

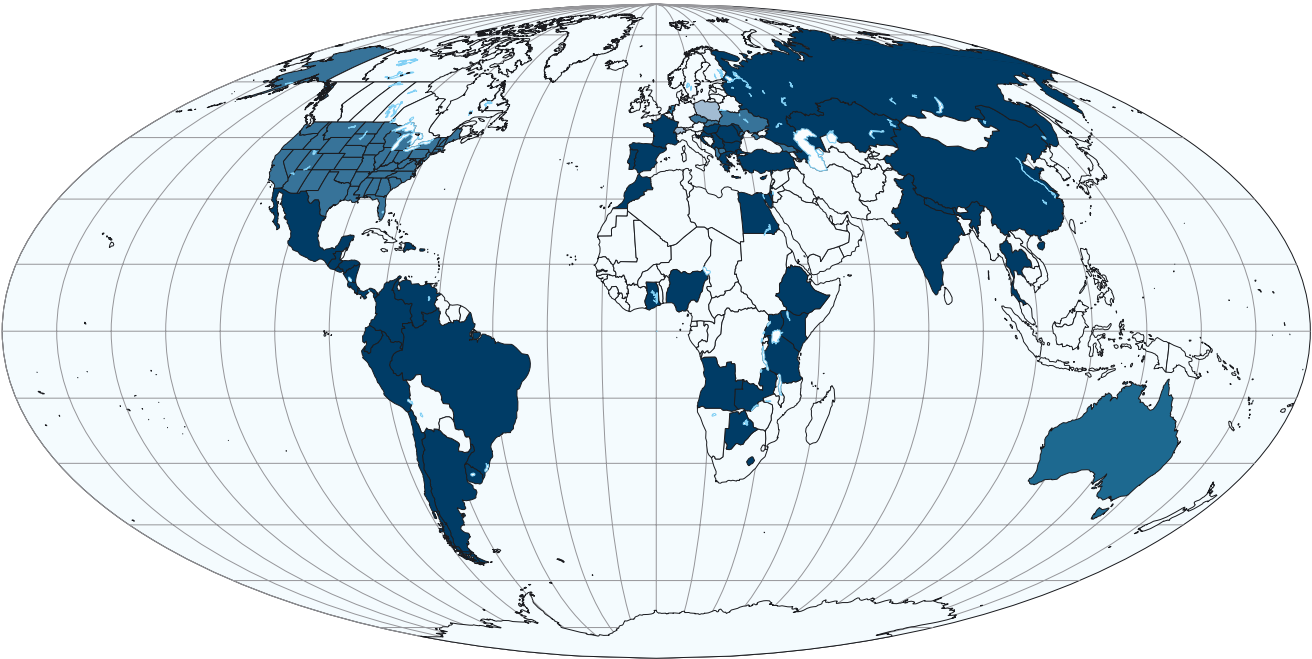
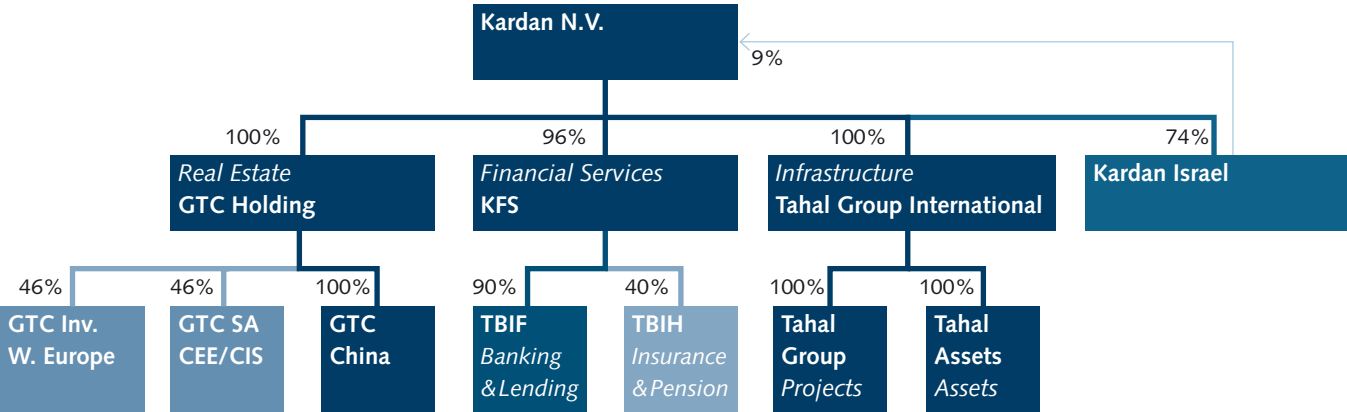
2008

# Annual Report



KARDAN N.V.

Organizational Chart Kardan N.V. (April 2009)



# 2008 Annual Report



KARDAN N.V.



# 2008 Annual Report

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# Foreword by the Chairman of the Management Board

*Dear Stakeholder,*

The early indications of what has become a global financial meltdown already began during 2007. During that period the sub-prime mortgage crisis primarily affected US banks who faced increased liquidity problems with defaults on payment of interest and principal. Now almost two years later we know better. We are in the deepest global recession since the Second World War.

With the deepening crisis of the financial markets in Q3 2008, emerging markets began to be affected. Western investors disposed of investments and Western banks were not willing to increase their exposure in these countries because they needed capital at home. At the same time exports from emerging markets started to decline due to lower demand in Western countries. These two factors significantly reduced the economic growth forecasts in emerging markets for the near future. Contrary to Western economies, however, there is still growth in several of these markets.

Kardan's decentralized organizational structure with strong local management on the ground and close to the operations enabled us already in early 2008 to detect initial signs of a slowdown in some of our markets. We therefore proactively took measures to protect our businesses and platforms.

Throughout 2008 we worked hard to keep the company sound and to anticipate how the financial crisis would impact our businesses. Although our geographic diversification and balanced portfolio protected us from all kinds of economic cycles in the past, the continuing global economic crisis has added new and unforeseen dimensions.

Our strategy over the past year has been to “**Watch and Hold**”. **Watch** very closely the important developments in our markets and businesses by listening to our partners and local managers and vigilantly assess our risk management, as a result of

which quick decisions needed in such situations were taken. **Hold** our liquidity. Make sure we have the proper liquidity levels for our debt-servicing ability in order to meet all of our commitments, and to support group companies during 2009 according to current requirements. We also decided to postpone several new investments until the depth and length of the crisis become more predictable.

The success of this strategy has enabled us to protect our many platforms and organizations, that once out of this crisis, will make us a much stronger group that can benefit from new opportunities.

The consolidated net profit to the group of EUR 175 million shows the strength and depth of the organization. Although our profits have been influenced by several one-off and accounting factors, even on an operational level, when compared to results across similar industries, we have fared relatively well.

At GTC Holding, our real estate division, we continue to enjoy a very high occupancy rate of over 92% and a percentage of pre-lease in our projects under construction ranging between 18% and 100%. We augmented our rental income due to the increase of completed projects and were also able to increase rental prices due to a low rental base achieved during the previous downturn in the market. On the other hand yields increased, reducing valuations. We are experiencing a more serious slowdown in CEE than in China, but we have acted accordingly.

In our financial services business, KFS's management has moved quickly to manage our liquidity, strengthen our capital base, reduce our cost structure, and control losses. Nevertheless the provisions on the loan portfolio have increased significantly. We also face a challenging environment in the Ukraine, where although the main problem remains on the macro level it has negatively impacted on the real economy and on the position of the bank.



Alon Shlank, Walter van Damme, Jan Sloodweg, Alain Ickovics and Einat Oz-Gabber



Both in the Ukraine and Russia we have received support from the government.

Tahal, our water-infrastructure business, had a difficult year with a loss of EUR 21 million primarily as a result of a devaluation of future profit expectations due to the economic crisis. It however continues to enjoy healthy demand in an increasingly important sector. The current backlog amounts to EUR 235 million backlog (+24% compared with December 31, 2007) and comprises of various infrastructure projects with global geographic diversity. Furthermore, we are looking to increase the activities in our infrastructure asset development and ownership business, bearing in mind capital scarcity in the current capital markets.

We have prepared for a difficult economy in 2009. To that end, we have lowered costs, improved our cash position, and intensified our management processes. In 2009, these measures will be further intensified. At the same time, we will continue to execute our long-term strategy. We will continue to build strong businesses with conservative funding that will perform over the long term.

Kardan's management has decades of experience in dealing with the volatile emerging markets and has thrived through many cycles in these markets.

Looking forward, we are convinced that the economic growth of emerging markets will return. Once the market stabilizes and signs appear that the market is poised for an upswing, the Kardan Group should outperform its peers due to management's "Watch and Hold" strategy. We are prepared to hold and operate our assets through the cycle to maximize value and protect our platforms. We anticipate then to emerge from this cycle as a more valuable and better-positioned company.

Alain Ickovics  
Chairman of the Management Board



# Vision Mission Strategy

## Vision

Kardan's vision on global developments is that in ten to fifteen years' time, the economic and political landscape will have changed significantly compared to today's situation. Developed countries will also benefit from the growth opportunities of emerging countries to sustain their current standard of living.

The emerging markets will show significant growth because they are rich in commodities and they have large pools of educated labor, which should improve productivity dramatically. Such growth will result in a strong increase in the middle-class economic power, thus creating demand for water, housing and financial services.

## Mission

It is Kardan's strong belief that stability in the emerging markets is an important prerequisite for achieving sustainable growth. Thus governments should organize their economy so that this increase in wealth is spread over their population. This is only the case if the supply of basic needs is safeguarded. Kardan's mission is to use its extensive expertise, network of strategic partnerships, entrepreneurial local and international management, and commercial strengths to cater to the basic needs of the middle class and create long-term value for shareholders.

## Strategy

The best way to match supply and demand is to act swiftly and locally. Our lean management structure together with the creation of local platforms allow for quick decision-making processes and good risk management. The same holds for the creation of long-term value: local organizations managed by local management and, if necessary, run together with partners, all supported by Kardan N.V. management, are the key to our success.

To achieve this goal, Kardan will pursue the following strategy:

- Develop local "platforms" in almost each of the countries Kardan is active in.

- Achieve growth organically or by acquisitions.
- While maintaining control, liaise with local partners with knowledge of the local environment to develop business.
- Appoint management with relevant expertise to ascertain delivery of products and services according to demand.
- Incentivize management to align properly.

All divisions benefit from the synergies within Kardan when it comes to:

- Understanding the environment, the opportunities, and the risk based on a 15-year track record in emerging market.
- Establishing local partnerships (committed parties that are interested in joining an international group with access to capital).
- Strengthening the finances of group companies using the group's relationship and assets within the regions it is active in.

# Shareholder Information

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

## Distribution of shares

As of December 31, 2008 a total of 110,976,911 ordinary shares have been issued and are outstanding.

The following table presents shareholdings of more than 5% and of related parties as of March 30, 2009:

	Number of shares held (ordinary shares of € 0.20 each)	Holding rate		Holding rate in full dilution	
		In capital	In voting	In capital	In voting
Y. Grunfeld (1)(9)	22,487,267	20.25%	22.36%	19.90%	21.95%
A. Schnur (2)(9)	19,818,465	17.84%	19.71%	17.54%	19.34%
E. Rechter (3)(9)	4,098,719	3.69%	4.08%	3.63%	4.00%
A. Ickovics (4)	3,312,975	2.98%	3.29%	3.09%	3.41%
J. Pomrenze (5)	150,052	0.14%	0.15%	0.13%	0.15%
A. Shlank (6)	40,676	0.04%	0.04%	0.19%	0.21%
W. van Damme (7)	–	–	–	0.13%	0.15%
E. Oz-Gabber (8)	3,290	–	–	0.14%	0.15%
J. Slootweg (10)	–	–	–	0.15%	0.17%
Kardan Israel Ltd (11)	10,506,110	9.46%	–	9.30%	–
IDB Group (12)	9,723,032	8.75%	9.67%	8.61%	9.49%

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

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

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

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

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

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

(7) Mr. Van Damme is a member of the Management Board of Kardan. Mr. Van Damme holds 150,000 options to shares of Kardan.

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

(9) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement which represents approximately 42%.

(10) Mr. Slootweg is a member of the Management Board of Kardan. Mr. Slootweg holds 175,000 options to shares of Kardan.

(11) Kardan Israel is a 73.7% owned subsidiary of Kardan N.V.

(12) Combined holdings of several companies related to IDB Holdings Ltd. IDB group also holds 193,532 debentures series A.

## Key financial figures per share

€ per share	2008	2007	2006
Basic earnings	0.63	1.11	0.55
Diluted earnings	0.28	1.10	0.47
Total consolidated equity	10.0	13.3	9.5
Equity net of minority interest	3.3	4.2	3.4

## Share prices in 2008

	Euronext (EUR)	Tel Aviv (NIS)
Highest share price	11.20	65.98
Lowest share price	1.38	7.51
Year-end	1.54	8.56

## Liquidity provider

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

## Financial calendar

General Meeting of Shareholders – May 20, 2009

Q1 2009 results – May 27, 2009

Q2 2009 results – August 31, 2009

Q3 2009 results – November 30, 2009

## Dividend policy

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

## Additional information

Additional information can be obtained from:  
Kardan N.V.  
Claude Debussylaan 30  
Viñoly Building, 13th floor  
1082 MD AMSTERDAM  
The Netherlands  
Telephone +31 (0) 20 305 0010

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

# Composition of the Boards

## Management Board

Below is a profile of the Management Board as of the date of the report. All members of the Management Board are appointed for a period of three years and may be immediately re-appointed.

### Mr. Alain Ickovics (1959)

*Position:* Managing Director (Chairman)

*Nationality:* Israeli and Belgian

*Appointed:* June 14, 2006

*Current term:* AGM 2009

Mr. Ickovics holds an MBA in Finance from Columbia University and a BS in Industrial Engineering from the Technion - Israel Institute of Technology. In 1994, Mr. Ickovics joined the Kardan Group and held the position of Chairman of the Management Board of Globe Trade Centre S.A. From 2001 to 2006, Mr. Ickovics served as the Director of International Operations of Kardan N.V. and as the Managing Director of GTC International S.A. and as a Director of several of its operational subsidiaries. Currently, he also serves as a Managing Director and Supervisory Director in various other companies within the Kardan Group, including Kardan Financial Services B.V., TBIF Financial Services B.V., TBIH Financial Services Group N.V., Tahal Group International B.V., GTC Real Estate Holding B.V., and Globe Trade Centre S.A.

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

*Position:* Managing Director

*Nationality:* Israeli

*Appointed:* May 18, 2004

*Re-appointed:* June 13, 2007

*Current term:* AGM 2010

Mr. Shlank holds a degree (LLB) in law from Tel Aviv University (Israel). Until 1994, Mr. Shlank was a partner in a law firm in Israel, specializing in securities, mergers and acquisitions, investments, and corporate law. Between 1994 and 2001, Mr. Shlank served as CEO of Alrig S3R Ltd. and as a Director of several companies within the Alrig Group. In 2001, Mr. Shlank joined the Kardan Group. Currently he also serves as a Managing Director and Supervisory Director in various other companies within the Kardan Group, including

GTC Real Estate Holding B.V., TBIH Financial Services Group N.V., Kardan Financial Services B.V., and Globe Trade Centre S.A.

### Mrs. Einat Oz-Gabber (1971)

*Position:* Managing Director (CFO)

*Nationality:* Israeli

*Appointed:* May 19, 2005

*Re-appointed:* June 19, 2008

*Current term:* AGM 2011

Mrs. Oz-Gabber is a Certified Public Accountant (Israel) and holds a BA in Economics and Accounting from Tel Aviv University (Israel). Mrs. Oz-Gabber has been working as an accountant and auditor from 1997 to 2001 in Israel with Luboshitz Kasierer (Arthur Andersen). Between 2001 and 2003, Mrs. Oz-Gabber worked for Deloitte & Touche Accountants (formerly Arthur Andersen) in the Netherlands. Mrs. Oz-Gabber has been working as Controller of the Kardan Group since mid-2003 and since May 2005 as the Chief Financial Officer (CFO) of Kardan N.V. Mrs. Oz-Gabber has knowledge and experience with IFRS, Dutch GAAP, and Israeli GAAP. Currently, she also serves as a Managing Director and Supervisory director in various other companies within the Kardan Group, including GTC Real Estate Holding B.V., Kardan Financial Services B.V., TBIF Financial Services B.V., and Tahal Group International B.V.

### Mr. Walter van Damme (1972)

*Position:* Managing Director

*Nationality:* Dutch

*Appointed:* June 13, 2007

*Current term:* AGM 2010

Mr. Van Damme holds a law degree from the University of Amsterdam. Mr. Van Damme started his career as a lawyer at different law firms. From 2000 until the end of 2006, Mr. Van Damme served as one of the founding partners of First Dutch Capital. In January 2007, Mr. Van Damme joined the Kardan Group. He also serves as a Managing Director and Supervisory director in various other companies within the Kardan Group, including GTC Real Estate Holding B.V., Globe Trade Centre S.A., Tahal Group

International B.V., Kardan Financial Services B.V., and TBIF Financial Services B.V.

**Mr. Jan Slootweg (1957)**

*Position:* Managing Director

*Nationality:* Dutch

*Appointed:* June 19, 2008

*Current term:* AGM 2011

Mr. Slootweg completed his education at NIVRA (CPA) in Amsterdam and is an RA (Registered Auditor). Mr. Slootweg started his career at Deloitte & Touche in 1975. Between 1992 and 2001, Mr. Slootweg worked for Athlon Groep N.V. as Concern Controller and between 2001 and 2006 he was a member of the Executive Board of Athlon Holding N.V., a company

listed on the AEX at that time, where he was responsible for finance, controlling, and IT. After Athlon was delisted from the AEX, Mr. Slootweg became a member of the Management Board of Athlon Car Lease International B.V., where he was responsible for control, risk, tax, HR, and legal. In June 2008, Mr. Slootweg joined Kardan N.V. He also serves as a Managing Director and Supervisory Director in various other companies within the Kardan Group, including Kardan Financial Services B.V., GTC Real Estate Holding B.V., Globe Trade Centre S.A., and Tahal Group International B.V.

**(Re-)appointment scheme of Kardan N.V.'s Management Board**

**Introduction**

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

**Scheme**

	Date of initial appointment	Date of reappointment	End of current term
Einat Oz-Gabber	May 19, 2005	June 19, 2008	AGM 2011
Alain Ickovics	June 14, 2006		AGM 2009
Alon Shlank	May 18, 2004	June 13, 2007	AGM 2010
Walter van Damme	June 13, 2007		AGM 2010
Jan Slootweg	June 19, 2008		AGM 2011

## Supervisory Board

Below is a profile of the Supervisory Board as of the date of the report. All members of the Supervisory Board are appointed for a period of four years and may be re-appointed no more than two times.

### Mr. Joseph Krant (1948)

*Position:* Chairman of the Supervisory Board, member of the Audit Committee and member of the Remuneration, Appointment and Selection Committee.

*Nationality:* Dutch

*Appointed:* July 9, 2003

*Re-Appointed:* June 13, 2007

*Current term:* AGM 2011

Mr. Krant is Managing Director of Catalyst Advisors B.V. Since 1973, he occupied various positions, including Managing Director and Chief Executive Officer of Kempen & Co and CEO of Dexia Bank Nederland.

*Other positions:*

- Chairman of the Supervisory Board of Wereldhave N.V.
- Member of the Supervisory Board of AFC Ajax N.V.
- Member of the Supervisory Board of Cyrté Investments B.V.
- Member of Investment Committee of Cyrté Fund 1 C.V., Cyrté Fund 2 C.V., and Cyrté Fund 3 C.V.
- Chairman of the Board of the Jewish Historical Museum, Amsterdam.

### Mrs. Karnina Rechter (1953)

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

*Nationality:* Israeli

*Appointed:* May 2, 2003

*Re-Appointed:* June 13, 2007

*Current term:* AGM 2011

Mrs. Rechter holds a BA in Social Work from the Bar Ilan University and a BA and a degree in law from London University. Mrs. Rechter is a partner in the Israeli firm Bash-Rechter, Advocates, working as an advocate and a mediator. She regularly lectures university students on mediation topics and for the past four years has authored a weekly column on legal

and mediation matters in Maariv, Israel's second largest daily newspaper.

*Other positions:*

- Director of the Israeli holding company Shamait Ltd.

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

*Position:* Supervisory Director

*Nationality:* Israeli

*Appointed:* July 9, 2003

*Re-Appointed:* June 13, 2007

*Current term:* AGM 2011

As of 1986 Mr. Schnur has served as President of Astra Diamonds Manufacturers Ltd. He has also served as a Director at Kardan Israel Ltd. since August 1994 as well as at various other Israeli companies that are either subsidiaries or that are related to Kardan Group, including Talladium Holdings (1987) Ltd, Talladium Ltd., and Taldan Motors Ltd. and, furthermore, he serves as a Director of the following companies:

- Guadalup Trading & Investments Ltd.
- Raitalon Ltd.
- Astra Diamond Manufacturers Ltd.
- Teledata Networks Ltd.
- PDD Diamonds Ltd.
- AP Diamonds Ltd.
- IGC International Gemological Laboratories (2004) Ltd.
- Astra-Michlin Diamonds Ltd.
- Rachminov Diamonds (Israel) 1891 Ltd.
- Rachminov Jewelry 1891 Ltd.
- Dalior Diamonds Ltd.
- Taltalon Investments Ltd.

### Mr. Israel Fink (1946)

*Position:* Supervisory Director

*Nationality:* Belgian

*Appointed:* May 2, 2003

*Re-Appointed:* June 13, 2007

*Current term:* AGM 2011

Mr. Fink holds a degree in Civil Engineering from Brussels University. Mr. Fink serves as Sales and Marketing Manager and Co-director of Fancy Diamonds International BVBA, a company incorporated in Belgium. Since 1970, he has occupied



various positions in the construction management and diamond industries.

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

*Position:* Supervisory Director and member of the Remuneration Appointment and Selection Committee

*Nationality:* American

*Appointed:* May 18, 2004

*Re-appointed:* June 19, 2008

*Current term:* AGM 2012

Mr. Pomrenze holds a BA in Chemistry from Yeshiva University, New York, an MA in Philosophy from Yeshiva University, New York, an Ordination as Rabbi of Yeshiva University, New York and an MBA in Finance & Economics from New York University. Mr. Pomrenze currently acts as a partner in Cayman Partners and serves as a Director in Poalim Capital Markets Ltd. and KCPS & Company.

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

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

*Nationality:* Dutch

*Appointed:* July 1, 2005

*Current term:* AGM 2009

Mr. Groen holds a MA in Economics and Accounting from the University of Amsterdam. Mr. Groen worked as partner of KPMG Business Advisory Services/KPMG Accountants, Amsterdam, for more than 30 years. He holds a degree in Economics (MA) and a postgraduate degree in Accountancy (Registered Accountant). He is a member of the Netherlands Institute of Certified Accountants.

*Other positions:*

- Supervisory Board member of the Sinaï Centrum
- Board member of the Carel Abas Foundation
- Board member of the Foundation Netherlands Sephardi Inheritance
- Member of the Appeals Committee of the Dutch Jewish Humanitarian Fund
- Board Member of the Netherlands Synagogue Community
- Member Appeals Committee of the Foundation Collectieve Maror-gelden Nederland

- Member of the Finance Committee of B'nai B'rith Europe

**Mr. Hendrik Benjamins (1943)**

*Position:* Supervisory Director and the Chairman of the Remuneration Appointment and Selection Committee.

*Nationality:* Dutch

*Appointed:* November 1, 2006

*Current term:* AGM 2010

Mr. Benjamins retired as CEO in May 2005 from Koninklijke Frans Maas Groep after 15 successful years in various positions. Between 1986-1991 Mr. Benjamins worked for Akzo Nobel as Transport Manager.

*Other Positions:*

- Member of Executive Board of VNO/NCW
- Member of Executive Board of the Limburg Chamber of Commerce
- Chairman of the Supervisory Board at Grondexploitatie maatschappij Californie B.V, Vos Logistics B.V., Munckhof Groep B.V., CA F.N.Z. Holding B.V.
- Supervisory Board Member at: FloraHolland, Maastricht Academic Hospital, Foundation Annadal
- Chairman of the Limburg Entrepreneurs Association

## (Re-)appointment scheme of Kardan N.V.'s Supervisory Board

### Introduction

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

### Scheme

	Date of initial appointment	Date of reappointment	End of current term	End of ultimate term
Israel Fink	May 2, 2003	June 13, 2007	AGM 2011	AGM 2015
Karina Rechter	May 2, 2003	June 13, 2007	AGM 2011	AGM 2015
Avner A. Schnur	July 9, 2003	June 13, 2007	AGM 2011	AGM 2015
Joseph Krant	July 9, 2003	June 13, 2007	AGM 2011	AGM 2015
Jay L. Pomrenze	May 18, 2004	June 19, 2008	AGM 2012	AGM 2016
Max I. Groen	July 1, 2005		AGM 2009	AGM 2017
Henk Benjamins	November 1, 2006		AGM 2010	AGM 2018

# Corporate Governance

## Introduction

This chapter describes the general corporate governance structure of Kardan N.V. The Management Board and the Supervisory Board of Kardan N.V. acknowledge their responsibility for Kardan N.V.'s corporate governance and for compliance with the Dutch Corporate Governance Code (the Code). Kardan N.V. applies the Code's principles and best practice provisions, except for the following principles and best practice provisions that are not fully applied:

- “ *The best practice provisions relating to principle II.2* – remuneration and composition of the remuneration: although Kardan N.V. is not yet fully compliant with the best practice provisions relating to the remuneration of the members of its Management Board, a Remuneration, Appointment and Selection Committee has been established on June 19, 2008. During the financial year 2008, this Committee worked on a remuneration policy that will be presented for approval to the General Meeting of Shareholders during the AGM to be held on May 20, 2009. The Management Board and Supervisory Board of Kardan N.V. share the view that the proposed remuneration policy follows the principles of the Code. For more information in this respect, reference is made to the Report of the Supervisory Board, page 30 and to the paragraph “Remuneration and shareholdings of the Management Board” on page 20 of this chapter.
- “ *Best practice provision III.2* – independence of the Supervisory Board members: five members of the Supervisory Board of Kardan N.V. can be regarded as independent under the criteria laid down in the Code. These are Mr. Krant, Mr. Fink, Mr. Pomrenze, Mr. Groen, and Mr. Benjamins. The other members, being Mr. Schnur and Mrs. Rechter, are not independent under these criteria. Mr. Schnur is holding more than ten percent of the issued share capital of Kardan, and Mrs. Rechter is related by marriage to Mr. Rechter who receives a remuneration in his position of managing director of Kardan Israel Ltd. Kardan N.V. will not follow best practice provision III.2.1 because it regards a long-term alliance with these persons important to

all the stakeholders involved in Kardan. Given the extensive provisions on conflicts of interest in its articles of association and the Supervisory Board Regulations, Kardan N.V. feels that there are – without jeopardizing the corporate governance system – good grounds for not following this provision.

- “ *Best practice provision III.3.3* – introductions and education or training program: Kardan N.V. does not consider it necessary to make an introduction program mandatory for each newly appointed Supervisory Board member. If a newly appointed Supervisory Board member considers it necessary or desirable, he or she may follow an introduction program that covers general financial and legal matters, financial reporting by Kardan, any specific aspects that are unique to Kardan and its business activities, and the responsibilities of a Supervisory Board member.
- “ *Best practice provision III.3.4* – limitation of the number of supervisory board positions: although in practice Kardan N.V. currently complies with this best practice provision since none of the Supervisory Board members serves in more than five supervisory boards of Dutch listed companies, it does not comply with the Code in a strict sense, as no numerical maximum is set. However, the Supervisory Board Regulations prescribe that the Supervisory Board should decide on a case-by-case basis whether the acceptance of another position would conflict with the ability of the Supervisory Board member to properly perform his/her role within Kardan N.V., in which case the relevant member is requested to resign should he/she decide to accept the conflicting position. Kardan N.V. believes that a case-by-case assessment better serves the principle behind this provision of the Code than applying absolute numerical criteria.
- “ *Best practice provision III.4.2* – the chairman of the Supervisory Board shall not be a former member of the Management Board: although the current Chairman, Mr. Krant, is not a former member of the Management Board, Kardan N.V. does not consider it appropriate to exclude such a situation for the

future, taking into account the specific knowledge and experience that rest with its senior management and from which a Supervisory Board may well benefit when performing its tasks.

“ *Best practice provision III.5.6.* – the chairman of the Audit Committee shall not be a former member of the Management Board: although Kardan N.V. is currently in compliance with the Code, as Mr. Groen, the current Chairman of the Audit Committee is not a former member of the Management Board, it considers it in the interest of Kardan not to exclude this situation for the future and has therefore enforced this vision in the Terms of Reference of the Audit Committee.

“ *Best practice provision III.6.4* – transactions between Kardan N.V. and legal or natural persons holding at least ten percent of the shares in the capital of Kardan N.V.: although Kardan N.V. does not regulate these transactions as provided for in this best practice provision, it takes the view that the provisions on conflicts of interest as provided for in its articles of association, the Management Board Regulations and the Supervisory Board Regulations in combination with the provisions on transactions with Holders of Control (as defined in the articles of association and as further described in the paragraph “Related Party Transactions” in this chapter) provide sufficient protection in this respect.

“ *Best practice provision IV.1.1* – the adoption of a resolution to cancel the binding nature of a nomination for the appointment of a member of the Management Board or the Supervisory Board and/or a resolution to dismiss a member of the Management Board or the Supervisory Board: Kardan N.V. considers it in its own interest that the Supervisory Board’s right of nomination shall be binding, unless the General Meeting of Shareholders rejects the binding character by means of a resolution passed with a majority of two-thirds of the votes cast, representing more than half of Kardan N.V. ’s issued capital.

“ *Best practice provision IV.3* – meetings with analysts, presentations to analysts and presentations to investors shall be announced in advance on the

company’s website and by means of press releases, and provision shall be made for all shareholders to follow these meetings and presentations in real time: while generally complying with the rules and regulations on fair and non-selective disclosure and equal treatment of shareholders, in view of the number of meetings and the sensitivity of the identity of (some of) the investors, not all of these meetings are being announced or can be followed in accordance with this best practice provision. In the event that presentations held contain relevant information, these are posted on Kardan’s website afterwards in accordance with the applicable rules.

Each important change to Kardan N.V.’s corporate governance structure and any alterations in the compliance with the Code will be submitted to the Annual General Meeting of Shareholders for discussion as a separate agenda item.

Further details on the extent and manner of implementation of the Code are found in (i) this chapter and in the risk management chapter (page 65 of this Annual Report), and (ii) in Kardan’s articles of association, the Supervisory Board Regulations (including profile, Audit Committee Terms of Reference and the rules governing the Remuneration, Appointment and Selection Committee) and the Management Board Regulations which have all been posted on Kardan’s website ([www.kardan.nl](http://www.kardan.nl)).

## Structure

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

Kardan N.V.’s management is entrusted to the Management Board, which means, among other things, that the Management Board is responsible for the development and implementation of Kardan’s objectives, strategy and policies. Under Dutch law, the members of the Management Board hold their duties

and responsibilities collectively. The Management Board is accountable to the Supervisory Board and to the General Meeting of Shareholders. In performing its duties and responsibilities, the Management Board is guided by Kardan's corporate interests and those of its affiliated enterprises, while taking all stakeholders' interests into consideration. The Management Board is subject to the Management Board Regulations.

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

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

## **Appointment and composition of the Management Board**

The Supervisory Board has the right to make binding nominations for candidates for the Management Board, which are subsequently appointed by the General Meeting of Shareholders. Each member of the Management Board is appointed for a period of three years, but may be re-appointed following the expiration of his/her term of office. At present, the Management Board has five members; their profiles and an appointment scheme can be found on page 12 and 13 of this Annual Report.

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

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

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

### Internal regulations and conflicts of interest regarding the Management Board

Kardan considers it important that employees are able to report in an adequate and safe manner any suspicions they may have of irregularities of a general, operational or financial nature. Since proper procedural provisions play an important part in reporting such concerns, the Management Board decided to adopt a Whistleblower Policy, which has been posted on Kardan's website ([www.kardan.nl](http://www.kardan.nl)). In addition, Kardan has adopted a Code of Conduct, intended to provide its employees with guidelines for the behavior and activities of employees, and for compliance with laws, regulations and ethical standards that govern the business of Kardan, which can also be found on Kardan's website.

The articles of association of Kardan N.V. include extensive provisions on conflicts of interest between Kardan N.V. and Holders of Control (as defined in the articles of association), which are also applicable if these Holders of Control hold a position on the Management Board (for a further description of these provisions, reference is made to the paragraph "Related Party Transactions" in this chapter). In addition, Kardan N.V. endorses the Code's principles and provisions that address conflicts of interest between Kardan N.V. and one or more members of the Management Board. To this effect, provisions have also been included in the Management Board Regulations covering best practice provisions II.3.1 through II.3.4 of the Code.

### Remuneration and shareholdings of the Management Board

The General Meeting of Shareholders directly determines the remuneration amount and composition of the remuneration to the members of the Management Board. During the AGM to be held on May 20, 2009, a remuneration policy will be submitted to the General Meeting of Shareholders for approval (reference is also made to the Supervisory Board Report in this Annual Report). At the AGM, the General Meeting of Shareholders will also be asked to

adopt an amendment to the articles of association, providing that (i) Kardan will have a remuneration policy to be adopted by the General Meeting of Shareholders; and (ii) the General Meeting of Shareholders will on the proposal of the Supervisory Board determine the remuneration of the individual members of the Management Board.

Detailed information about the remuneration of the members of the Management Board can be found in the notes to the financial statements on page 228 of this Annual Report.

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

The members of the Management Board who hold shares in the capital of Kardan N.V. are Mr. A. Ickovics, who currently holds 3,312,975 shares in the capital of Kardan N.V., Mr. A. Shlank, who currently holds 40,676 shares in the capital of Kardan N.V. and Ms. E. Oz-Gabber who currently holds 3,290 shares in the capital of Kardan N.V. Furthermore, the only member of the Management Board holding shares in any Kardan group companies is Mr. A. Ickovics, holding 61,904 shares in Kardan Israel Ltd., an Israeli company listed on the Tel-Aviv Stock Exchange, and 225 shares in GTC Investments B.V.

