-set against the liability to other partner and hence no significant exposures exist for the Company. The execution time of most of the projects is expected to be between 1 and 5 years hence all loans are expected to be repaid within this period (see also Note 24 (b)). There is uncertainty regarding the period required for completion of the projects, therefore the maturity dates of the loans have not yet been determined and may change.

	Year ended December 31, 2007			
	Less than 3 month	**3-12 months**	**1-5 years**	**Total**
Trade and other receivables	10,869	2,467		13,336
Other financial assets*	-		35,298	35,298
Total	10,869	2,467	35,298	48,634

	Year ended December 31, 2006			
	Less than 3 month	**3-12 months**	**1-5 years**	**Total**
Trade and other receivables	6,628	1,460		8,088
Other financial assets*	-		14,415	14,415
Total	6,628	1,460	14,415	22,503

*Other assets include land to joint ventures the maturity dates of those loans have not yet been determined' but they are expected to be repaid between 1-5 years.

d. Liquidity risk:

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and debentures.
The Company works with a yearly cash flow which include all the expected payments including the repayment of bank loans and debentures and holds cash which will cover all those repayment. The table below summarizes the maturity profile of the Group's financial liabilities at December 31, 2007 based on contractual undiscounted payments.

NOTE 18:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

	Year ended December 31, 2007					
	On demand	Less than 3 month	3-12 months	1-5 years	More than 5 years	Total
Interest bearing loans and borrowings*	-	6,017	27,482	76,071	30,647	140,217
Trade and other payables	-	8,302	7,719	-	-	16,021
Other financial liabilities	-	-	781	-	-	781

	Year ended December 31, 2006					
	On demand	Less than 3 month	3-12 months	1-5 years	More than 5 years	Total
Interest bearing loans and borrowings	-	7,930	26,754	36,664	3,509	74,857
Trade and other payables	-	5,247	4,742	-	-	9,989
Other financial liabilities	-	-	932	781	-	1,713

* See also Note 12 (d).

e. Political risk:

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

f. Capital management:

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize 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 may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2007 and 2006.

The Group monitors capital using a gearing ratio, which is net financial debt divided by total equity plus net debt. The Group's policy is to keep the gearing lower than 55%. The Group includes within net financial debt, interest-bearing loans and borrowings, less cash and cash equivalents.

g. Market risk:

The Group 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 .The Group 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 the sale potential to customers.

The home mortgage market in the countries of operation is not yet sufficiently developed. Difficulty in obtaining loans at 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.

NOTE 18:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

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 believes the market risk is reasonable.

	2007	2006
Interest-bearing loans and borrowings	121,390	70,317
Less - cash and short-term deposits	(85,956)	(30,220)
Net financial debt	35,434	40,097
Total equity	88,895	32,173
Capital and net debt	124,329	72,720
Gearing ratio	29%	55%

NOTE 19:- FINANCIAL INSTRUMENTS

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments, including those classified under discontinued operations that are carried in the financial statements:

	Carrying amount		Fair value	
	2007	2006	2007	2006
Financial assets				
Cash	70,905	5,511	70,905	5,511
Deposits	15,051	24,709	15,051	24,656
Loan notes	35,298	11,616	35,028	11,346
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	56,303	38,122	56,303	38,122
Fixed rate borrowings	65,087	32,195	62,813	33,661
Other liabilities	715	1,586	715	1,586

The fair value of loan notes and other financial assets has been calculated using market interest rates. Interest on financial instruments classified as floating rate is repriced at intervals of less than six months. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Euro in thousands, except share and per share data

NOTE 20:- MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31,	
	2007	2006
Professional fees	1,122	605
Management fees	71	295
Rent and office maintenance	320	313
Marketing	814	490
Director's fees (1)	1,680	621
External hirers	963	286
Share-based compensation	47	275
Other	949	473
	5,966	3,358

(1) Director's fees

	2007	2006
Director's fees (*)(**)	989	545
Directors insurance	45	22
Bonuses	646	54
	1,680	621

(*) The executive director's and non executive fees (including bonuses) for the year 2007 are as follows:

	2007					
	Executive Members	**Outstanding amount of options**	**Fees in thousands**	**Bonus in thousands**	**Share based compensation in thousands**	**Total for the year ended**
1	O.Kazanelson-CEO		447	420		867
2	Shaul Lotan-Chirman		179	103		282
3	Ran Yaakobs CFO	500,000*	144	88	10	242
	Total		770	611	10	1,391
Non Executive Members						
1	Yosef Zimer	500,000*	51	35	9	95
2	Shimon atznelson		21			21
3	Ron Hadasi		9			9
4	Gilly Jacoby		23			23
5	Karl Ferenc		25			25
6	Eyal Keltsh		72			72
7	Gerald Parkes		18			18
	Total		219			263
	Total		989	646	19	1,654

* All the options were granted in 2006; in 2007 no new options were granted or exercised.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Euro in thousands, except share and per share data

NOTE 20:- MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES (Cont.)

	2006					
	Executive Members	**Options granted by the Company**	**Fees in Thousands**	**Bonuses in Thousands**	**Share based compensation in thousands**	**Total for the year ended December 31**
1	O.Kazanelson		241			241
2	Shaul Lotan		135			135
3	Ran Yaakobs	500,000*	75	32	55	162
	Total		451	32	55	538
	Non Executive Members					
1	Yosef Zimer	500,000*	26	22	55	103
2	Shimon Katznelson		9			9
3	Jon kempster		18			18
4	Gilly Jacoby		13			13
5	Karl Ferenc		13			13
6	Eyal Keltsh		15			15
	Total		94	22	55	171
	Total		545	54	110	709

* All the option weres granted in 2006; no options were exercised during 2006.

NOTE 21:- FINANCE INCOME (COSTS)

a. Finance costs:

	Year ended December 31, 2007	2006
Interest expense	(4,983)	(3,217)
Exchange differences	(11,564)	(1,940)
Bank charges and other, net	(1,015)	(498)
	(17,562)	(5,655)
Capitalized borrowing costs	1,528	2,053
	(16,034)	(3,602)

b. Finance income:

Interest income	7,259	915
Exchange differences	16,395	4,920
	23,654	5,835

NOTE 22:- OTHER INCOME

	Year ended December 31,	
	2007	2006
Gain on sale of interests in subsidiaries and joint ventures	8,314	4,183
Net gains on disposal of land	176	-
Other	131	33
	8,621	4,216

a. Year ended December 31, 2006:

1. Real Prop Kft.:

   In November 2006, the Company signed an agreement for the sale of 49.9% of the Company's holdings in Real Prop Kft. to the Investment Bank of Edmund De Rothschild for a consideration of € 1.975 million. Accordingly, the Company recorded a gain of approximately € 1 million in the last quarter of 2006.

2. In December 2005, Lehman Brothers Real Estate Partners L.P. ("Lehman") acquired 40% of Robyg Development Sp.z.o.o - 10% was acquired from Robyg B.V. (a subsidiary of the Company) and the remaining 30% was acquired from the other shareholder. In conjunction with the sale, the shareholders of Robyg Development entered into an agreement determining preference in the distribution of cash by Robyg Development. According to the agreement, Lehman had preference in the distribution of the first € 10 million. Robyg B.V. had been entitled to 80% of the remaining € 12.5 million. After reaching a total distribution of € 25 million, all shareholders are entitled to their formal share in equity (40% for Robyg B.V.). Robyg B.V.'s consideration for the described transaction amounted to € 2.9 million in cash (net of selling expenses of € 165). Taking into account the preference arrangement, a gain of approximately € 1 million was deferred with respect to the sale of the 10% shareholding.

   On December 31, 2005, following the above transaction, the proportionate consolidation of Robyg Development was discontinued and the investment in Robyg Development was accounted for, as of that date, using the equity method based on the share in profits described above.