Kardan N.V. granted the following number of options on shares in Kardan N.V. to the following members of the Management Board under the terms and conditions laid down in the Stock Option Plan and the individual award agreements for which approval was granted by the General Meeting of Shareholders during the Extraordinary General Meeting of Shareholders of Kardan N.V., held on October 26, 2006 (for the grants to Mr. A. Ickovics, Mr. A. Shlank and Ms. E. Oz-Gabber) and by the General Meeting of Shareholders during the Annual General Meeting of



Shareholders held on June 19, 2008 (Mr. W. van Damme and Mr. J. Slootweg):

- 179,232 options to Mr. A. Ickovics
- 179,232 options to Mr. A. Shlank
- 149,360 options to Mrs. E. Oz-Gabber
- 150,000 options to Mr. W. van Damme
- 175,000 options to Mr. J. Slootweg

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

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

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

The members of the Management Board are subject to the insider trading policy of Kardan N.V. which, among other stipulations, contains rules of conduct to prevent trading in Kardan N.V.'s securities when holding inside information. In addition, the members of the Management Board are subject to a policy on the ownership of and transactions in securities other than Kardan N.V.'s financial instruments. Both policies are published on the website.

### **Appointment and composition of the Supervisory Board**

The Supervisory Board itself has the right to make binding nominations for the candidates for the position of supervisory director, which are subsequently appointed by the General Meeting of Shareholders. Each member of the Supervisory Board is appointed for a period of four years and may be re-appointed for a maximum of two more terms. The Supervisory Board itself determines the number of supervisory directors, but there must always be at least three members. At present, the Supervisory Board consists of seven members; their profiles and an appointment scheme can be found on pages 14-16 of this Annual Report. Furthermore, the Supervisory Board Regulations include a profile of the Supervisory Board's size and composition.

Each supervisory director must be capable of assessing the broad outline of Kardan's overall policy and must have the specific expertise required for the fulfillment of the duties assigned to the role designated to the supervisory director in the Supervisory Board profile. It is considered desirable for the Supervisory Board to represent, if possible, a wide range of expertise, so that it has relevant knowledge and experience of business management, financial administration and accounting for listed companies and other large legal entities.

The Supervisory Board can request supervisory directors to retire prematurely in the event of inadequate performance or a structural incompatibility of interests.

The Supervisory Board can elect a chairman from its members. The chairman of the Supervisory Board sets the agenda, chairs the Supervisory Board meetings, monitors the proper functioning of the Supervisory Board, the Audit Committee, the Remuneration, Appointment and Selection Committee, and arranges for the adequate provision of information to the supervisory directors. Furthermore, the chairman ensures that there is sufficient time for decision-making, and acts on behalf of the Supervisory Board as the main point of contact for the Management Board. The chairman of the Supervisory Board is also the chairman of the General Meeting of Shareholders. The chairman of the Supervisory Board may arrange for the Supervisory Board to discuss its own functioning and that of its individual members, and the conclusions to be drawn. The desired profile, composition and competence of the Supervisory Board may also be discussed.

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

### Conflict of interest and remuneration of the Supervisory Board

The articles of association of Kardan N.V. include extensive provisions on conflicts of interest between Kardan N.V. and Holders of Control (as defined in the articles of association), which are also applicable if these Holders of Control hold a position in the Supervisory Board (for a further description of these provisions, reference is made to the paragraph "Related Party Transactions" in this chapter). In addition, Kardan N.V. endorses the principles and provisions of the Code that address conflicts of interest between Kardan and one or more members of the Supervisory Board. To this effect, provisions have been included in the Supervisory Board

Regulations covering best practice provisions III.6.1 through III.6.3 of the Code.

The General Meeting of Shareholders determines the remuneration of each supervisory director. The remuneration of a supervisory director is currently not dependent on the results of Kardan. Shares and rights to shares are currently not granted to supervisory directors as remuneration. Kardan has not granted personal loans, guarantees or the like to supervisory directors. Detailed information on the remuneration of the members of the Supervisory Board can be found in the notes to the financial statements on page 228 of this Annual Report.

There are three members of the Supervisory Board who hold shares in the capital of Kardan. Mr. A. Schnur currently holds 19,818,465 shares in Kardan N.V., Mr. J. Pomrenze currently holds 150,052 shares and, in addition, Mrs. K. Rechter holds 4,098,719 shares through Shamait Ltd., a private company incorporated in Israel, and fully owned by Mrs. K. Rechter and her husband, Mr. E. Rechter.

The members of the Supervisory Board are subject to the insider trading policy of Kardan N.V. which, among others, contains rules of conduct in preventing trade in Kardan N.V.'s securities when holding inside information. In addition, the members of the Supervisory Board are subject to a policy on the ownership and transactions in securities other than Kardan N.V.'s financial instruments. Both policies are published on Kardan's website.

### Audit Committee

The Supervisory Board has elected three of its members to form an Audit Committee, without in any way derogating from its primary responsibilities. The Audit Committee is subject to the Terms of Reference which form part of the Supervisory Board Regulations.

The Audit Committee has the general task of evaluating and advising the Supervisory Board on



matters concerning financial administrative control, financial reporting and internal and external auditing. The Audit Committee shall act as the principal contact for the external auditor, should the auditor discover irregularities in the content of the financial reports. The Audit Committee is authorized to request advice from outside experts if it considers such necessary. If possible, the Audit Committee should comprise at least one financial expert. The chairman of the Supervisory Board does not chair the Audit Committee. If and to the extent practically feasible, a maximum of one member may be not independent.

With regard to the work and focus of the Audit Committee during the financial year 2008, reference is made to the Report of the Supervisory Board, as included in this Annual Report.

### **Remuneration, Appointment and Selection Committee**

The Supervisory Board has elected three persons from among its members to form a Remuneration, Appointment and Selection Committee, without in any way derogating from its primary responsibilities. The Remuneration, Appointment and Selection Committee is subject to the rules governing the Remuneration, Appointment and Selection Committee.

The tasks of this committee include, among others, (i) preparing a remuneration policy, for adoption by the General Meeting of Shareholders, (ii) preparing the Supervisory Board's remuneration report for inclusion in the Kardan N.V.'s annual report, (iii) preparing the selection criteria and appointment procedures for members of the Supervisory Board and the Management Board, (iv) periodically evaluating the scope and composition of the Management Board and Supervisory Board and (v) periodically evaluating the functioning of individual members of the Management Board and Supervisory Board.

With regard to the work and focus of the Remuneration, Appointment and Selection Committee during the financial year 2008, reference is made to

the Report of the Supervisory Board as included in this Annual Report.

### **Related party transactions**

Articles 7, 8 and 9 of the articles of association of Kardan N.V. contain rules on the corporate resolution process in the case of dealings between Kardan N.V. and one or more Holders of Control, as defined in the articles of association. Holders of Control are deemed to be any person (as defined in the articles of association) who holds twenty-five percent or more of the voting rights in the General Meeting of Shareholders, if there is no other person holding more than fifty percent of the voting rights. Certain transactions as described in Kardan N.V.'s articles of association between Kardan N.V. and a Holder of Control require special approval, as follows: (i) Management Board approval, (ii) Supervisory Board approval with an absolute majority of the votes cast, including the affirmative vote of at least one independent supervisory director (as defined in Kardan N.V.'s articles of association) and (iii) approval of the General Meeting of Shareholders with an absolute majority of the votes cast, providing that either (a) such a majority includes the affirmative votes of at least one third of all the votes of such shareholders who are present at the meeting and who do not have a personal interest (as defined in Kardan N.V.'s articles of association), or (b) the opposition votes of those shareholders who are present at the meeting and who do not have a personal interest does not constitute more than one percent of the total number of votes that can be cast in a General Meeting of Shareholders.

During the financial year 2008, the resolutions to enter into a new Directors & Officers liability insurance policy, as well as the increase in remuneration of Mr. Schnur and Mrs. Rechter, were approved taking into account above provisions.

Kardan N.V. believes that the provisions on conflicts of interest as laid down in the Management Board Regulations and Supervisory Board Regulations, together with the provisions regarding related party

transactions as described above, provide sufficient protection regarding these types of transactions, as envisioned by the Code in best practice provision III.6.4.

### General Meeting of Shareholders and shareholders' rights

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

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

Each share carries one vote. Kardan N.V. has one class of shares, being ordinary shares with a nominal value of EUR 0.20 each. Kardan N.V. may set a record date for the exercise of the voting rights and the rights relating to General Meetings of Shareholders. Unless otherwise required by its articles of association or Dutch law, resolutions of the General Meeting of Shareholders require the approval of an absolute majority of the votes validly cast. Unless provided otherwise by Dutch law or Kardan N.V.'s articles of association, there are no quorum requirements.

General Meetings of Shareholders are held at least once a year in order to, among other things, discuss the report by the Management Board and the report by the Supervisory Board, to adopt the statutory financial statements, to appoint the external auditor, to adopt any proposal concerning dividends, to, if applicable, appoint members of the Supervisory Board and Management Board, and to consider any other

matters proposed by the Supervisory Board, the Management Board or the shareholders in accordance with the articles of association of Kardan N.V. and Dutch law. Pursuant to both Dutch law and the articles of association, the General Meeting of Shareholders discusses and passes, under a separate agenda item, resolutions discharging the members of the Management Board and the Supervisory Board from their responsibilities for the performance of their respective duties in the preceding financial year. This discharge only covers the matters that are known to Kardan N.V. and the shareholders at the time the resolution is adopted.

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

One or more shareholders holding shares representing at least 1% of Kardan N.V.'s issued share capital or representing a value of EUR 50 million according to the Official Price List of Euronext Amsterdam has/have the right to request the Management Board or the Supervisory Board to place items on the agenda of a General Meeting of Shareholders. The Management Board or Supervisory Board shall add the item to the agenda of the meeting, provided that Kardan N.V. does not have a serious interest in not adding it to the agenda, and that the request is received by the Management Board or Supervisory Board in writing at least fourteen days before the notice of the meeting will be given. Notice of a General Meeting of Shareholders shall be given no later than on the fifteenth day prior to the date of the meeting.

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

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

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

### Information on the European Takeover Directive

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

- a. An overview of Kardan N.V.'s capital structure is included on page 155 of this Annual Report.
- b. Shares in the capital of Kardan N.V. are freely transferable.
- c. Substantial shareholdings within Kardan N.V. are included on page 10 of this Annual Report.
- d. There are no special control rights attached to the Kardan N.V. shares.
- e. A stock option plan for members of the Management Board of Kardan N.V. and other Kardan key employees has been approved by the shareholders during the Extraordinary General Meeting of Shareholders held on October 26, 2006. The options can only be granted in accordance with

the underlying stock option plan rules and with the approval of the Supervisory Board and – in respect of the Management Board – with the approval of the General Meeting of Shareholders. Further information regarding the options granted under the stock option plan can be found on page 156 and 157 of the Annual Report.

- f. There are no limitations to voting rights on the shares in the capital of Kardan N.V.
- g. Kardan N.V. is unaware of any agreements that might result in a limitation of the transferability of or the voting rights on shares in the capital of Kardan N.V.
- h. The provisions regarding the appointment and dismissal of members of the Management Board and the Supervisory Board, and the provisions regarding amendments of the articles of association, are described in Kardan N.V.'s articles of association which can be viewed on Kardan's website ([www.kardan.nl](http://www.kardan.nl)).
- i. The General Meeting of Shareholders may authorize the Management Board (i) to purchase shares by Kardan N.V. in its own capital, and (ii) to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares. Further information can be found in the articles of association of Kardan N.V. and the minutes of the relevant General Meetings of Shareholders of Kardan N.V. in respect of the authorizations that have been granted to the Management Board. Authorization for Kardan N.V.'s purchase of its own shares has been granted for a period of eighteen months during the General Meeting of Shareholders of June 19, 2008. At the same General Meeting of Shareholders held on June 19, 2008, the authorization to issue and grant rights to subscribe for shares and to limit or exclude pre-emptive rights of shareholders in the event of issuing and granting rights to subscribe for shares was granted for a period of five years, taking into account the limitations provided by the law and the articles of association and provided

that no more than 10% of the issued share capital can be issued annually.

- j. There are no important agreements to which Kardan N.V. is a party and that will come into force, be amended or be terminated under the condition of a change of control over Kardan N.V. as a result of a public offer.
- k. There are no agreements of Kardan N.V. with members of the Management Board or with other employees that entitle them to any compensation rights upon termination of their employment after completion of a public offer on Kardan N.V. shares.

# Supervisory Board Report

The Supervisory Board is pleased to present the 2008 Annual Report, including the 2008 financial statements. The 2008 financial statements have been audited by Ernst & Young Accountants. The auditors' report is included on pages 243 and 244 of this Annual Report.

The Annual Report for the year 2008 and the 2008 financial statements have been presented to the Supervisory Board. The 2008 financial statements and the auditors' report were discussed by the Audit Committee with the Management Board and the external auditor. On the basis of these discussions, the Supervisory Board is convinced that the Annual Report for the year 2008, including the 2008 financial statements, meets the transparency requirements, and therefore endorses this Annual Report. In the opinion of the Supervisory Board, it forms a sound basis for its reporting on the supervision exercised in the financial year 2008.

The Supervisory Board recommends the General Meeting of Shareholders to adopt the 2008 financial statements included in this Annual Report during the Annual General Meeting of Shareholders (AGM) to be held on May 20, 2009.

In light of the current global economic downturn and in line with Kardan N.V.'s dividend policy to take into account the liquidity, capital position and future financing requirements when determining a dividend distribution, the Management Board has, with the approval of the Supervisory Board, decided to allocate the entire profit to the reserves and therefore no dividend will be declared for the financial year 2008.

## Composition of the Supervisory Board

During the annual general meeting of shareholders held on June 19, 2008, Mr. J. Pomrenze was reappointed as member of the Supervisory Board for a period of four years. At the close of the AGM to be held on May 20, 2009 Mr. M. Groen's term will expire. Mr. Groen will be available for reappointment.

The Supervisory Board currently comprises seven members, five of which can be regarded as independent under the criteria laid down in the Dutch Corporate Governance Code. These are Mr. Krant, Mr. Fink, Mr. Pomrenze, Mr. Groen, and Mr. Benjamins. The other members, being Mr. Schnur and Mrs. Rechter, are not independent under these criteria. Mr. Schnur is holding more than ten percent of the issued share capital of Kardan N.V., while Mrs. Rechter is related by marriage to Mr. Rechter who receives a remuneration in his position of managing director of Kardan Israel Ltd. For this reason, Kardan N.V. does not completely follow best practice provision III.2.1 of the Dutch Corporate Governance Code, which prescribes that all but one member of the Supervisory Board should be independent, because it regards a long-term alliance with these persons important to all the stakeholders involved in Kardan. Given the extensive provisions on conflict of interest in its articles of association and the Supervisory Board regulations, Kardan N.V. feels that there are – without jeopardizing the corporate governance system – good grounds for not following this best practice provision.

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

the profile and is thus as diverse as possible, and it therefore feels that with its current composition, it has the expertise necessary to supervise Kardan, bearing in mind the nature and character of Kardan.

### Supervisory Board meetings

The Supervisory Board held nine meetings during the year 2008 in the presence of the Management Board, four of which were held via conference calls.

Furthermore, the Supervisory Board held one meeting during the year 2008 without the presence of the Management Board. The purpose of this meeting was— inter alia – to discuss the performance of the Supervisory Board and its individual members and the performance of the Management Board and that of the individual Managing Directors, and the conclusions to be drawn from this. As a follow up to this meeting, representatives of the Supervisory Board, including its Chairman, held performance interviews with each of the members of the Management Board. As of December 10, 2008 the Dutch Corporate Governance Code includes in best practice provision III.1.7 the requirement to also discuss the functioning of the Supervisory Board committees. During the Supervisory Board meeting without the Management Board members being present, planned for May 20, 2009, the Supervisory Board envisages to also discuss the functioning of its Audit Committee and Remuneration, Appointment and Selection Committee.

The Supervisory Board devoted considerable time and attention to reviewing Kardan's strategic goals and monitoring of developments thereof in the course of 2008. In the second half of 2008, the Supervisory Board also discussed extensively the current strategy going forward and how to position Kardan for the years to come. In the course of 2008, financial markets worsened and an economic downturn became increasingly apparent. The Supervisory Board was kept apprised on Kardan's liquidity position, development of goodwill and possible necessary impairments. Kardan's consistent and prudent financing policy allowed it to stick to its commitments and complete transactions. The Supervisory Board supported and approved the legal

merger between Kardan N.V., GTC Real Estate N.V. and GTC Real Estate Holding B.V., including approval of a shelf prospectus and shelf offering report issued in connection therewith for the Israeli market.

Other subjects that were discussed, acknowledged and -where necessary- approved during the Supervisory Board meetings held during the year 2008 were amongst others:

- company strategy, risks inherent to Kardan's business objectives and budget;
- the results of and developments and objectives within the business sectors and the group as a whole, geographical expansion, and the policy to be pursued with regard to finance and investments;
- financing and financial exposure (partly by way of updates from the Audit Committee);
- 2007 annual financial statements, the 2008 quarterly financial statements and the financial reporting process (partly by way of updates from the Audit Committee);
- the establishment of a Remuneration, Appointment and Selection Committee;
- Management Board and Supervisory Board regulations;
- internal audit; and
- corporate governance (including design and effectiveness of the risk management and control systems) and other elements of compliance.

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

Kardan's external auditor attended the Supervisory Board meeting during which the 2007 annual results were discussed.

In addition to the formal meetings, informal discussions were held frequently between the Chairman of the Supervisory Board and one or more of the members of the Management Board. Furthermore, in September 2008, a working visit was made by the



members of the Supervisory Board to Kardan's financial services activities in Kiev, Ukraine.

## Supervisory Board committees

### Audit Committee

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

The Audit Committee met four times in 2008 and paid special attention to the following subjects during these meetings:

- 2007 annual financial statements, the 2008 quarterly financial statements, the financial reporting process and specific accounting issues arising from the financial statements;
- risk management;
- internal audit;
- financing and financial exposure;
- the merger between Kardan N.V., GTC Real Estate N.V., and GTC Real Estate Holding B.V.; and
- compliance.

Most of the meetings were attended by the full Audit Committee. None of the members of the Audit Committee was frequently absent. All meetings were attended by Kardan N.V.'s Chief Financial Officer, Mrs. Oz-Gabber, and most of the time also by other members of the Management Board.

Kardan's external auditor attended a number of Audit Committee meetings and Kardan's internal auditor attended the meeting during which the internal audit report was discussed. In addition to the formal meetings, informal discussions were held frequently between the Chairman of the Audit Committee and the Chief Financial Officer and financial controller and/or the external auditor.

### Remuneration, Appointment and Selection Committee

On June 19, 2008, the Supervisory Board appointed a Remuneration, Appointment and Selection Committee

from amongst its members, consisting of Mr. H. Benjamins (Chairman), Mr. J. Krant and Mr. J. Pomrenze.

The Remuneration, Appointment and Selection Committee met two times in 2008, all members being present. In addition to the formal meetings, informal discussions and other ways of communication contributed to the proposal for the Kardan N.V. remuneration policy which will be presented for approval to the General Meeting of Shareholders during the AGM to be held on May 20, 2009. The Supervisory Board is of the opinion that the proposed remuneration policy follows the principles of the Dutch Corporate Governance Code. The intended policy provides for fixed and variable (both short and long term) components whereby the variable components will take into consideration both collective and personal targets. When recommending the remuneration of individual Management Board members to the General Meeting of Shareholders, the Remuneration, Appointment and Selection Committee shall analyse the possible outcomes of the variable remuneration components and how they may affect the remuneration of the Management Board members. The proposed policy provides that the level and structure of the compensation will be determined with due regard for the pay differentials within Kardan N.V. The Supervisory Board recommends to the General Meeting of Shareholders to adopt the remuneration policy during the AGM to be held on May 20, 2009.

The General Meeting of Shareholders will be asked to adopt a proposal to amend the articles of association of Kardan N.V., such that (i) Kardan N.V. will have a remuneration policy to be adopted by the General Meeting of Shareholders; and (ii) the General Meeting of Shareholders will, on the proposal of the Supervisory Board determine the remuneration of the individual members of the Management Board.

In the annual report of 2009, the report of the Supervisory Board shall include the principal points of the remuneration report, in compliance with the Dutch Corporate Governance Code.

During the AGM held on June 19, 2008, the General Meeting of Shareholders adopted the individual remuneration (for the financial year 2008, starting 1 January, 2008) and bonuses (for the financial year 2007) of the members of the Management Board. A specification of the remuneration of the members of the Management Board and of the members of the Supervisory Board is included in the notes to the financial statements on page 228 of this Annual Report. Kardan N.V. granted share options under the Kardan Stock Option Plan to its Managing Directors and certain key employees. More details of these options can be found in the corporate governance chapter on pages 20 and 21 of this Annual Report and in the notes to the financial statements on pages 156 and 157 of this Annual Report.

In 2008, the Remuneration, Appointment and Selection Committee focused on drawing up a proposal for the remuneration policy. As regards the appointment procedures and selection criteria elements of its assigned task, the Remuneration, Appointment and Selection Committee will look into these matters, and, where necessary, develop further guidelines, as soon as a situation arises in which this will become relevant.

### Corporate governance

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

As noted in the previous annual report, the Supervisory Board fully subscribes to the meaning and usefulness of the Dutch Corporate Governance Code for Kardan and the ensuing changes in the law in the Netherlands. Therefore, the Supervisory Board endorses the outlines, principles, and best-practice provisions of the Dutch Corporate Governance Code with certain

exceptions, which, in the view of the Supervisory Board, do not fit the character and size of Kardan.

### Responsibilities

The Supervisory Board notes that its members will sign-off on the financial statements pursuant to their statutory duty under article 2:101 (2) of the Dutch Civil Code.

### In conclusion

Taking due note of the successful completion of the complex process of the legal merger between Kardan N.V., GTC Real Estate N.V. and GTC Real Estate Holding B.V. and the difficult economic times with which Kardan has been confronted during 2008, the Supervisory Board expresses its special appreciation for all the effort invested by the Management Board, the senior management team heading each sector, and all employees in its holding and group companies in 2008 to further strengthen Kardan.

Amsterdam, April 17, 2009

On behalf of the Supervisory Board,  
Joseph Krant



## Operational Developments

Kardan, operating in emerging markets, is active in three sectors benefiting from strong middleclass demand: Real Estate, Financial Services, and (water) Infrastructure. During the first half of 2008, the Financial Services and Real Estate divisions further expanded their activities. In the second half, mainly due to the world credit crisis, only a few new investments were made. The new investments were funded from existing resources as a result of a careful funding policy in prior years.

GTC, the Real Estate division, entered into new markets (Russia and Ukraine) and significantly increased its investments in China. In January and February 2008, it acquired two land plots in the city of Changzhou and won a tender for the acquisition of a land plot in the city of Shenyang. The projects are mixed use, mainly residential, including commercial space. Construction of both projects started in the first half of 2008 and is estimated to take five (Changzhou) and four (Shenyang) years to full completion. In July 2008, GTC China further extended its real-estate operations to Hangzhou, its fifth city of operations. Finally, in December 2008, GTC China won an auction and acquired land in Dalian to develop a mixed-use project including retail and residential, each accounting for approx. 50% of the construction area.

The Financial Services division, KFS, acquired a controlling stake in a Ukrainian insurance company in February 2008. In December 2008, the insurance activities in Bulgaria, Croatia, Albania, Kosovo, and Macedonia were sold to one of our partners, Vienna Insurance Group. The pension activities in Romania were sold to BRC Bank, a subsidiary of Erste Bank. The closing of part of these transactions are still subject to regulatory approvals, which are expected in the course of 2009. These transactions have improved the financial position of the insurance and pension activities significantly. Upon completion of the transaction, Kardan expects to record a gain amounting to approx. EUR 10 million in 2009. Finally, the insurance activities in Russia were disposed of in December 2008 at a loss of approx. EUR 3 million. It

was decided to divest these loss-making activities, which, due to the structure of the market, combined with the current market crisis, could not be restructured into a profitable operation.

The (water) Infrastructure division, Tahal, made new investments in water-infrastructural assets in China and won turnkey projects in Africa. The infrastructure investment in China fits the strategic decision taken during 2006 to focus on assets, instead of solely advising water-infrastructure projects.

In order to simplify the structure of Kardan and further increase transparency, the listing of GTC Real Estate N.V. (GTC RE) on the Tel Aviv Stock Exchange was terminated in December 2008 following the completion of the merger of this company into Kardan. The shareholders' meetings of Kardan and GTC RE, in which the merger was approved, took place on December 11, 2008. As part of the merger, Kardan N.V. increased its holding in the Real Estate division from 67% into 100%, through a wholly owned subsidiary of Kardan, GTC Real Estate Holding B.V. (GTC Holding), Kardan's new top holding of its real-estate activities, and the minority shareholders received shares of Kardan in exchange for their shares in GTC RE.

For a more detailed overview of the operations of each of the divisions, reference is made to the pages 39 until 64.

## Personnel and Organization

Kardan headquarters are located in Amsterdam, The Netherlands. However, since the operational activities are concluded outside the Netherlands, most of its employees are based in CEE/CIS countries and in China, where Kardan conducts the majority of its activities. All in all, Kardan is active in more than 40 countries.

At year-end 2008, the number of people employed by Kardan N.V. and its consolidated companies totaled 14,959. However, in response to the effects of the current economic downturn Kardan decided to reduce its costs, among others, by reducing personnel wherever it is possible without affecting the quality of services to be delivered by the group companies. Since Kardan's employees are of major importance to success, Kardan remains dedicated to having highly competent personnel throughout its organization. This is only possible by offering them competitive employment conditions and a challenging environment. Kardan's management is convinced that this is what it is offering its employees.

Kardan has a lean management structure with an entrepreneurial approach. Kardan N.V. is not only responsible for strategic development and for steering its subsidiaries' policies, but it also contributes its business experience, local and international network, and financial resources. An experienced manager with a relevant background heads each sector.

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

# Financial Developments

## Consolidated figures 2008

The consolidated net profit to the group for the year amounts to EUR 175 million (2007: EUR 250 million) and the consolidated shareholders' equity as of December 31, 2008 was EUR 1.1 billion (December 31, 2007: EUR 2.9 billion).

The net profit was realized with increased total assets amounting to EUR 5.3 billion as of December 31, 2008 compared to EUR 4.3 billion as of December 31, 2007. The main increase of assets is attributable to the growth of the real estate activities by approx. EUR 620 million to EUR 2,9 billion. Due to the change of the consolidation method (from proportional to full consolidation) for the holding in the Russian bank Sovcom total assets increased by EUR 300 million. This change became necessary as a result of an increase in Kardan's (in)direct share in 2008 from 50% to 61%. The absence of organic growth is caused by the financial crisis.

Since a significant part of the consolidated results and equity are attributable to the minority shareholders, the following two paragraphs will only discuss the result and equity attributable to Kardan N.V. equity holders. Following these paragraphs, the consolidated financial position of the Group is presented.

In the divisional overview on page 39 until page 64 the development in each of the divisions is discussed in further detail.

## Results 2008 attributable to equity holders of Kardan N.V.

€ in millions	2008	2007	Change (%)
Real Estate	89	23	286
Financial Services – Banking and Retail Lending	(54)	6	
Financial Services – Insurance and Pension	8	30	(73)
Infrastructure – Projects	(5)	1	
Infrastructure – Assets	(16)	(8)	(100)
Other Business	3	1	200
Corporate activities	27	37	(27)
<b>Total net profit attributable to equity holders</b>	<b>52</b>	<b>90</b>	<b>(42)</b>
Profit per share (EUR)	0.63	1.11	(43)
Profit per share diluted (EUR)	0.28	1.10	(75)

Net profit attributable to equity holders in 2008 amounted to EUR 52 million, a decrease of EUR 38 million compared to 2007.

The net profit of the **Real Estate division** increased by EUR 66 million to EUR 89 million from EUR 23 million in 2007, as a result of:

- Gains from the revaluation of properties after deduction of corporate income taxes declined by EUR 10 million from EUR 59 million in 2007 to EUR 49 million in 2008, as a result of yield expansion mitigated by rental increase and property completion. Moreover, Kardan decided to early adopt a revised accounting standard (IAS 40), which allows Kardan to measure investment property under construction at fair value. This early adoption explains EUR 25 million of the revaluation gains in 2008.
- The net profit was negatively influenced by a release of goodwill, amounting to EUR 32 million. The goodwill was capitalized in the past upon acquisition of properties under construction. As a consequence of the revaluation of investment property under construction, the goodwill had to be released.

- In addition, the merger between Kardan N.V. and GTC RE resulted in negative goodwill, amounting to EUR 77 million, which was recorded as a profit in 2008. The negative goodwill was created because the net book value of GTC RE's assets and liabilities exceeded the market value of the shares issued by Kardan in the merger.
- Corporate income taxes are mainly attributable to the revaluation of property (see first bullet). Moreover, GTC RE had an additional tax burden of EUR 8 million in 2008 due to the impact of a higher tax base in local currencies, caused by the devaluation of these currencies against the Euro.
- In 2007, the revaluation of convertible debentures contributed a loss of EUR 40 million to the division's results.

KFS, the **Financial Services division**, contributed a loss of EUR 46 million to Kardan's equity holders compared to a profit of EUR 36 million in 2007. This loss can be explained as follows:

The banking and lending activities (TBIF; 90% owned by Kardan as of December 31, 2008) recorded a loss of EUR 54 million vs. a profit of EUR 6 million in 2007. The difference is mainly caused by:

- A decrease of EUR 23 million in the profit of the operational companies from a gain of EUR 3 million in 2007 to a loss of EUR 20 million in 2008. The main drivers for the decrease are the risk-associated costs: write-offs and provisions on the loan portfolio increased from 2.5% in 2007 to 6.5% in 2008 (2007: EUR 15 million; 2008: EUR 45 million).
- Due to the deteriorating economy, impairment losses in 2008 amounted to EUR 55 million (2007: nil).
- Net finance expenses related to the funding of acquisitions and equity of the operational companies amounted to EUR 4 million in 2008 vs. EUR 3 million in 2007.
- The decrease of the fair value of the Financial Services division reduced the value of a put option held by management, resulting in a profit of EUR 26 million (2007: a loss of EUR 20 million).

- Finally, in 2007 a profit of EUR 22 million was recorded relating to the sale of an 11% stake in KFS to Israel Discount Bank.

Insurance and pension activities (TBIH; 36% indirectly owned by Kardan as of December 31, 2008). The contribution of TBIH decreased from a profit of EUR 28 million in 2007 to a profit of EUR 8 million in 2008. The decrease can be explained as follows:

- Despite the difficult markets, TBIH managed to turn the 2007 operating loss of EUR 0.2 million into a small operating profit of EUR 0.1 million in 2008.
- Due to difficult markets, impairment losses were booked amounting to EUR 10 million (2007: nil).
- The finance expenses related to the funding of acquisitions and an increase in equity of the operational companies in 2008 amounted to EUR 5 million, compared to EUR 1 million in 2007.
- The discontinued activities suffered from a loss of EUR 8 million vs. a break-even result in 2007. These activities were sold at a profit of EUR 9 million. On balance, the discontinued activities contributed a profit of EUR 1 million in 2008.
- In 2008, KFS recorded fair value profits amounting to EUR 30 million, mainly relating to the value of a put option to sell its stake in TBIH to the partner.
- In 2007, a profit of EUR 30 million was recorded, relating to the sale of an 11% stake in KFS to Israel Discount Bank and the sale of part of TBIH to Vienna Insurance Group.

Tahal, the **Infrastructure division**, contributed a loss of EUR 21 million in 2008 compared to a loss of EUR 7 million in 2007.

Tahal Projects, engaged in consultancy and construction of water-related projects, contributed a loss of EUR 5 million in 2008, whereas in 2007 a profit of EUR 1 million was realized. The decrease was mainly attributable to projects in Romania (Arad and Brasov) and Russia. As a consequence, a loss of EUR 7 million was accounted for in 2008 regarding these projects. To avoid similar issues in the future, a restructuring took

place including management changes, and the incorporation of a separate department at the head office to improve control and enhance project execution capabilities.

Tahal Assets, investing in water-related assets, faced a doubling of its losses from EUR 8 million in 2007 to EUR 16 million in 2008. The increase of the loss stems from an impairment of assets. The impairment was necessary because some projects have not started, whereas others are put on hold because of the economic circumstances.

The contribution of **Other Businesses** ("Automotive and Consumer Goods" and "Communications and Technologies" operated by Kardan Israel ) increased from EUR 1 million in 2007 to EUR 3 million in 2008. This was driven by the positive results of the automotive activities.

**Corporate Activities** reported a profit of EUR 27 million (2007: EUR 37 million). In 2008, a gain was realized on the buyback of Kardan's debentures (EUR 15 million) and the revaluation of options to Kardan N.V. shares (EUR 24 million) due to the decrease in Kardan's share price. Finance expenses amounted to EUR 6 million (2007: EUR 4 million). In 2007, a profit of EUR 42 million was recorded from the revaluation of convertible debentures.

Net profit attributable to equity holders of EUR 52 million represents a **basic net result per share** of EUR 0.63, compared to a basic net profit per share of EUR 1.11 for the comparable period in 2007. The diluted net profit per share amounts to EUR 0.28 in 2008 compared to EUR 1.10 in 2007.

### Equity as of December 31, 2008, attributable to equity holders of Kardan N.V.

As of December 31, 2008, the equity attributable to the shareholders of Kardan increased to EUR 368 million, compared to EUR 343 million at year-end 2007. This increase was mainly the result of the profit for the period (EUR 52 million), and the issuance of new shares relating to the increase of the stake (merger) in real estate activities (EUR 33 million, net). Equity was reduced due to the negative direct effect mainly on foreign currency translation, hedging results of EUR 45 million, and the dividend distribution of EUR 18 million in July 2008.

Solvency (shareholders' equity/total assets of Kardan N.V.) stood at 36%, which is lower compared to 49% at year-end 2007. Due to the merger between Kardan N.V. and GTC RE, Kardan took over (non)convertible debentures from GTC RE offset by a receivable from GTC RE of EUR 178 million as of December 31, 2008, which reduced solvency by 7%.

As a result of the financial transactions and investments, the net debt position as of December 31, 2008 increased to EUR 397 million from EUR 174 million at year-end 2007. The increase was mainly caused by the transfer of debentures from GTC RE, as described above.

### Financial position of Kardan as of December 31, 2008

Kardan has a decentralized funding structure. This implies that Kardan, its direct subsidiaries (all being holding companies of the operational entities), and the operational entities are mostly responsible for the funding of their own activities. As a consequence, many agreements with different lenders and with different covenants are in place within the Kardan Group. Some of the covenants are being renegotiated with the relevant parties; none are of a material nature for the Group.

The following table<sup>1</sup> provides an overview of the cash positions and refinance obligations for convertible and nonconvertible debentures and other interest-bearing loans as of December 31, 2008 for Kardan N.V. and its divisions :

€ in millions	Free cash	Debt/loans maturing				
		in 2009	in 2010	in 2011	in 2012	after 2012
Kardan N.V.	140	59	30	8	3	482
GTC	263	53	46	78	77	877
KFS	166	471	90	53	46	93
Tahal	29	29	2	1	1	28
Kardan Israel	12	61	33	4	6	18

<sup>1</sup>Free cash also includes cash equivalents and short term investments. The data do not include the liabilities due to deposit holders of the banking activities in Russia and Ukraine, which are supported by the Russian and Ukrainian national banks, respectively.

The table provides consolidated figures for each division. It should be noted, however, that the cash and debt positions of an individual company within a division cannot always be compensated with the position of another company. The operational debt of the banking and lending activity is not included in the table.

The above table shows that in the short term (2009/2010) only a moderate amount needs to be refinanced. From the liabilities of KFS, EUR 235 million, has been refinanced already in the beginning of 2009 and an amount of EUR 81 million concerns a loan from the Russian Central Bank to Sovcom Bank, the Russian banking activity of Kardan. Based on the positions as of December 31, 2008, Kardan management has no reason to believe that Kardan N.V. and its divisions will not be able to fulfill their financial obligations.

In November 2008, S&P Maalot (Israel) reduced the credit rating of the Kardan N.V. debentures from AA- to A-, a negative outlook. The reason for the downgrade is the slowdown of the economy in the geographical areas Kardan is active in. Certain covenants related to these debentures are no longer applicable.

## Dividend 2008

The dividend policy of Kardan N.V. recommends an annual dividend distribution between 20% and 30% of net income, taking into consideration, among others, the liquidity and capital position and future financing requirements. According to this policy, the Management Board, with the approval of the Supervisory Board, has decided to allocate the entire profit to the reserves and therefore no dividend will be distributed for the financial year 2008. This decision is based upon the strategy followed as of the middle of 2008 to preserve cash as much as possible in order to be able to fulfill the commitments of the Kardan Group towards suppliers and banks.

## 2009 Outlook

We have prepared for a difficult economy in 2009. To that end, we have lowered costs, improved our cash position, secured or extended several financing positions and intensified our management processes. In 2009, these measures will be further intensified. Kardan N.V. and its subsidiaries do not anticipate entering into new investments until the markets stabilize. The total number of personnel will decrease as a result of cost-cutting measures. At the same time, we will continue to execute our long-term strategy. We will continue to build strong businesses with conservative funding that will perform over the long term.



## Real Estate Division

### General

Kardan operates in the real estate segment under the brand name Globe Trade Centre (GTC). The shares of the operating companies are held by an intermediate holding company. In order to simplify the structure of the Kardan Group and further increase transparency, the listing of the intermediate holding company GTC Real Estate N.V. on the Tel Aviv stock exchange was terminated at the occasion of a triangular merger of this company with Kardan N.V. and the new intermediate holding company GTC Real Estate Holding B.V (GTC Holding).

The shareholder meetings of Kardan N.V. and GTC Real Estate N.V., in which the merger was approved, took place on December 11, 2008. As part of the merger, Kardan N.V. increased its stake in the Real Estate Division from 67% to 100% and the minority shareholders received shares of Kardan N.V., in exchange for their shares in GTC Real Estate N.V.

GTC Holding is currently active in three regions: CEE, China and Western Europe.

In CEE, GTC Holding is active through its 46.2% holdings in Globe Trade Centre S.A. (GTC SA), one of the leading real estate developers in CEE. GTC SA is listed on the Warsaw Stock Exchange and is included in major indices, such as the WIG20, MSCI and GPR250.

Its activities include the development and management of office buildings and shopping centers, and the development and sale of residential projects. GTC SA has vast experience in the region and is active in ten

countries: Poland, Hungary, Czech Republic, Romania, Serbia, Croatia, Slovakia, Bulgaria, Russia and Ukraine. GTC SA's strategy is to focus on large-scale projects in prime locations.

In China, GTC Holding is active through its 100% subsidiary in GTC Real Estate China Ltd. (GTC China). In the last three years, GTC China has entered into eight agreements for the acquisition or lease of land for real estate development, mainly residential, in large-scale cities.

In seven of the projects, GTC China cooperates with local partners.

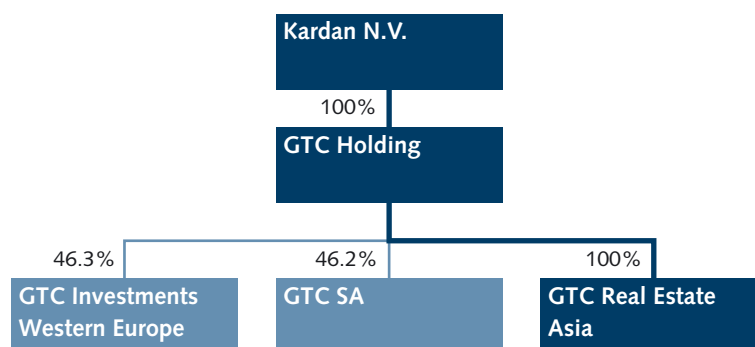
In Western Europe, GTC Holding conducts its limited activities through GTC Investments B.V.

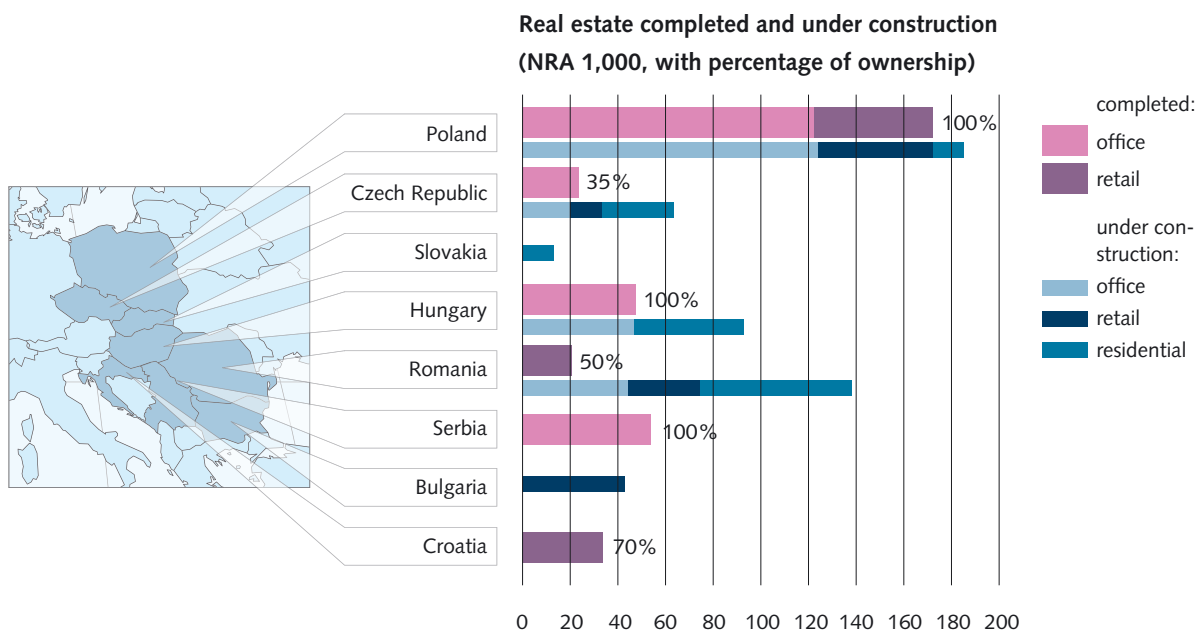
Since investment in developed countries is not part of Kardan's strategy, no new investments will be made in this region.

The real estate activities in Israel are conducted through Kardan Real Estate Enterprise and Development Ltd.

### Markets

Due to the economic slowdown, hardly any new investments are being made in investment properties in CEE, where the market for residential properties is also declining. The number of new project developments started in 2008 decreased significantly compared to last year. Rental income is still going up. Yields, however, are increasing due to the current uncertainty, and investors requiring higher risk premiums.





In China, GDP growth is slowing down, mainly due to lower export volumes. Moreover, inflation is decreasing strongly, which gave the Chinese Government room to lower interest rates and to announce a significant injection into the economy, in order to stimulate internal growth and consumption. These measures should have a positive impact on the real estate market. A positive development for the real estate sector is the decrease in the prices of raw materials, resulting in lower construction costs than anticipated. In second- and third-tier cities where GTC China is active, demand is still strong as a result of a growing and wealthier middle class.

### Reaction to economic turmoil and slowing down of global economy

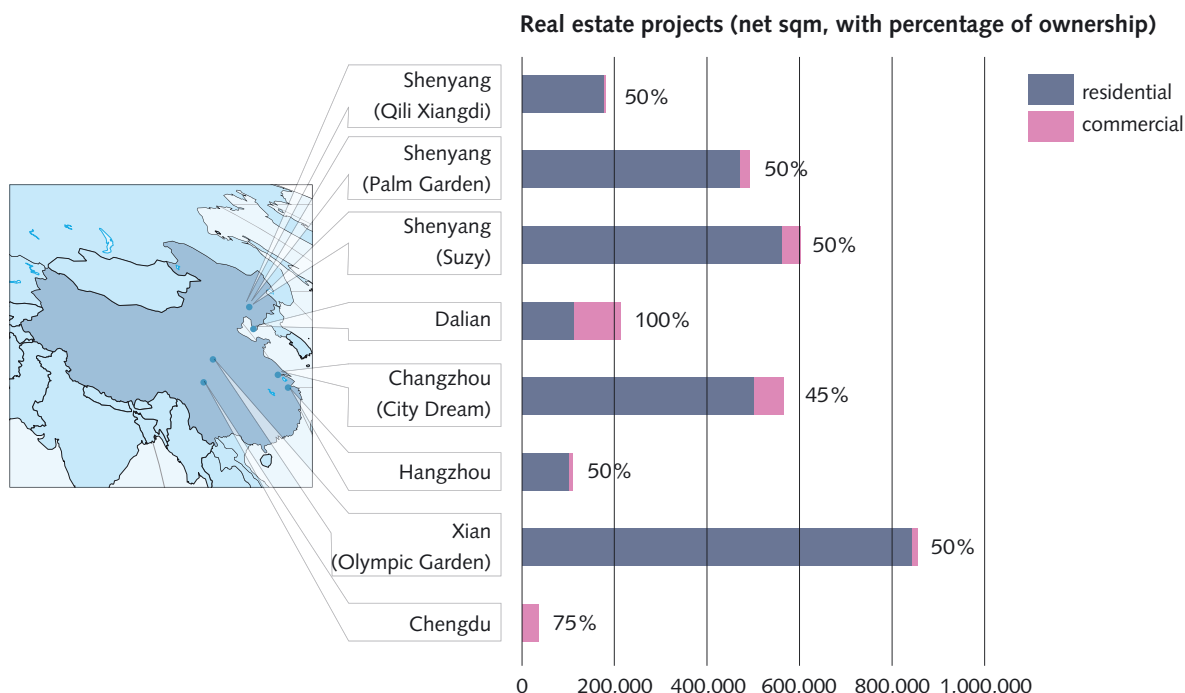
Until the markets stabilize and it becomes clear what the impact will be on the real estate markets, GTC Holding and its subsidiaries will not enter into new investments, unless funding is secured and pre-let/sales income is satisfactory. The management of the various GTC companies are carefully monitoring global developments and the impact on the countries of operation. In addition, cost measures have been taken wherever possible.

### Portfolio development

In the CEE/CIS countries, the pipeline of portfolio projects under development includes approximately 2.2 million sqm of net office, retail and residential space (GTC SA share). As of December 31, 2007, it stood at 2.1 million sqm. At year-end 2008, GTC SA started development of approx. 0.7 million sqm. The start of the development of the remainder of the pipeline depends on the availability of funding and acceptable pre-let/pre-sales levels.

Through its subsidiary GTC SA, GTC Holding has penetrated new markets. In April, GTC SA entered the Russian market as its ninth country of operation in the region, through the purchase of a 50% stake in a project for office development in a district of St. Petersburg. In July 2008, an agreement was signed to acquire shares in a company active in the Ukraine, signaling the first transaction in the Ukrainian real estate market.

The various residential development projects in China for which construction has started, comprise approx. 25,100 apartments (2.76 million sqm). As of



December 31, 2008, approx. 8,800 units were either completed or under construction, of which approx. 5,500 have been sold. Start of construction of new apartments depends on demand. In addition, construction work for a shopping mall in Chengdu (50,000 sqm including parking) has begun in December 2008. These figures relate to 100% of the projects. The share of GTC China is less (see graph above).

During the first half of 2008, GTC China has been very active. In January and February, two land plots in the city of Changzhou were acquired, and a tender was won for the acquisition of a land plot in the city of Shenyang. The projects are for mixed use, mainly residential, including commercial space. Construction of both projects started in the first half of this year and is estimated to take five (Changzhou) and four (Shenyang) years. In July 2008, GTC China has further extended its real estate operations to Hangzhou, its fifth city of operation. Finally in December 2008, GTC China won an auction and acquired land in Dalian. The construction for commercial projects in Dalian and Hangzhou has not started yet.

## Financial Overview

### Consolidated results of Real Estate division

The results and balance sheet position of the Real Estate division and the contribution of the division to the equity holders of Kardan N.V. can be summarized as follows:

€ in millions	2008	2007	Change (%)
<b>Consolidated results</b>			
Result of subsidiaries (GTC SA, GTC China and GTC Investments)	73.2	102.1	(28)
Net financial expenses	(13.3)	(11.5)	(16)
Fair value adjustment, convertible debentures	11.5	(65.9)	
Release of goodwill	(12.6)	(5.5)	(129)
General and admin. expenses	(2.1)	(1.7)	(23)
Other	2.9	2.8	
Net profit GTC Holding (net of minority interest)	59.6	20.3	194
Kardan N.V. share in net profit	36.8	20.5	80
Impact merger between Kardan N.V. and GTC RE	77.3		
Release of goodwill	(24.1)		
Results of real estate activities in Israel	(1.6)	1.0	
Contribution to equity holders of Kardan N.V.	88.4	21.5	311
<b>Consolidated balance sheet</b>			
Total assets	2,868	2,249	28
Equity including minority interest	1,052	902	17
Solvency (equity/total assets)	37%	40%	(8)
Net debt GTC Holding (non consolidated)	48	151	(68)

### Results

The contribution of the Real Estate division to the results of Kardan N.V. amounts to EUR 88.4 million (2007:EUR 21.5 million).

The result of the operating subsidiaries was EUR 28.9 million lower, a relatively small decrease considering the current economic slowdown. Details of the results of the operating companies in CEE/CIS, China and Western Europe are discussed hereafter.

The fair value adjustment amounting to EUR 11.5 million relates to the revaluation of the equity component of convertible debentures. As part of the merger, these convertible debentures have been transferred to Kardan N.V. This implies that in 2009 the Real Estate division will not record a result deriving from these convertible debentures. Goodwill in the books of GTC Holding related to certain investment properties amounting to EUR 12.6 million was released due to the revaluation of these properties.

Several items in the profit and loss account of Kardan N.V. are assigned to the Real Estate division. The main item is the profit of EUR 77.3 million resulting from the merger between Kardan, GTC RE and GTC Holding in December 2008. On that occasion, Kardan acquired 33% of the equity of GTC RE held by minority shareholders against issuance of shares in Kardan N.V. The book value of the acquired stake exceeded the market value of the shares issued by Kardan N.V. The difference is a negative goodwill, which was immediately recorded in the profit and loss account as a gain. Goodwill in the books of Kardan N.V. related to certain investment properties amounting to EUR 24.1 million was released due to the revaluation of these properties.

### Financial position GTC Holding (non consolidated)

The net debt of GTC Holding is defined as interest-bearing liabilities less cash and short-term investments. The net debt decreased, mainly caused by the transfer of debentures to Kardan N.V. as part of the merger. In 2009 and 2010 GTC Holding has no repayment obligations.

## GTC SA

The consolidated results of GTC SA and the main balance sheet positions can be summarized as follows:

€ in millions	2008	2007	Change (%)
<b>Consolidated results</b>			
Gross profit rental	53.5	41.1	31
Gross profit sale of apartments	9.1	8.8	3
Revaluation gains	235.6	292.4	(19)
Net profit	189.1	261.4	(28)
GTC Holding share in net profit	73.4	102.6	(29)
<b>Consolidated balance sheet</b>			
Property under construction	1,007.0	507.6	98
Investment property	1,143.1	860.9	33
Total assets	2,558.4	1,861.2	37
Equity including minority interest	1,155.9	988.1	17
<b>Other</b>			
Return on (average) equity (%)	18.3	31.6	
Occupancy rate (%)	90.9	89.1	2
Rental yield investment property (%)	7.3	6.2	18
Personnel at year end (number)	178	156	14

## Results

The gross profit from the rental of completed investment properties and the sale of apartments increased from EUR 49.9 million to EUR 62.6 million. The growth is derived from an increase in the net rentable area, and an increase in the average rent per sqm. Furthermore, the occupancy rate increased. The increase in the average rent per sqm is the result of the conclusion of long-term lease contracts with tenants, in which clauses such as gradual rent increases have been included. Expressed in a percentage of revenue, the gross profit declined from 68% in 2007 to 55% in 2008. This can be explained by the relatively small number of apartments sold in 2007.

Total revaluation gains in 2008 declined by EUR 56.8 million from EUR 292.4 million in 2007 to EUR 235.6 million in 2008. As of December 31, 2008 investment

property and property under construction was valued by reputable external appraisers. The revaluation result can be detailed as follows:

€ in millions	2008	2007
Newly completed properties	78.1	93.1
Completed properties in prior years	32.8	199.3
Property under construction	124.7	n/a
	<b>235.6</b>	<b>292.4</b>

Revaluation results on properties completed in 2008 amounted to EUR 78.1 million. This reflects an average development margin of 32%.

Despite the current economic situation, several investment properties completed in prior years were revalued positively when compared to their value as of January 1, 2008. The increase in the average yield of 18% (from 6.2% as of December 31, 2007 to 7.3% as of December 31, 2008), was compensated by higher revenue due to a decrease in vacancies and an increase in the average rent per sqm. In case the rent income and occupancy would not have changed, the revaluation gain would have been a loss of EUR 172 million.

In Q4 of 2008, however, the total revaluation on completed properties was negative (EUR 35 million), because of the yield increase.

Revaluation of properties under construction took place for the first time, and is the consequence of the early adoption of the revised IAS 40. This standard basically prescribes that property under construction (office and retail), for which a substantial part of the development risks have been eliminated, should be measured at fair value. Approximately 26% of the investment properties under construction met the criteria for fair value valuation, which are as follows:

- a building permit has been obtained
- an agreement with a general contractor has been signed

- lease agreements are signed for more than 20% of the total rentable space of the building and further assessments as deemed appropriate.

The other office and retail buildings under construction are stated at cost. The development margin taken into account for the revaluation is approx. 33% and yields are approximately 8%.

The net profit in 2008 decreased mainly due to lower revaluation profits as described above, and relatively higher taxes due to, among others, the devaluation of local currencies, causing higher taxes in the reporting currency (EUR).

#### Financial position

In 2007 and the first half of 2008, a significant number of projects were started, resulting in an increase in "property under construction". The majority of the projects concern office and retail. The same holds for the investment in completed properties. In 2008, 83.1 thousand sqm were completed, bringing the total to 342 thousand sqm (both figures represent GTC SA share). No properties were sold in 2008.

As of December 31, 2008, GTC SA has a cash position of EUR 227 million.

The maturity of the interest-bearing liabilities can be detailed as follows:

€ in millions	Maturing before 12-31-2009	Maturing before 12-31-2010	Maturing before 12-31-2011	Maturing before 12-31-2012	Maturing after 12-31-2012
GTC SA	51	41	48	45	792

GTC SA's consolidated commitments in 2009 to construction companies amount to EUR 470 million.

The funds to finance these commitments are generated from available cash and current financing facilities, other external financing or future installments under already contracted sale agreements, and yet to be contracted sale agreements.

## GTC China

The results of GTC China and the development of the main balance-sheet positions are as follows (please note that the figures only comprise GTC China's stake in the projects because all the residential projects are developed under joint-control agreements and consequently consolidated proportionally):

€ in millions	2008	2007	Change (%)
<b>Consolidated results</b>			
Gross profit sale of apartments	4.8	1.8	167
Net result	(0.6)	(3.0)	80
GTC Holding share in net profit	(0.6)	(3.0)	80
<b>Consolidated balance sheet</b>			
Assets under construction	115.5	37.4	208
Total assets	193.7	103.0	88
Shareholders' equity	86.6	27.5	214
<b>Other:</b>			
Personnel at year-end (number)	215	146	47

## Results

At year-end 2008, GTC China has sold 5,500 apartments compared to 4,100 in 2007, of which 2,200 have been delivered (2007: 1,000). The revenue and gross profit are recorded in the books upon delivery and not upon sale. The gross margin realized in 2008 on deliveries is 27% (2007: 30%). The net result improved significantly following the increased number of deliveries.

## Financial position

GTC China has borrowed EUR 34 million as of December 31, 2008. Out of this amount EUR 29 million is owed to the parent company GTC Holding, and EUR 5 million has been borrowed from financial institutions, and are to be repaid in 2009 and 2010. The reason for the relatively low debt is that land has been bought with equity and buyers of apartments have to pay (a large part of the) purchase price when



they buy the apartment. Accordingly a major part of the construction cost of residential projects is funded by advances from buyers.

The commitments to constructors as of December 31, 2008, amount to EUR 21 million.

## **GTC Investments**

### **Results**

The gross rental profit of GTC Investments decreased by 5% from EUR 11.8 million to EUR 11.2 million. This is the result of a slightly lower occupancy rate, namely 94.8% at the end of 2008 compared to 95.1% as of December 31, 2007. Due to the increase in yield from 5.7% as of December 31, 2007 to 6% as of December 31, 2008, the revaluation result was negative (minus EUR 1.2 million) compared to a positive result in 2007 of EUR 1 million. The net profit decreased from EUR 4.5 million in 2007 to EUR 1.0 million.

### **Financial position**

Total investment property increased to EUR 185 million (2007: EUR 178 million). The increase is mainly attributable to currency exchange differences.

Shareholders' equity increased to EUR 12.3 million (2007: EUR 10.6 million).

The interest-bearing debt at year-end amounts to EUR 66.7 million. Most of the debt matures after 5 years.

## **2009 Outlook**

We expect that in 2009 the markets in CEE/CIS, China and Western Europe will remain difficult and uncertain, which may put further pressure on yields. GTC companies will continue to adopt a "Watch and Hold" policy, while trying to reduce costs wherever possible. The cash position, the credit facilities available and the relatively low repayment obligations do imply that the division is well positioned to weather the current storm and fulfill its obligations. It even creates the possibility to look for opportunities, which will arise.

As a result of the current environment, it is not expected that the number of employees will increase; the same holds for new investments.

## Financial Services Division

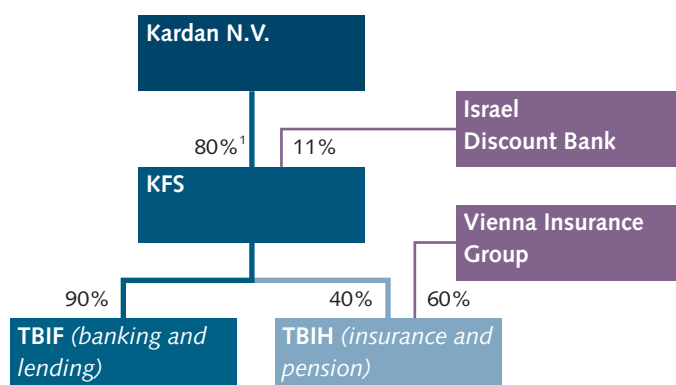
### General

The strategy of Kardan Financial Services B.V. (KFS) is based on seizing early business opportunities and establishing a platform for building banking, lending, insurance and pension activities in emerging markets. Currently, all activities are concentrated in CEE/CIS countries.

Kardan operates in the financial services sector through its 80%<sup>1</sup> holding in Kardan Financial Services B.V. (KFS). Management owns the remaining part of the shares.

KFS holds an approx. 90% interest in TBIF Financial Services B.V. (TBIF), a sub-holding company for Kardan's banking and lending businesses. The remainder is held by the management.

KFS also owns 40% of TBIH Financial Services Group N.V. (TBIH), the holding company for insurance and pension activities. TBIH is jointly controlled by KFS and Vienna Insurance Group (VIG). VIG, the leading Austrian insurance company, which is widely active in CEE and CIS, holds the remaining 60%. KFS has a put option to sell its share in TBIH to VIG. The option can be exercised as of 2011.



### Banking, lending and asset management (TBIF)

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

In Russia, TBIF is active through its 65% stake in Sovcom Bank, a retail bank specializing in the origination of consumer loans. The bank has a nationwide network with approx. 875 branches and outlets throughout Russia, focusing on the regional part of Russia. Furthermore, TBIF provides consumer credit to individuals to purchase consumer goods in retail outlets in Romania and Bulgaria.

In Ukraine, TBIF is active through its 49% shareholding in VAB Bank. The bank, which is active in the corporate, retail and SME sectors, focuses on developing retail services through its 169 branches.

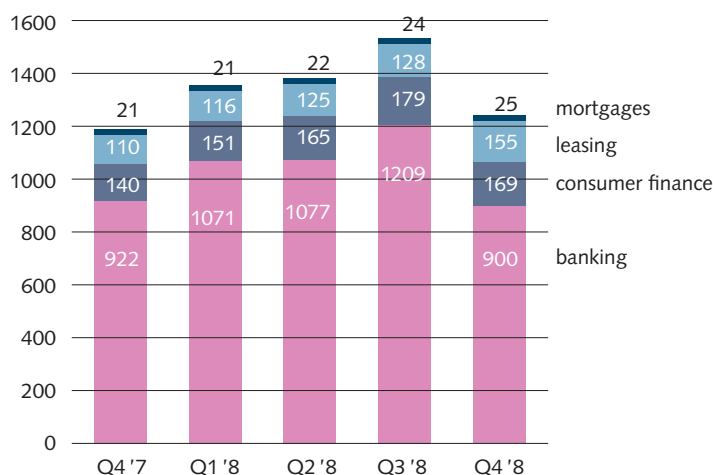
The TBIF Group also extends credit under leasing arrangements (financial leases and operational leases), mostly for vehicles and equipment. Activities in the leasing field are carried out predominantly in Romania and Bulgaria, and are in the early stages of development in Russia and Ukraine. In 2007, TBIF acquired approx. 60% of a Ukrainian operational leasing business, operating under the "AVIS" brand.

TBIF is active in providing mortgages in Bulgaria via a non-banking vehicle, and in Ukraine and Russia through VAB Bank and Sovcombank, respectively.

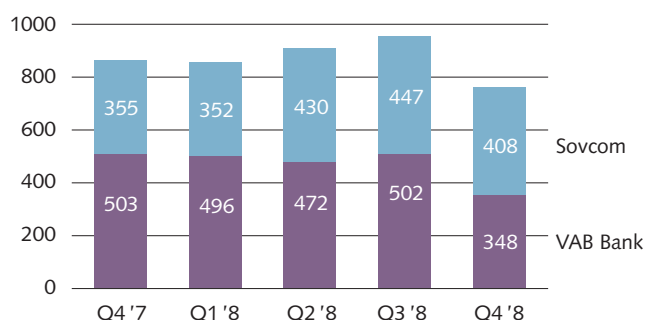
TBIF is active in the asset-management market in Bulgaria and supplies services to the pension funds and insurance companies of TBIH, as well as to third parties. Services include institutional asset management, asset management for high net worth individuals, management of mutual funds, and brokerage.

<sup>1</sup> In January 2009 Kardan N.V. increased its stake to 85% and on March 31 2009, Kardan N.V. bought back from Discount Bank 11% in KFS, bringing the holding to 96%.

**TBIF portfolio trends (€ millions)**



**TBIF deposit trends (€ millions)**



## Insurance and pension activities (TBIH)

### Insurance

TBIH Financial Services B.V. (TBIH) is active in the fields of general and life insurance in the following markets:

- Turkey – through a 74% stake in Ray Sigorta A.S, active in the non-life sector, with a 2.5% market share.
- Ukraine – through 62% stakes in Ukrainska Strakhova Grupa (UIG) and VAB Insurance active in the non-life and life sector, with a combined 5.5% market share.
- Georgia: GPIH and IRAO, leading insurers, providing general, life and health insurance with a combined 34% market share.
- Romania: TBIH holds a 50% stake in Omniasig Life SA, a life insurance company.

In December 2008, TBIH disposed of its insurance operations in Bulgaria<sup>2</sup>, Croatia, Albania<sup>2</sup> (including Macedonia and Kosovo) to VIG and in Russia to a third party. The proceeds from the disposal amounted to approx. EUR 200 million, of which EUR 100 million were used to repay shareholders' loans to VIG.

### Pension

In addition to insurance, TBIH is active in the field of pension funds. The main operation in this field is in Bulgaria. TBIH is also active in Croatia, Georgia, Russia and Ukraine. The Romanian activity<sup>2</sup> was sold to a subsidiary of the Austrian Erste Bank.

In Bulgaria, TBIH holds a controlling interest in Pension Assurance Company Doverie A.D. (Doverie), which manages mandatory and voluntary pension funds in Bulgaria, with EUR 347 million assets under management. Doverie is the largest pension fund in Bulgaria and has a market share of approx. 34%. All of the TBIH Group pension companies are defined contribution funds in which members' pension payments are based on savings deposited and any returns accumulated on that amount prior to the pension being taken.

<sup>2</sup> Pending regulatory approval.

## Markets

In the first half of 2008, the markets KFS operated in continued to show the overall growth trends that have been customary of CIS and CEE financial markets. In the second half of 2008, and especially in the last quarter, the effects of the global crisis filtered into KFS' countries of operation. The main manifestations of the crisis are the difficulties in attaining new funding, adverse macroeconomic conditions that contribute to an increase in unemployment, and consequently higher levels of defaults on loans and traded financial instruments.

## Reaction to economic turmoil and slowdown of global economy

The following measures were taken to respond to the slowdown of the economy:

### Banking, lending and asset management

In general the following measures were taken: substantially more rigid loan origination policy, especially in Ukraine, increased focus on liquidity, increased efforts to attract retail deposits, cost-cutting measures relating mainly to downsizing staff, and closing branches and points of sales. The amount of receivables more than 90 days past due increased from 2% as of December 31, 2007 to almost 5% as of December 31, 2008. The collecting departments have intensified the contact with the clients. If justified, the redemption schedule of loans granted is adjusted to increase the chance to receive the repayment. Especially the macroeconomic situation in Ukraine causes significant pressure on the liquidity position of VAB Bank. The Ukraine Central Bank granted support in the amount of approx. EUR 125 million. In Russia, the financial position of Sovcom Bank is healthy. Nevertheless Sovcom used the opportunity offered by the Russian Central Bank to get support; as at December 31, 2008 an amount of EUR 81 million was borrowed.

### Insurance and pension

With the view of substantially improving its long-term liquidity situation and decreasing its leverage, TBIH disposed of certain insurance subsidiaries as mentioned above. TBIH was able to do so at values higher than those in the December 2007 Discount Bank

transaction, for subsidiaries that had been included in TBIH's portfolio at the time. This proves that the strategy of focusing on value creation instead of optimizing the short-term results pays off.

## Financial overview

### Consolidated results of Financial Services division

The summary of the consolidated results and balance sheet is as follows:

€ in millions	2008	2007	Change (%)
<b>Consolidated results</b>			
Results of subsidiaries (TBIF and TBIH)	(66.9)	6.2	
Net financial expenses	(5.3)		
Capital gain / (loss)	(3.3)	27.3	
Fair value income options	64.7	(21.6)	
Impairment goodwill	(26.7)		
Other	(3.0)	(4.3)	30
Net profit / (loss) KFS	(40.5)	7.6	
Kardan N.V. share in net profit / (loss)	(36.1)	6.0	
Impairment goodwill	(9.8)		
Capital gain		30.0	
Contribution to Equity Holders Kardan N.V.	(45.9)	36.0	
<b>Consolidated balance sheet</b>			
Total assets	1,742	1,464	19
Equity	139.7	177	(21)
Net debt – KFS (company only)	(89.3)	(34)	
<b>Other</b>			
Solvency (equity/consolidated assets)	8%	12%	

### Results

KFS recorded a loss of EUR 40.5 million in 2008 compared to a profit of EUR 7.6 million in 2007. The transition to loss is the result of the following factors:

- Decrease in the results of the subsidiaries: the results from subsidiaries include their operational results, to be discussed below, as well as charges relating to impairment of goodwill amounting to EUR 43 million, stemming mostly from the banking and insurance operations in Ukraine, and banking operations in Russia.

- Capital gain in 2007, amounting to EUR 27.3 million, was not matched in 2008. The 2007 capital gain was mainly related to the restructuring deal with Vienna Insurance Group in 2007, whereby KFS decreased its holdings in TBIH to 40% from 60%. The capital loss in 2008 relates to the costs of disposing of Russian non-life insurance operations.
- KFS recorded fair value income amounting to approx. EUR 65 million, relating to two items: 1) a put option of a minority shareholder in TBIF created a profit of EUR 30 million in 2008, compared to expenses of EUR 22 million in 2007; 2) initial recognition of the fair value of a put option to sell the holding in TBIH.
- KFS recorded a loss of EUR 26.7 million from impairment of goodwill.

Several items in the profit and loss account of Kardan N.V. are assigned to KFS. The balance sheet of Kardan N.V. includes goodwill relating to KFS. Because it is not expected that future cash flows fully justify the capitalized goodwill, an amount of EUR 9.8 million has been written off. Including the impairment at Kardan N.V. level, the loss for KFS in 2008 amounts to EUR 45.9 million. In 2007, the profit realized on the sale of 11% of the shares of KFS to Israel Discount Bank is recorded as a capital gain.

### **Financial position**

KFS (non-consolidated) has no principal payments due until 2012 and no need to refinance loans.

The consolidated assets increased by EUR 282 million. This is mainly due to the change in the consolidation method for the participation in Sovcom Bank in Russia from proportional consolidation to full consolidation due to the increase in the holding from 50% as of December 31, 2007 to 61% as of December 31, 2008 (see footnote 2 on page 53). The impact of the change amounted to EUR 300 million. The equity decrease was caused by the net loss for the year; negative currency translation differences were compensated by the minority interest in the equity of Sovcom Bank.

## TBIF

The results of TBIF and the development of the main balance-sheet positions are as follows.