   In October 2006, Lehman and Robyg B.V. purchased the interest of the other shareholder such that after the purchase each holds a 50% interest in Robyg Development. Since that date, Robyg Development has been proportionally consolidated in the financial statements of the Group.

   At the end of October 2006, an addendum to the agreement of December 2005 between Robyg B.V., Lehman and Robyg Development Sp.z.o.o. was signed. The addendum cancels the arrangement for distribution of funds set forth in the agreement of December 2005. Accordingly, distributions from Robyg Development are to be based on the holdings of the shareholders. Accordingly, the gain of approximately € 1 million, that was deferred in 2005 was recognized and is presented in other income.

3. On December 13, 2005, a term sheet was signed, according to which Lehman Brothers ("LB") will acquire from the Company and other shareholders 19% and 17%, respectively, of their respective holdings in a 55% owned subsidiary, OK Investments

NOTE 22:- OTHER INCOME (Cont.)

SP.z o.o. ("OK") for a consideration of € 4.1 million. The Company's share in the consideration is approximately € 2.2 million. The term sheet stipulated that consummation of the sale of shares was subject to the fulfillment of certain conditions, which mainly included approval for the urban planning scheme and completion of the due diligence procedures by LB.

On July 21, 2006, upon fulfillment of the above described conditions, an agreement for the sale of 36% of the holdings in OK to LB was signed. As a result of the sale, the Company's holdings in OK decreased from 55% to 36% and the Company recorded a gain of approximately € 2 million.

According to the above agreement, the selling shareholders undertook to indemnify LB up to a maximum amount of approximately € 1.5 million (Company's share is € 0.8 million) should a claim filed against OK in connection with its rights to the land be successful (see Note 15b(4)) to the annual financial statements). The investee believes, based on the opinion of its legal counsel, that the prospects of the claim to prevail are low. In October 2006, LB waived the above indemnification.

The Company has an agreement with the other shareholders for the joint control of OK. Accordingly, the accounts of OK are proportionately consolidated.

b. Year ended December 31, 2007:

1. On August 24, 2007, the Company sold to LB 50% of its interest (90%) in MZM Properties Sp.z.o.o, for a consideration of € 1.4 million. Subsequent to the sale, each company holds 45% interest in MZM Properties Sp.z.o.o. The Company recorded a gain of approximately € 1.2 million from this sale, which is presented as other income. Commencing from the date of the sale, the Company ceased to consolidate and started to proportionally consolidate the financial statements of MZM Properties Sp.z.o.o.

2. On September 26, 2007, the Company and LB sold to a third party 25% (the Company's share - 12.5%) of the issued and outstanding share capital of a jointly held company, ROBYG City Apartments Sp.z.o.o. for a total amount of approximately € 12 million (the Company's share - approximately € 6 million). Subsequent to the sale, the Company and LB each owns 37.5% of ROBYG City Apartments. As a result of the sale, the Company recorded a gain of approximately € 5.9 million, which is presented as other income. Concurrently, the Company recorded an additional gain of approximately € 1 million which represents the realization of a proportional amount of the deferred gain from a prior intercompany transaction related to the land held by ROBYG City Apartments Sp. z.o.o.

3. In December 2007, the Company sold to LB 50% of its interest (100%) in three Romanian entities, for a consideration equivalent to 50% of those companies share capital (approximately € 28 in each company). The Company recorded a gain from this sale of approximately € 240.

NOTE 23:- NET EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue after giving effect to the split, and the bonus share allotments.

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.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Year ended December 31,	
	2007	2006
Profit attributable to equity holders of the parent	19,270	7,031
Weighted average number of ordinary shares for basic earnings per share	166,342	126,495
Effect of dilution:		
Share options	1,811	1,621
Adjusted weighted average number of ordinary shares for diluted earnings per share	168,153	128,116
Profit per share (basic and diluted) (€ per share)	0.12	0.06

As at December 31, 2007, the Company has no equity instruments that could potentially dilute basic earning per share in the future.

NOTE 24:- RELATED PARTY DISCLOSURES

The financial statements include the financial statements of Nanette Real Estate Group N.V. and the subsidiaries listed in the Appendix to the consolidated financial statements.

a. Transactions with related parties:

1. Composition:

	Year ended December 31,	
	2007	2006
General and administrative expenses:		
Director's fees *)	1,654	739
Shareholders	244	377
	1,898	1,116
Finance income:		
Proportionately consolidated entities	1,510	405
Finance costs:		
Shareholders	705	2

*) Compensation of director's composed as follows:

	2007	2006
Short-term benefits	1,635	629
Share-based compensation	19	110
	1,654	739

2. Management fees in the amount of € 379 to a company controlled by key management personnel were capitalized to inventory cost in 2007 (2006 - € 283).

3. Agreements with Lehman (a shareholder), see Note 15b(7).

NOTE 24:- RELATED PARTY DISCLOSURES (Cont.)

b. Balances with related parties:

	December 31,	
	2007	2006
Accounts receivable - other:		
Proportionately consolidated entity	-	550
Highest balance during the year	-	550
Other financial assets:		
Proportionately consolidated entity (1)	28,093	11,616
Shareholder	835	-
Other (2)	6,370	-
	35,298	11,616
Short-term loans (3)	3,849	-
Liabilities - other:		
Shareholder	96	17
Long-term liabilities - long-term loans (before deducting current maturities)		
Proportionately consolidated entities	10,603	32

(1) Currency and interest rates of loans to proportionately consolidated entity:

	Weighted average interest rate (*)	**December 31, 2007**
	%	
In Euros	0-7	6,718
In U.S. dollars	0-9.535	1,706
In Hungarian forint	-	238
In Polish zloty	8.1	19,431
		28,093

(*) Fixed interest rate as of December 31, 2007.

The repayment dates of the loans have not yet been determined.

(2) ROBYG SA:

The Company has provided loans to ROBYG SA, a company owned by key management personnel of the Company. Interest in respect of these loans is based on WIBOR with a margin of 3%.

(3) Interest in respect of these loans is based on EURIBOR with a margin of 3% and capped at 7%.

NOTE 25:- ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS

a. Acquisitions in 2006:

During the year 2006, the Company acquired additional interests, including shareholders loans, in several subsidiaries. The difference, in the amount of € 1,211, between the consideration paid (€ 4,707) and the book value of the interests acquired has been recognized as goodwill.

b. Acquisitions in 2007:

1. In April 2007, the Company purchased an additional 10.67% of the issued and outstanding share capital of ROBYG B.V. for a consideration of approximately € 2,100 (including brokerage fee of € 300). The amount paid included assignment of loans of approximately € 314 granted by the minority shareholders. Subsequent to the purchase, the Company owns 100% of ROBYG B.V. As the purchase were defined as business combination the difference, in the amount of € 818, between the consideration paid and the carrying amount of the minority interest was allocated to goodwill.

2. During November 2007, the Company purchased from minority shareholders various interests in subsidiaries, as described below. The Company paid a total amount of $ 9,300 thousand (€ 6,600), of which $ 4.6 million (€ 3,200) is for the outstanding loans and the balance is for the shares in the various projects.

   As described below, all the purchases of all the Hungarian companies were purchases of business combinations. The difference, in the amount of € 450, between the consideration paid and the carrying amount of the minority interest in the companies in Hungary was allocated to goodwill.

   All the difference in connection with the acquisition of the minority interest in the Polish company which has not yet commenced business activities has been allocated to the land held by the Polish company.

   As a result, the percentage of holding in the project companies will increase as follows:

Location	Company	
Hungary	Thokoly Udvar kft	From 89.4% to 100%
Hungary	Immo prop kft	From 57.5% to 100%
Hungary	Karolina kft	From 57.5% to 100%
Hungary	Foodex kft	From 57.5% to 100%
Poland	Robyg Orgod Sp.z.o.o.	From 46% to 100%

3. In April 2007, the Company signed an agreement to purchase all of the shares of a Romanian company, California Group S.R.L. ("California") for a consideration of approximately € 1.3 million (including assignment of a shareholder loan of € 375). Since California on the purchase date has not yet commenced business activities all the differences have been allocated to the land held by California.
   California owns a plot of vacant land of 1,400 sq. m. with zoning designated for residential housing.

   In May 2008, California Group S.R.L ("California") a subsidiary of the Company in Romania entered into an agreement to purchase an additional plot of land ("the New Plot") located next to California's existing plot of vacant land. On the same date California completed also the purchase of a third plot of land ("the Third Plot") which is located next to the New Plot. California intends to construct a residential housing project on the total land area of approximately 9,200 sq.m.

NOTE 25:- ACQUISITIONS OF SUBSIDIARIES AND MINORITY INTERESTS **(Cont.)**

According to the agreement for the purchase of new plot (approximately 6,400 sq.m) for the consideration of the New Plot, the sellers are entitled to receive 17% of the revenues from the sale of units in the entire project.

At the date of acquisition of the New Plot, the Company recorded a liability to the sellers of the New Plot according to the fair value of the land, based on an independent appraisal. After initial recognition, the liability is subsequently measured at amortized cost using the effective interest method, based on the estimated future cash flows. Gains or losses arising from changes in the fair value of the derivative resulting from the revenues of the project are recognized in the statement of income.

In respect of the Third Plot (approximately 1,400 sq.m) , the sellers are entitled to receive 49% of the net profit from the entire project less an amount of € 450. The agreement provides for joint control with the sellers of the Third Plot. Accordingly, the investment in the subsidiary is accounted for by the proportionate consolidation method.

NOTE 26:- SEGMENT INFORMATION

a. Information on operating segments:

The Group operates internationally and its organizational structure matches its two principal segments: Hungary and Poland. Accordingly, the division of operations in this manner represents the basis according to which the Group reports data for management purposes. The geographical segments are determined according to the destination countries to which the Group's sales are made, which are identical to the location of assets.
The accounting principles applied for the amounts stated in the segment reporting are the same as in consolidated report prepared in accordance with International Financial Reporting Standards (IFRS) which are similar to those adopted in the EU/similar to Nanette Real Estate NV accounting principles

b. Geographical segment data:

As of December 31, 2007 and for the year then ended:

	Hungary	Poland	Other	Consolidated
Income statement data:				
Revenues	18,101	15,007	66	33,174
Segment results - operating profit	3,602	6,974	(288)	10,288
Unallocated general corporate expenses				3,894
Operating profit				6,394
Finance costs				(16,034)
Finance income				23,654
Other income				8,621
Taxes on income				2,555
Profit for the year				20,080
Other data:				
Segment assets	50,277	100,436	12,878	163,591
Unallocated corporate assets				95,075
Consolidated total assets				258,666
Segment liabilities	8,714	34,978	198	43,890
Unallocated corporate liabilities				125,881
Consolidated total liabilities				169,771
Other segment information:				
Capital expenditure:				
Investment property	-	5,744	-	5,744
Furniture and equipment	58	73	-	131
Goodwill	450	818	-	1,268
Depreciation	15	72	-	87

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Euro in thousands, except share and per share data

NOTE 26:- SEGMENT INFORMATION (Cont.)

As of December 31, 2006 and for the year then ended:

	Hungary	Poland	Consolidated
Income statement data:			
Revenues	21,203	10,666	31,869
Segment results - operating profit	2,500	2,448	4,948
Unallocated general corporate expenses			1,957
Operating profit			2,991
Finance costs			(3,602)
Finance income			5,835
Other income			4,216
Taxes on income			1,079
Profit for the year			8,361
Other data:			
Segment assets	39,455	54,194	93,649
Unallocated corporate assets			43,897
Consolidated total assets			137,546
Segment liabilities	10,392	17,164	27,556
Unallocated corporate liabilities			77,817
Consolidated total liabilities			105,373
Other segment information:			
Capital expenditure:			
Investment property	12,474	-	12,474
Furniture and equipment	27	35	62
Goodwill	516	695	1,211
Depreciation	38	6	44

NOTE 27:- DIVIDENDS PAID AND PROPOSED

	2007	2006
Declared and paid during the year	4,037	-
Dividend per share	0.0235	-

NOTE 28:- EVENTS SUBSEQUENT THE BALANCE SHEET DATE

a. Company Capital

1. In April 2008, the Company made market purchases of 650,000 Ordinary shares of the Company, representing approximately 0.38% of the issued share capital of the Company, at an average price of 65 pence per share. Following the above mentioned purchase, the equity were decreased by an amount of 527,000 Euro and the number of the Company's outstanding shares were decreased by 650,000 shares to 171,099,427.

2. On May 23, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 500,000 shares bringing the total number of shares to 171,599,427.

3. On July 01, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 200,000 shares bringing the total number of shares to 171,799,427.

b. Debenture

1. In June 2008, the Company issued on the Tel-Aviv Stock Exchange debentures (Series C), with a par value of approximately NIS 130 million (approximately € 25 million). The debentures bear interest at an annual rate of 8% and are linked (principal and interest) to the Israeli Consumer Price Index. The debentures mature in four equal annual installments commencing in June 2011 and ending in June 2014. The interest on the debentures is payable every six months. The carrying amount of the debentures is net of directly attributable transaction costs of approximately € 693.
The debentures are rated by Midrug Ltd., an Israeli rating agency which is affiliated with Moody's, at a local rating of A2.

2. As described in Note 12c to the 2007 annual financial statements, in the event of dividend distribution, the Company is obliged to make a purchase offer for the redemption of the outstanding debentures (series A), up to an amount equal to the amount of the dividend distribution, such that the par value of the remaining outstanding debentures on such date shall not be an amount between zero and NIS 3.2 million (€ 640).

3. As of the date of the report the Company has purchased its own Series B bonds on the Tel Aviv Stock Exchange, of par value of NIS 40 Million (Euro 7.8 millions) for the total consideration of NIS 11.9 million (Euro 2.3 Million)

4. As of the date of the report the Company has purchased its own Series C bonds on the Tel Aviv Stock Exchange, of par value of NIS 30.4 Million (Euro 5.9 millions) for the total consideration of NIS 14.6 million (Euro 2.9 Million)

NOTE 28:- EVENTS SUBSEQUENT THE BALANCE SHEET DATE (Cont.)

c. Dividends

1. On July 21, 2008, the Board of Directors proposed a dividend payment of € 0.064 per share. The proposed dividend was approved by the Company's general shareholders meeting held on August 15, 2008 as describe in b. 2. The Company had to publish a "Purchase offer to the holders of debentures series A up to the level of the dividend (Euro 11 million) , The total number of debenture holder from serious "A" that agreed to this offer was 47,638,597 (app. Euro 9.5 millions).

d. Purchase of companies

1. A In March 2008, the Company acquired 15% of the share capital of Olimpia Real Estate LLC (including 11% acquired from related party) for a consideration of approximately € 1, no goodwill was recorded as at the purchase date it's not yet commenced business activities. The Company also granted loans to Olimpia Real Estate LLC in the total amount of € 3.9 million. Olimpia Real Estate LLC is a Cyprus company that holds 100% of the shares of a Ukrainian company that is the owner of a plot of land in Kiev, Ukraine.

B. In the begining of 2009, the Company completed the purchase of an additional 15% of the share capital of Olimpia Real Estate LLC from Olimpia Euro Construction BV* for a consideration of approximately € 1, no goodwill will be record as at the purchase date it's not yet commenced business activities. The Company also granted loans to Olimpia Real Estate LLC in the total amount of 6 Million USD (4.3 million Euro) Olimpia Real Estate LLC is a Cyprus company that holds 100% of the shares of an Ukrainian company that is the owner of a plot of land in Kiev, Ukraine.