€ in millions	2008	2007	Change (%)
<b>Consolidated results</b>			
Revenues <sup>1</sup> from banking and lending	141.6	94.4	50
Operating result of banking and lending	(23.8)	1.1	
Impairment of goodwill, intangibles and other assets	(38.0)	–	
Capital gains	–	9.7	
Other items	1.9	–	
Net profit / (loss) contributable to KFS	(59.9)	10.8	
Cost / income ratio	85%	76%	(12)
Credit losses and impairment losses on portfolio	(45.7)	(14.7)	(210)
<b>Consolidated balance sheet</b>			
Total assets	1,380.2	1,031.6	34
Shareholder's Equity	117.9	128.2	(8)
Solvency (shareholder's equity/total assets)	9%	12%	
Loan portfolio (banking and non banking) <sup>2</sup>	944.8	743.4	27
Deposits <sup>2</sup>	577.2	422.4	37
<b>Other</b>			
Personnel at year-end	9.401	8.335	13
Return on equity (average)	(5.3)%	1.3%	

1 Includes net interest income, net fee and commissions' income and investment income.

2 Data presented as in TBIF's IFRS financials: in 2007 includes proportional consolidation of banking activities (Russia - 50% and Ukraine - 49%) and full consolidation of Romanian and Bulgarian lending activities; 2008 includes proportional consolidation of Ukrainian banking activities (49%) and full consolidation of Russian, Romanian and Bulgarian activities. Assuming full consolidation of all the activities, the loan portfolio is approximately EUR 1.25 billion and EUR 1.19 billion as of December 31, 2008 and 2007, respectively. On the same basis, the deposits are EUR 858 and EUR 799 million as of December 31, 2008 and 2007, respectively.

## Results

The banking and lending businesses (including consumer finance leasing, asset management, and mortgages) contributed an operating loss of EUR 23.8 million in 2008 (2007: profit of EUR 1.1 million). This decrease in profitability is a reflection of the adverse macroeconomic situation in TBIF's countries of operation.

As a result:

- TBIF has chosen to focus on liquidity and has been much more selective in loan origination, a policy which put a strain on portfolio levels and on revenues, especially in the fourth quarter of 2008.
- TBIF has taken active measures in order to adjust its cost structure to the current market conditions. The focus is on reducing the number of branches and points of sale and decreasing staff and salaries. The full effect of these measures is not reflected in the 2008 results, as the measures were taken mostly in the last quarter of the year. The expenses incurred for the reduction of personnel comprise the payment of lay off expenses. These costs will be recorded when they become due. On balance, it is expected that personnel expenses will decrease in 2009 compared to 2008. In the fourth quarter the portfolio decreased.
- In 2008, the average level of NPLs (Non-Performing Loans, 90 days overdue) in TBIF's portfolio has more than doubled: from an average of 2% in 2007 to almost 5% in 2008. This is reflected in increased risk costs recorded in the P&L: from EUR 14.7 million in 2007 to EUR 45.7 million in 2008.
- TBIF recorded goodwill and intangible assets impairment charges amounting to EUR 38 million in 2008 (2007: nil). The impairment relates to banking activities in Russia and Ukraine.
- Capital gains in 2007 relate to the partial sale of Russian consumer credit operations. No capital gains were recorded in 2008.

The cost / income ratio is high and has significantly increased in 2008. In 2007 and in 2008 (mainly first half), this was the effect of the strategy to grow the platform through an increase in the distribution network: since the expenses of newly opened offices, branches, and points of sale were not yet fully covered by an increase in income, the cost-income ratio is high compared to mature financial institutions.

### Financial position

On a fully consolidated basis, the loan portfolio grew by approx. 5%, which is less than the amount presented in the table above, which shows a larger increase. The reason for the difference is the way in which some subsidiaries are consolidated (reference is made to footnote 2 on page 53). The same holds for the deposits. The growth was realized mostly in the first half of 2008.

Due to the net loss, equity decreased to 9% of total assets; the decrease driven by the effect of the translation reserve due to the devaluation of the Russian rouble and the Ukrainian hryvnia was compensated by the increase of the minority interest due to the full consolidation of Sovcom Bank. Including shareholders' loans, amounting to EUR 156 million, solvency is satisfactory (18%).

Towards the end of 2008, the financial markets, both international and local, virtually closed down to a great extent. This seriously limited the ability of TBIF businesses to attract external funding. As a result, new business generation was substantially curbed and limited only to the available funds coming from non-utilized sources and portfolio repayments. Moreover, in certain environments the existing credit lines from banks began to close down (not renewed upon expiry). The banks have focused their efforts on maintaining liquidity and attracting deposits, also seriously reducing credit origination. Accordingly, TBIF's work plans for 2009 were built under the conservative assumption of a lack of new funding sources, which will lead to a significant decrease in the volumes and portfolios, thus enabling the subsidiaries and TBIF to repay all interest and principal maturities due throughout the year 2009. As the year evolves, and especially once the crisis is over and financial markets begin to reopen, the companies will again actively seek new funding.



## TBIH

The results and balance sheet positions of TBIH are as follows:

€ in millions	2008	2007	Change (%)
<b>Consolidated results</b>			
Insurance premiums	223.7	105.1	113
Pension fees and commissions	9.9	8.7	14
Operating result – Insurance	(2.0)	(4.0)	50
Operating result – Pension	(1.9)	(4.7)	60
Net financial expenses	(21.4)	(2.2)	
Impairment of goodwill and intangible assets	(7.8)		
Capital gains	39.9		
Loss from discounted operations	(22.3)	1.8	
Other items	1.0	(2.5)	
Net profit / (loss)	(14.5)	(11.6)	(25)
KFS share in net profit / (loss)	(5.8)	(4.6)	
<b>Consolidated balance sheet</b>			
Total assets	674.7	795.0	(15)
Equity	111.5	126.8	(12)
Solvency (equity/total assets)	16.5%	16.0%	
Assets under management – pension	762.8	743.2	3
<b>Other</b>			
Number of pension fund members (in .000)	1,821.9	1,714.4	6
Return on equity (average)	(13.0)%	(9.1)%	

Figures in the table above represent 100% of TBIH. KFS consolidates TBIH proportionally, 40%.

### Results

Total earned insurance premiums amounted to EUR 223.7 million for 2008, compared to EUR 105.1 million in 2007. This change can be attributed mostly to premiums from Turkish and Ukrainian activities, which were not fully consolidated over 2007, and also to organic growth in Ukraine and Georgia. In 2008, the insurance activities contributed an operating loss of EUR 2 million to TBIH (2007: minus EUR 4 million). The decrease in operational loss is caused by improved results in Turkey, Georgia, and Romania, despite the

economic slow down. Due to a careful investment policy, the investment losses were limited.

Pension-fund activities generated a loss of EUR 1.9 million (2007: loss of EUR 4.7 million). Losses were incurred mainly due to investments related to acquiring new members in the pension funds, which are apportioned to the current period and cannot be capitalized under IFRS. Losses decreased in 2008 compared to 2007 due to the increasing profitability of Bulgarian operations (Doverie). The number of

pension-fund members increased from 1.7 million at December 31, 2007, to 1.8 million at December 31, 2008. The assets managed by these pension funds increased from EUR 743 million at December 31, 2007, to EUR 763 million at December 31, 2008. The modest increase in assets relates to the adverse effect of the turmoil in the stock markets in 2008.

Financial expenses increased in 2008 compared to 2007 due to the increase in shareholders' loans from Vienna Insurance Group, provided mostly in the second half of 2007 and in 2008. The proceeds of the funds were used, among others, to finance the acquisition of the Ukrainian insurance activities.

In 2008, TBIH recorded impairment charges amounting to EUR 7.8 million (2007: nil) relating to insurance activities in Ukraine and pension activities in Russia. TBIH recorded a capital gain of EUR 39.9 million, mostly stemming from the above-mentioned disposal of insurance operations.

KFS owns 40% of TBIH. Therefore KFS share in the net loss of TBIH amounting to EUR 14.5 million in 2008 is EUR 5.8 million.

#### **Financial position**

Total assets decreased. On the one hand, the acquisition of the Ukrainian insurance activities increased the consolidated assets, but the disposal of the insurance companies in Croatia and Russia decreased total assets. Shareholders' equity decreased due to the net loss in 2008. As a result, solvency is a healthy 16.5%.

Due to the transaction between TBIH and VIG, the liquidity position improved substantially and, accordingly, TBIH repaid EUR 100 million of the interest-bearing debt in the fourth quarter of 2008 and in January 2009. As of January 2009, after the receipt of the proceeds from insurance disposals and repayment of shareholders' loans, TBIH has a cash balance of approx. EUR 100 million. TBIH has no refinancing needs for the next few years.

#### **2009 Outlook**

KFS Group's objective is to maintain its role as a provider of financial services in selected countries in the CEE and CIS regions. KFS will continue to focus on developing its existing operations through TBIF and TBIH, with the focus mostly on banking and insurance. Due to the current market conditions, KFS has adopted a "Watch and Hold" strategy for the short and medium term, which consists of supporting the operations, with the major focus on liquidity, while considering certain opportunities that might appear in times of economic downturn. The total number of employees will decrease in 2009 as a result of the closing of branches and further reorganizations. The "Watch and Hold" strategy for the short term will also reduce the investment in tangible fixed assets. With respect to funding, reference is made to the financial overview above.

In the long term, KFS may consider penetrating new markets; however, it is unlikely that such investments will be done in the near future.

## (Water) Infrastructure Division

### General

Kardan through Tahal, is active in the infrastructure business and operates as a leading international engineering company, specializing in water-related infrastructure projects and water-related asset ownership. Tahal has participated in the planning, development, design, construction and management of thousands of projects in over 50 countries across five continents. Tahal's advanced technical resources include a staff of almost 1,700 employees, including engineers and scientists in a wide variety of disciplines. Within the framework of restructuring of the infrastructure companies, it was decided to have all project activities under one subsidiary, Tahal Group B.V. (Tahal Group), and all assets-related activities under Tahal Group Assets B.V. (Tahal Assets). This went into effect on April 1, 2008.

Tahal Group engages in two basic types of projects: construction projects and design projects. Construction projects are projects that include planning, acquisition, management and construction, as well as financing arrangements. Construction projects are usually in the field of water supply, desalination, wastewater treatment and agriculture. Design projects include planning, design, project management and construction supervision in a wide variety of fields, including water supply, waste and wastewater treatment, desalination, water resource planning, solid waste management and agricultural planning. Tahal Group's design and engineering projects are located in Africa, Israel, Asia, Southern Americas, and Eastern Europe.

Tahal Assets invests in water-related assets such as municipal water systems, desalination plants, wastewater treatment plants and hydropower plants. Tahal Assets is mainly operational in China, Israel and Turkey.

### Markets

In 2008, the number of projects in water-related infrastructure in the world increased. In Latin America, the situation became more difficult due to the shift from public to privately owned infrastructure. As a consequence, competition from local suppliers increased significantly. In Africa and China, the governments are investing in water-related projects in order to be able to fulfill the needs generated by industrialization and population growth.

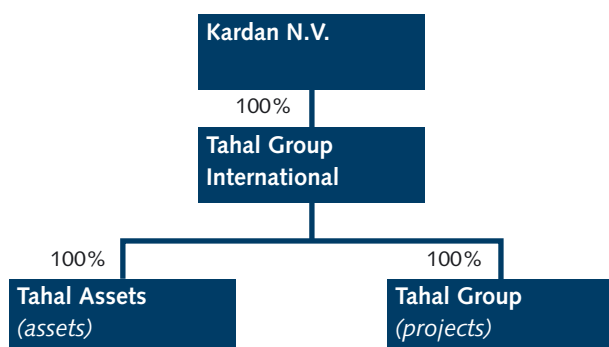
### Reaction to economic turmoil and slowdown of the global economy

The main risk Tahal is facing is that the funding of projects and the investment in assets will take longer and occur at less favorable terms, because banks and credit-insurance agencies have become more conservative. Tahal will leverage on its brand awareness and experience, in trying to arrange the necessary funding. This could potentially lead to the postponement and cancellation of projects. Another risk is the impact of the economic turmoil on the financial stability of subcontractors engaged by Tahal in the projects and consequently the level of performance of such subcontractors. A careful selection of subcontractors should minimize the risk of running into non-performance by the subcontractors.

### Portfolio development

#### Projects

Tahal succeeded in taking its share of the growth in the water-related infrastructure world and managed to increase the backlog from EUR 189 million as of December 31, 2007, to EUR 235 million as of December 31, 2008. The increase mainly stems from African projects, where the backlog increased from EUR 11



million at the end of 2007 to EUR 107 million at the end of 2008. This concerns projects in Ghana and Angola. The project in Angola is carried out in collaboration with the Empresa Pública de Aguas de Luanda (EPAL). The project's main focus is the construction of a water-supply network for residential use in seven neighborhoods in the south of Luanda. The project further includes the design of the distribution system and the installation of about 400 km of PVC pipes and the installation of about 140 drinking fountains. The total project comprises an area of about 1.43 million sqm. Expected revenues amount to EUR 35 million.

Tahal Group's activity in Ghana concerns two projects, both of which are aimed at the rehabilitation and expansion of water-supply systems and a water-treatment plant serving two separate rural areas. The aggregate contract value for these two projects amounts to approx. EUR 55 million.

In Europe and America, the backlog declined because hardly any new agreement was signed. With regard to Europe, it has been decided to limit the number of new projects until Tahal Group's management is convinced that the European organization is under control. The increase in the backlog proves that the capabilities of Tahal are globally recognized. In general, Tahal is tendering for small- to middle-size projects, as Tahal believes that international competition in this segment of the market is less strong than for large projects.

## Assets

In 2008, Tahal's asset activities developed further, especially in China.

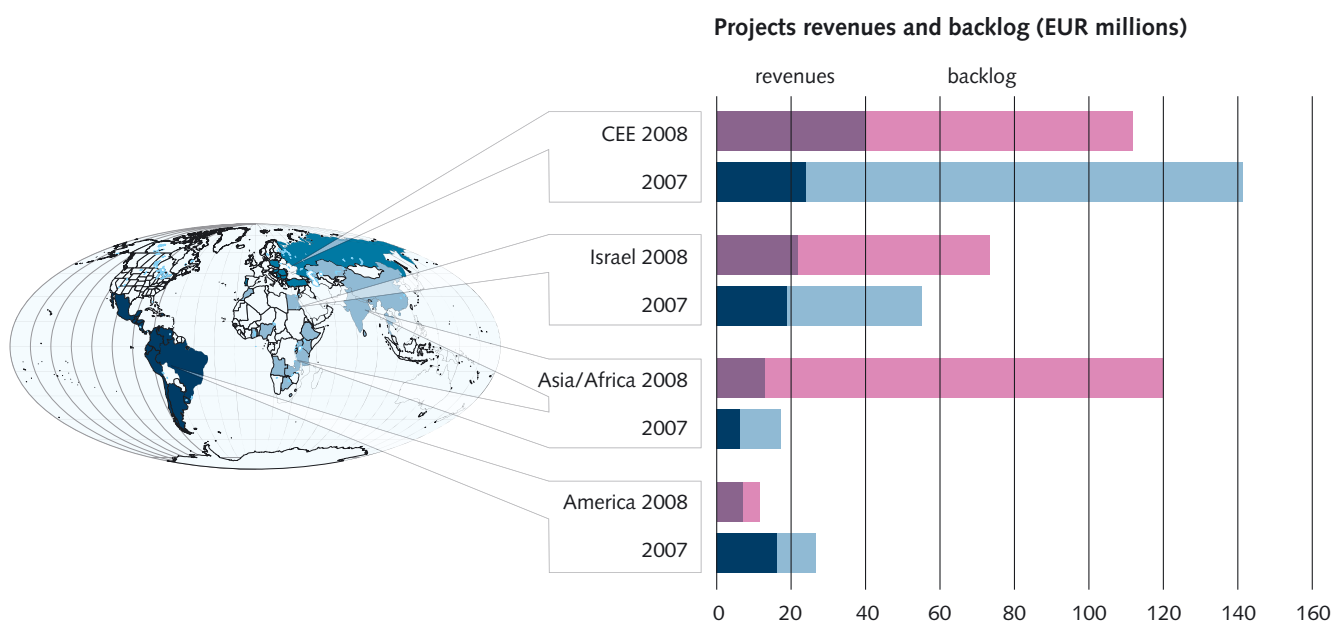
The majority of activities in China operate under the name of Kardan Water International Group (KWIG). In 2008, Tahal increased its holdings in KWIG from 66% to 80%. The concession periods for the various projects range from 15 to 30 years.

The portfolio of KWIG was expanded during the first half of 2008 with an investment (88.15% of the shares) in Tianjin Huanke Water Development Co Ltd., a Chinese company specialized in water supply and wastewater treatment.

The development of a water supply and wastewater treatment plant in Dazhou, Sichuan province, which started in 2007, will be finalized in 2009. The plant is located in Dazhou's industrial zone, an area in which the largest natural gas field in China is situated.

In Q3 2008, Tahal signed a contract to build, operate, and own a wastewater treatment plant in Dingzhou, Hebei province. The treated water will be sold to the local power-station company, with guaranteed payments from the government.

In Turkey, Tahal increased its participation in Task from 33% to 50%. The partner in Turkey is Akfen Holding AS. The company is active in two cities: Güllük and Dilovasi. The concession period for the assets in the two cities is approx. 30 years.



## Financial overview

Consolidated results of the infrastructure division.

The results of Tahal Group International (TGI) can be detailed as follows:

€ in millions	2008
<b>Consolidated result</b>	
Result of subsidiaries (Tahal Group, Tahal Assets)	(16.8)
Net financial expenses	(1.9)
General and administrative expenses	(1.1)
Net loss	(19.8)
Goodwill impairment	(1.2)
Attributable to equity holders of KNV	(21.0)
<b>Consolidated balance sheet</b>	
Total assets	236.3
Equity	10.4
Solvency (shareholders' equity/total assets)	4.4%
Net cash	7

### Results

Tahal Group International B.V. was incorporated in April 2008. For that reason, no comparative figures are presented.

### Financial position

Total equity amounts to EUR 10.4 million. In addition, Tahal has borrowed an amount of EUR 86.3 from Kardan N.V. and including this shareholders' loan the solvency is 41%.

## Tahal Group

The results and main balance-sheet positions of Tahal Group can be detailed as follows:

€ in millions	2008	2007	Change (%)
<b>Consolidated result</b>			
Contract revenues	81.5	65.3	25
Gross profit	10.8	14.2	(24)
General, administrative and selling expenses	(14.6)	(12.7)	(15)
Net Financial expenses	(1.6)	(0.6)	(167)
Other items	1.2	0.5	140
Net profit (after minority interest)	(4.2)	1.4	
<b>Consolidated balance sheet</b>			
Total assets	86.6	62.6	38
Equity	12.7	17.9	(29)
<b>Other</b>			
Total backlog	235.3	189.2	24
Personnel at year-end	902	851	6

### Results

Revenue increased in 2008 by 25% to EUR 81.5 million. Gross profit, however, decreased to EUR 10.8 million, which is EUR 3.4 million less than in 2007. The decrease is mainly attributable to the European projects. Projects in Romania and Russia, in particular, have developed less favorably than expected in previous years. The negative impact on the gross profit for 2008 is approx. EUR 7 million. To avoid incorrect estimation of project development in the future, a restructuring took place including management changes and the incorporation of a separate department at the head office to improve control and enhance project-execution capabilities.

### Financial position

Total assets increased by EUR 74.5 million to EUR 86.6 million as of December 31, 2008. The main reason for the increase in total assets is the increase of activities.

The equity declined mainly due to the net loss in 2008. As of December 31, 2008, Tahal Group borrowed EUR 14 million from financial institutions. These amounts mature mainly in 2009. The remainder of the assets were funded by shareholder loans and advances from clients.

## Tahal Assets

The results and main balance-sheet positions of Tahal Assets can be detailed as follows:

€ in millions	2008	2007	Change (%)
<b>Consolidated result</b>			
Contract revenues	43.0	8.6	
Gross profit	10.0	2.4	
General and administrative expenses	(13.3)	(4.8)	177
Impairment of assets	(7.2)	-	
Net financial expenses	(4.7)	(6.7)	30
Other items	2.6	1.1	
Net loss	(12.6)	(8.0)	(57)
<b>Consolidated balance sheet</b>			
Total assets	130.5	99.4	31
Total equity	8.2	0	
Assets under construction	23.4	-	
Investment assets	2.0	-	
<b>Other</b>			
Personnel at year-end	779	641	22

## Results

Contract revenues in 2008 increased by approx. EUR 34 million to EUR 43 million. The activities in China and Turkey started in the second half of 2007. This explains the significant increase in revenue in 2008. The gross margin declined from 28% to 23%. This was caused by the lower margins on activities in China and Turkey. Impairment of assets amounting to EUR 7.2 million became necessary because Tahal Assets decided to slow down, respectively not start, some of the developments, due to the economic circumstances.

This concerns asset developments in Turkey and Bulgaria, among others.

Mainly due to these impairment losses, the net loss in 2008 increased compared to 2007.

#### **Financial position**

The increase in total assets concerns the activity in China, where total assets increased from EUR 24 million as of December 31, 2007, to EUR 53 million as of December 31, 2008. The activities are financed by loans from financial institutions, amounting to EUR 48 million, the majority of which need to be repaid in 2009. Tahal is discussing refinancing options with the banks, and has no reason to believe that refinancing will not be granted. In addition, an amount of EUR 35 million has been borrowed from shareholders.

#### **2009 Outlook**

For Tahal Projects, it is expected that revenues and gross profit will exceed the levels achieved in 2008. Revenues will increase because of the increased backlog; gross profit is expected to be higher because of the write-offs in 2008 and the increased revenues. These expectations assume that the subcontractors will continue to perform well.

Tahal Assets in China expects to finalize the construction at Dazhou and to start the operation of the plant. Since Kardan's "Watch and Hold" policy also applies to Tahal, it is not expected that significant new investments will be made in 2009.

The total number of personnel of Tahal Group and Tahal Assets is expected to decrease because cost-cutting measures are being taken to increase the efficiency of the organization.



## Other Businesses

### General

Kardan Israel Ltd. (Kardan Israel) is listed on the Tel Aviv Stock Exchange and operates three divisions: real estate, automotive and consumer goods, and communications and technology. Kardan N.V. owns almost 74% of the shares of Kardan Israel. The results and activities of the real estate segment are presented as part of the real estate division of Kardan. The activities and results of the other two divisions are presented hereafter.

### Automotive & Consumer Goods

Kardan is active in the automotive and consumer goods sector in Israel through Kardan Israel and its Group companies, UMI, Dan Rent a Car (Avis Israel), and SFDI. Kardan Israel owns 40% of the shares of UMI, which is the exclusive Israeli distributor for the General Motors Group (GM Group). UMI imports and markets the following brands: "Chevrolet", "Buick", "Chevy Trucks", and "Cadillac" (manufactured in North America and in Korea), "Opel" (manufactured in Europe), and "Isuzu" (manufactured in Japan and in Thailand). In addition, UMI imports trucks manufactured by Isuzu and markets them through its 50% affiliate Universal Trucks Israel Ltd.

Kardan Israel owns (in)directly 22% of Avis Israel, an operational car-leasing and rental company.

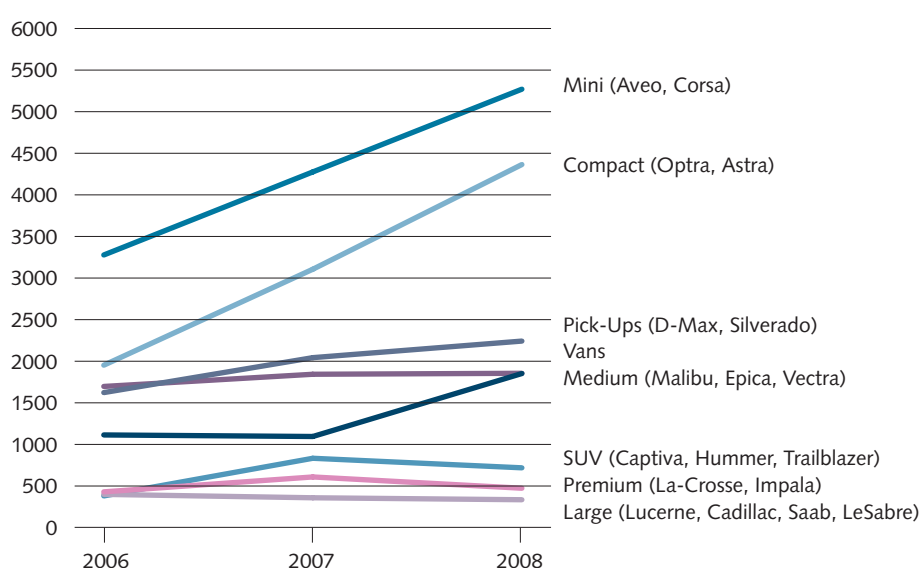
SFDI distributes Whirlpool and Bauknecht "white goods" throughout Israel.

### Operational and financial overview of 2008

As of December 31, 2008, UMI's revenues amounted to EUR 437 million, compared to EUR 375 million in 2007. The revenues of UMI are not consolidated by Kardan. UMI's market share of total motor-vehicle deliveries in Israel was 8.6% in 2008 and 7.2% in 2007. Although the automotive market in Israel slowed down in the fourth quarter of 2008, UMI managed to record an annual profit of EUR 21 million (2007: EUR 17 million). Avis Israel recorded a revenue of EUR 205 million in 2008 and EUR 176 million in 2007. The contribution to the result of Kardan Israel in 2008, amounting to EUR 1 million, was similar to last year. The total fleet at year-end 2008 was 32,100 (December 31, 2007: 30,100).

The revenues of SFDI amounted to EUR 20 million for 2008, compared to EUR 22 million in 2007.

Car sales per segments (units)



In 2008, Kardan's automotive and consumer segment contributed a net profit of EUR 9 million, compared to EUR 10 million in 2007. Because Kardan owns 73% of Kardan Israel, the net profit contribution of this segment to the equity holders of Kardan N.V. amounts to EUR 6 million (2007: EUR 6 million).

### Communications and technology

Kardan operates in the communications and technology sector through Kardan Communication and Kardan Technologies.

Kardan focuses its investments on small- and medium-sized companies in the technology sector, mainly in the fields of communications and media that have moved beyond the start-up stage and have strong growth potential. Kardan Communications does not consolidate the results of its Group companies in its financial statements.

#### Operational and financial overview of 2008

In 2008, Kardan's communications and technologies segment contributed a net loss to Kardan Israel of EUR 5 million, similar to the loss in 2007.

The results of RRSat, a significant holding of Kardan Communications (24%), which engages in the transfer of television and radio broadcasts, are included by means of the equity method. In 2008, RRSat's revenues amounted to EUR 61 million compared to EUR 43 million in 2007. RRSat is listed on NASDAQ with a market cap of approximately EUR 150 million as of December 31, 2008.

The activities of Kardan Technologies are limited to minority holdings in a venture capital fund and in several technology companies.

The segment's contribution to Kardan is a loss of EUR 3 million (2007: -EUR 1 million).

### 2009 Outlook

The results of "Automotive and Consumer Goods" will most likely be impacted negatively by the slowdown of the economy. The supplier of UMI, GM Group, faces difficult times.

The brands of GM Group, represented by UMI, are strong in Israel and management of UMI expects that, even in a case of bankruptcy of GM Group, manufacturing of the brands will continue.

In the case of both aforementioned divisions it is expected that investments in tangible assets will not significantly differ from 2008. Due to the cost-cutting measures it is likely that the number of personnel will decline slightly compared to 2008.

## Risk Management

As Kardan predominantly operates its businesses in emerging markets, it is exposed to the relatively high degree of risk inherent in such activities. The Management Board is responsible for setting strategic, operational, and financial objectives as well as for implementing risk-management practices in line with these objectives.

Since Kardan believes the key to success lies in acting as locally as possible in the markets it operates in, Kardan aims to work with local partners and to put local management in place. In line with this decentralized management structure, the management of Kardan's subsidiaries has first responsibility to ensure that their risk-management and control systems are properly implemented.

The general concept behind Kardan's risk-management approach aims to create and maintain a control framework that provides a clear view of Kardan's business environment, as well as the company's position within it, and to ensure high-quality information flows. This should enable management at all levels to make sound analyses, leading to informed decisions on opportunities and risks that present themselves during the course of business.

In line with the "enterprise risk management framework" as published by COSO (the Committee of Sponsoring Organizations of the Treadway Commission), Kardan implemented certain recurring and ongoing risk-management procedures. Every year, the Management Board holds a strategy meeting, directly followed by a risk-assessment session. During this risk-assessment session, the key risks inherent in Kardan's (updated) strategic objectives are identified and evaluated. To achieve this, risk-rating criteria have been developed to assess (a) the likelihood that these risks will manifest themselves during the period under review, (b) their potential impact on Kardan's strategic objectives, and (c) the possibility of further mitigating these risks. Subsequently, these risk ratings are analyzed and discussed, and (additional) views and reactions are developed if and when possible.

During 2008, Kardan was confronted with the rapidly changing economic circumstances that led to the current severe economic downturn in the global economy. These adverse developments demand an active and pragmatic approach in addressing the associated (emerging) risks. As a result, contacts between the Management Board and the management of its subsidiaries have been intensified, in order to discuss the latest developments and expectations in the respective markets, as well as the (financial) resilience of these subsidiaries.

The risks identified, as well as their related controls, are monitored using specific risk and control indicators embedded in Kardan's ongoing management reporting systems. Within Kardan's governance structure, these reporting systems are an important information source for management's analysis and decision-making processes.

Furthermore, Kardan's internal audit system plays an important role in monitoring its risk-management framework. Independent from management's own risk assessment, the internal audit, carried out by a third party organization, identifies certain risks related to Kardan's internal controls. The recommendations given by Kardan's internal – as well as its external – auditors help Kardan in defining its responses to the risks identified, among others via adopting (enhanced) policies and procedures, such as those relating to authorizations, ICT, and compliance.

### Main risks related to Kardan's strategy

The section below describes the main risks related to Kardan's strategy, as well as their related controls. In addition, there may be other significant risks Kardan has not yet identified or which have been assessed as not having a significant potential impact on the business yet but which could at a later stage.

#### Business model

Kardan is focused on further expanding its businesses in emerging markets. By nature, various aspects of these markets are relatively underdeveloped and

unstable and therefore often exposed to risks arising from unforeseen changes, such as (geo-) political, regulatory, legal, and economic changes. Kardan's investments in emerging markets expose the company to a relative high degree of inherent risk.

The fact that Kardan has to a certain degree diversified its business over different (emerging) markets and sectors also results in some risk mitigation. In addition, to ensure knowledge and understanding of its business environments, Kardan acts as locally as possible by entering into local partnerships using local management. Furthermore, Kardan thoroughly analyzes business opportunities and tries to avoid and mitigate risks that are not intrinsic to its business model and core competencies.

#### **Financial markets**

As a listed company strongly dependent on external financing and with high exposure to emerging markets, Kardan runs the risk that fluctuations in such areas as prices, rates, yields and indices will affect the value of its (financial) assets, its covenants and stock price, thereby affecting its ability to raise capital, and the cost of capital.

To manage these risks, Kardan closely monitors the financial positions of its businesses and hedges these risks if and when expedient. As an additional response to the current turbulence in the financial markets, with the accompanying risks, Kardan is among others focusing on preserving its cash position, limiting further investments to commitments made, and cutting costs.

#### **Interest-rate risk**

Kardan's exposure to the risk of interest-rate fluctuations is due primarily to Kardan's long-term debt obligations. Kardan's policy is to manage its interest costs using a mix of fixed and variable rate debt. Kardan aims to limit the impact of fluctuations in interest rates on its results and to reduce total interest expenses as much as possible.

To manage interest-rate risks in a cost-efficient manner, Kardan enters into interest rate swaps. These swaps are designated to hedge underlying debt obligations. Interest-rate derivatives are used to align the loan portfolio with the intended risk profile. In order to manage the risk profile, management regularly discusses the financial instruments to be used. Hedging is only allowed if detailed requirements are met. The financial statements contain additional information and disclosures on Kardan's use of financial instruments.

#### **Capital availability**

Kardan is strongly dependent on external financing and is exposed to vulnerable sectors in emerging markets that are strongly affected by the current economic downturn. As a consequence, Kardan is exposed to the risk that insufficient access to capital may threaten its capacity to grow, execute its business model, and generate future financial returns.

Kardan manages its capital structure by deciding on leverage, repayment of loans, investment or divestment of assets, dividend policy, and the need, if any, to issue new shares or debentures. Furthermore, Kardan is strongly focused on cost and cash management and is thoroughly evaluating investment propositions.

During 2008, the risk related to capital availability has clearly manifested itself. The financial market turmoil that led to the current economic downturn meant Kardan was confronted with the consequences of its exposure to these risks. Capital availability was and still is very limited and Kardan responded to the situation by taking various additional measures, such as restructuring its capital positions, servicing only its existing commitments, and preserving its cash position. Furthermore, new investments were put on hold and a cost-cutting program has been initiated.

#### **Investor relations**

Kardan is still relatively unknown to part of the investor community. In addition, part of that

community perceives the transparency of its organization as less than optimal. This may limit Kardan's ability to efficiently raise capital or sustain share valuation, which could adversely affect Kardan's strategy to further expand its businesses.

Kardan is continuously looking to increase this organizational transparency. For this purpose, on December 16, 2008, it merged its direct and indirect 67% holding in the public real-estate company (GTC Real Estate N.V.) into a private company (GTC Real Estate Holding B.V.) which is 100% owned by Kardan. As a result, Kardan now has full and more direct control over all its real-estate activities. Furthermore, in 2008 Jan Slootweg strengthened the Management Board to, among other things, further enhance Kardan's investor relations.

#### **Customer purchasing power**

Although Kardan strongly believes that there is sustainable, strong demand for its activities in emerging markets, the current economic downturn has had an adverse effect on consumers' appetite and their capacity to purchase Kardan's products and services. In the short term this could lead to a decline in the effective demand for these products and services, which could adversely affect Kardan's financial results and envisaged growth.

In response to these risks, Kardan is – in line with its long-term strategy – closely monitoring its businesses and allocating its resources in accordance with what it deems currently relevant opportunities.

#### **Partnering**

A key element of Kardan's growth strategy is to cooperate with partners in its various local businesses. In doing so, it is crucial to select partners that are viable from different perspectives, including financial resources.

To mitigate the risks related to the partnerships Kardan enters into, Kardan makes every effort to carefully select suitable business partners. In doing so, Kardan

critically assesses the financial stability of the proposed partners as well as the legal structure of the partnership.

#### **Legal and regulatory**

Kardan and its employees are confronted with the complex and continuously changing regulatory environments of the countries it operates in. As a consequence, Kardan is exposed to the risk of non-compliance with laws and regulations which could threaten the organization's capacity to consummate important transactions, enforce contractual agreements, or implement specific strategies and activities.