Following the purchase, Olimpia Real Estate LLC's shareholder structure is now:

- Olimpia Euro 64%
- Nanette 30%
- Local partners 6%

* Value. 45% of Olimpia Euro is held by Olimpia Real Estate Ltd (Olimpia), a 32.3% share holder of Nanette. Mr. O. Kazenelson, Nanette's CEO is one of Olimpia's founding shareholders and serves as its president of the board, Mr. Ron Hadassi a non executive director in Nanette is the representative of the Bronfman-Fisher group which is part of the controlling group of Olimpia.

2. In April 2008 California signed a collaboration agreement with the owner of a plot of land of 1,400 sq. m which is located next to California's land. In accordance with the agreement the seller will be entitled to 49% of the profits from the entire project. California also signed another agreement with two owners of attached plots of land, with a total area of approximately 6,400 s.q. m for the consideration of approximately 17% of the sales from the project. California intends to construct a residential housing project on the total land area of approximately 9,200 sq. m consisting approximately 470 housing units, in a gross area of approximately 37,000 sq. m. The total estimated investment in the project is € 31.3 million and the company's estimated share in the sales from the project is € 41 million (the revenue is less the share of the other partners of approximately (17%) in the sales of the project). April 2008, the Company purchased, through a 90% Hungarian subsidiary (Taltoring Ingatlaforgalmazo Kft. ("Taltoring")), a 153,000 sq. m. plot in Budapest Hungary for a consideration of 1,870 million Hungarian Forint (approximately € 7.4 million) Since the Taltoring On the purchase date has not yet commenced business activities all the differences has been allocated to the investment property held by the Taltoring .

NOTE 28:- EVENTS SUBSEQUENT THE BALANCE SHEET DATE (Cont.)

The company also granted shareholder loans to Taltoring in amount of 5,630 million Hungarian forint (approximately € 22.3 million). According to the agreement signed with the municipality, the owner of the remaining 10% interest in the subsidiary, the municipality has an option (put) to sell to the Company its entire interest in the subsidiary upon the approval of a new zoning plan for the plot, for a consideration of approximately € 2.2 million. The agreement also provides the Company with an option (call) to buy the municipality's interest at the same price. The put and call options may be exercised at any time during the period ending in April 2011. During December 2008 the Municipality exercise her Put option.

e. Disposal of companies

1. In June 2008, the company sold to AI Property Holdings LP (Hungary) ("Access") 50% of its interest (90%) in the Hungarian subsidiary Taltoring Ingatlaforgalmazo Kft. ("Taltoring) for a consideration of approximately €16,250 million. According to the agreement Access would provide shareholder loans in amount equivalent to the company shareholder loans. According to the agreement the company will be entitled for 30% of Access share in the profits once several conditions had been fulfilled among other an IRR above 25%. The sale of the shares were completed during July 2008.
   The company recognized a profit of 645 thousand Euro.

2. In June 2008 the company signed on a preliminary agreement according to which the company will transfer its share in Taltoring (45%) to a new company and will sell 45% of its share in the new company to Edr Real Estate (Estern Europe) S.C.A. ("Edr"), a company owned 100% by Rotshild Group for a consideration of € 337,500. According to the agreement Edr would provide to the new company shareholder loans in the amount of approximately € 7.5 million. Moreover, according to the agreement the company will be entitled for 30% of Access share in the profits once several conditions had been fulfilled among other an IRR above 25%.
   The sale of shares were completed on the end of September 2008
   Subsequent to the completion of the above transactions, the company's share in the issued and outstanding share capital of Taltoring is 24.75% and the share of Access and Edr in the issued and outstanding share capital of Taltoring is 45% and 20.25%, respectively.
   The company recognized a profit of 623 thousand Euro.

f. Reorganization of the holdings of the Polish companies

In February 2008 the company purchased 14% of ROBYG S.A. for a consideration of approximately 40 thousands Euro. The purchase was the first stage of the reorganization.

In April 2008, the court approved the reorganization plan. Accordingly, the Company and Lehman each contributed their interests in all jointly-controlled Polish companies to a holding company (ROBYG S.A.) established for this purpose. In consideration of the contribution, the Company and Lehman received an equal number of shares of ROBYG S.A., thus retaining (indirectly) the joint ownership of the Polish companies. In addition, the collaboration agreement between the Company and Lehman was amended such that the decisions regarding entry into new projects will be agreed by the board of directors of ROBYG S.A. according to a regular majority, therefore the Company and Lehman do not have joint control of ROBYG S.A. Accordingly, commencing from the second quarter of 2008, the Company will include the accounts of ROBYG S.A. under the equity method and, consequently, the aforementioned Polish companies will no longer be proportionately consolidated.

In connection with the abovementioned reorganization, in April 2008, ROBYG S.A. acquired the operations of the company that provides management services to the Polish companies. The total consideration for the acquisition was € 9.5 million, of which € 3.5 million was paid in cash and the balance of the € 6 million is to be paid in three equal annual installments commencing April 2009 until April 2011.

NOTE 28:- EVENTS SUBSEQUENT THE BALANCE SHEET DATE (Cont.)

g. Purchase of land

1. In July 2008, the Company purchased through a 100% subsidiary a 6,122 sqm plot, which is located in the 11th district of Budapest for a consideration of Euro 1.6 million. The plot is designated for residential use. The Group estimates it will build approximately 260 apartments in a area of approximately 15,000 Sq.m.

2. On September 8, 2008 the Company through a wholly owned subsidiary, it has signed a preliminary agreement to purchase a 3,24 hectare of free hold land, which is located in the 9th district of Budapest for the total consideration of app. Euro 17 million.

h. Financial Market crisis

1. The ongoing crisis in the financial markets and the related worldwide recession could have an impact on property markets and property prices although its effects have not been uniform across all markets. As the global recession takes hold, its impacts on the various European and Global property markets will vary depending on many factors. These will include the size of the underlying markets, the extent of excessive capital growth in the past, diversification of tenant mix, general shape of the overall economy, reliance on the credit markets and investor mentality. These global factors contribute to instability and inactivity in real estate markets and could possibly have future negative consequences for the value of real estate assets and the results of the company due to: potential increases of real estate yields and therefore decreases in value of investment properties; worsening of occupier fundamentals and falling rents ;impairment of goodwill and investments in associated companies; and impairment of financial instruments and other assets.
As of the 31.12.07 the carrying amount of our real estate investment property is EUR 18.4 Million. since In determining the fair value of the investment property, the company hired a valuator which relied on comparable arm's length market transactions for similar properties.
As of the day of the report the company doesn't expect a significant decrease in the value of the investment property of the company included in the report.

   Although Nanette at this moment does not encounter financing problems, due to the general market conditions in general and particularly due to the financial turmoil with lending banks, if the crisis dramatically worsens Nanette is just like any other company not immune.

2. Nanette works in partnership with Lehman Brothers Real Estate Partners, ("LBREP") a series of distinct and segregated private equity funds, funded by multiple partners and not part of the Chapter 11 proceedings. As of the date of the report all LBREP's funding obligations to the joint venture companies have been met and the company don't have any indication LBREP won't met their future finding obligation.
In the unlikely event that LBREP do not met their future obligation the Company will need to assess the impact of such event and evaluate its course of action.

LIST OF SUBSIDIARIES, PROPORTIONATELY CONSOLIDATED COMPANIES AND ASSOCIATED COMPANIES

Name of company	Country	2007	2006
Subsidiaries:			
Robyg Investment Sp.z.o.o.	Poland	70.10	70.10
Thokoly Udvar Kft.	Hungary	100.00	89.33
Zold Park Haz Kft.	Hungary	77.50	77.50
Foodex 2003 Kft.	Hungary	100.00	57.50
Karolina Udvar Kft.	Hungary	100.00	57.50
MZM Properties Sp.z.o.o.	Poland	-	90.00
Robyg B.V.	Netherlands	100.00	89.33
Robyg Orgod Sp.z.o.o.	Poland	100.00	46.00
Robyg Galicia Sp.z.o.o.	Poland	80.00	80.00
Robyg Morena Sp.z.o.o.	Poland	-	80.00
IMMO Prop. Kft.	Hungary	100.00	57.00
Kamaraerdo Kft.	Hungary	100.00	100.00
Nanette Construction Kft.	Hungary	100.00	100.00
Star Development Sp.z.o.o.	Poland	100.00	-
Nanette Real Estate Development Srl.	Romania	100.00	-
Nanette North Star Properties Srl.	Romania	100.00	-
California Group Srl.	Romania	100.00	-
Nanette Borovje D.O.O.	Croatia	100.00	-
Proportionately consolidated companies:			
Robyg Palacowa Sp.z.o.o.	Poland	50.00	50.00
OK Investment Sp z.o.o.	Poland	50.00	50.00
Robyg Wilanow II Sp.z.o.o.	Poland	42.50	32.50
Gondola HAZ K.f.t.	Hungary	50.00	50.00
Real Prop House K.f.t.	Hungary	50.01	50.01
MZM Properties Sp.z.o.o.	Poland	45.00	-
Robyg Morena Sp.z.o.o.	Poland	40.00	-
Robyg City Apartments Sp.z.o.o.	Poland	37.50	-
Nanette Pipera Properties Srl.	Romania	50.00	-
Nanette City Gate Timisoara Srl.	Romania	50.00	-
Nanette Heights Timisoara Srl.	Romania	50.00	-
Nanette Bucharest Properties	Romania	50.00	-
Proportionately consolidated companies of Robyg B.V.:			
Robyg Development Sp.z.o.o.	Poland	50.00	50.00
Subsidiary of MZM Properties Sp.z.o.o. -			
Robyg Park Sp.z.o.o.	Poland	70.00	70.00
Subsidiary of Robyg Morena Sp.z.o.o.:			
Piekarnicza Sp.z.o.o.	Poland	100.00	-
Proportionately consolidated company of Kamaraerdo K.f.t.:			
Kamara-Projekt K.f.t.	Hungary	50.00	50.00

Nanette Real Estate Group N.V.
Amsterdam, the Netherlands

COMPANY-ONLY STATUTORY DUTCH GAAP FINANCIAL STATEMENTS

For the year ended 31 December, 2007

NANETTE REAL ESTATE GROUP N.V.

COMPANY-ONLY STATUTORY DUTCH GAAP FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007

EURO IN THOUSANDS

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NANETTE REAL ESTATE GROUP N.V

BALANCE SHEET

	Note	December 31 2007	December 31 2006
		Euro in thousands	
ASSETS			
NON-CURRENT ASSETS:			
Inventory of land	3	-	3,876
Furniture and equipment		37	-
		37	3,876
FINANCIAL FIXED ASSETS			
Investments in subsidiaries and joint ventures	4	81,591	47,918
TOTAL NON-CURRENT ASSETS		81,628	51,794
CURRENT ASSETS			
OTHER RECEIVABLE			
Inventory of land	5	586	
Receivables from group companies	6	6,609	2,650
Other receivables and prepayments	7	93	278
		7,288	2,928
CASH AND CASH EQUIVALENTS	8	60,494	1,551
TOTAL CURRENT ASSETS		67,782	4,479
TOTAL ASSETS		149,410	56,273

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

NANETTE REAL ESTATE GROUP N.V.

BALANCE SHEET

	Note	December 31 2007	December 31 2006
		Euro in thousands	
SHAREHOLDERS' EQUITY			
Share capital	9	3,435	2,660
Share premium	10	67,415	20,524
Legal reserve	11	58	3,221
Retained earnings	12	17,419	3,868
		88,327	30,273
LONG-TERM LIABILITIES			
Debentures	13	46,576	16,476
Other long terms payables	14	2,938	6,059
		49,514	22,535
CURRENT LIABILITIES			
Debentures	13	5,431	2,746
Deferred gain		4,527	-
Interest and other payable	15	1,611	719
		11,569	3,465
Total		149,410	56,273

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

PROFIT AND LOSS ACCOUNT

	Note	December 31, 2007	December 31, 2006
		Euro in thousands	
Net income from investments	16	14,237	7,712
Other income (expenses), net	17	5,033	(681)
Net profit		19,270	7,031

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

NOTE 1:- GENERAL

The description of the Company's activity and the group structure, as included in the notes to the consolidated IFRS financial statements, also apply to the Company-only statutory Dutch GAAP financial statements, unless otherwise stated.

The company annual accounts are presented in thousands of Euro.

NOTE 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). The Management Board has decided to adopt the provisions of section 2:362 subsection 8 of the Netherlands Civil Code, whereby the accounting principles applied in the consolidated financial statements also apply to the Company financial statements of the Company with the exception of the following: investments in consolidated subsidiaries and joint ventures that 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.

NOTE 3:- INVENTORY OF LAND

Movements in tangible fixed assets are broken down as follows:

	Land(1)	Capitalized expenses	Total
	Euro in thousands		
Opening balance at 1 January 2007	3,732	144	3,876
Additions (deduction) (2)	(3,732)	(144)	(3,876)
Closing balance at 31 December 2007	-	-	-

(1) This concern to acquisition of a land in Poland for development of real estate. On 2007, the land was transferred to Polish Group company.

(2) See note 5

NOTE 4:- FINANCIAL FIXED ASSETS

Investments in subsidiaries and joint ventures

The investment in subsidiaries and joint ventures comprises the following:

	December 31	
	2007	2006
	Euro in thousands	
Net asset value of investments	17,208	14,788
Loans granted	64,383	33,130
	81,591	47,918

The movement in the investment in subsidiaries and joint ventures can be summarized the following:

	December 31	
	2007	2006
	Euro in thousands	
Opening balance at January 1,	47,918	17,586
Acquisition of shares in subsidiaries and joint ventures	6,900	6,707
Disposals of subsidiaries and joint ventures	(106)	(12)
Change in loans *	31,254	17,793
Share in result of investments for the year	6,839	5,493
Dividends	(9,752)	(27)
Currency translation differences	1,543	378
	84,596	47,918
Less - differed gain from disposal of subsidiary	(3,005)	-
Closing balance at December 31,	81,591	47,918

- During 2007 the company granted loans to subsidiaries and joint ventures of approximately 3.4 Million Euro and received back loans from subsidiaries and joint ventures in a amount of approximately 46.8 million.
- This loans are expected to be repay in less than five years (see also not 24 (B)).

NOTE 5:- INVENTORY OF LAND

This concerns capitalized expenses of country managers for projects in Hungary. Since the relevant projects were finalized in 2008, these expenses will be allocated to the profit and loss account 2008 hence this amount is reclassified as current asset as per December 31, 2007.

NOTE 6:- RECEIVABLES FROM GROUP COMPANIES

	December 31	
	2007	2006
	Euro in thousands	
Int. loan Global - Zold Park HAZ	-	21
Int. loan MZM Prop. Sp. zo.o	450	191
Int. loan Thokoly Udvar Kft.	100	59
Int. loan Robyg B.V.	1,425	1,104
Int. loan Robyg city apartment Sp. zo.o.	139	780
Int. loan Robyg Galicija Sp. Zo.o.	16	7
Int. loan Robyg Morena Sp. Zo.o.	327	82
Int. Loan Robyg Palacowa Sp.zo.o	821	-
Int. loan Robyg Wilanow II Sp. zo.o.	369	175
Int. loan Robyg Ogrov Jel Sp. zo.o.	294	231
Int. Loan Robyg S.A.	12	-
Int. Loan Gondola Haz Kft	160	-
Int. Loan Nanette R. Estate Devel.	21	-
Int. Loan Star Development Sp. zo.o)	45	-
Int. Loan Nanette City Gate Timis	391	-
Int. Loan Nanette. Heights Timis.	110	-
Int. Loan California Group Srl.	46	-
Int. Loan Nanette. Bucharest Prop.	165	-
Int. Loan Nanette Pipera Prop.	18	-
Int. Loan Robyg Jagodno Estate	211	-
Int. Loan Robyg Piekarnicza	145	-
Int. Loan Nanette Borovje D.o.o.	30	-
Dividend - Zold Park	259	-
Dividend – Thokoly	916	-
Debtors – Romanian and Croatian Companies	139	-
	6,609	2,650

The interest on loans from group companies are according to market conditions (Wibor 3M+3%, Libor 6M+3% Eurobor 3M +4% , Eurobor 3M+3%).