To reduce these legal and regulatory risks, Kardan closely monitors the various regulatory environments and continuously seeks ways to promptly adapt and enhance its internal compliance procedures.

#### **Currency rate**

Since Kardan conducts business in a variety of countries, a significant part of its assets, liabilities, and results is sensitive to currency fluctuations.

To mitigate currency-exchange risks, Kardan as a principle attempts to match the currency of the income with that of the costs and the financing currency to minimize foreign currency risk. Furthermore, Kardan is continuously monitoring its currency exposures and responds to these exposures, e.g. through hedging, whereby it should be noted that Kardan does not hedge the currency risks on its equity holdings. The financial statements contain additional information and disclosures on Kardan's use of financial instruments.

#### **Taxation**

Kardan conducts transactions in various countries, mainly through local companies in which it invests. Accordingly, these activities are subject to the tax laws in place in those countries, as well as tax treaties. Calculation of these tax liabilities involves the interpretation and application of these local tax laws

and tax treaties. Although Kardan assesses its tax liabilities on the basis of the best possible understanding of those laws and treaties, the tax authorities could interpret or apply the relevant laws and treaties in a way that could lead to additional tax liabilities.

To mitigate its tax-related risks, Kardan focuses in detail on tax issues and, on an ongoing basis, uses the services of external tax advisors.

### Management review

Based on its review of the risk-management and internal-control systems, and cognizant of their inherent limitations as described below, the Management Board has concluded that there is reasonable assurance that:

- It understands to which extent Kardan's strategic and operational targets are being realized
- Kardan's internal and external financial reports are reliable.
- Applicable laws and regulations are being complied with.

Notwithstanding the above, Kardan believes its risk-management practices can be further enhanced by adopting a more stringent approach to the central monitoring of the design and operational effectiveness of the internal control measures currently in place.

Kardan's risk-management and internal-control systems as described above have been regularly discussed with the Audit Committee, the Supervisory Board, and the external auditor.

It is important to note that effective risk management – even with embedded internal control and no matter how well designed and executed – provides only reasonable assurance to the Management and Supervisory Board regarding the achievement of an entity's objectives. The achievement of objectives is subject to the limitations inherent in all management processes. These include the inherent risk of faulty

human judgment in decision-making processes and the possibility of breakdowns resulting from human failure, such as simple errors or mistakes. Moreover, two or more people may collude to circumvent controls, and management has the ability to override the enterprise risk-management process, including risk-response decisions and control activities. Another limiting factor is the need to consider the relative costs and benefits of risk responses. Therefore, in this context "reasonable assurance" refers to a degree of certainty that would be considered adequate for a prudent manager to manage his or her affairs in the given circumstances. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with Kardan's standing policies, procedures, and instructions may deteriorate.

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## Declaration by the Management Board

In accordance with Article 5:25c of the Financial Supervision Act (Wet op het financieel toezicht), the Management Board declares, to the best of its knowledge that:

- (i) The consolidated financial statements for the financial year 2008 give a fair view of the assets, liabilities, financial position, and profit of Kardan N.V. and of the companies included in the consolidation; and
- (ii) That the Annual Report 2008 gives a fair view of Kardan N.V.'s condition on the balance sheet date, the development of Kardan N.V. and its affiliated companies (subsidiaries, joint ventures and associated companies) during the financial year 2008 and all material risks to which Kardan N.V. and its affiliated companies are exposed.

Amsterdam, April 17, 2009

Management Board

A. Ickovics

W. van Damme

E. Oz-Gabber

A. Shlank

J. Slootweg



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Management Board

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W. van Damme

E. Oz-Gabber

A. Shlank

J. Slootweg

**Real Estate Division**  
**GLOBIS Wroclaw, Poland**

Office area 14,500 sq m  
retail & service space 850 sq m  
completed in March 2008

GLOBIS Wroclaw is situated in the heart of the city, in close vicinity of main railway and bus stations. The investment is located in commercial and residential area, being easily accessible from any part of the city, including the international airport of Wroclaw.



**Real Estate Division**  
**Olympic Garden Xi'an, China**

7,885 apartments to be completed by the end of 2012. By the end of 2008, more than 2,600 have been sold

Olympic Garden is GTC Real Estate's first project in Xi'an, capital of Shaanxi province. In 2008, Xi'an's GDP has grown by 15.6% and its citizens enjoyed an increase of 13.3% in their disposable income. Retail sales and fixed asset investment grew by 25.3% and 32.8% respectively.



**Real Estate Division**  
**GALILEO / NEWTON / EDISON, Cracow, Poland**

31,000 sq m of office space  
completed in 2008, 4th stage of the complex (PASCAL) is scheduled for completion in Q4 2009

GTC office complex in Cracow is located 5 minutes away from the city center by car, providing an easy communication to the main railway station and the international airport. Main tenants are: IBM Business Consulting Services, KPMG, Lotos Group, Deloitte, City Bank.



**Infrastructure Division**  
**Kpong Water Treatment Plant, Ghana**

Client: The plant was built in 1975-76, for the Ghana Water Company Ltd

Tahal was responsible for Planning, Design and Construction Supervision Services. Details: capacity of the plant is 145,000 cu.m/day and it serves as the main source of water supply to Accra. Source of the water is Lake Volta.



**Infrastructure Division**  
**Dimona Operation Reservoir, Israel**

Client: Mekorot Israel Water Company. The Reservoir was built in 2001. Total construction costs were EUR 3 million

Tahal was responsible for the detailed design.

Details: The reservoir is a back up for water supply to all Negev Desert settlements. 32 m high rock fill embankment.



**Infrastructure Division**  
**Oyan River Dam, Nigeria**

Client: Ogun – Oshun River Basin Authority on behalf of the Federal Ministry of Water Resources. Total construction costs (1980-1983) were USD 80 million

Tahal was responsible for Planning, Design and Construction Supervision Services.

Details: The river dam is 32 m high, has 4 radial gates, 7 by 15 m. The dam serves for domestic water supply to Lagos and for irrigation downstream.





**Financial Services Division  
Sovcombank, Russia**

Present in 24 regions of Russia

Sovcombank includes 149 offices and 619 points of sale (POS):

- Central and Southern regions: 73 bank offices and 101 POS;
- Ural and Siberia regions 69 bank offices and 304 POS;
- Far East region 7 bank offices and 214 POS.



**Financial Services Division  
Sovcombank, Russia**

Sovcombank operates 70 ATM's and 180 automatic cash-in machines

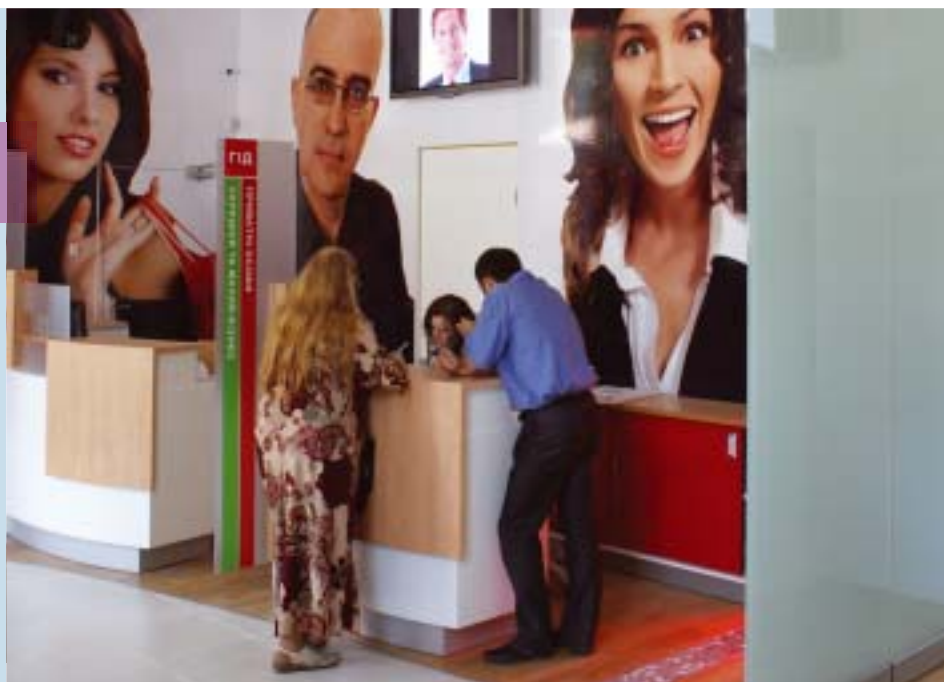
Sovcombank is a rapidly growing regional banking group with expanding federal presence and a comprehensive banking product offering focused on retail and SME. Sovcombank has established an extensive and deep presence in the region it operates.



**Financial Services Division  
VAB Bank, Ukraine**

VAB Bank has 169 branches covering the Ukraine

VAB Bank has 300 ATM's and an additional 2,100 as a part of the "Atmosphere" network together with 7 other banks.



## Infrastructure Division Arco seco Project, Panama

Client: Ministry of Agriculture  
Development (MIDA)

A turnkey project comprising irrigated development of a 3,000 ha area in the Azuero del Arco Seco Region, Panama. Tahal was involved in performance of feasibility study, preparation of detailed design, supply and execution, as well as provision of support services and marketing infrastructure.



## Real Estate Division NEFRYT, Warsaw, Poland

Office area 15,200 sq m  
completed in April 2008



NEFRYT office building was developed in one of the most prestigious business districts of Warsaw – Mokotow. It provides an easy access both to the city center and the international airport. One of its major advantages is also an outstanding location in close vicinity of Galeria Mokotow – the most popular retail and entertainment center in Warsaw.

## Financial Services Division VAB Bank, Ukraine

The main branche VAB Central is located on Kreschatyk, the main street in Kiev. It provides 24 hour service mainly for retail and SME clients

VAB Bank is already active for 16 years in the Ukraine. It provides a broad range of banking services for different types of clients: Retail, Small and Medium Enterprises (SME) and Corporate.





# Statutory Financial Statements

for the year ended December 31, 2008 by Kardan NV, Amsterdam, the Netherlands

## **Consolidated IFRS Financial Statements**

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## Consolidated IFRS Balance Sheet

€ in millions	Note	December 31, 2008	December 31, 2007
<b>Assets</b>			
<b>Non-current assets</b>			
Tangible fixed assets	6	111	80
Property under construction	7	–	306
Investment properties	8	1,987	960
Investments in associates	9	152	127
Available-for-sale and held-to-maturity financial assets	10	119	65
Loans to bank customers	11	288	232
Long-term loans and receivables	12	406	202
Deferred acquisition costs (insurance companies)	13	6	12
Intangible assets and goodwill	14	241	342
Deferred income tax assets	47	18	17
		<b>3,328</b>	<b>2,343</b>
<b>Current assets</b>			
Inventories, contract work and buildings inventory in progress	15	477	297
Current maturities of long-term loans and receivables	12	292	223
Loans to bank customers	11	167	165
Trade receivables	16	62	44
VAT and income tax receivables		52	34
Insurance premium receivables	17	27	36
Other receivables and prepayments	18	129	140
Reinsurance receivables and insurance companies	19	25	32
Short-term investments	20	69	65
Cash and cash equivalents	21	540	893
		<b>1,840</b>	<b>1,929</b>
Assets held for sale	5	83	–
<b>Total assets</b>		<b>5,251</b>	<b>4,272</b>

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



€ in millions	Note	December 31, 2008	December 31, 2007
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued and paid-in capital	22	23	17
Share premium		230	176
Foreign currency translation reserve		(43)	(25)
Property revaluation reserve		140	109
Revaluation reserve, other		(35)	(5)
Retained earnings		53	71
		<b>368</b>	<b>343</b>
<b>Minority interests</b>		<b>744</b>	<b>730</b>
<b>Total equity</b>		<b>1,112</b>	<b>1,073</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	24	1,128	829
Banking customers accounts	25	127	43
Other long-term liabilities	26	91	7
Warrants and options	27	55	164
Convertible debentures	28	29	31
Other debentures	29	806	742
Insurance provisions	30	71	139
Deferred income tax liabilities	47	172	110
Accrued severance pay, net		2	1
		<b>2,481</b>	<b>2,066</b>
<b>Current liabilities</b>			
Advances from customers in respect of contracts	15	22	12
Banking customers accounts	25	469	443
Income tax payables		16	10
Trade payables	31	112	65
Interest-bearing loans and borrowings	32	673	353
Advances from buyers		123	112
Other payables and accrued expenses	33	183	138
		<b>1,598</b>	<b>1,133</b>
<b>Total liabilities</b>		<b>4,079</b>	<b>3,199</b>
Liabilities held for sale	5	60	–
<b>Total equity and liabilities</b>		<b>5,251</b>	<b>4,272</b>

The accompanying notes are an integral part of the financial statements

# Consolidated IFRS Income Statement

€ in millions	Note	December 31, 2008	December 31, 2007	December 31, 2006
Sales and services	36	97	61	50
Contract revenues		149	86	65
Insurance activities	37	67	16	14
Banking and retail lending activities	38	96	72	25
Rental revenues		80	60	72
Management fees		3	2	1
<b>Total revenues</b>		<b>492</b>	<b>297</b>	<b>227</b>
Cost of sales and services	39	77	46	41
Contract costs		126	68	49
Operating expenses of insurance activities	40	63	15	16
Costs of banking and lending activities	41	120	65	21
Costs of rental operations		20	12	20
Other expenses, net	42	5	3	6
<b>Total expenses</b>		<b>411</b>	<b>209</b>	<b>153</b>
<b>Gross margin</b>		<b>81</b>	<b>88</b>	<b>74</b>
Selling and marketing expenses	43	20	19	15
General and administration expenses	44	27	56	44
<b>Profit from operations before fair value adjustments, disposal of assets and financial expenses</b>		<b>34</b>	<b>13</b>	<b>15</b>
Adjustment to fair value of investment properties	8	196	287	209
Impairment losses on goodwill		(89)	(1)	–
Gain on issuance of shares in associated companies and subsidiaries to third parties		2	45	52
Gain on disposal of assets and other income	45	121	47	19
<b>Profit (loss) on disposal of assets and investments</b>		<b>123</b>	<b>92</b>	<b>71</b>
<b>Profit from operations before finance expenses and income taxes</b>		<b>264</b>	<b>391</b>	<b>295</b>

The accompanying notes are an integral part of the financial statements

## Consolidated IFRS Income Statement (continued)

€ in millions	Note	December 31, 2008	December 31, 2007	December 31, 2006
Other financial income	46	177	42	25
Other financing expenses	46	(247)	(104)	(63)
Adjustment to fair value of other financial instruments		58	(44)	(61)
<b>Total financial expenses, net</b>		<b>(12)</b>	<b>(106)</b>	<b>(99)</b>
<b>Profit from operations</b>		<b>252</b>	<b>285</b>	<b>196</b>
Equity in net earnings of associated companies	9	3	6	7
<b>Net profit before income taxes</b>		<b>255</b>	<b>291</b>	<b>203</b>
Income taxes	47	81	42	46
<b>Net profit for the year from continuing operations</b>		<b>174</b>	<b>249</b>	<b>157</b>
Net profit for the year from discontinued operations	5	1	1	–
<b>Net profit for the year</b>		<b>175</b>	<b>250</b>	<b>157</b>
Attributable to:				
Equity holders		52	90	41
Minority interest holders		123	160	116
		<b>175</b>	<b>250</b>	<b>157</b>
<b>Earnings per share attributable to shareholders</b>	48			
Basic from continuing operations		0.63	1.11	0.55
Basic from discontinued operations		–	–	–
		<b>0.63</b>	<b>1.11</b>	<b>0.55</b>
Diluted from continuing operations		0.28	1.10	0.47
Diluted from discontinued operations		–	–	–
		<b>0.28</b>	<b>1.10</b>	<b>0.47</b>

The accompanying notes are an integral part of the financial statements

# Consolidated IFRS Statement of Changes in Equity

€ in millions	Attributable to equity holders of the parent						Total	Minority interest	Total equity
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings			
<b>Balance as of January 1, 2006</b>	<b>13</b>	<b>72</b>	<b>46</b>	<b>(2)</b>	<b>(8)</b>	<b>16</b>	<b>137</b>	<b>300</b>	<b>437</b>
Currency translation differences	–	–	–	–	(2)	–	(2)	(21)	(23)
Change in unrealized revaluation reserve	–	–	2	(1)	–	–	1	–	1
Put options granted to minority shareholders in subsidiaries	–	–	–	–	–	(1)	(1)	(2)	(3)
Total income and expense for the year recognized directly in equity	–	–	2	(1)	(2)	(1)	(2)	(23)	(25)
Net profit for the period	–	–	–	–	–	41	41	116	157
<b>Total income /expense for the year</b>	<b>–</b>	<b>–</b>	<b>2</b>	<b>(1)</b>	<b>(2)</b>	<b>40</b>	<b>39</b>	<b>93</b>	<b>132</b>
Issuance of shares in subsidiaries to minority shareholders	–	–	–	–	–	–	–	94	94
Share-based payment	–	–	–	–	–	–	–	4	4
Issuance of shares	3	79	–	–	–	–	82	–	82
Exercise of warrants and option into Company's shares	–	8	–	–	–	–	8	–	8
Sale of Company's shares held by subsidiary	–	1	–	–	–	–	1	–	1
Reclassification according to statutory requirements*	1	–	17	3	(4)	(17)	–	–	–
<b>Balance as of December 31, 2006</b>	<b>17</b>	<b>160</b>	<b>65</b>	<b>–</b>	<b>(14)</b>	<b>39</b>	<b>267</b>	<b>491</b>	<b>758</b>

\* In accordance with the Dutch law, part of the retained earnings is restricted for distribution, following the regulations to maintain a revaluation reserve in respect of real estate unrealized fair value and other adjustments. The accompanying notes are an integral part of these financial statements

The accompanying notes are an integral part of the financial statements

# Consolidated IFRS Statement of Changes in Equity (continued)

€ in millions	Attributable to equity holders of the parent						Total	Minority interest	Total equity
	Issued and paid-in capital	Share premium	Property revaluation Reserve	Revaluation reserve, Other	Foreign currency translation reserve	Retained earnings			
<b>Balance as of January 1, 2007</b>	<b>17</b>	<b>160</b>	<b>65</b>	<b>–</b>	<b>(14)</b>	<b>39</b>	<b>267</b>	<b>491</b>	<b>758</b>
Currency translation differences	–	–	–	–	(11)	–	(11)	1	(10)
Change in fair value of hedge instrument	–	–	–	(4)	–	–	(4)	(1)	(5)
Adjustment due to restatement of subsidiary	–	–	–	–	–	(5)	(5)	(2)	(7)
Change in unrealized revaluation reserve	–	–	–	(1)	–	–	(1)	–	(1)
Total income and expense for the year recognized directly in equity	–	–	–	(5)	(11)	(5)	(21)	(2)	(23)
Net profit for the period	–	–	–	–	–	90	90	160	250
<b>Total income /expense for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(5)</b>	<b>(11)</b>	<b>85</b>	<b>69</b>	<b>158</b>	<b>227</b>
Issuance of shares in subsidiaries to minority shareholders	–	–	–	–	–	–	–	78	78
Share-based payment	–	2	–	–	–	–	2	3	5
Exercise of warrants and options	–	14	–	–	–	–	14	–	14
Dividend distributed	–	–	–	–	–	(9)	(9)	–	(9)
Reclassification according to statutory requirements*	–	–	44	–	–	(44)	–	–	–
<b>Balance as of December 31, 2007</b>	<b>17</b>	<b>176</b>	<b>109</b>	<b>(5)</b>	<b>(25)</b>	<b>71</b>	<b>343</b>	<b>730</b>	<b>1,073</b>

\* In accordance with the Dutch law, part of the retained earnings is restricted for distribution, following the regulations to maintain a revaluation reserve in respect of real estate unrealized fair value and other adjustments. The accompanying notes are an integral part of these financial statements

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# Consolidated IFRS Statement of Changes in Equity (continued)

€ in millions	Attributable to equity holders of the parent						Total	Minority interest	Total equity
	Issued and paid-in capital	Share premium	Property revaluation Reserve	Revaluation reserve, Other	Foreign currency translation reserve	Retained earnings			
<b>Balance as of January 1, 2008</b>	<b>17</b>	<b>176</b>	<b>109</b>	<b>(5)</b>	<b>(25)</b>	<b>71</b>	<b>343</b>	<b>730</b>	<b>1,073</b>
Currency translation differences	–	–	–	–	(18)	–	(18)	6	(12)
Change in fair value of hedge instrument	–	–	–	(30)	–	–	(30)	(35)	(65)
Total income and expense for the year recognized directly in equity	–	–	–	(30)	(18)	–	(48)	(29)	(77)
Net profit for the period	–	–	–	–	–	52	52	123	175
<b>Total income /expense for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(30)</b>	<b>(18)</b>	<b>52</b>	<b>4</b>	<b>94</b>	<b>98</b>
Issuance Company's shares to minority shareholders	6	51	–	–	–	–	57	(112)	(55)
Share-based payment	–	1	–	–	–	–	1	4	5
Issuance of shares to consolidated company	–	–	–	–	–	(21)	(21)	–	(21)
Exercise of warrants and options	–	2	–	–	–	–	2	–	2
Shares purchase in consolidated and newly consolidated subsidiaries	–	–	–	–	–	–	–	29	29
Dividend distributed	–	–	–	–	–	(18)	(18)	–	(18)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(1)	(1)
Reclassification according to statutory requirements*	–	–	31	–	–	(31)	–	–	–
<b>Balance as of December 31, 2008</b>	<b>23</b>	<b>230</b>	<b>140</b>	<b>(35)</b>	<b>(43)</b>	<b>53</b>	<b>368</b>	<b>744</b>	<b>1,112</b>

\* In accordance with the Dutch law, part of the retained earnings is restricted for distribution, following the regulations to maintain a revaluation reserve in respect of real estate unrealized fair value and other adjustments. The accompanying notes are an integral part of these financial statements

The accompanying notes are an integral part of the financial statements

# Consolidated IFRS Cash Flow Statement

For the year ended December 31

€ in millions	2008	2007*	2006*
<b>Cash flow from operating activities</b>			
Net profit before taxes on income	255	292	203
Adjustments required to present cash flow from operating activities (see A below)	(446)	(392)	(67)
<b>Net cash provided by (used in) operating activities</b>	<b>(191)</b>	<b>(100)</b>	<b>136</b>
<b>Cash flow from investing activities</b>			
Acquisition of tangible fixed assets and investment properties	(422)	(200)	(137)
Investments in companies and partnerships	(45)	(63)	(64)
Collecting (granting) of loans to associated companies, net	(2)	(11)	(18)
Proceeds from disposal of tangible fixed assets and investment properties	6	16	218
Granting of long-term loans	(502)	(442)	(348)
Change in loans to bank customers	(48)	(113)	–
Collecting of long-term loans and receivables	341	298	246
Change in short-term investments	(3)	(4)	(42)
Acquisition of newly consolidated subsidiaries, net of cash acquired (see B below)	(30)	(134)	(54)
Increase in cash resulting from sale of investments in formerly consolidated subsidiaries (see C below)	7	119	44
Increase in cash resulting from reorganization of proportionately consolidated companies (see D below)	–	–	21
Increase in cash due to transactions in the financial services segment (see E below)	–	18	–
Change in deferred brokerage fees	(2)	(2)	(1)
Income taxes received (paid)	–	(21)	3
Change in other assets	(1)	–	–
Decrease of cash of assets held for sale	(6)	–	–
<b>Net cash used in investing activities</b>	<b>(707)</b>	<b>(539)</b>	<b>(132)</b>

\* Restated to separately present interest received and interest paid.

# Consolidated IFRS Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2008	2007*	2006*
<b>Cash flows from financing activities</b>			
Proceeds from exercise of warrants of issuance of Company's shares	–	–	81
Proceeds from issuance of shares in subsidiaries to third parties, net	5	62	133
Treasury shares sold	–	–	1
Dividend to minority shareholders in subsidiaries	(1)	–	–
Dividend distributed	(18)	(9)	–
Issuance of debentures	103	691	4
Repayment of debentures	(77)	(47)	(32)
Change in loans from bank customers	(44)	195	–
Change in deposits from tenants	1	–	(1)
Proceeds from long-term loans	921	545	263
Repayment of long-term loans	(384)	(273)	(168)
Costs related to issuance of debt and shares	(3)	(3)	(2)
Purchase of option rights	–	–	(2)
Change in short-term loans and borrowings, net	25	(26)	(14)
<b>Net cash provided by financing activities</b>	<b>528</b>	<b>1,135</b>	<b>263</b>
<b>Foreign exchange differences relating to cash and cash equivalents</b>	<b>17</b>	<b>(12)</b>	<b>(16)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(353)</b>	<b>484</b>	<b>251</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>893</b>	<b>409</b>	<b>158</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>540</b>	<b>893</b>	<b>409</b>

\* Restated to separately present interest received and interest paid.



# Consolidated IFRS Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2008	2007*	2006*
<b>A. Adjustments to reconcile net profit to net cash</b>			
<b>Charges / (credits) to profit / loss not affecting operating cash flows:</b>			
Equity earnings of associated companies	(3)	(6)	(7)
Dividend received from associated companies	9	11	3
Gain on issuance of shares in associated companies and subsidiaries to third parties, net	(2)	(45)	(52)
Gain from release of negative goodwill	(78)	–	–
Impairment of goodwill	83	–	–
Gain on disposal of investments in companies, tangible fixed assets and investment properties, net	(27)	(31)	(16)
Share-based payment	5	5	5
Depreciation and amortization	16	13	5
Fair value adjustments of investment properties	(196)	(292)	(210)
Exchange differences, net	34	61	38
Change in fair value of options and share appreciation rights	(94)	51	83
Decrease (increase) in fair value of securities held for trading, and hedge instruments, net	43	1	–
Increase in provision for bad debts in the financial services segment	45	–	–
Gain (loss) from early repayment of loans	(15)	(3)	–
Increase in accrued severance pay, net	–	(1)	–
<b>Changes in operating assets and liabilities</b>			
Change in insurance provisions and deferred acquisition costs, net	7	12	11
Change in outstanding insurance premiums, reinsurance receivables and insurance companies	(11)	(11)	(7)
Change in trade and other receivables	(47)	(94)	(1)
Change in inventories and in contract work in progress, net of advances from customers	(152)	(97)	(55)
Change in trade and other payables	(58)	40	140
Income taxes paid	(5)	(6)	(4)
	<b>(446)</b>	<b>(392)</b>	<b>(67)</b>

\* Restated to separately present interest received and interest paid.

# Consolidated IFRS Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2008	2007*	2006*
<b>B. Acquisition of newly consolidated subsidiaries, net of cash acquired</b>			
Cash	–	(26)	(8)
Working capital (excluding cash)	19	(71)	(59)
Non-current assets	(104)	(122)	(34)
Goodwill on acquisition	(38)	(80)	(17)
Gain on disposal of investment	3	7	–
Minority interests	–	9	39
Long-term liabilities	–	123	3
Total purchase price	(120)	(160)	(76)
Less – cash in subsidiaries acquired	–	26	8
Payable on account of investment	90	–	2
Reclassification from investment in associates	–	–	12
<b>Cash used in acquisition, net of cash acquired</b>	<b>(30)</b>	<b>(134)</b>	<b>(54)</b>
<b>C. Disposal of formerly consolidated subsidiaries, net of cash disposed</b>			
Cash	–	1	4
Working capital (excluding cash)	(30)	(1)	(21)
Non-current assets	21	–	83
Investment properties	–	120	–
<b>Goodwill</b>	19	–	–
<b>Minority interests</b>	–	–	(1)
Long-term liabilities	(3)	–	(35)
Gain on disposal of investment	–	–	18
Total consideration	7	120	48
Cash of subsidiary which ceased to be consolidated	–	(1)	(4)
Change in capital reserves	–	–	(1)
Other receivables from disposal of investments	–	–	1
<b>Cash flows from disposal, net of cash disposed</b>	<b>7</b>	<b>119</b>	<b>44</b>

\* Restated to separately present interest received and interest paid.

# Consolidated IFRS Cash Flow Statement (continued)

For the year ended December 31

€ in millions	2008	2007*	2006*
<b>D. Increase in cash due to reorganization in proportionately consolidated companies</b>			
Cash	–	–	(16)
Working capital (excluding cash)	–	–	(10)
Non-current assets	–	–	11
Goodwill on acquisition	–	–	(13)
Minority interests	–	–	(8)
Gain on disposal of investments	–	–	–
Long-term liabilities	–	–	(18)
Total purchase price	–	–	(54)
Less – cash in subsidiaries	–	–	16
Payable on account of investment	–	–	56
Elimination of long term payable	–	–	3
	–	–	21
<b>E. Increase in cash due to transaction in the financial services segment</b>			
Cash	–	84	–
Working capital (excluding cash)	–	100	–
Non-current assets	–	(158)	–
Goodwill on acquisition	–	(27)	–
Minority interests	–	14	–
Long-term liabilities	–	70	–
Total consideration	–	83	–
Change in cash	–	(84)	–
Change in capital reserves	–	(1)	–
Gain on disposal	–	20	–
<b>Cash flows from disposal, net of cash disposed</b>	–	18	–
<b>F. Significant non-cash transactions</b>			
Acquisition of subsidiary shares from minority shareholders against issuance of Company's shares	33	–	–
Investment in property under construction	55	35	17
Conversion of debentures into shares in subsidiaries	6	158	–
Exercise of options into Company's shares	3	14	8
<b>G. Additional information</b>			
Interest paid in cash	175	65	39
Interest received in cash	232	24	8

\* Restated to separately present interest received and interest paid.  
The accompanying notes are an integral part of the financial statements.

# Notes to the Consolidated IFRS Financial Statements

December 31, 2008

## 1 General

### A Introduction

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

The total number of employees in the Company and its subsidiaries was 14,959 as of December 31, 2008 (December 31, 2007 – 13,411).

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

The statutory financial statements, which comprise these consolidated IFRS financial statements and the company-only Dutch GAAP financial statements as included on page 231 to 241 were authorized for issuance on April 17, 2009.

### B Merger with GTC Real Estate N.V.

#### Introduction

On October 16, 2008 the Company, GTC Real Estate N.V. ('GTC RE') and GTC Real Estate Holding B.V. ('GTC Holding') filed merger documents at the trade register in Amsterdam. The merger proposal was approved by the Management Board and Supervisory Board of the companies. The merger took the form of a triangular legal merger pursuant to Dutch law. By operation of law, at the moment the merger became effective, the assets and liabilities of GTC RE, except for the debentures issued by it, see below, were acquired respectively assumed by GTC Holding, a newly incorporated company, 100% owned by Kardan. At the same time, all shareholders of GTC RE (except for the Company) received shares in the

Company at a share exchange ratio of 0.81 Kardan share for each GTC RE share.

In connection with the merger, the convertible debentures (series A) and debentures (series B) of GTC RE were exchanged for newly issued debentures and convertible debentures of Kardan.

The merger was completed on December 16, 2008 ('the Merger Date'). Following the completion of the merger GTC RE ceased to exist.

In relation to the newly issued debentures and convertible debentures of the Company, as described above, immediately following the issue of the debentures, Kardan and GTC Holding signed a loan agreement for a total amount of € 270 million, representing the aggregate carrying values of these financial instruments in the books of GTC RE at Merger Date (the transfer values). These transfer values comprised the debentures (series B) for an amount of € 277 million and the convertible debentures for an amount of € 3 million net of the positive value of the swap for a net amount of € 4 million (an asset of € 7 million net of the equity component of this swap deal, a loss of € 3 million).

During 2008 the Company has, prior to the merger, increased its stake in GTC RE to 67.8% through several transactions including: own shares purchased by GTC RE, conversion of convertible debentures into shares of GTC RE and acquisition of GTC RE shares by Kardan Israel. As a result the Company has recognized a gain of € 2 million, and additional goodwill amounting € 2.8 million was created and allocated to property under construction.

#### Accounting treatment of the merger by the Company

For accounting purposes, the merger of GTC RE into Kardan (through GTC Holding) is considered as an acquisition of minority interests at the Merger Date as the Company already owned 67.8% (directly and indirectly) of the GTC RE shares prior to the merger.

The cost of the acquisition comprises the fair value of the newly issued shares (29,600,956 shares at a price of NIS 10.45 each (€ 1.973), the price quoted on the Tel Aviv Stock Exchange at the Merger Date) issued by Kardan to the minority shareholders of GTC RE which, under IFRS 3, is deemed to constitute the consideration for the minority interest acquired. The difference between the cost of the acquisition and the value of the proportionate share of the Company in the net assets of GTC RE at the Merger Date, is accounted for as negative goodwill, amounting to € 77 million. As the Company applies the parent-entity extension method in accounting for minority interests, the negative goodwill is fully recognized in the income statement (under "Gain on disposal of assets and other income").

#### **Accounting treatment adopted by GTC Holding**

As GTC Holding and GTC RE were under common control, the merger is deemed not to be a business combination in accordance with IFRS 3, as such transactions are excluded from the scope of IFRS 3

Accordingly, GTC Holding has decided to apply the pooling-of-interests method under which the financial statements items of GTC RE for the period in which the merger took place and for all comparative periods presented are included in the financial statements of GTC Holding as if the merger had been completed as of the beginning of the earliest period presented. Accordingly, GTC Holding recognized the assets, liabilities and equity of GTC RE at their carrying amounts under IFRS and included GTC RE results for all periods presented.

#### **Accounting for treasury shares**

The shares held by Kardan Israel Ltd. ('KIL') in GTC RE (15.5% of the total number of shares issued by GTC RE at the Merger Date) were also converted into shares of the Company and are subsequently treated as treasury shares (for further details regarding accounting for treasury shares please refer to Note 4R) Accordingly these treasury shares are valued at the

above-mentioned fair value and deducted from other reserves for an amount of € 21 million.

#### **Accounting for debt conversion**

With respect to exchange of the convertible debentures and the convertible debentures of GTC RE for newly issued debentures and convertible debentures of Kardan, it should be noted there are no substantially different terms or modifications of the terms as issued by GTC RE. Accordingly, the exchange is not accounted for as an extinguishment and consequently the debentures and the convertible debentures, including the liability and conversion component of the convertible debentures, were at Merger Date initially recognized by the Company at the carrying value in GTC RE's books prior to the Merger Date.

#### **Accounting for the transfer of the swap**

Since the cash flow hedge continues to be effective, the Company continues to account for the swap as a cross-currency hedge at fair value.

## **2 Basis of Preparation**

### **A Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, property under construction, financial and intangible assets related to service concession arrangements, derivative financial instruments, cash settled share-based payments and other financial assets that have been measured at fair value.

The consolidated financial statements are presented in Euros and all values are rounded to the nearest million (€ in millions) except when otherwise indicated.