NOTE 7:- OTHER RECEIVABLE AND PREPAYMENTS

	December 31	
	2007	2006
	Euro in thousands	
Lawyers account Escrow	-	11
Dividend Robyg B.V.	-	27
Prepaid expenses	20	236
Other receivables	73	4
	93	278

NOTE 8:- CASH AND CASH EQUIVALENTS

	December 31	
	2007	2006
	Euro in thousands	
Raiffeisen Bank	21	-
Bank BPH	21,291	1,120
KH Bank	1,437	277
U-Bank N.I.S. (ILS)	89	40
Leumi Bank Romania	3,570	
Leumi Bank - London	34,086	8
	60,494	1,551

NOTE 9: SHARE CAPITAL

	December 31	
	2007	2006
	Euro in thousands	
The issued share-capital can be specified as follows:		
Balance as at 1 January	2,660	2,400
Proceeds from shares issued	775	260
Balance as at 31 December	3,435	2,660

As of December 31, 2007 the authorised share-capital of Nanette Real Estate Group N.V. is EUR 8,000,000, divided into 400,000,000 shares of EUR 0,02.

On January 23, 2007, the Company issued to investors 13 million Ordinary shares at £ 0.85 per share (€ 1.3 per share). The total proceeds from the issue amounted to approximately £ 11 million (€ 16,620). The issue expenses of approximately € 600 were offset against the share premium.

On March 6, 2007, an investment agreement with an affiliate of Lehman, LBREP II Neptune S.a.r.l (LBREP), was signed. According to the agreement, the Company issued to LBREP 25,762,414 Ordinary shares at £ 0.85 per share (€ 1.25 per share). The proceeds from this issue amounted to approximately £ 21,900 thousand (€ 32,100). As result of the issue, LBREP acquired 15% of the Company's issued and outstanding share capital. The issue expenses of € 500 were offset against the share premium.

NOTE 10: SHARE PREMIUM ACCOUNT

	December 31	
	2007	2006
	Euro in thousands	
Balance as at 1 January	20,524	8,422
Share based compensation	47	275
Proceeds from shares issued	46,844	11,827
Balance as at 31 December	67,415	20,524

NOTE 11: LEGAL RESERVES

	Inventory revaluation **	Currency translation adjustment	Acquisition Of minority interest	Investment in associates*	Total
Balance at January 1, 2006	1743	690	65	527	3,025
Transfer of revaluation reserve upon disposal of inventory	(493)	-	-	-	(493)
Share of profit of associates which are held by the Group in 50% or less	-	-	-	1,935	1,935
Currency translation differences:	-	(1,246)			(1,246)
Balance at December 31, 2006	1,250	(556)	65	2,462	3,221
Transfer of revaluation reserve upon disposal of inventory	(160)	-	-	-	(160)
Share of profit of associates which are held by the Group in 50% or less	-	-	-	(2346)	(2346)
Sale of shares of subsidiary	-	(110)	-	-	(110)
Currency translation differences:	-	(4,735)	-	-	(4,735)
Reclassification inventory revaluation	-	-	-	4,188	4,188
	(160)	(4,845)	-	1,842	(3,163)
Balance at December 31, 2007	1,090	(5,401)	65	4,304	58

(*) including investment property revaluation.
(**) This amount relates to step up of an acquisition in which any adjustment to those fair values relating to interests of the acquirer is recognized in revaluation reserve.

NOTE 12:- RETAININED EARNINGS

	December 31	
	2007	2006
	Euro in thousands	
Balance as at 1 January	3,868	(1,721)
Net result	19,270	7,031
	23,138	5,310
Dividend	(4,037)	-
Share in the retained earnings of Companies held by the Company at 50% or less	2346	-
Transfer of revaluation	160	(1,935)
Reclassification inventory revaluation	(4,188)	493
Balance as at 31 December	17,419	3,868

NOTE 13:- Debentures

	Debentures
	Euro in thousands
Outstanding principal amounts as at 1 January 2007	16,476
Drawn in 2007	38,431
Repayments in 2007	(2,900)
Outstanding principal amounts as at 31 December	52,007
Short-term portion as at 31 December 2007	(5,431)
Long-term portion as at 31 December 2007	46,576

In July 2005, the company issued on the Tel Aviv Stock Exchange, debentures (series A) with a par value in New Israeli Shekels (NIS) equivalent in amount to USD 12,042,917 (EUR 10,045,000). The debentures mature in 7 equal semi-annual installments commencing on June 30, 2007 until June 30, 2010.

The debenture issue expenses of EUR 642,000 are off-set against the debentures and are amortized over the term of the debentures.

On August 15, 2006 the company issued to institutional investors debentures (series A) with a par value in NIS equivalent in amount to USD 12,478,997 (EUR 9,846,000) at a discount of EUR 98,000.

in June 2007, the Company issued to institutional investors debentures (series B) with a par value in New Israeli Shekels (NIS) of approximately NIS 214 million (€ 38,000). The debentures are rated by Ma'alot, an Israeli rating agency which is affiliated with Standard and Poor's, at a local rating of A1/Stable (the current rating is BBB Negative). An Israeli affiliate of Moody's, Midrug Ltd., rated the debentures as A2. The debentures bear interest at an annual rate of 5.5% and are linked (principal and interest) to the Israeli Consumer Price Index. After The Company registered these debentures on June 2008, the interest was decreased by 0.65% to 4.85%.

The interest on the debentures is payable every six months, starting in December 2007, and the principal will be paid in four equal annual installments starting in June 2012.

The carrying amount of the debentures is net of directly attributable transaction costs of € 290.

NOTE 14- OTHER LONG TERMS PAYABLES

	December 31	
	2007	2006
	Euro in thousands	
Loan Global Europe Inv. – *	2,938	2,874
Loan Frandilem	-	3,185
	2,938	6,059

* please refer to Note 12 C (1) of the Consolidated IFRS financial statements

NOTE 15:-INTEREST AND OTHER PAYABLE

	December 31	
	2007	2006
	Euro in thousands	
Int. loan Global Europe Inv.	27	202
Int. loan Zold Park	-	21
Int. loan Frandilem	62	76
Int. to debentures holders	72	-
Loans third parties	-	37
Directors' fee	462	167
Advisory fees	678	111
Audit fees	84	45
Creditors	65	3
Capital tax payable	130	-
Other	31	57
	1,611	719

NOTE 16:- NET INCOME

	December 31	
	2007	2006
	Euro in thousands	
Result for the sales (1)	7,332	2,219
Result for the year	6,839	5,493
Intercompany revenue	66	-
	14,237	7,712

(1) These profits derive from the sale of shares the Company held in the project companies, and do not Include profits incurred at the project level by the project companies.

NOTE 17:- COST OF SALES

	December 31	
	2007	2006
	Euro in thousands	
Cost of sales	(162)	-
Director's fee (1)	(1,680)	(621)
External hirers	(794)	(286)
Management fee	-	(420)
Auditor's fee	(164)	(167)
Travel expenses	(335)	(58)
Administration expenses	(11)	(67)
Legal expenses	(113)	(101)
Officer expenses	-	(31)
Translation expenses	(9)	(25)
Telephone expenses	(36)	(16)
Tax advisory expenses	(97)	(13)
PR expenses and advertising	(113)	(12)

NOTE 17:- COST OF SALES (Cont.)

Professional fee	(156)	(22)
Debentures interest and different exchange	(5,423)	(1,215)
Interest loan and difference exchange third Party	(75)	(197)
Europe Inv.	(593)	(295)
Interest and difference exchange banks	(4,594)	(9)
Difference exchange	(105)	-
Currency exchange results bank	6,135	1,173
Interest loans group companies	3,339	1,154
Interest banks	1,457	211
Interest income - related Party	956	110
Currency exchange results loans to subsidiaries	8,417	266
Taxes on income	(164)	-
Other financial exp.	(647)	(40)
	5,033	(681)

(1) Director's fee

	December 31	
	2007	2006
	Euro in thousands	
Director's fee	989	545
Director's insurance	45	22
Bonuses	646	54
	1,680	621

NOTE 17:- COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES

For commitments, contingent liabilities and pledges please refer to Note 15 of the Consolidated IFRS financial statements.

NOTE 18: SUBSEQUENT EVENTS

For subsequent events please refer to Note 26 of the Consolidated IFRS financial statements.

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Taxes on income	(164)	-
Other financial exp.	(647)	(40)
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(1) Director's fee

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	2007	2006
	EUR in thousands	
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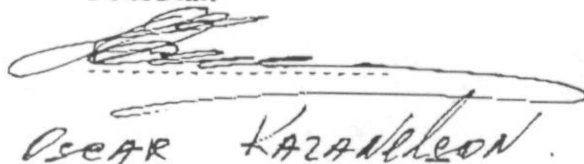

Oscar Kazanelson.

Professional fee	(156)	(22)
Debentures interest and different exchange	(5,423)	(1,215)
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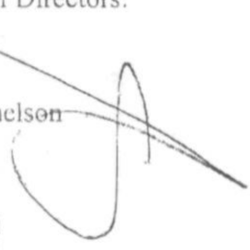

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Professional fee	(156)	(22)
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Taxes on income	(164)	-
Other financial exp.	(647)	(40)
	5,033	(681)

(1) Director's fee

	December 31	
	2007	2006
	EUR in thousands	
Director's fee	989	545
Director's insurance	45	22
Bonuses	646	54
	1,680	621

NOTE 17:- COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES

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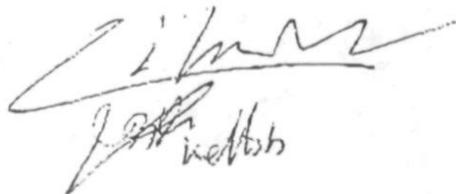

Yosi Cimer

Professional fee	(156)	(22)
Debentures interest and different exchange	(5,423)	(1,215)
Interest loan and difference exchange third Party	(75)	(197)
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Difference exchange	(105)	-
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Interest banks	1,437	211
Interest income - related Party	956	110
Currency exchange results loans to subsidiaries	8,417	266
Taxes on income	(164)	-
Other financial exp.	(647)	(40)
	5,033	(681)

(1) Director's fee

	December 31	
	2007	2006
	EUR in thousands	
Director's fee	989	545
Director's insurance	45	22
Bonuses	646	54
	1,680	621

NOTE 17:- COMMITMENTS, CONTINGENT LIABILITIES AND PLEDGES

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Other financial exp.	(647)	(40)
	5.033	(681)

(1) Director's fee

	December 31	
	2007	2006
	EUR in thousands	
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Bonuses	646	54
	1.680	621

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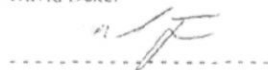

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	2007	2006
	EUR in thousands	
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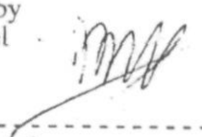

Nanette Real Estate Group N.V.

Amsterdam, the Netherlands

OTHER INFORMATION

OTHER INFORMATION

PROVISIONS OF THE ARTICLES OF ASSOCIATION CONCERNING THE APPROPRIATION OF PROFITS

The articles of association stipulate that the result for the year is at the disposal of the General Meeting of Shareholders.

APPROPRIATION OF RESULT

It is proposed that the 2007 result of 19,270 thousands EURO will be allocated to the other reserves.

The company annual accounts have been prepared in the assumption that this result will be adopted by the Annual General Meeting of Shareholders.

EVENTS SUBSEQUENT THE BALANCE SHEET DATE

a. Company Capital

1. In April 2008, the Company made market purchases of 650,000 Ordinary shares of the Company, representing approximately 0.38% of the issued share capital of the Company, at an average price of 65 pence per share. Following the above mentioned purchase, the equity were decreased by an amount of 527,000 Euro and the number of the Company's outstanding shares were decreased by 650,000 shares to 171,099,427.
2. On May 23, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 500,000 shares bringing the total number of shares to 171,599,427.
3. On July 01, 2008 a manager of one of the Companies affiliate companies exercised his share option, The Company issued additional 200,000 shares bringing the total number of shares to 171,799,427.

b. Debenture

1. In June 2008, the Company issued on the Tel-Aviv Stock Exchange debentures (Series C), with a par value of approximately NIS 130 million (approximately € 25 million). The debentures bear interest at an annual rate of 8% and are linked (principal and interest) to the Israeli Consumer Price Index. The debentures mature in four equal annual installments commencing in June 2011 and ending in June 2014. The interest on the debentures is payable every six months. The carrying amount of the debentures is net of directly attributable transaction costs of approximately € 693 thousand.

The debentures are rated by Midrug Ltd., an Israeli rating agency which is affiliated with Moody's, at a local rating of A2.

2. As described in Note 12c to the 2007 annual financial statements, in the event of dividend distribution, the Company is obliged to make a purchase offer for the redemption of the outstanding debentures (series A), up to an amount equal to the amount of the dividend distribution, such that the par value of the remaining outstanding debentures on such date shall not be an amount between zero and NIS 3.2 million (€ 640 thousand).

3. As of the date of the report the Company has purchased its own Series B bonds on the Tel Aviv Stock Exchange, of par value of NIS 40 Million (Euro 7.8 millions) for the total consideration of NIS 11.9 million (Euro 2.3 Million Euro)

4. As of the date of the report the Company has purchased its own Series C bonds on the Tel Aviv Stock Exchange, of par value of NIS 30.4 Million (Euro 5.9 millions) for the total consideration of NIS 14.6 million (Euro 2.9 Million Euro)

c. Dividends

1. On July 21, 2008, the Board of Directors proposed a dividend payment of € 0.064 per share. The proposed dividend was approved by the Company's general shareholders meeting held on August 15, 2008 as describe in b. 2. The Company had to publish a "Purchase offer to the holders of debenture series A up to the level of the dividend (Euro 11 million) , The total number of debenture holder from serious "A" that agreed to this offer was 47,638,597 (app. Euro 9.5 millions).

d. Purchase of companies

1. In March 2008, the Company acquired 15% of the share capital of Olimpia Real Estate LLC (including 11% acquired from related party) for a consideration of approximately € 1, no goodwill was recorded as at the purchase date it's not yet commenced business activities. The Company also granted loans to Olimpia Real Estate LLC in the total amount of € 3.9 million. Olimpia Real Estate LLC is a Cyprus company that holds 100% of the shares of an Ukrainian company that is the owner of a plot of land in Kiev, Ukraine.

2. In the begining of 2009, the Company completed the purchase of an additional 15% of the share capital of Olimpia Real Estate LLC from Olimpia Euro Construction BV* for a consideration of approximately € 1, no goodwill will be record as at the purchase date it's not yet commenced business activities. The Company also granted loans to Olimpia Real Estate LLC in the total amount of 6 Million USD (4.3 Milio Euro) Olimpia Real Estate LLC is a Cyprus company that holds 100% of the shares of an Ukrainian company that is the owner of a plot of land in Kiev, Ukraine.