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

Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Group.

### **B Statement of compliance**

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

The Group does not apply the carve out and consequently, these IFRS financial statements also comply with IFRS as issued by the IASB.

### **C Basis of consolidation**

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

Joint ventures under common control are consolidated by proportional consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and

within equity in the consolidated balance sheet, separately from equity attributed to the equity holders of the parent. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill. Similarly, a reduction of an interest in a subsidiary is accounted for using the parent entity extension method.

In respect of transactions between shareholders, the Group applies the parent-entity extension method. Accordingly, the difference between the consideration paid and the relative amount of minority interests acquired at the date of acquisition are carried against goodwill. When this difference is negative, a gain is recognized for the amount of this difference. On disposal of a subsidiary that does not result in a loss of control, a gain or loss/increase or decrease in equity is recognized in the amount of the difference between the consideration received by the Group and the carrying amount of the minority interests in the subsidiary, including any translation differences in respect of that subsidiary. Any goodwill recognized in respect of the disposed subsidiary is simultaneously written off to the income statement.

The excess, and any further losses applicable to the minority in a subsidiary which has a capital deficiency, are allocated against the Group's interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

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

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

## **D Change in functional and presentation currency**

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

A change in a Company's functional currency is prospective in nature only. However a change in presentation currency has to be applied retrospectively, unless deemed impractical. Therefore, at the conversion date all of the Group's assets and liabilities were translated retroactively as of January 1, 2004. Comparative figures which were presented in the past in US dollars were translated into Euros as follows:

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

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

## **E Changes in accounting policies and disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following:

### **Adoption of new interpretations and disclosures**

The Group has early adopted IAS 40 revised (December 31, 2008) and IAS 39 and IFRS 7 (October 30, 2008) during the year. Adoption of these revised standards and interpretations had an effect on the financial position of the Group and gave rise to additional disclosures.

### **The Group early adopted the following IFRS:**

IAS 40 (Revised) – “Investment Property” – investment property under construction or under development for future use as investment property will also be accounted for as investment property when the fair value model is applied and can be measured reliably. However, where fair value is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The standard is adopted prospectively starting from the financial statements for periods commencing on January 1, 2009 with earlier application permitted from any date prior to January 1, 2009. The Company has chosen to adopt this revised standard effective December 31, 2008. As a result of the early adoption of IAS 40 (Revised), the Company has reclassified investment properties under construction from “property under construction” to “investment properties”, for an amount of € 652 million and recorded a fair value adjustment amounting to € 91 million and a corresponding increase in total assets.

In addition, the Company has adopted the amendments made to IAS 39 “*Financial Instruments: Recognition and Measurement*” and IFRS 7 “*Financial Instruments: Disclosures*”, issued on October 13, 2008 with regard to the treatment of financial instruments in Sovcom Bank. The Company decided to reclassify financial instruments held for trading into the available-for-sale portfolio in accordance with section 50B. The rare circumstance, on which the reclassification was based, was the large drop in the local market on August 11, 2008 as a result of the conflict between Georgia and South Osetia and the additional impact on the Russian economy caused by



the overseas bank failures. The amounts below provide summarized financial information in accordance with the requirements of IFRS 7 (all in € millions):

Amount of the reclassification	14.2
Carrying amount as of period-end	28.3
Fair value as of period-end	28.3
Fair value loss not recognized in the income statement, due to the reclassification	0.7
Fair value loss recognized for the period, prior to the reclassification	0.2
Fair value gain recognized in the previous period	0.1

#### F Changes in presentation of the income statement

For the year ended December 31, 2008 the Company has decided to change the presentation of its income statement to the presentation included in these financial statements. The management of the Company believes that the current presentation provides a better view of the Group's financial results. The change in presentation had no impact on the financial position of the Company.

#### G Additional disclosures

In certain cases additional disclosures are being provided in the 2008 financial statements as compared to the 2007 financial statements. These disclosures relate to:

- Disclosing capitalized interest included in residential work in progress
- Separating interest received and paid in cash flow statement
- Providing segment information on amounts due from associated companies
- Including interest payable in maturity tables
- Presentation of fair value tables to also include balances where there is no difference between fair value and carrying value
- Providing accumulated amortization on goodwill

Where applicable such additional information has also been provided for 2007.

### 3 Significant Accounting Judgments, Estimates and Assumptions

#### A Judgments

In the process of applying the Group's accounting policies, management has made the judgments as described under section "Estimates and assumptions", which have the most significant effect on the amounts recognized in the consolidated financial statements.

#### B Estimates and assumptions

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

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

#### Revaluation of investment properties and of investment properties under construction

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

Completed investment properties are presented at fair value as of 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 recognized valuation techniques. These techniques comprise both



the Yield Method and the Discounted Cash Flow Method and include estimating future cash flows from assets and estimates of discount rates applicable to those assets. In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Company's assets.

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

Starting December 31, 2008, when the Group early adopted the improvements to IAS 40 as enacted in the IFRS Improvements Standard (May 2008), also investment property under construction is also valued at fair value if and when such value can be reliably determined. If a fair value cannot be reliably determined, the Cost Approach is adopted in valuing investment property under construction. The fair value of investment properties under construction is either determined on the basis of the Discounted Cash Flow Method described below or the Residual Method. However, generally valuing investment properties under construction implies also factoring in those significant risks which are relevant to the development process, including but not limited to construction and letting risks.

#### **Definitions used for valuing investment properties**

Under the Cost Approach, the value of a property is estimated by summing the land value and the depreciated value of any improvements, whereby these improvements are estimated at the value of reproduction cost new less depreciation or replacement cost new less depreciation and impairment.

The Income Approach to value converts anticipated future benefits in the form of rental income into

present value. This approach requires careful estimation of future benefits and application of investor yield or return requirements. One approach to value the property on this basis is to capitalize net rental income on the basis of Net Initial Yields, generally referred to as the Yield Method. The discounted cash flow analysis, as an accepted methodology within the Income Approach to valuation involves the projection of a series of periodic cash flows either to an operating property or a development property. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property. For development properties, the calculated periodic cash flow is typically estimated as gross income less vacancy and collection losses, and less operating expenses / outgoings. The series of periodic net operating incomes, along with an estimate of the reversion / terminal value, anticipated at the end of the projection period, is then discounted. The aggregation of the net present values leads to the market value of the property.

The Residual Approach is a combination of the income and cost approaches. The Residual Method is defined according to "Approved European Property Valuation Standards" of the TEGoVA (The European Group of Valuers' Associations), as: "A method of determining the value of a property which has potential for development, redevelopment or refurbishment. The estimated total cost of the work, including fees and other associated expenditures, plus allowance for interest, developer's risk and profit, is deducted from the gross value of the completed project. The resultant figure is then adjusted back to the date of valuation to give the residual value." Elements of the Cost Approach (as completed) were used in order to estimate the construction costs of the Subject Property.

#### **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 risk-adjusted discount rate in order to calculate the present values of those cash flows. Generally, the Group uses the Weighted Average Cost of Capital of the applicable cash-generating units. The carrying amount of goodwill as of December 31, 2008 was € 191 million (2007 - € 315 million), of which € 24 million is allocated to real estate activities (2007 - € 69 million), € 146 million (2007 - € 219 million) is allocated to financial services activities, and € 21 million (2007 - € 27 million) is allocated to the infrastructure activities. Where goodwill is paid in compensation for future project development profit, the goodwill is reduced commensurate with the amount of development profits subsequently realized. Such goodwill is either capitalized as part of investment properties under construction, or as the case may be, separately classified as goodwill.

#### **Service concession arrangements**

The Group measures the total investment of the concession agreements based on the discounted investments during the construction and operational period, taking into account an estimated gross margin. The estimated gross margin has been initially determined during the acquisition of the project and will be evaluated continuously during the period of the project.

#### **Deferred tax assets**

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

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

Fair value of equity instruments, primarily put options granted to minority shareholders, employee options, phantom options and conversion components of convertible debentures, have been valued, in most cases, by independent external appraisers, using applicable valuation models, or based on the value of the respective companies as assigned in transactions with third parties. The valuations are necessarily and inevitably based on certain assumptions, and hence they are subject to estimation uncertainty. The assumptions and models used are disclosed in Note 27. The fair value of such equity instruments as of December 31, 2008 was € 55 million (December 31, 2007 - € 164 million).

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

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

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

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

The Group reviews its debt securities classified as available-for-sale investments at each balance sheet date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances (see below).

The impairment indicators for available-for-sale equity investments include a significant or prolonged decline in the fair value of the investments below their cost.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

#### **Valuation assumptions of insurance claims**

Claims provisions of insurance companies are calculated using various assumptions, including but not limited to mortality / morbidity in life assurance and numerous other assumptions in general and health insurance. In general insurance, the main assumption is that past claims patterns continue in the future. Especially in the countries in which the Group operates this assumption may be incorrect as the "insurance culture" has not always stabilized and local courts have not always gained sufficient experience and accordingly built appropriate legislation benchmarks for dealing with legal matters related to insurance. The Company's assumptions underlying their claims provision reflect the Company's current best estimates of the outstanding claims, whether reported or whether incurrent but not reported.

#### **Impairment losses on loans and advances**

The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors including assessments of delinquencies and default risks, and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures, in connection with those loan classes which, although

not specifically identified as requiring a specific allowance, are considered to have a greater risk of default than when originally granted. These take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

#### **Impairment losses on inventory**

In connection with residential units under construction which classify as inventory, impairment is tested by comparing the estimated selling price per unit and the expected cost per unit on completion.

#### **Future interest payable**

Under IFRS 7 an entity has to provide a maturity table of financial liabilities including future interest due. In cases where interest is variable, future interest is estimated based on currently known variables.

### **C World credit crisis**

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

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

- Potential increases in real estate yields and therefore decreases in value of investment properties, and investment properties under construction;
- A negative effect on the KFS Group's banking operations in Russia and Ukraine, putting additional strain on their liquidity position and preventing normal inter-bank operations;
- Negative impact on insurance and pensions business due to a potential decrease in demand for the products;

- Impairment of goodwill and investments in associated companies; and
- Impairment of financial instruments and other assets;
- Funding of projects in the infrastructure segment.

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

As of December 31, 2008, all investment properties and investment properties under construction have been valued by external appraisers. Although the markets in Central Eastern Europe and CIS are less active and therefore there are fewer comparable transactions, management is reasonably comfortable that the valuations reflect the current values of the assets as of that date. In general, the yields and discount rates applied in valuing the investment properties have increased in line with the general market trends. However, the impact resulting from that has been more than compensated by improved occupiers, occupancy rates and rental fundamentals. Notwithstanding the potential adverse effects of the credit crisis, as of the date of approval of these financial statements, the valuations and further analysis by management support the Group's management belief that the fair value of the investment properties under construction and the buildings inventory (residential units developed with a view to sell) is not lower than its carrying value (including goodwill allocated to such assets, if applicable).

In addition, as of December 31, 2008 the value of major investments in subsidiaries in the financial services segment, has been reviewed based on valuation reports provided by external valuers. Although there is lack of comparable transactions in the markets of CEE and CIS, management is reasonably comfortable that the valuations reflect the fair values of the assets. In general, in arriving at these valuations, the discount rates applied have increased in line with the general market trends. Notwithstanding the foregoing, as of the date of approval of these

financial statements, the valuations support the management's belief that the fair value of its investment in subsidiaries exceeds the carrying values in the books.

Where appropriate, sensitivity analysis has been provided to analyze the exposure to changes in assumptions which may occur in general but also as a result of the world credit crisis.

## 4 Summary of Significant Accounting Policies

On the basis of the aforementioned presentation and estimation techniques applied, a summary of significant accounting policies is presented below:

### A Interest in joint ventures

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

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

Adjustments are made in the Group's financial statements to eliminate the Group's share of unrealized gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of current assets or an impairment loss.

## **B Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

In the consolidated income statement of the reporting period, and of the comparable periods of the previous years, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss is reported separately in the income statement.

Tangible fixed assets and intangible assets once classified as held-for-sale are not depreciated / amortized.

## **C Foreign currency translation**

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

The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency. Transactions in foreign currencies are initially recorded at the foreign currency exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the balance-sheet date. All differences are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity, and for which hedge

accounting requirements are met. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recorded through equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling on the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

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

	USD	NIS	CPI
December 31, 2008	0.718	0.189	117.9
December 31, 2007	0.68	0.177	113.6
December 31, 2006	0.759	0.1797	109.0
December 31, 2005	0.845	0.184	110.0
Change in 2008	5.6%	6.8%	3.8%
Change in 2007	(10.4)%	(1.7)%	3.4%
Change in 2006	(10.2)	(2.1)%	(0.1)%

#### D Tangible fixed assets

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

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

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

Furniture and office equipment	3-16 years
Motor vehicles	2-7 years
Buildings	25-50 years
Leasehold improvement	over the term of the lease (mainly 5 years)

The useful life and depreciation method are reviewed each reporting period to ensure that the method and

period of depreciation are consistent with the expected pattern of economic benefits from items of tangible fixed assets.

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

#### E Investment properties

Investment properties comprise a land plot or a building or a part of a building held to earn rental income and/or for capital appreciation and property that is being constructed or developed for future use as investment property (investment property under construction).

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

Both completed investment properties and investment properties under construction are externally valued based on open market values. Completed properties are either valued on the basis of Discounted Cash Flow or – as deemed appropriate – on basis of the Income Capitalization or Yield Method. For investment property under construction, see Note 7). For a description of these valuation techniques, see Note 3B.

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.



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

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

The costs incurred to originate an operating lease (mainly brokers' fees) and incentives provided to lessees to enter into the agreement for rental space are, insofar as related to investment properties under construction that are carried at cost, deferred until the date of revaluation of the related investment property to its fair value. Before the revaluation, such costs are included within other non-current assets.

#### **F Investment properties under construction**

In May 2008, as part of its annual improvement process, the IASB approved changes that brought investment property under construction into the scope of IAS 40 Investment Property. From 2009, entities reporting under IFRS will be required to reclassify investment property under construction ('IPUC') to investment property. This means that any entities who measure their completed investment property at fair value will also need to measure their IPUC at fair value (subject to fair value being reliably determinable). The Company has decided to early adopt these changes to IAS 40 as from December 31, 2008. The Company applies IAS 40 in such a way that it, has decided to revalue only IPUC for which a substantial part of the development risks have been eliminated, as only then the criterion of IAS 40 that the fair value should be reliably determinable is deemed to be met. Assets, for which this is not the case or construction has not yet started are presented at the lower of cost or market value. The Company has adopted the following criteria to start assessment whether the substantial risks are eliminated with regard to particular IPUC:

- An agreement with general contractor is signed
- The building permit is obtained
- At least 20% of the rentable area is leased to tenants (based on the signed lease agreement);

For those projects where management believed, based on the above criteria and further assessment as deemed appropriate, the substantial risks are eliminated, the fair values of IPUC were determined, as of their stage at the end of the reporting period (first implementation as of December 31, 2008), based on the opinions of qualified independent appraisers. The valuations were performed in accordance with RICS and IVSC Valuation Standards using either the Residual Method approach or DCF, as deemed appropriate by the valuer, see Note 3B for a description of these methods. Each IPUC is individually assessed.

The future assets' value is estimated based on the expected future income from the project, using risk-adjusted yields that are higher than the current yields of similar completed property. The remaining expected costs to completion are deducted from the estimated future assets value.

For projects where the expected future completion risk is above average (as deemed appropriate by the valuer), a developer profit margin of unexecuted works was also deducted from the value.

#### **G Contract work and building inventory in progress**

Costs relating to the construction of the residential properties and infrastructure projects, which do not qualify as investment property under construction are included in inventory as follows:

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

Such costs include:

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

The carrying amounts are tested for impairment as of each reporting date. Impairment is assessed to have occurred if the estimated future selling price of the residential units falls below the estimated cost per unit.

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units, which are not refundable, are expensed in full when the contract to sell is secured.

#### H Merchandise inventories

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

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

#### I Business combinations and goodwill

Business combinations are accounted for using the purchase accounting method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. The final determination of value of the acquired assets and liabilities at acquisition date can be adjusted up to 12 months from the acquisition date. Unless otherwise indicated, the Group applies this exemption as, particularly in the financial services segment, applying purchase price allocation is a time-consuming and complicated process requiring numerous sophisticated valuation techniques.

The excess of acquirer's interests in the net fair value of the acquiree's identifiable assets and liabilities over cost is recognized immediately in profit or loss.

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

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

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

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



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

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

As these types of transactions do not involve a change in control, and the controlled entities are controlled both before and after the transaction by the Group (the parties can change), the Pooling Method represents the best accounting of such transaction.

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

### **J Service concession arrangements**

#### **Introduction**

Service concession arrangements are arrangements where an entity (the Concession Operator) may enter into an arrangement with another entity (the Concession Provider or the Grantor) to provide services that give the public access to major economic and social facilities.

Service concession arrangements which contractually oblige the Group, acting as operator, to provide the services to the public on behalf of the public sector entity are accounted for in accordance with the accounting policies mentioned below. Service concession arrangements which do not meet that criterion, for instance where the asset is either derecognized by the grantor or is an asset constructed for the concession that the grantor never controls, are dealt with by other accounting policies adopted by the Group. This may apply to:

- a) Public-to public arrangements; or
- b) The treatment of existing assets of the Group; or
- c) Situations in which the Group leases assets from the grantor; or
- a) The Group only performs specific tasks e.g. maintenance or debt collection.

If these exceptions do not apply and the Group acts as an operator and provides construction or upgrade services in accordance with service concession arrangements that meet the above-mentioned definition, the consideration received or receivable by the Group are recognized at its fair value. These considerations are then considered either rights to:

- (a) A financial asset, or
- (b) An intangible asset.

#### **Financial assets**

A financial asset is recognized to the extent that the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services; the grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements.

The financial asset is measured on initial recognition at its fair value, and interest is calculated on the balance using the effective interest rate method. Revenue is recognized when the contract work is performed using the percentage of completion method. This means that the financial asset will be recognized from the beginning of contract activity.

Operating and maintenance costs, which are deemed executory, will be accounted for as incurred.

Contractual obligations, including obligations to maintain, replace or restore infrastructure, are recognized and measured at the best estimate of the expenditure required to settle the present obligation at the balance-sheet date. These may include obligations to restore infrastructure to a specified condition before it is returned to the grantor at the end of the concession. These do not include any upgrade

elements as these are treated as an additional construction service.

### **Intangible assets**

The Group recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service. A right to charge users of the public service is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses the service.

The Group recognizes the intangible asset at deemed cost, i.e. the fair value of consideration transferred to acquire the asset, which is the fair value of the consideration received or receivable for the construction services delivered. During the construction phase of the arrangement the Group's asset (representing its accumulating right to be paid for providing construction services) is classified as an intangible asset (license to charge users of the infrastructure). The Group estimates the fair value of its consideration received to be equal to the forecast construction costs plus applicable margin and additionally capitalizes the borrowing costs during the construction phase of the arrangement.

The intangible asset is subsequently amortized on a systematic basis over its useful life, whereby the Group adopts the straight-line method. Revenue recognition and cost accounting for the operation services are recognized as described under the financial asset model.

### **Mixed assets**

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset it accounts separately for each component of the consideration. The consideration received or receivable for both components is recognized initially at the fair value of the consideration received or receivable. The nature of the consideration given by the grantor to the Group is determined by reference to the contract terms and, when applicable to relevant contract law.

### **Revenue recognition**

Both under intangible and financial asset models the Group accounts for revenue and costs relating to construction or upgrade services in accordance with the stage of completion method provided that the outcome can be measured reliably. The Group accounts for revenue and costs relating to operation services in accordance with the criteria it has adopted for revenue recognition, i.e. when the outcome of a transaction involving the rendering of services can be estimated reliably, and revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the balance-sheet date.

If the Group performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

### **Impairment**

The Group assesses potential impairments of the concession assets at each reporting date.

### **K Other intangible assets**

Other intangible assets acquired separately or identified separately as part of a purchase price allocation, on initial recognition are measured at cost. The cost of intangible assets acquired in a business combination is the estimated fair value as of the date of acquisition. Following initial recognition, other intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

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

## **L Investments in associates**

The Group's investment in its associates is accounted for under the equity method of accounting.

An associate is an entity in which the Group has, directly or indirectly, significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The income statement reflects the share of the Company in the net earnings of the associate. The Company records its share of losses exceeding the associate's equity, if any, up to its investment in the associate with the addition of any loss as a result of a guarantee or other financial assistance.

Gains or losses from transactions between the Group and an associate are eliminated according to the ownership percentage in the associate. Unrealized losses are eliminated unless the transaction provides evidence of impairment.

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

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

Equity investments which do not qualify as investments in associates are classified as available-for-sale financial assets and carried at fair value.

## **M Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment

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

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

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

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

**Goodwill**

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

**Associates**

The Company reviews the need to recognize an impairment loss after applying the equity method for an associate. The Company reviews at each balance-sheet date if there is objective evidence that the investment in an associate is impaired. If required, an impairment loss is determined as the difference between the recoverable amount of the investment in the associate less costs to sell and the book value. The amount of the loss is recognized in the statement of income in the Group's share of earnings (losses) of associates.

**N Financial assets**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition, when they are measured at fair value, plus, in the case of investments not carried at fair value through profit or loss, directly attributable transaction costs.

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

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

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in profit or loss as part of the financing income or expenses.

**Held-to-maturity investments**

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

**Loans and receivables**

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

**Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are not classified in one of the three categories above. After initial measurement,

available-for-sale financial assets are measured at fair value. Unrealized profits or losses are allocated directly to the available-for-sale reserve in equity. When such assets are derecognized or impaired any accumulated profit or loss allocated to equity in the past is allocated to the income statement. Interest income and expenses are recorded on the effective interest basis. Dividends received for these investments are allocated to the income statement when the Company has the right to receive them.

### **O Cash and cash equivalents**

Cash and short-term deposits in the balance-sheet comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less. Unless otherwise disclosed, cash is unrestricted and is subject to an insignificant risk of changes in value.

### **P Insurance receivables**

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

### **Q Impairment of financial assets**

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of

an allowance account. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit-risk characteristics, and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not

recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

### R Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and are presented in the balance sheet as a deduction from shareholders' equity. No gain or loss is recognized in the income statement on the sales, issuance, or cancellation of treasury shares.

The consideration paid is presented in the financial statements as a change in shareholders' equity.

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

### S Borrowing costs

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

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

Borrowing costs are either based on the actual borrowing costs incurred for the purchase of a qualifying asset or at a capitalization rate representing

the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during any period will not exceed the amount of borrowing costs it incurred during that period.

### T Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognized initially at fair value, less, in the case of loans and borrowings, directly attributable transaction costs

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

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

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

#### Loans and borrowings

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

Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the amortization process.



### **Financial guarantee liabilities**

Financial guarantee liabilities issued by the Group, primarily by the financial services segment, are those contracts that require a payment to be made to reimburse the holder for a loss incurred because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognized in the financial statements (within "Other payables") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the income statement, and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the income statement in "costs of banking and lending activities". The premium received is recognized in the income statement in "income from banking and retail lending activities" on a straight line basis over the life of the guarantee.

### **Convertible debentures**

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

The conversion component is accounted for in equity if the convertible debentures are denominated in the company's functional currency. If the convertible debentures are denominated in foreign currency, the conversion component is allocated to other financial liabilities.

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

After initial recognition, the conversion component, which is recorded as a financial liability, is measured according to IAS 39 and is presented at fair value. Gains or losses are recognized in profit or loss.

### **Debentures**

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

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

## **U Insurance liabilities**

### **Life insurance contracts liabilities**

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

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

Insurance contracts with fixed and guaranteed terms  
A liability for contractual benefits that are expected to be incurred in the future is recorded when the

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

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

#### **General insurance contracts liabilities**

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

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

#### **Provision for unearned premiums**

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

#### **Liability adequacy test**

At each balance-sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related DAC assets. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used.

#### **Product classification**

##### **Insurance contracts**

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

#### **V Derecognition of financial assets and liabilities**

##### **Financial assets**

A financial asset 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



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

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

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

### **Financial liabilities**

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

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

### **W Provisions**

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

### **X Share-based payment transactions**

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

### **Equity-settled transactions**

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

The cost of equity-settled transactions is 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 (or consultants) 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 Group's best estimate of number of

equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized as of the beginning and end of that period. Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employees as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

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

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

#### **Y Leases**

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

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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to

ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

In the case that operating leases of land have all the characteristics of investment properties they are treated as finance leases. In that case, the leased asset is treated as investment property.

Capitalized leased assets, which do not comprise investment property, are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

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

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

#### **Z Revenue recognition**

##### **General**

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

**Sale of goods**

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

**Interest and dividend income**

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Dividend income is recognized when the Group's right to receive payments is established.

**Contract revenues**

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

**Rental income**

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

**Sale of apartments**

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

Rendering of services (including management fees)

Revenues from services are recognized as the services are provided and when the outcome of such transactions can be estimated reliably. Where the outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Fees from managing pension funds are based on the contribution to the pension funds, on assets under management in the pension funds and in some instances on the yields of the fund. Contribution to the pension funds are recorded on a cash basis. Fees from managing pension funds are recorded on an accrual basis.

**Premium income**

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

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

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

**AA Insurance business****Life insurance business**

- A. Premiums, including savings, are accounted for on an accrual basis. Accrued premiums include premiums for this line of business which are outstanding for up to one year.
- B. Surrenders are accounted for when paid.
- C. Death claims include estimates of claims which occurred up until balance-sheet date.
- D. Life assurance reserve and the reinsurers' share therein, are determined on the basis of annual actuarial valuations computed by the subsidiaries' actuary, consistent with the previous year. In the

calculation of the reserve, the actuary uses the same interest rates and mortality tables used by the subsidiaries in determining the insurance tariffs of the various insurance reserves.

- E. Acquisition costs are deferred by the "DAC" method. According to the principles, the DAC includes agent's commissions and other expenses related to the acquisition of new policies, including a part of administrative and general expenses. According to these principles, the DAC is amortized in equal parts during the policy period but not over more than 15 years. Deferred acquisition costs relating to cancelled policies are charged to income at cancellation date.
- F. Profit from life assurance business is determined out of the surplus resulting from the annual actuarial valuation of the reserve.

#### General insurance business

- A. The underwriting results for general insurance business are determined on an annual basis.
- B. Premiums are accounted for on an accrual basis.
- C. The premium reserve and the reinsurers' share in reinsurance receivables are calculated on a daily basis.
- D. The portion of commissions and other acquisition costs, relating to the unearned premium, is carried forward as deferred acquisition costs. These deferred expenses are calculated according to the actual rates, although in many cases rates that are lower than the actual rates were used due to low premiums based on past experience, which were insufficient to cover the claims and the actual costs.
- E. Claims comprise the settlement and handling cost of paid and outstanding claims arising from events occurring in the reporting year and adjustments to outstanding claims reserves established in prior years. Any such adjustments are currently reflected in earnings.
- F. Outstanding claims are included on the basis of actuarial valuations or case-by-case estimate if higher.
- G. Business from other insurance companies and underwriting agencies are included to the extent

that such results are reported in statements received by the balance-sheet date.

- H. Investment income, including the inflationary restatement of non-monetary items (mainly fixed assets, investments in investees and shareholders' equity) is charged to general insurance business and the income statement based on the ratio of the investments relating to insurance liabilities and equity and other liabilities.

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

#### Reinsurance

- A. The reinsurers' shares in insurance reserves and outstanding claims are presented separately in the balance sheet, net of an allowance for doubtful or bad debts, based on management's estimate.
- B. The reinsurers' liabilities to the subsidiaries do not release the subsidiaries from their obligation to their policyholders insured under the insurance policies. A reinsurer who will not fulfill his future obligations under the reinsurance treaties may cause the Group losses in the future.
- C. In order to reduce the insurance risks the company utilizes a reinsurance program. The majority of reinsurance business ceded is placed on a quota share / excess (in the aviation line of business the company writes business only with facultative cover with no significant retention) of loss basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders, and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. Reinsurance is placed with high-rated counter-parties and concentration of risk is avoided by following policy guidelines in

respect of counterparties' limits that are set each year and are subject to regular reviews. At each year-end, management performs assessments of creditworthiness of reinsurers to update reinsurance purchase strategy and ascertaining suitable allowance for impairment of reinsurance assets.

## BB Taxes

### Current income tax

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

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

### Deferred income tax

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

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

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

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

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

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

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

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

At each balance-sheet date, the Group companies re-assess unrecognized deferred tax assets and the carrying amount of deferred tax assets. The companies recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future

taxable profit will allow the deferred tax asset to be recovered.

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

### CC Fair value of financial instruments

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

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

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

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

### DD Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and

foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

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

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by independent valuers using agreed-upon valuation models.

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

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

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

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



**Fair value hedges**

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

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

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

**Cash flow hedges**

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

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale

or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

**Hedges of a net investment**

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

**EE Put option granted to minority shareholders**

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

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

Any put options granted to minority interest in a business combination are accounted for based on the "parent entity extension method". Under this method the Company recognizes goodwill for the difference between the acquisition cost and the fair value of the



minority interests acquired. At initial recognition, the minority interest is reclassified from equity to liabilities. The liability is subsequently remeasured at each reporting date based on the fair value of the proceeds determined, using the fair value of the shares, and at the same time the minority interests are treated as if they were held by the Group. Changes in the liability are adjusted against goodwill, except for the unwinding of the discount due to the passage of time. The unwinding of the discount is recognized in the income statement as interest expense.

### FF Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share amounts are calculated by dividing the net profit attributable to the equity holders of the parent (after adjusting for interest on convertible debentures) by the weighted average number of ordinary shares outstanding during the period 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. In addition, securities that were converted during the period are included in the diluted earnings per share calculation to the date of conversion, and from that date they are included in the basic earnings per share. Potential ordinary shares are only included in diluted earnings per share when their conversion would decrease earnings per share (or increase loss per share) from continuing operations. Options and warrants are dilutive when they would result in the issue of ordinary shares for less than the average market price of ordinary shares during the period.

### GG Pensions and other post-employment benefits

Pensions and other post-employment benefits are either classified as defined contribution or defined benefit. Under defined contribution plans, contributions during the period are expensed when incurred.

### Defined contribution plans

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

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

### Defined benefit plans

The Company has no material defined benefit schemes.

### HH Future changes in accounting policies Standards issued but not yet effective

#### IFRS 8 – Operating Segments

IFRS 8 deals with operating segments and replaces IAS 14. The Standard applies to companies whose securities are traded or are in the process of filing with any securities stock exchange. The Standard is effective for annual financial statements for periods beginning after January 1, 2009. Earlier application is permitted. The provisions of the Standard will be applied retrospectively, by restatement, unless the necessary information is not available or impractical to obtain.

The Standard determines that an entity will adopt a management approach in reporting on the financial performance of the operating segments. The segment information would be the information that is internally used by management in order to assess its performance and allocate resources to the operating segments.

Furthermore, information is required to be disclosed about the products or services (or group of products and similar services) from which the entity derives its revenues, the countries in which these revenues or assets are derived and major customers, irrespective of whether management uses this information for making operating decisions. The Company believes that the effect of the new Standard on the current presentation of segments is not expected to be material.

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

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

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

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

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

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

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

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

#### **IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations**

Pursuant to an amendment to IFRS 5, 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 holdings that does not confer control, for example, rights entitling to significant influence, all of that subsidiary's assets and liabilities will be classified as held for sale when the criteria in IFRS 5 are met, including disclosures for discontinued operations. The amendment to IFRS 5 will be prospectively adopted starting from the financial statements for periods beginning on January 1, 2010. Earlier application is permitted.

The Company believes that the effect of the amended Standard on its financial position, operating results and cash flows is not expected to be material.

#### **IAS 19 – Employee Benefits**

Pursuant to amendments to IAS 19, other long-term benefits will also include employee benefits that are due in the short term and are expected to be utilized within one year of the end of the period qualifying for the benefits, such as cumulative benefits in respect of

vacation pay and sick leave that are expected to be used within one year of the balance-sheet date. Accordingly, these benefits are now required to be recognized in the financial statements based on an actuarial calculations taking into account future salaries and discounted to present value. The amendments will be retrospectively adopted starting from the financial statements for periods beginning on January 1, 2009. Earlier application is permitted.

The Company believes that the effect of the amendment on its financial position, operating results and cash flows is not expected to be material.

#### **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 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.

#### **IFRIC 15 – Agreements for the Construction of Real Estate**

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

statements for periods commencing on January 1, 2009 or thereafter and will be adopted retrospectively. Early adoption is permitted.

#### **IFRIC 16 – Hedges of a Net Investment in a Foreign Operation**

IFRIC 16 prescribes that a risk arising from foreign exchange differences of the presentation currency of a company does not create an exposure to which hedge accounting can be applied, consequently, a hedged risk may be designated only in respect of the company's functional currency. Moreover, the risk arising from foreign exchange differences of the functional currency of any subsidiary may be hedged by any entity within the Group even if that subsidiary is indirectly controlled by another entity within the Group. The Interpretation also prescribes that the hedging instrument may be held by any entity within the Group. The Interpretation applies to annual financial statements for periods beginning on or after January 1, 2009. Earlier application is permitted.

#### **IAS 16 – Property, Plant and Equipment**

Pursuant to an amendment to IAS 16, fixed assets held for rental that are routinely sold in the ordinary course of business will be transferred to inventories when rental ceases and, accordingly, their sale will be presented in the statement of income as (gross) revenue rather than a (net) gain. Simultaneously, cash payments and cash receipts from investment in such assets will be presented within operating activities in the statement of cash flows rather than within investing activities. The amendment will be retrospectively adopted starting from the financial statements for periods beginning on January 1, 2009. Earlier application is permitted.