Following the purchase the Olimpia Real Estate LLC's shareholder structure is now:
Olimpia Euro 64%
Nanette 30%
Local partners 6%

* Value. 45% of Olimpia Euro is held by Olimpia Real Estate Ltd (Olimpia), a 32.3% share holder of

Nanette. Mr. O. Kazenelson, Nanette's CEO is one of Olimpia's founding shareholders and serves as its president of the board, Mr. Ron Hadassi a non executive director in Nanette is the representative of the Bronfman-Fisher group which is part of the controlling group of Olimpia.

3. In April 2008, California signed a collaboration agreement with the owner of a plot of land of 1,400

sq. m which is located next to California's land. In accordance with the agreement the seller will be entitled to 49% of the profits from the entire project. California also signed another agreement with two owners of attached plots of land, with a total area of approximately 6,400 s.q. m for the consideration of approximately 17% of the sales from the project. California intends to construct a residential housing project on the total land area of approximately 9,200 sq. m consisting approximately 470 housing units, in a gross area of approximately 37,000 sq. m. The total estimated investment in the project is € 31.3 million and the company's estimated share in the sales from the project is € 41 million (the revenue is less the share of the other partners of approximately (17%) in the sales of the project). April 2008, the Company purchased, through a 90% Hungarian subsidiary (Taltoring Ingatlaforgalmazo Kft. ("Taltoring")), a 153,000 sq. m. plot in Budapest Hungary for a consideration of 1,870 million Hungarian Forint (approximately € 7.4 million) Since the Taltoring On the purchase date has not yet commenced business activities all the differences has been allocated to the investment property held by the Taltoring .

The company also granted shareholder loans to Taltoring in amount of 5,630 million Hungarian forint (approximately € 22.3 million). According to the agreement signed with the municipality, the owner of the remaining 10% interest in the subsidiary, the municipality has an option (put) to sell to the Company its entire interest in the subsidiary upon the approval of a new zoning plan for the plot, for a consideration of approximately € 2.2 million. The agreement also provides the Company with an option (call) to buy the municipality's interest at the same price. The put and call options may be exercised at any time during the period ending in April 2011. During December 2008 the Municipality exercise her Put option.

e. Disposal of companies

1. In June 2008, the company sold to AI Property Holdings LP (Hungary) ("Access") 50% of its interest (90%) in the Hungarian subsidiary Taltoring Ingatlaforgalmazo Kft. ("Taltoring) for a consideration of approximately €16,250 million. According to the agreement Access would provide shareholder loans in amount equivalent to the company shareholder loans. According to the agreement the company will be entitled for 30% of Access share in the profits once several conditions had been fulfilled among other an IRR above 25%..The sale of the shares were completed during July 2008 .

The company recognized a profit of 645 thousand Euro.

2. In June 2008 the company signed on a preliminary agreement according to which the company will transfer its share in Taltoring (45%) to a new company and will sell 45% of its share in the new company to Edr Real Estate (Estern Europe) S.C.A. ("Edr"), a company owned 100% by Rotshild Group for a consideration of € 337,500. According to the agreement Edr would provide to the new company shareholder loans in the amount of approximately € 7.5 million. Moreover, according to the agreement the company will be entitled for 30% of Access share in the profits once several conditions had been fulfilled among other an IRR above 25%.

The sale of shares were completed on the end of September 2008
Subsequent to the completion of the above transactions, the company's share in the issued and outstanding share capital of Taltoring is 24.75% and the share of Access and Edr in the issued and outstanding share capital of Taltoring is 45% and 20.25%, respectively.
The company recognized a profit of 623 thousand Euro.

f. Reorganization of the holdings of the Polish companies

In February 2008 the company purchased 14% of ROBYG S.A. for a consideration of approximately 40 thousands Euro. The purchase was the first stage of the reorganization.
In April 2008, the court approved the reorganization plan. Accordingly, the Company and Lehman each contributed their interests in all jointly-controlled Polish companies to a holding company (ROBYG S.A.) established for this purpose. In consideration of the contribution, the Company and Lehman received an equal number of shares of ROBYG S.A., thus retaining (indirectly) the joint ownership of the Polish companies. In addition, the collaboration agreement between the Company and Lehman was amended such that the decisions regarding entry into new projects will be agreed by the board of directors of ROBYG S.A. according to a regular majority, therefore the Company and Lehman do not have joint control of ROBYG S.A. Accordingly, commencing from the second quarter of 2008, the Company will include the accounts of ROBYG S.A. under the equity method and, consequently, the aforementioned Polish companies will no longer be proportionately consolidated.

In connection with the abovementioned reorganization, in April 2008, ROBYG S.A. acquired the operations of the company that provides management services to the Polish companies. The total consideration for the acquisition was € 9.5 million, of which € 3.5 million was paid in cash and the balance of the € 6 million is to be paid in three equal annual installments commencing April 2009 until April 2011.

g. Purchase of land

1. In July 2008, the Company purchased through a 100% subsidiary a 6,122 sq.m. plot, which is located in the 11th district of Budapest for a consideration of Euro 1.6 million. The plot is designated for residential use. The Group estimates it will build approximately 260 apartments in a area of approximately 15,000 Sq.m.
2. On September 8, 2008 the Company through a wholly owned subsidiary, it has signed a preliminary agreement to purchase a 3,24 hectare of free hold land, which is located in the 9th district of Budapest for the total consideration of app. Euro 17 million.

h. Financial Market crisis

1. The ongoing crisis in the financial markets and the related worldwide recession could have an impact on property markets and property prices although its effects have not been uniform across all markets. As the global recession takes hold, its impacts on the various European and Global property markets will vary depending on many factors. These will include the size of the underlying markets, the extent of excessive capital growth in the past, diversification of tenant mix, general shape of the overall

economy, reliance on the credit markets and investor mentality. These global factors contribute to instability and inactivity in real estate markets and could possibly have future negative consequences for the value of real estate assets and the results of the company due to: potential increases of real estate yields and therefore decreases in value of investment properties; worsening of occupier fundamentals and falling rents; impairment of goodwill and investments in associated companies; and impairment of financial instruments and other assets.

As of the 31.12.07 the carrying amount of our real estate investment property is EUR 18.4 Million. In determining the fair value of the investment property, the company hired a valuator which relied on comparable arm's length market transactions for similar properties.

As of the day of the report the company doesn't expect a significant decrease in the value of the investment property of the company included in the report.

Although Nanette at this moment does not encounter financing problems, due to the general market conditions in general and particularly due to the financial turmoil with lending banks, if the crisis dramatically worsens Nanette is just like any other company not immune.

2. Nanette works in partnership with Lehman Brothers Real Estate Partners, ("LBREP") a series of distinct and segregated private equity funds, funded by multiple partners and not part of the Chapter 11 proceedings. As of the date of the report all LBREP's funding obligations to the joint venture companies have been met and the company doesn't have any indication LBREP won't meet their future funding obligations.

In the unlikely event that LBREP do not meet their future obligations, the Company will need to assess the impact of such event and evaluate its course of action.

Nanette Real Estate Group N.V.

Amsterdam, the Netherlands

AUDITOR'S REPORT ON THE STATUTORY FINANCIAL STATEMENTS

ERNST & YOUNG

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To: The Management and Shareholders of Nanette Real Estate Group N.V.

AUDITOR'S REPORT

Report on the Statutory Financial Statements

We have audited the statutory financial statements of Nanette Real Estate Group N.V. as set out on pages 35 to 102. 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.

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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 IFRS financial statements
In our opinion, the consolidated IFRS financial statements give a true and fair view of the financial position of Nanette Real Estate Group 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 Nanette Real Estate Group 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, January 31, 2009

Ernst & Young Accountants LLP

Signed by A.J. Buisman