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

### A Principal subsidiaries and joint ventures

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

Holding Company	Name of Subsidiary or Joint Venture	Country of incorporation	% equity interest as of December 31		
			2008	2007	
Kardan N.V.	Kardan Financial Services B.V. <sup>1</sup>	Netherlands	80	80	Subsidiary
	GTC Real Estate Holding B.V. <sup>2</sup>	Netherlands	100	68.1	Subsidiary
	Tahal Group International B.V. <sup>3</sup>	Netherlands	100	100	Subsidiary
	Kardan Israel Ltd.	Israel	73.4	71.4	Subsidiary
Kardan Financial Services B.V.	TBIH Financial Services Group N.V.	Netherlands	40	40	Joint venture
	TBIF Financial Services B.V. <sup>2</sup>	Netherlands	90.4	90.4	Subsidiary
	Russian Insurance Company <sup>4</sup>	Russia	–	74.6	Subsidiary
TBIH Financial and Services Group N.V.	TBI Bulgaria EAD <sup>4</sup>	Bulgaria	51	100	Subsidiary
	Helios Insurance Company Ltd. <sup>4</sup>	Croatia	–	100	Subsidiary
	Alpha Insurance & Reinsurance Broker Limited	Gibraltar	85	85	Subsidiary
	UPIH B.V.	Netherlands	62	50	Subsidiary
	GPIH B.V.	Netherlands	50	50	Joint venture
	IRAO International Insurance Company Ltd.	Georgia	90	75	Subsidiary
	Ray Sigorta A.S.	Turkey	74.3	74.3	Subsidiary
	S.C. Omniasig-Pensii SA	Romania	90	90	Subsidiary
	Sigma Sh.a <sup>4</sup>	Albania	75	75	Subsidiary
	Ukraine Insurance Group	Ukraine	62	–	Subsidiary
TBI Bulgaria EAD and subsidiaries	Doverie Pension Fund A.D.	Bulgaria	92.2	92.2	Subsidiary
	Bulstrad Insurance & Reinsurance AD <sup>4</sup>	Bulgaria	49.4	96.8	Subsidiary
UPIH B.V.	VAB Pension	Ukraine	100	100	Subsidiary
	VAB Insurance	Ukraine	100	90	Subsidiary
	VAB Life Insurance	Ukraine	100	90	Subsidiary

Holding Company	Name of Subsidiary or Joint Venture	Country of incorporation	% equity interest as of December 31		
			2008	2007	
GPIH B.V.	Georgian Pension and Insurance Holding Ltd.	Georgia	90	90	Subsidiary
TBIH (RUS) LLC	NPF "Victoria" Fund	Russia	100	100	Subsidiary
Sigma sh.a.	Sigma AD Skopje	Macedonia	100	100	Subsidiary
TBIF Financial Services B.V.	TBI Credit INF SA	Romania	100	100	Subsidiary
	TBI Leasing SA	Romania	100	100	Subsidiary
	VAB Bank	Ukraine	48.9	48.8	Joint venture
	VAB Leasing <sup>5</sup>	Ukraine	100	100	Subsidiary
	SovcomBank	Russia	60.9	50	Joint venture
TBIF – Dan Leasing Ltd.	VIP Rent Foreign Enterprise	Ukraine	100	–	Subsidiary
TBI Bulgaria EAD and subsidiaries	TBI Leasing EAD	Bulgaria	100	100	Subsidiary
	TBI Credit EAD	Bulgaria	100	100	Subsidiary
	TBI Asset Management AD	Bulgaria	100	100	Subsidiary
	TBI Invest AD	Bulgaria	100	100	Subsidiary
	Creditex OOD	Bulgaria	100	100	Subsidiary
GTC Real Estate Holding B.V.	GTC Real Estate China Ltd.	Hong Kong	100	100	Subsidiary
	GTC Investment B.V.	Netherlands	46.25	46.25	Joint venture
	Globe Trade Centre S.A. (6)	Poland	46.2	46.2	Subsidiary
Globe Trade Centre SA	GTC Hungary Real Estate Development Company Ltd.	Hungary	97.5	97.5	Subsidiary
	GTC Real Estate Investments Romania B.V.	Netherlands	94.6	94.6	Subsidiary
	GTC Real Estate Investments Serbia B.V.	Netherlands	97.5	97.5	Subsidiary
	GTC Real Estate Investments Croatia B.V.	Netherlands	97.2	97.2	Subsidiary
	GTC Real Estate Investments Slovakia B.V.	Netherlands	95	95	Subsidiary
	GTC Real Estate Investments Ukraine B.V.	Netherlands	85.5	85.5	Subsidiary
	GTC Real Estate Investments Bulgaria B.V.	Netherlands	95	95	Subsidiary
	GTC Real Estate Investments Russia B.V.	Netherlands	95	95	Subsidiary

Holding Company	Name of Subsidiary or Joint Venture	Country of incorporation	% equity interest as of December 31		
			2008	2007	
GTC Real Estate China Ltd.	Shenyang Taiyling Real Estate Development Ltd.	China	50	50	Joint venture
	Shenyang GTC Palm Garden Development Co. Ltd	China	50	50	Joint venture
	Shanxi GTC Lucky Hope Real Estate Development Ltd.	China	50	50	Joint venture
	GTC Lucky Hope Suzy Real Estate Development Ltd.	China	50	50	Joint venture
	GTC Lucky Hope Chengdu Real Estate Development Ltd.	China	79.6	79.6	Subsidiary
	GTC Dalian Galleria Real Estate Ltd.	China	100	100	Subsidiary
	Hangzhou International Financial Center Co. Ltd.	China	50	50	Joint venture
GTC Investment B.V.	Blitz Portfolio GmbH	Germany	85	85	Subsidiary
	Durango Switzerland B.V.	Netherlands	80	80	Subsidiary
Tahal Group International B.V.	Tahal Group B.V.	Netherlands	100	100	Subsidiary
	Tahal Group Assets B.V.	Netherlands	100	100	Subsidiary
Tahal Group B.V.	Tahal Consulting Engineers Ltd.	Israel	100	100	Subsidiary
	Sitahal 'Hagal' (Talia) Partnership	Israel	100	100	Subsidiary
	Palgey Maim Ltd.	Israel	55.5	55.5	Subsidiary
	Eko-Wark Sp. ZOO	Poland	72	60.9	Subsidiary
	Fideco DOO	Serbia	100	100	Subsidiary
	Tahal Angola Ltd.	Angola	70	70	Subsidiary
Tahal Group Assets B.V.	Kardan Water International Group Limited	Cayman Islands	80	66.7	Subsidiary
	Perilla Water Group Ltd.	China	100	100	Subsidiary
	Tri-River Water Group Ltd.	China	100	100	Subsidiary
	Dazhou Tianhe Water Supply and Drainage Co., Ltd.	China	100	100	Subsidiary
	Task Water B.V.	Netherlands	100	100	Subsidiary
	TASK SU Kanalizasyon AS	Turkey	50	33	Joint venture
	Milgam	Israel	98	90	Subsidiary
	Agri Products N.V.	Netherlands	51	51	Subsidiary

Holding Company	Name of Subsidiary or Joint Venture	Country of incorporation	% equity interest as of December 31		
			2008	2007	
Kardan Israel Ltd.	Kardan Real Estate Enterprise and Development Ltd.	Israel	100	100	Subsidiary
	Kardan Motors Ltd.	Israel	100	100	Subsidiary
	Kardan Technologies Ltd.	Israel	62.3	60.7	Subsidiary
	Kardan Communications Ltd.	Israel	100	100	Subsidiary
Kardan Real Estate Enterprise and Development Ltd.	Nofei Hashemesh B.S. Ltd.	Israel	50	50	Joint venture
	El-Har Engineering and Construction Ltd. <sup>7</sup>	Israel	50	50	Subsidiary
Kardan Motors Ltd.	Taldan Motors Ltd.	Israel	90	90	Subsidiary
	S.F.D.I. Ltd.	Israel	100	100	Subsidiary

## Comments:

- 1 Due to existing Put options, which were considered IFRS 3 like transactions, Kardan Financial Services B.V. ("KFS") is effectively 89% consolidated by Kardan; and TBIF Financial Services B.V. ("TBIF") is effectively 100% consolidated by KFS.
- 2 Within the framework of a merger between the Company, GTC Real Estate N.V. and GTC Real Estate Holding B.V., as described in Note 1B, all real estate subsidiaries were transferred from GTC Real Estate N.V. to GTC Real Estate Holding B.V.
- 3 Due to restructuring within the infrastructure segment, the Company has incorporated in the beginning of 2008 the subsidiary Tahal Group International B.V. ("TGI"). All participations previously held by Tahal Group B.V. were allocated between TGI and its subsidiaries Tahal Group B.V. and Tahal Group Assets B.V. The restructuring did not have an impact on the Company's interest in the different subsidiaries and joint ventures within the TGI Group.
- 4 For details regarding the disposal of these subsidiaries, please refer to Note 5B2 below.
- 5 In 2007 this entity was a direct subsidiary of VAB Bank.
- 6 Despite the fact that the Company does not hold more than 50% of the shares in Globe Trade Centre SA ("GTC SA") (indirectly), the Company has the right to nominate the majority of the Supervisory Board. The Supervisory Board can appoint the Management Board by majority vote and take all strategic decisions. Therefore the Company has de jure control of GTC SA and consolidation is continuing.
- 7 Although the Company holds only 50% in the share capital of El-Har, as a result of a put option granted to the minority shareholder of El-Har, which is treated as IFRS 3 like transaction, the Company effectively holds 66.6% of El-Har and consolidates accordingly.



## B Significant business combinations

1. In February 2008, TBIH Financial Services Group N.V. ("TBIH") completed the acquisition of 62% of Ukrainian insurance company ("UIG") for a total consideration of € 46.5 million.

The shareholders agreement includes a call option for TBIH to purchase and a put option for the sellers to sell the remaining 38% of UIG within five years, under certain terms and conditions. The excess of the purchase price over the net assets of UIG (including the financial liability to recognize the put option granted to the minority shareholder) amounted to € 47.5 million (in which the Company's share is € 19 million) and is classified as intangible assets and goodwill.

The fair value of the identifiable assets and liabilities of UIG at the date of acquisition were:

€ in millions	Fair value recognized on acquisition
Tangible fixed assets	1
Reinsurance assets	1
Insurance receivables	1
Other assets	27
	<b>30</b>
Insurance contracts liabilities	(27)
Other liabilities	(5)
Net assets	(2)
Minority interests	(–)
Intangible assets arising on acquisition	3
Goodwill arising on acquisition	45
Total acquisition cost – TBIH (including put option)	46
<b>Total acquisition cost – consolidated to the Company (based on % shareholding of the Group)</b>	<b>18</b>

Cash outflow at acquisition, in TBIH:

€ in millions	
Net cash acquired with UIG	9
Cash paid	(33)
Net cash outflow	(24)

Since the date of acquisition UIG has contributed general insurance premiums from continuing operations of € 35 million (€ 14 million for the Company) and a loss of € 0.3 million to the consolidated net profit of the Company (a loss of € 0.8 million to TBIH).

If the business combination had taken place at the beginning of the year, the profit for TBIH would have decreased by € 3.7 million (€ 1.5 million for the Company) and general insurance premiums from continuing operations would have increased by € 10.2 million (€ 4 million for the Company). The goodwill recognized above is attributed to the expected synergies and other benefits from combining the assets and activities of UIG with those of TBIH.

2. In December 2008, the shareholders of TBIH agreed on a reorganization, aimed at supporting the equity basis of TBIH and providing liquidity for ongoing purposes. Agreements were signed between the shareholders of TBIH, Vienna Insurance Group ("VIG") and KFS and with TBIH regarding this reorganization transaction as follows:

- i Croatia - TBIH will sell all of its holdings in Kvarner Vienna Insurance Group and Helios to VIG.
- ii Albania - TBIH will sell all of its holdings in Sigma Sh.a and Sigma Skopje AD to VIG.
- iii Bulgaria - TBIH will sell all of its direct and indirect holdings in TBI Bulgaria AD ("TBIB"), other than Pension Assurance Doverie ("Doverie") to VIG. Subsequently, Doverie will be transferred to TBIH and become a direct subsidiary of TBIH and all the insurance companies in Bulgaria will be held by VIG.
- iv Russia - the rights and obligations under the agreements between TBIH and Veskotir will be assigned to KFS and terminated such that TBIH will

deconsolidate and fully impair its investment in RIC in December 2008.

- v TBIH will use the proceeds from the sale of assets as described in (i) through (iii) above, amounting to approximately € 200 million, to repay shareholder loans from VIG, in the amount of approximately € 100 million. The receipt of proceeds and repayments of loans occurred in December 2008 and early January 2009.

The transactions relating to the activities in Croatia, Russia and the transfer of 49% of the Bulgarian insurance holdings were finalized in 2008.

Accordingly a capital gain of € 37.9 million was recognized in TBIH (€ 9.4 million for the Company).

The finalization of the sale of the remaining 51% of the insurance holdings in Bulgaria and the holdings in Albania are subject to regulatory approvals, which are expected to be received in the first half of 2009.

In 2008 the Company has recognized a gain of € 9.4 million.

In accordance with IFRS 5, the assets and liabilities of the companies to be sold in 2009 are presented as assets and liabilities held for sale on the face of the balance sheet.

The financial results of all subsidiaries subject to the above-mentioned reorganization are presented as discontinued operations in the consolidated income statement of the Company. Comparative figures have been restated accordingly.

Composition of the income and expenses for the years ended December 31, 2008, 2007 and 2006 related to discontinued operations:

€ in millions	December 31, 2008	December 31, 2007	December 31, 2006
Total income	62	50	47
Total expenses	(71)	(49)	(47)
Profit before tax	(9)	1	–
Income tax expenses	–	–	–
Net profit from discontinuing operations before capital gains	(9)	1	–
Capital gain (loss) from sale	12	–	–
Release of goodwill	(2)	–	–
<b>Net profit from discontinued operations</b>	<b>1</b>	<b>1</b>	<b>–</b>

Composition of main groups of assets and liabilities held for sale as of December 31, 2008:

€ in millions	December 31, 2008
<b>Assets</b>	
Intangible assets	17
Tangible fixed assets	9
Financial assets	18
Reinsurance assets	7
Insurance receivables	16
Deferred acquisition costs	7
Prepayments and accrued incomes	3
Cash and cash equivalents	6
<b>Total assets</b>	<b>83</b>
<b>Liabilities</b>	
Insurance contract liabilities	48
Other financial liabilities	3
Insurance payables	5
Trade and other payables	4
<b>Total liabilities</b>	<b>60</b>

Composition of the net cash flows related to discontinued operations:

€ in millions	For the year ended December 31,		
	2008	2007	2006
Net cash flow from operating activities	(4)	(5)	1
Net cash flow from investing activities	(1)	2	(5)
Net cash flow from financing activities	(2)	–	2
<b>Net cash flows from discontinued operations</b>	<b>(7)</b>	<b>(3)</b>	<b>(2)</b>

### C Other significant transactions in 2008

3. During 2008 TBIF has increased its stake in Sovcom Bank from 50% to 60.9% through several transactions whereby TBIF has acquired and sold shares from and to its partner in Sovcom Bank or via issuance of new shares. The total consideration paid

- by TBIF amounted to € 35.3 million. The goodwill which arose from these acquisitions amounted to € 13 million.

In addition, TBIF has signed an agreement, according to which TBIF was granted options to increase its share in Sovcom Bank to 75%. The exercise price of those options will be determined by a mutually agreed formula. The first option relating to 1.5% of the shares of Sovcom Bank was cancelled by agreement between TBIF and its partner. The second option relating to 10% of the shares can be exercised during a period of 30 days after the adoption of the financial statements of Sovcom Bank for each calendar quarter from December 31, 2008 to September 30, 2009.

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

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

4. In May 2008, KFS acquired the minority share (approximately 25%) of The Russian Insurance Company ("RIC") in consideration of € 16 million. Following the closing of this transaction KFS will hold 100% of RIC. The excess of the purchase price over the net asset value of RIC amounted to € 3.3 million and was accounted for as goodwill. Following the reorganization, as described in Note 5B2 above, the investment in RIC was sold to a third party for no consideration. Accordingly KFS recorded a total loss from the disposal of RIC amounting to € 11 million resulting from the operating losses and the costs incurred to dispose of RIC (€ 3.2 million).
5. Following the term sheet signed in November 2007 by GTC RE in connection with a development in India, in July 2008, GTC RE signed a detailed

agreement with a third party, which concludes the understandings regarding the preliminary term sheet. According to the agreement, the third party will transfer land it owns to a joint venture company, which will be held equally by the parties, and GTC RE will invest an amount of approximately USD 90 million (approximately € 60 million). The completion of the transaction is subject to certain conditions precedent including receiving a Special Economic Zone approval which grants significant tax benefits.

6. During 2008 the Company has increased its stake in GTC RE to 67.8% (prior to the merger) through several transactions including: own shares purchased by GTC RE, conversion of convertible debentures into shares of GTC RE and acquisition of GTC RE shares by Kardan Israel. As a result the Company has recognized a gain of € 2 million, and additional goodwill amounting € 2.8 million was created and allocated to property under construction.

## D Significant business combinations in 2007

1. In April 2007, the Company completed a transaction in the financial services segment following agreements signed in August 2006. The transaction relates to the Company's and Wiener Stadtische Versicherung AG's ("WS" or "VIC") holdings in KFS, in TBIH and in TBIF. Following the completion of the transaction, the Company's interest in KFS increased from 55.12% to 92.3%.

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

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

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

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

The effect of the change from proportionate consolidation (approximately 55%) to full consolidation of TBIF on the financial statements of the Company is presented in 3 below.

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

2. Within the framework of the abovementioned reorganization, KFS acquired employee options which were granted to certain key employees in TBIF in exchange for shares in KFS and cash payments.

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

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

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

The fair value of the liability at the date of the transaction (initial recognition) amounted to € 23 million. The difference between the fair value of the liability and the carrying amount of the minority interests in KFS amounted to € 10 million and was recorded as goodwill.

Within the framework of the abovementioned reorganization, it was agreed that if certain conditions will be met WS will pay to KFS an additional compensation for the acquisition of TBIF's shares. The fair value of the right to receive an additional compensation was valued by KFS at € 6 millions and is included in these financial statements under long term loans and receivables (see Note 12).

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

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

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

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

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

5. In June 2007, TBIH completed the acquisition of a 58.2% stake in Ray Sigorta A.Ş. ("Ray Sigorta"), a Turkish insurance company, listed on the Istanbul Stock Exchange, for a consideration of € 62 million. According to the agreement, during 2010 and 2011 the minority shareholder in Ray Sigorta will have the option to sell its 20% holding in Ray Sigorta to TBIH in consideration for a proportionate part of the purchase price of € 62 million paid in 2007 plus interest. The liability included in TBIH financial statements for this option amounts to € 20 million. In addition, TBIH agreed to increase the capital of Ray Sigorta in the amounts necessary to meet the applicable regulatory requirements, which are estimated to range in from € 13 million to € 23 million. According to other regulatory requirements, TBIH had to make a tender offer to the holders of the remaining 21.8% of Ray Sigorta shares to acquire these shares. In August 2007 approximately 16% of the shareholders of Ray Sigorta responded

to the tender offer, and TBIH has paid € 17 million. Accordingly its interest in Ray Sigorta has increased to 74%. TBIH has accounted for the put option granted to the minority shareholders and its commitment to make a tender offer to the public as a liability. TBIH's investment in Ray Sigorta was therefore recorded at 94%.

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

€ in millions	Fair value recognized on acquisition	carrying value
Tangible fixed assets	16	10
Reinsurance assets	44	44
Insurance receivables	48	48
Other assets	51	33
	<b>159</b>	<b>135</b>
Insurance contracts liabilities	(120)	(115)
Other liabilities	(11)	(10)
<b>Net assets</b>	<b>28</b>	<b>10</b>
Goodwill	73	
<b>Total acquisition cost</b>	<b>101</b>	

The purchase price allocation did not reveal separately identifiable intangible assets. Accordingly, the excess of the purchase price over the net fair value of the assets and liabilities acquired was fully allocated to goodwill.

If the transaction would have taken place as of January 1, 2007, the net consolidated profit of the Company for the year ended on December 31, 2007 would have decreased by € 0.5 million and the total consolidated revenues would have increased by an amount of € 27 million.

## E Investments in joint ventures

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

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

€ in millions	December 31, 2008	December 31, 2007
Current assets	641	667
Non-current assets	1,212	855
Current liabilities	(756)	(593)
Long term liabilities	(704)	(617)
<b>Assets, net</b>	<b>393</b>	<b>312</b>

### Group Share in the operating results of the companies according to holding percentage:

€ in millions	December 31, 2008	December 31, 2007
<b>Revenues</b>	<b>335</b>	<b>226</b>
Expenses	(302)	(150)
Minority share in profit (loss)	–	(1)
<b>Profit, net</b>	<b>33</b>	<b>75</b>

## F The group's investments in subsidiaries whose shares are publicly-traded:

€ in millions	December 31, 2008	December 31, 2007
<b>Kardan Technologies</b>		
Carrying value	1	3
Market value	1	4
<b>GTC RE<sup>1</sup></b>		
Carrying value	–	271
Market value	–	572
<b>GTC SA</b>		
Carrying value	498	292
Market value	373	811
<b>Kardan Israel</b>		
Carrying value	69	75
Market value	28	158

<sup>1</sup> Following the merger, as described in Note 1B, as of December 31, 2008 GTC RE ceased to exist.

Although the market value of GTC SA and Kardan Israel is lower than their carrying values as of December 31, 2008, the Company believes that no impairment of its investment is required, as the fair value of the net assets is at least equal to the carrying value. For details regarding goodwill impairment testing in the Group please refer to Note 14.



## 6 Tangible Fixed Assets

€ in millions	Freehold land and buildings	Property plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
<b>Cost</b>						
Balance as of January 1, 2007	24	18	5	5	–	52
Additions <sup>1</sup>	28	29	8	21	3	89
Disposals <sup>2</sup>	(6)	(5)	(2)	(12)	–	(25)
Exchange differences	(1)	(2)	–	(1)	–	(4)
<b>Balance as of December 31, 2007</b>	<b>45</b>	<b>40</b>	<b>11</b>	<b>13</b>	<b>3</b>	<b>112</b>
<b>Cost</b>						
Balance as of January 1, 2008	45	40	11	13	3	112
Additions <sup>1</sup>	16	27	22	10	–	75
Disposals <sup>2</sup>	(9)	(1)	(5)	(4)	–	(19)
Exchange differences	(6)	(1)	(4)	(3)	–	(14)
<b>Balance as of December 31, 2008</b>	<b>46</b>	<b>65</b>	<b>24</b>	<b>16</b>	<b>3</b>	<b>154</b>
<b>Accumulated depreciation</b>						
Balance as of January 1, 2007	1	11	2	3	–	17
Depreciation for the year <sup>1</sup>	4	7	4	5	–	20
Eliminated on disposals <sup>2</sup>	–	(1)	(2)	–	–	(3)
Exchange differences	–	(1)	–	(1)	–	(2)
<b>Balance as of December 31, 2007</b>	<b>5</b>	<b>16</b>	<b>4</b>	<b>7</b>	<b>–</b>	<b>32</b>
<b>Accumulated depreciation</b>						
Balance as of January 1, 2008	5	16	4	7	–	32
Depreciation for the year <sup>1</sup>	2	7	9	4	–	22
Eliminated on disposals <sup>2</sup>	(2)	(1)	(3)	(1)	–	(7)
Exchange differences	(1)	–	(2)	(1)	–	(4)
<b>Balance as of December 31, 2008</b>	<b>4</b>	<b>22</b>	<b>8</b>	<b>9</b>	<b>–</b>	<b>43</b>
<b>Net book value</b>						
December 31, 2007	40	24	7	6	3	80
<b>Net book value</b>						
December 31, 2008	42	43	16	7	3	111

Tangible fixed assets are related to owner-occupied property.

1 Includes additions resulting from newly consolidated subsidiaries: December 31, 2008 cost – € 27 million; accumulated depreciation – € 6 million, (December 31, 2007 - € 37 million and € 10 million, respectively).

2 Includes disposals resulting from deconsolidation of subsidiaries: December 31, 2008 cost – € 4 million; accumulated depreciation – € 2 million, (December 31, 2007 - € 22 thousand and € 2 thousand, respectively).

## 7 Property under Construction

Until December 31, 2008, property under construction related to the development of investment properties. Movements are as follows:

€ in millions	2008	2007
Carrying value as of January 1	306	189
Acquisition of subsidiaries	54	56
Additions	410	224
Transfers to investment properties	(770)	(164)
Foreign exchange differences	–	1
<b>Carrying value as of December 31</b>	<b>–</b>	<b>306</b>

As described in Note 4E the Company decided to early adopt the changes to IAS 40, and accordingly as of December 31, 2008 all property under construction was transferred to “investment properties”.

Property under construction includes borrowing costs incurred in connection with the construction of real estate projects. Borrowing costs capitalized to property under construction amounted to € 11 million prior to transferring to investment properties under construction (2007: € 4 million). The average interest capitalization rate is EURIBOR + 3.25%.

As of December 31, 2008 and 2007, property under construction includes land in projects in various development stages, as follows:

€ in millions	December 31, 2008	December 31, 2007
Freehold land	–	103
Leasehold land	–	57
Other*	–	146
<b>Total</b>	<b>–</b>	<b>306</b>

\* Other comprises costs of development (other than land element) such as capitalized construction costs.

## 8 Investment Properties

### A General

As described in Note 4E, the Company has early adopted the changes to IAS 40, and accordingly investment property under construction is measured at fair value and is included in the balance of investment properties.

As of December 31, 2008, investment properties owned by the Group include office and commercial space and comprise both completed properties and investment properties under construction. As of December 31, 2007, investment properties are presented at cost under “Property under construction” (see Note 7).

**B The movement in investment properties, which are valued at fair value, unless specified otherwise, is as follows:**

€ in millions	2008	2007
Opening balance	960	638
Capitalized subsequent expenditure and transfers from property under construction	781	161
Additions of newly proportionally consolidated joint venture.	4	1
Investment property sold	(7)	(118)
Adjustment to fair value <sup>1</sup>	235	293
Foreign currency translation differences	11	(17)
Deferred brokerage fees	3	2
<b>Closing balance</b>	<b>1,987</b>	<b>960</b>
Includes:		
Investment properties on freehold land <sup>2</sup>	566	506
Investment properties on leasehold land <sup>2</sup>	1,421	454
	<b>1,987</b>	<b>960</b>

1 As a result of revaluation of investment properties under construction and completion of construction of investment properties, the goodwill allocated to these properties was deducted from the adjustment to fair value. In 2008, the goodwill deduction amounted to € 39 million and to € 6 million in 2007. Accordingly, the consolidated income statement shows net fair value adjustments of € 196 million (2007: € 287 million).

2 Part of the buildings and lands are being used as securities for long-term loans from banks.

**C Fair value adjustments comprise:**

€ in millions	For the year ended December 31,	
	2008	2007
Adjustment to fair value of newly completed properties, net of goodwill released	73	93
Adjustment to fair value of newly properties completed in prior years	32	194
Adjustment to fair value of investment property under construction, net of goodwill released	91	n/a
<b>Total fair value adjustments for the year</b>	<b>196</b>	<b>287</b>

**D Investment properties can be split up as follows:**

€ in millions	December 31, 2008	December 31, 2007
Completed investment properties	1,243	960
Investment properties under construction carried at fair value	370	n/a
Investment properties under construction carried at cost	374	n/a
	<b>1,987</b>	<b>960</b>

As of 31 December 2007, investment properties under construction were carried at cost or lower market value and are presented as property under construction (see Note 7).

**E During 2008 the following projects were completed and classified as completed investment properties:**

Date	Property name	Fair value adjustment	Fair Value	Valuation method
€ in millions				
March 2008	Nefryt	19	52	NPV
March 2008	Globis Wroclaw	15	42	NPV
June 2008	Zephirus	9	28	NPV
June 2008	Galleria Buzau	8	18	NPV
September 2008	Platinum 2	12	33	NPV
September 2008	Block 41a	7	42	NPV
December 2008	Galleria Suecava	3	14	NPV
		73	229	

The vacancy in the completed properties is considered insignificant relative to any remaining property risks and has been taken into account in the external appraisal valuations.

**F Significant assumptions**

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

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

Significant assumptions used in the valuations as of December 31, 2008, are presented below on the basis of weighted averages:

	Western Europe		CEE	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
<b>Completed investment properties</b>				
Average rental rate per sqm per month (in €)	9.1	8.6	24.0	21.8
Reversionary yield	6%	5.7%	7.3%	6.2%
ERV per sqm per month (in €)	8.6	7.9	24.6	24.1
Vacancy	5.2%	5%	9.1%	10.9%
<b>Assets under construction (only assets at fair value)</b>				
Average risk-adjusted yield used in capitalizing the net future income stream	n/a	n/a	7.97%	n/a
Average % complete	n/a	n/a	42%	n/a
Estimated average development profit (1-[total expected costs/fair value upon completion])	n/a	n/a	33%	n/a
Effective average development profit (1-([total expected costs/current fair value]))	n/a	n/a	42%	n/a

## G Sensitivity analysis

The table below presents the sensitivity of profit (loss) before tax due to changes in assumptions (the values are presented in absolute numbers as a change can either be positive or negative):

€ in millions	Western Europe		CEE	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
<b>Completed investment property</b>				
Change of 25 bp in reversionary yield	6.4	5.2	41.1	30.1
Change of 5% in estimated rental income	12.9	13.7	54.1	38.1
<b>Investment property under construction</b>				
Change of 5% in total construction costs	n/a	n/a	25.6	n/a
Change of 5% in estimated rental income	n/a	n/a	36.8	n/a
Change of 1% in estimated development profit	n/a	n/a	7.6	n/a

The Company has not disclosed main assumptions and sensitivity analysis of investment properties located in Israel, as they are not material for the Group and possible changes in yields or in rental income will not have a significant effect on the financial position of the Company.

#### H Additional information:

The main projects included in investment properties under construction are as follow:

Country	Property	Value (€ in millions)	Details
Poland	Jurajska	92	Shopping mall in chestachova
	Galleria Kazimierz Office	28	Office building in Kazimierz
	University Business Park	21	Office building in Lodz
Hungary	Spiral 1+2	34	Office buildings in Budapest
	Metro	19	Office buildings in Budapest
	Szeremi Gate	20	Office buildings in Budapest
Romania	City Gate	102	Office project in Bucharest
	Mercury	27	Shopping mall in Arad
Russia	Saint Petersburg	30	Office project in Saint Petersburg

## 9 Investments in Associates

### A Principal associates

Holding company	Name of company	% of ownership		Country	Carrying value € in millions	
		December 31, 2008	December 31, 2007		December 31, 2008	December 31, 2007
Taldan Motors Ltd.	Universal Motors Israel Ltd.	45	45	Israel	38	33
Kardan Communications Ltd	Lidan Investment Agencies (1994) Ltd.	49	49	Israel	7	6
	R.R. Satellite Communication Ltd.	24.6	24.6	Israel	14	12
Kardan Technologies Ltd.	Formula Vision Portfolio Holdings Limited Partnership	49	49	Israel	6	12
	Ocif Nichsey Emed	30	30	Israel	5	4
Kardan Israel Ltd.	Dan Vehicle & Transportation D.R.T Ltd. (AVIS) <sup>1</sup>	5.8	1.4	Israel	5	5
		31.6	31.6	Luxembourg	41	24
Globe Trade Centre S.A. <sup>2</sup>						
Other associated companies					36	31
					<b>152</b>	<b>127</b>

<sup>1</sup> The Group has significant influence due to the fact that the Company has a representative in the Board of Directors.

<sup>2</sup> GTC SA has several associates; all located in Luxembourg and are 31.6% owned. All these associates hold Czech subsidiaries which are active in the development of real estate in the Czech Republic.



## B Composition

€ in millions	December 31, 2008	December 31, 2007
Cost of shares	53	46
Accumulated profits since acquisition net of dividend	46	51
Capital reserves	(27)	(25)
Total of equity investments	72	72
Loans and other long-term balances	80	55
<b>Total investment in associates</b>	<b>152</b>	<b>127</b>
<b>These investments include goodwill as follows:</b>		
Goodwill arising from acquisition		
Cost	7	5
Carrying amount as of the balance sheet date	6	4

Impairment testing revealed no impairment of these goodwill amounts.

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

€ in millions	2008	2007
Balance as of January 1	127	109
Additions, net	21	10
Change in loans, net	3	13
Equity earnings	4	6
Dividend distributed	(9)	(11)
Foreign currency translation differences	6	–
<b>Balance as of December 31</b>	<b>152</b>	<b>127</b>

## D Loans

The investment in associated companies includes loans as follows:

€ in millions	December 31, 2008	December 31, 2007
In NIS (linked to the CPI) <sup>1</sup>	45	39
In EUR <sup>2</sup>	34	15
In USD	1	1
	<b>80</b>	<b>55</b>

<sup>1</sup> As of December 31, 2008, an amount of € 21 million yielded an annual interest rate of 5.0%. The balance of € 24 million is linked to the Israeli CPI and does not bear interest. The loan repayment date has not been determined, as yet.

<sup>2</sup> The loans bear an annual interest at a variable Euribor rate + margin (as of December 31, 2008 the average margin was approximately 5.5%). No repayment date was set for the loans, as yet.

## E Below is a summary of financial data from the balance sheets of the Group's associated companies:

€ in millions	December 31, 2008	December 31, 2007
Current assets	161	112
Non-current assets*	194	134
Current liabilities	(116)	(76)
Non-current liabilities	(168)	(98)
<b>Assets, net</b>	<b>71</b>	<b>72</b>
* Including goodwill	10	10

Share of the Group in the results of associated companies proportionate to the holding rate for the period:

€ in millions	For the year ended December 31,	
	2008	2007
<b>Revenues</b>	<b>260</b>	<b>220</b>
<b>Profit, net*</b>	<b>12</b>	<b>6</b>
* Including goodwill impairment	(2)	(3)

#### F Additional information regarding investments in associates whose shares are publicly traded:

€ in millions	December 31, 2008		December 31, 2007	
	Carrying amount	Market value	Carrying amount	Market value
RRSat Global Communications Network Ltd.	14	35	12	57
Dan Vehicle & Transportation D.R.T Ltd. (AVIS)	5	1	5	6

## 10 Available-for-sale and Held-to-maturity Financial Assets

### A Composition

€ in millions	December 31, 2008	December 31, 2007
Investment in marketable government bonds	4	33
Investments in unlisted companies <sup>1</sup>	12	16
Investments in available-for-sale marketable debt securities <sup>2</sup>	54	16
Total available-for-sale financial assets	70	65
Investments in held-to-maturity marketable debt securities <sup>3</sup>	49	—
	<b>119</b>	<b>65</b>

1 Investments in unlisted companies and venture capital funds are carried at fair value as determined amongst others according to external valuation reports, based upon non-market-observable input.

2 Investments in marketable trade securities are valued at fair value which is deemed to be the trading price on the close of the business of the last day of 2008.

3 Investments in held-to-maturity marketable debt securities are valued at amortized cost

### B Profit or loss from available-for-sale:

The profit or loss from available-for-sale financial assets is recognized in equity. In 2008 the Company recognized a loss of € 0.7 million (in 2007 – nil).

## 11 Loans to Bank Customers

### A Composition

€ in millions	December 31, 2008	December 31, 2007
Loans and advances to individuals	121	57
Mortgage loans	45	45
Other loans and advances by banks	26	36
Credit cards	1	–
	193	138
Corporate loans	292	264
Loans and advance to banks	1	3
Total loans and advances gross	486	405
Less – allowance for impairment losses <sup>1</sup>	(31)	(8)
	<b>455</b>	<b>397</b>

<sup>1</sup> Movements in allowance for impairment losses are:

€ in millions	December 31, 2008	December 31, 2007
Balance as of January 1	8	3
Increase due to change from proportionate to full consolidation	6	2
Change due to first time consolidation of newly acquired subsidiaries	–	1
Recovered amounts	(6)	–
Allowance for the period	31	4
Recognized written off uncollectible debts	–	(2)
Foreign currency exchange differences	(8)	–
<b>Balance as of December 31</b>	<b>31</b>	<b>8</b>

## B Maturities

€ in millions	December 31, 2008	December 31, 2007
Presented as current assets	167	165
Presented as non-current assets	288	232
	<b>455</b>	<b>397</b>

## 12 Long-Term Loans and Receivables

### A Composition

€ in millions	December 31, 2008	December 31, 2007
In USD <sup>1</sup>	19	14
In EUR <sup>2</sup>	233	152
In NIS	7	6
In other currencies <sup>3</sup>	411	255
	670	427
Less – current maturities	(292)	(223)
	378	204
Value of derivatives in relation to obligation of third party to make capital contribution to joint venture <sup>4</sup>	36	6
Fair value of derivatives <sup>5</sup>	27	–
Capital note issued by related party <sup>6</sup>	1	1
Provision for doubtful debts <sup>7</sup>	(36)	(9)
	<b>406</b>	<b>202</b>

1 As of December 31, 2008, the balance primarily includes € 13 million relating to leasing activities.

2 The balance includes: an amount of € 112 million for leasing operations and retail credit; € 51 million loans granted to minority shareholders in companies consolidated in GTC Group and in KFS Group. The loans bear fixed interest at an annual rate of 5%, and some bear a variable annual interest rate of Euribor + 3%. In addition, the balance includes loans to proportionally consolidated companies, amounting to € 57 million, mostly bearing an annual interest rate of Euribor + 3%.

3 The balance includes mainly leasing and retail lending denominated primarily in Russian Rubbles (€ 195 million), Bulgarian Leva (€ 120 million) and Romanian Lei (€ 85 million).

4 In the TBIH shareholders agreement between KFS and VIG dated April 16, 2007 and December 22, 2008, KFS was granted a put option relating to its holdings in TBIH (40%). The terms of the option include a minimal price for the stake in TBIH if the option will be exercised in 2011 and if certain conditions are met. Amendments to certain conditions included in the agreement from December 22, triggered the recognition of value related to this option according to IAS 39. In the fourth quarter of 2008 KFS carried out the initial recognition of this asset at fair market value – € 34.8 million.

5 For an overview of derivatives please refer to Note 49.

6 A capital note in the amount of NIS 6.5 million par value (€ 1.2 million), was issued by a related party. The capital note does not bear interest and is repayable in December 2011. The capital note is included at its present value computed at an annual discount rate of 11.5%.

7 Provision for doubtful debts primarily includes provision for impairment losses relating to consumer credit and mortgage activities.

Receivables with respect to the activities of subsidiaries in the financial services segment in the amount of € 197 million (2007 – € 141 million) are included at the net present value of the future minimum payments. Most of the loans are secured by various collaterals. The above amount represents loans to thousands of debtors.

**B Long-term loans and receivables are further specified as follows:**

€ in millions	December 31, 2008	December 31, 2007
Financial leases*	157	120
Consumer credits and mortgages	332	236
Other long-term loans and receivables	181	71
	<b>670</b>	<b>427</b>

\* Net investment in financial leases are further specified as follows:

€ in millions	December 31, 2008	December 31, 2007
Not later than one year	84	50
Later than one year and not later than five years	108	86
Later than five years	5	5
Gross receivables from financial leases	197	141
Less – gross earnings allocated to future periods	(37)	(20)
Less – allowance for impairment losses	(3)	(1)
<b>Net investment in financial leases</b>	<b>157</b>	<b>120</b>
Not more than one year	65	46
Later than one year and not later than five years	88	70
Later than five years	4	4
	<b>157</b>	<b>120</b>

Financial leases include mainly agreements with corporate and private costumers for vehicles and production equipment.

### C Movement in the provision for doubtful debts:

€ in millions	December 31, 2008	December 31, 2007
Balance as of January 1	9	6
Increase due to change from proportionate to full consolidation	10	2
Change due to first time consolidation of newly acquired subsidiaries	6	–
Decrease due to change from full to proportionate consolidation	–	(3)
Allowance for the period	19	10
Recognized written off uncollectible debts	(7)	(6)
Foreign currency exchange differences	(1)	–
<b>Balance as of December 31</b>	<b>36</b>	<b>9</b>

### D Maturities

€ in millions	December 31, 2008	December 31, 2007
First year – current maturities	292	223
Second year	139	74
Third year	91	49
Fourth year	21	29
Fifth year	8	22
Sixth year and thereafter	119	30
	<b>670</b>	<b>427</b>

## 13 Deferred Acquisition Costs (Insurance Companies)

### A Compositon

€ in millions	December 31, 2008	December 31, 2007
Life insurance	–	3
General insurance	6	9
	<b>6</b>	<b>12</b>

### B Movement in deferred acquisition costs relating to life insurance:

€ in millions	2008	2007
Balance as of January 1	3	3
Change due to disposal of subsidiaries	(3)	–
<b>Balance as of December 31</b>	<b>–</b>	<b>3</b>

### C Movement in deferred acquisition costs relating to general insurance:

€ in millions	2008	2007
Balance as of January 1	9	3
Additions due to consolidation of newly acquired subsidiaries	1	3
Change due to disposal of subsidiaries	(7)	–
Expenses deferred	3	6
Amortization for the year	(1)	(3)
Change from joint venture to fully consolidated	1	–
<b>Balance as of December 31</b>	<b>6</b>	<b>9</b>

## 14 Intangible Assets and Goodwill

A Movement in goodwill, service concession and other intangible assets is as follows:

€ in millions	Goodwill	Service concessions	Other intangibles	Total
Balance as of January 1, 2007	101	–	15	116
Additions <sup>1</sup>	216	–	14	230
Change due to disposal of investments	–	–	(2)	(2)
Decrease due to completion of projects and revaluation of assets	(6)	–	–	(6)
Translation differences	4	–	–	4
<b>Balance at December 31, 2007</b>	<b>315</b>	<b>–</b>	<b>27</b>	<b>342</b>
Additions <sup>1</sup>	59	23	4	86
Change due to disposal of investments	(40)	–	–	(40)
Decrease due to completion of projects and revaluation of assets	(47)	–	–	(47)
Impairment due to decrease in value	(94)	–	(2)	(96)
Foreign currency exchange differences	(2)	–	(2)	(4)
<b>Balance at December 31, 2008</b>	<b>191</b>	<b>23</b>	<b>27</b>	<b>241</b>
As of January 1, 2008				
Total cost	321	–	29	350
Accumulated amortization and impairment losses	(6)	–	(2)	(8)
<b>Balance at December 31, 2008</b>	<b>315</b>	<b>–</b>	<b>27</b>	<b>342</b>
As of December 1, 2008				
Total cost	338	23	31	392
Accumulated amortization and impairment losses	147	–	4	151
<b>Balance at December 31, 2008</b>	<b>191</b>	<b>23</b>	<b>27</b>	<b>241</b>

<sup>1</sup> Including goodwill and other intangible assets resulting from first-time consolidation of newly acquired subsidiaries in the amount of € 19 million (2007 - € 119 million).



**B As of December 31 2008, and 2007, goodwill is allocated to groups of cash-generating units as follows:**

€ in millions	December 31, 2008	December 31, 2007
GTC Holding and its subsidiaries	24	69
KFS and its subsidiaries	146	219
Tahal Group and its subsidiaries	21	27
	<b>191</b>	<b>315</b>

Goodwill acquired through business combinations has been allocated to the relevant cash-generating units, in each reportable segment, and is primarily allocated to anticipated future profits from development projects. Relevant cash generating units within the reportable segments could be individual subsidiaries, activities in a certain country, or total segments. Reference is made to Note 3B.

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

As of December 31, 2008 the Company has no internally generated intangible assets.

**C Information regarding goodwill impairment testing:**

**GTC Holding and subsidiaries**

Goodwill in GTC Holding almost fully relates to the buy-out of minority shareholders in 2005 and initially amounted to € 43 million. Because these buyouts were not considered as business combinations (as there was no change in control) the cost of the buyouts goodwill has not been allocated in accordance with IFRS 3.36.

Instead, the difference between the cost of acquisition and the minority interest acquired was, at initial recognition, allocated to goodwill ("parent entity extension method"). The paid surplus value is mainly related to development projects in place at the date of the transaction.

In addition, as a result of conversion of convertible debentures into shares of GTC RE in 2007, additional goodwill amounting to € 46 million was added at the level of the Company.

*Timing of impairment testing*

In accordance with IAS 40, the Company measures its real estate projects at fair value. In these specific circumstances, concurrently with the fair value measurement, the Company releases the goodwill that was attributed to projects that are completed or measured at fair value.

Goodwill has been allocated to the relevant cash-generating units, and is primarily allocated to anticipated future profits from development projects.

*Basis of the recoverable amount*

The recoverable amount of the goodwill has been determined based on the values used for valuations of investment properties and investment properties under construction, according to methods and assumptions applicable, as further described in Note 8. As all goodwill is directly attributable to property projects and such projects are all deemed profitable, no impairment has deemed to have arisen.

*Sensitivity analysis*

The Group has released the entire goodwill allocated to those projects that were revalued as of December 31, 2008, even for IPUC that was partially revalued. Therefore the Group believes that any change in the assumptions, as described in the sensitivity analysis in Note 8, will not result with additional release of goodwill.

### KFS and subsidiaries

Goodwill acquired through business combinations are allocated to individual Cash-Generating Units ("CGU"). CGUs are defined at the subsidiary level. Goodwill amounts relate to:

€ in millions	December 31, 2008	December 31, 2007
Romania – consumer credit and leasing	19	19
Bulgaria – lending and asset management	25	32
Ukraine – banking and leasing	12	41
Russia – banking and consumer finance	34	25
Bulgaria – pension and insurance	34	47
Turkey – insurance	31	29
Russia – insurance	–	17
Albania – insurance	–	8
Ukraine – insurance	18	–
Other	1	8
KFS / TBIH holding goodwill <sup>1</sup>	–	21
Deferred income <sup>2</sup>	(28)	(28)
<b>Total</b>	<b>146</b>	<b>219</b>

1 KFS / TBIH holding goodwill included amounts allocated to the holding company that represent the implied value of KFS / TBIH as investment platforms for future additional investments.

2 Deferred income was created in 2007 as a result of the transaction described in Note 5, since the reorganization was considered as linked transaction for accounting purposes, and accordingly the Company will recognize the gain upon realization of its investment in TBIH.

### Impairment charges recognized

As of December 31, 2008, the Company recognized an impairment charge of € 91 million (2007: nil) mostly in respect of operations in Ukraine and Russia and to the impairment of "platform" goodwill related to the holding companies of the KFS Group. This was a result of the very significant deterioration in the economic and credit conditions in CIS and the resulting effect on the businesses.

The reduction of the recoverable amounts can be attributed to higher losses than were expected for 2008 (predominantly in the fourth quarter of the year) and which may continue in 2009, including higher levels of impairment charges, contraction in new business from lending activities and a delay in the expected return to previously anticipated profitability levels. In addition, the discount rate used increased as observed market rates increased globally and for CIS countries as well as for the financial sector.

Of the impairment charges in 2008, € 20.7 million related to the full write-off of holding-level goodwill. Although KFS management views its platform as a holding company as a valuable asset, a full write-off was carried out in order to reflect the lower expectation for business growth, at least for the short term.

### Timing of impairment testing

Goodwill is tested for impairment at least once a year and whenever there is an indication that goodwill may be impaired. Given the extraordinary market events experienced globally during 2008, the Company performed full impairment testing on all significant CGUs within the KFS Group as of December 31, 2008.

### Basis of the recoverable amount

Recoverable amounts have been determined based on valuations using the Discounted Cash Flow (DCF) method, applying assumptions specific to markets in which the CGUs operate. In specific cases where recent transactions have occurred the derived valuation was used as a benchmark.

For each significant CGU, the value is calculated by discounting management's cash flow projections. The cash flow periods that were used were 10 years, 5 years and 30 years for insurance, lending, and pensions, respectively. The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective of KFS' business strategy.

Impairment testing for December 2007 was based on a transaction with Israel Discount Bank Ltd. ("Discount Bank" or "IDB") that was carried out at the time according to valuation for the CGUs that exceeded the carrying amounts.

#### *Discount rates and long term growth rates*

The discount rate used to discount the cash flows is derived from the Capital Asset Pricing Model ("CAPM"). The CAPM depends on inputs reflecting a number of financial and economic variables including the risk-free rate in the country concerned and a premium to reflect the inherent risk of the business being evaluated.

The rates used as of December 31, 2008:

Country	Discount rate for forecast period	Discount rate for residual value	Long term growth rate
Ukraine	20%	14%	4%
Russia	16%	14%	4%
Bulgaria	13.5%	12%	3%
Romania	13.5%	12%	3%
Turkey*	16-19%	14%	7.5%
Georgia	22%	14%	4%

\* Local currency.

#### *Management's judgment in estimating the cash flows of a CGU*

The cash flow projections for each CGU are based on long-term plans prepared by the management. These take into account local market conditions and management's judgment of local future trends. The forecasted cash flows in 2009 continue to reflect challenging global economic conditions. The key assumptions, in addition to the discount rates and the long-term growth rate for each significant CGU, are discussed below:

- Banking and lending: The level of impairment charges (based on management's current assessment

of the credit quality of the lending portfolios year 2009 and to a lesser extent the following years will result in impairment losses at levels higher than the historical levels); the timing and scope of the return to a growth trend of the portfolios and the returns that will be achieved on the portfolio; operational efficiencies.

- Insurance: Growth of insurance penetration in the relevant markets, loss ratios in the substantial lines of business; operational efficiencies.
- Pension: Number of members joining the funds; salary trends; fee levels (asset management fees and contribution fees).

#### *Sensitivity analysis*

Banking and lending CGUs - A sensitivity analysis regarding the effect using a different discount rate for the long term was carried out for all operations. Increasing the discount rate in the long term by 1% (equivalent to a decrease in the assumption for long-term growth rate by 1%) would have resulted in an additional impairment charge of € 8.7 million: € 5.0 million relating to Russia, € 1.3 million relating to Ukraine, and € 2.4 million relating to consumer finance operations in Romania and Bulgaria. Decreasing the discount rate in the long term by 1% (equivalent to a increase in the assumption for long-term growth rate by 1%) would have resulted in a reduction of the impairment charges by € 9.8 million: € 6.1 million relating to Russia, € 1.3 relating to Ukraine and € 2.4 million relating to consumer finance operations in Romania and Bulgaria.

Insurance and pension CGUs - A sensitivity analysis regarding the effect using a different discount rate for the long term was carried out for the operations with the most substantial goodwill balances: insurance in Turkey (Ray Sigorta) and in Ukraine (UIG).

Increasing the discount rate in the long term by 1% and 2% (equivalent to a decrease in the assumption for long term growth rate by 1% and 2%) would have resulted in an additional impairment charge of € 2.6 million and € 4.7 million, respectively, relating to

Ukraine. An impairment charge would only be recorded for the Turkish operations if the discount rate in the long term was increased by 3%. The other goodwill balances reflect valuations for the operations which materially exceed book value.

#### **Tahal Group and subsidiaries**

##### *Impairment charges*

TGI has impaired a total of € 7 million goodwill, primarily related to asset ownership activities.

The release of the goodwill is presented net of the negative goodwill which resulted from the acquisition of EKO-Wark in 2007.

##### *Goodwill*

As of December 31, 2008, goodwill is allocated to the following cash-generating units:

€ in millions	December 31, 2008	December 31, 2007
Tahal Consulting Engineers	9	9
Milgam	5	5
KWIG and subsidiaries	7	4
Task Water	–	7
Other	–	2
<b>Total</b>	<b>21</b>	<b>27</b>

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

##### *Basis of recoverable amount*

The recoverable amount of goodwill has been determined based on the values used for valuations of each reportable segment, according to methods and assumptions applicable to such segments, The method used for calculating the fair value is the DCF method. This approach is based on the estimation

of future returns on an investment in terms of cash flows, and the calculation of the present value of the expected cash flows by discounting them according to the required rate of return of investment (WACC). The basic assumption within the DCF method is that the company and its subsidiaries will continue as a going concern in the foreseeable future.

*Main assumptions*

The assumptions regarding the fair value evaluation can be presented as follows:

	WACC	Annual growth rate	Gross profit margin	Operating incom margin
Projects segment	9 %	3 %	17.5 %	3.3 %
Asset segment*	12 %	2 %	25%	16 %

\* With respect to valuation of the Asset segment, one main subsidiary was valued based on the main assumption outlined in the table above. With respect to the activities of KWIG, the fair value was estimated to be the book value, as this is a company at the developing stage from a recent transaction. Therefore the difference between the fair value and the carrying value is deemed immaterial.

*Sensitivity analysis*

The Company has impaired in full the goodwill allocated to CGUs where value have decreased. Accordingly, any change in value of those CGUs will not result in additional impairment losses. The remaining goodwill relates to CGUs where the Group believes there is still a possible upside to its investment, and accordingly the Group does not expect any goodwill impairment.

#### D Information regarding service concession agreements:

The service concession agreements commenced during 2008 and can be presented as follows:

€ in millions	Carrying value 31 December 2008	Construction period until 31.12.2008	Remaining construction period	Remaining operational period
Tianjin Jinnan Huanke Sewage Treatment	2	1 year	0 years	15 years
Tianjin Dagang Huanke Lantian Sewage treatment	3	1 year	0.5 years	21 years
Tianjin Tanggu Huanke Xinde Sewage treatment	5	1 year	0 years	22 years
Tianjin Baodi Huanke Bishui Sewage treatment	1	1 year	0 years	18 years
Zibo Huantai Huanke Sewage treatment	3	1 year	0.5 years	23 years
Zibo Boshan Huanke Sewage Treatment	7	1 year	0.5 years	26 years
Guluc project - Turkey	2	1.5 year	–	32 years
<b>Total</b>	<b>23</b>			

The intangible assets represent the right to charge users for waste water treatment. The grantors of these projects are all municipal authorities.

Intangible assets are amortized in accordance with their concession period in the operational period, as identified above.

Tahal Group has the obligation to operate a treatment facility and to provide the user with water in accordance with the conditions of the concession agreement. This obligation covers the construction period and the operational period.

The carrying value of each of the identified projects are based on the net present value of expenses made adjusted for an estimated gross margin, taking into account the construction and operating period.

#### E Information regarding other intangible assets:

Other intangible assets were primarily created from purchase price allocations of business combinations in the financial services segment. These intangible assets are amortized over a period of 5-10 years.

## 15 Inventories, Contract Work and Buildings Inventory in Progress

### A Composition

€ in millions	December 31, 2008	December 31, 2007
Building inventory in progress (1)	440	270
Contract work in progress (2)	21	18
Merchandise inventories (3)	16	9
	<b>477</b>	<b>297</b>

### B The movement is as follows:

€ in millions	December 31, 2008	December 31, 2007
Opening balance	297	160
Additional costs capitalized during the year	289	160
Less – costs charged to the income statement	(109)	(23)
	<b>477</b>	<b>297</b>

#### (1) Building inventory in progress:

- The balance as of December 31, 2008, includes capitalized financing expenses amounting to € 12 million in total (December 31, 2007 - € 8 million) at an average interest rate of EURIBOR + 3.25%.
- Composition of cost of buildings in progress

€ in millions	December 31, 2008	December 31, 2007
Completed	27	2
Under construction	239	161
In design Stage	174	107
	<b>440</b>	<b>270</b>

- Building inventory is stated in gross figures. Customer advances are presented under other liabilities and amount to € 115 million as of December 31, 2008 (December 31, 2007 - € 102 million).
- Cost of buildings in progress are inventories of residential unities in connection with residential projects developed for sale and are accounted for under the completed contract method.
- As at December 31, 2008 the Company estimates that all projects will be completed profitable and hence no impairments are deemed to have occurred.
- The main projects included in buildings inventory in progress are as follow:

Country	Property	Cost (€ in millions)	Details
Hungary	Sassad resort	38	Residential project in Budapest
	Preston Park	14	Residential project in Budapest
Romania	Rose Garden	50	Residential project in Bucharest
	Garden of Eden and Eve	31	Residential project in Bucharest
	Felicity	67	Residential project in Bucharest
Slovakia	Vineyard	23	Residential project in Bratislava
China	Palm Garden	25	Residential project in Shenyang
	Olympic Garden	33	Residential project in Xi'an

**(2) Contract work in progress:**

Contract work in progress relates to infrastructure projects, which are not considered service concession arrangements. Details are as follows:

€ in millions	December 31, 2008	December 31, 2007
Contract costs incurred	135	64
Recognized profits	(2)	15
	133	79
Less – revenues from customers	(122)	(73)
	<b>11</b>	<b>6</b>
<hr/>		
Presented in balance sheet		
Current assets – contract work in progress	21	18
Current liabilities – advance payments from customers	(10)	(12)
	<b>11</b>	<b>6</b>

- (3) Merchandize inventory primarily relates to the consumer goods activities and mainly includes electrical appliances and white goods products.

## 16 Trade Receivables

€ in millions	December 31, 2008	December 31, 2007
Trade receivables <sup>1</sup>	26	20
Checks and credit card receivables	11	24
Accrued income from work performed <sup>2</sup>	25	–
	<b>62</b>	<b>44</b>

1 Net of provision for doubtful debts amounting to € 4 million (2007 - € 4 million).

2 The accrued income from work performed relates to the revenue realized on long term projects in the infrastructure segment, accounted for against the percentage of completion method.

For terms and conditions relating to receivables, refer to Note 49.

Trade receivables are non-interest bearing and are generally on 30-120 days' terms.

As of 31 December, the ageing analysis of trade receivables is as follows:

€ in millions	Neither past due nor impaired	Past due but not provided					Total
		< 30 days	30 – 60 days	60 – 90 day	90 – 120 day	>120 days	
2008	21	3	1	1	2	2	30
2007	20	1	–	1	–	2	24



## 17 Insurance Premium Receivables

€ in millions	December 31, 2008	December 31, 2007
Due from policy holders	10	16
Due from reinsurers	1	2
Due from agents and insurers receivables	16	18
	<b>27</b>	<b>36</b>

## 18 Other Receivables and Prepayments

€ in millions	December 31, 2008	December 31, 2007
Advances to suppliers	63	46
Prepaid expenses and accrued income	23	25
Central banks in Ukraine and Russia <sup>1</sup>	18	23
Income receivable – disposal of subsidiaries	–	13
Fair value of derivatives <sup>2</sup>	2	16
Advance for land	–	2
Other	23	15
	<b>129</b>	<b>140</b>

1 VAB Bank and Sovcom Bank are required to maintain, in the form of non-interest earning cash deposits, certain cash reserves with the local central banks (obligatory reserve), which are computed as a percentage of certain liabilities of the bank less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the central banks, however, if minimum average reserve requirements are not met, the banks could be subject to certain penalties. The Banks were obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The banks meet the obligatory reserve requirements as at December 31, 2008. The balance primarily relates to cash deposits denominated in UAH.

2 For details regarding derivatives, please refer to Note 49.

## 19 Reinsurance Receivables and Insurance Companies

### A Composition:

€ in millions	December 31, 2008	December 31, 2007
Provision for outstanding claims – reinsured	15	14
Provision for unearned premiums – reinsured	10	18
	<b>25</b>	<b>32</b>

### B Movement in provision for outstanding claims:

€ in millions	2008	2007
Balance at January 1	14	7
Additions for companies first consolidated	–	5
Disposals for companies deconsolidated	(2)	(3)
Transfer from fully consolidated to held for sale	(3)	–
Claims incurred in the current accident year	12	10
Movement in claims incurred in prior accident years	6	–
Claims paid during the year	(10)	(5)
Foreign currency exchange differences	(2)	–
<b>Balance at December 31</b>	<b>15</b>	<b>14</b>

### C Movement in provision for unearned premiums:

€ in millions	December 31, 2008	December 31, 2007
Balance at January 1	18	5
Additions for companies first consolidated	–	7
Disposals for companies deconsolidated	(1)	–
Transfer from fully consolidated to held for sale	(4)	–
Transfer from fully consolidated to joint ventures	–	–
Reinsurance premium written in the year	30	19
Premiums earned during the year	(33)	(13)
<b>Balance at December 31</b>	<b>10</b>	<b>18</b>

## 20 Short-Term Investments

	Average interest rate	December 31, 2008	December 31, 2007
	%	€ in millions	€ in millions
Bank deposits in NIS		–	3
Bank deposits in EUR		–	6
Bank deposits in USD		–	4
Bank deposits in other currencies		7	3
Restricted bank deposits <sup>1</sup>	3 %-4%	59	20
Securities held for trading		1	26
Investment in participating units in partnerships <sup>2</sup>		2	3
		<b>69</b>	<b>65</b>

1 The majority of the balance as of December 31, 2008 and, is comprised of deposits pledged in connection with purchase of land.

2 In June 2007, Kardan Israel bought 9,437 participating units in Omega Limited Partnership, at the price of NIS 2.12 (€ 0.37) per unit. The partnership invests in traded securities and other financial assets. Subsequent to the balance-sheet date, the units were sold in consideration of € 2 million.

## 21 Cash and Cash Equivalents

€ in millions	December 31, 2008	December 31, 2007
Cash at bank and in hand	80	73
Short-term deposits	460	820
	<b>540</b>	<b>893</b>

As of December 31, 2008 the average annual interest rate earned on short term deposits was 5.2% (December 31, 2007 – 3.8%).

## 22 Issued and Paid-in Capital

### A Composition:

Number of shares	December 31, 2008		December 31, 2007	
	Authorized	Issued and paid-in	Authorized	Issued and paid-in
Ordinary shares with nominal value of € 0.20 each	225,000,000	110,976,911	225,000,000	80,871,183

### B Movement in issued and paid-in shares:

	Number of shares	Euro par value
Balance as of January 1, 2007	79,658,263	15,931,653
Conversion of options to shares	1,212,920	242,584
Balance as of December 31, 2007	80,871,183	16,174,237
Conversion of options to shares <sup>1</sup>	504,772	100,954
Issue of shares as part of merger <sup>2 3</sup>	29,600,956	5,920,191
<b>Balance as of December 31, 2008</b>	<b>110,976,911</b>	<b>22,195,382</b>

### C Changes in share capital:

<sup>1</sup> In 2008 the Company issued 593,247 ordinary shares as a result of the exercise of 1,861,602 options (route 1). As a result, the shareholders' equity of the Company increased by € 338 thousand. Due to a technical error, an additional 88,475 ordinary shares were issued in January 2009 following the exercise of options in November 2008. Following the exercise, the outstanding balance of the options (route 1) amounted to 58,321 option which expired at the end of November 2008.

<sup>2</sup> Within the framework of the merger between the Company, GTC RE and GTC Holding, as described in Note 1B, the Company has issued 29,600,956 ordinary shares to the shareholders of GTC RE (except the Company itself) in exchange for their shares in GTC RE, at an exchange ratio of 0.81. The exchange ratio was determined based on an external valuation report.

<sup>3</sup> As described in Note 1B, as a result of the merger between the Company, GTC RE and GTC Holding, KIL which held 15.5% interest in GTC RE received shares of the Company, which are accounted for as treasury shares. Accordingly, the shareholders' equity of the Company decreased with € 21 million representing the fair value of these treasury shares. Treasury shares are deducted from retained earnings.

### D Movement in treasury shares:

	Number of shares	Euro par value
Balance as of January 1, 2008	–	–
Issue of treasury shares as part of merger (see C <sup>2 3</sup> above)	10,506,111	2,101,222
<b>Balance as of December 31, 2008</b>	<b>10,506,111</b>	<b>2,101,222</b>

## E Dividend:

In June 2008 the annual general meeting of shareholders approved distribution of dividend for the year 2007 in a total amount of € 18 million, which amounts to € 0.22 per share. The dividend was paid in July 2008. In 2007 the Company distributed a dividend of € 0.11 per share, totaling to € 9.4 million.

## 23 Share-Based Payments

### A The expense recognized during the year is shown in the following table:

€ in millions	For the year ended December 31,	
	2008	2007
Expense arising from equity-settled share-based payment transactions of the Company	1	2
Expense arising from equity-settled share-based payment transactions of subsidiaries	4	1
(Income) / expense arising from cash-settled share-based payment transactions of the Company and subsidiaries	(32)	9
	(27)	12

The expenses are presented as part of 'payroll and related expenses' item within the general and administrative expenses.

## B Option plans:

### Kardan N.V.

In October 2006, the Management Board, the Supervisory Board and the General Meeting of Shareholders of the Company approved a stock-option plan according to which the Company will grant to

members of the Management Board, employees of the Company, and employees of the Kardan Group, without consideration, 1,099,327 options (of which 716,927 options were granted to members of the Management Board) exercisable into up to 1,099,327 ordinary shares of the Company each having par value of € 0.20 (subject to adjustments). The exercise price of each option is equal to € 8.2 (NIS 46.512). The options can be exercised during a period of five years from the date of grant. One third of the options can be exercised one year following the date of grant, one third two years following the date of grant, and one third – three years from the date of grant.

Upon exercise of the options the Supervisory Board of the Company will determine whether to allocate the full number of shares deriving from exercise of the options or the number of shares reflecting only the benefit component inherent in the options, as calculated at the exercise date, or alternatively, the Supervisory Board may elect to pay that benefit in cash.

The total value of the options at date of grant was estimated at € 4 million.

In June 2008 the general meeting of shareholders of the Company approved the grant of additional 325,000 options to two members of the Management Board as follows:

- 1 150,000 options exercisable for into up to 150,000 ordinary shares in the capital of the Company at an exercise price of € 6.615 per option, reflecting a price of 90% of the closing price of the Company's share on Euronext as of the date of grant, being April 1, 2008.
- 2 175,000 options exercisable into up to 175,000 ordinary shares in the capital of the Company at an exercise price per option of € 9.22. reflecting 90% of the closing price of Kardan's share on Euronext on the date of grant. The options were granted under the terms and conditions of the Company's Employees Option Plan with the following exceptions for the 175,000 options granted: the

options will be granted in three equal portions over three years, with the vesting period commencing at the end of two years from the date of grant. The options will be exercisable as follows: up to two thirds of the options are first exercisable at the end of three years after the date of grant. The balance will be exercisable at the end of the fourth year after the date of grant. The options will be exercisable from the end of their vesting period until six years after the date of grant.

The fair value of the options was calculated by an independent external valuator using the Merton and adjusted Black & Scholes model under the following assumptions:

Number of options	150,000	175,000	1,099,327
Exercise price (in €)	6.62	9.22	8.2
Risk free interest rate	3.68%	4.26%	4%
Expected term of the options (in years)	5	6	5
Standard deviation	40.5%	40.4%	31%

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

#### Movement in the year

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

	2008		2007	
	Number	WAEP (EUR)	Number	WAEP (EUR)
Outstanding at January 1	1,051,494	8.5	1,099,327	8.5
Granted during the year	325,000	8.02	–	–
Exercised during the year	–	–	(11,933)	8.5
Expired during the year	(135,969)	8.5	(35,900)	8.5
Outstanding at December 31	<b>1,240,525</b>	<b>8.4</b>	<b>1,051,494</b>	<b>8.5</b>
Exercisable at December 31	692,470	–	350,498	–

Subsequent to the balance-sheet date, an additional 23,867 employee options expired.

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

#### GTC Holding and its subsidiaries

1 In July 2005, the management and supervisory board of GTC RE approved an employee option plan. According to the option plan, GTC RE will grant to employees of the parent company and subsidiaries of GTC RE, without consideration, 280,000 options exercisable in up to 280,000 ordinary shares of GTC RE each having a par value of € 0.20. The exercise price of each option equals to NIS 8.80 (€ 1.6) adjusted to the changes in the Israeli CPI.

The options can be exercised in two ways: (1) payment of the full exercise price and receiving the whole number of shares derived from the number of options exercised; or (2) not to pay the exercise

price but to be entitled to the number of shares reflecting only the benefit component inherent in the options. The options can be exercised during the earliest of a period of 4 years from the determining date or 90 days following the termination of the employment relationship between GTC RE and the employees. Each employee shall be entitled to exercise half of the options granted after 1 year from the determining date and to exercise the remaining options after 2 years from the determining date. The options were granted on October 12, 2005, as of December 31 2007, the employees were entitled to exercise all the options.

The fair value of the options as of the date of grant was estimated at € 0.3 million.

In July 2006 GTC RE has granted an additional 40,000 employee options to the chairman of the supervisory board. The options have the same terms as the employees options granted in October 2005. The fair value of the options as of the date of grant is estimated at € 0.1 million.

During 2008 all outstanding options were exercised into shares.

	2008		2007	
	Number	WAEP (NIS)	Number	WAEP (NIS)
Outstanding at January 1	220,000	8.68	295,000	8.65
Granted during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	(220,000)	8.99	(75,000)	8.78
Expired during the year	–	–	–	–
<b>Outstanding at December 31</b>	<b>–</b>	<b>–</b>	<b>220,000</b>	<b>8.68</b>
Exercisable at December 31	–	–	200,000	–

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

Expected volatility (%)	26%
Risk-free interest rate (%)	4.5%
Expected life of options (years)	3.2
Weighted average share price (NIS)	28.35
Model used	Merton and adjusted Black & Scholes

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

**2** In March 2006, GTC SA has granted certain key management personnel a total of 2,000,000 'Phantom Shares' (series 1) that may be exercised in several tranches during the years 2007-2010 (subject to vesting period). The Phantom Shares grant the entitled persons a right for a settlement from GTC SA. in the amount equal to the difference between the average closing price for GTC SA's shares on the Warsaw Stock Exchange during the 30-day period prior to the date of delivery of the exercise notice, and PLN 22.5 per share (adjustable for dividend). GTC SA may alternatively settle in the form of cash. As of the granting date the average fair value of the share options amounts to € 2.3 per option.

In September 2008 the final exercise date of 600,000 (series 2) out of the 2,000,000 Phantom Shares, before the modification was extended until December 31, 2013. Other conditions remained unchanged. As of the granting date the average fair value of the share options amounted to € 4.3 per option.

In addition, in September 2008 GTC SA has granted an additional 1,000,000 Phantom Shares (series 3) that may be exercised in several tranches during the years 2011-2014 (subject to vesting period). The Phantom Shares grant the entitled persons a right for a settlement from GTC SA in the amount equal to the difference between the average closing price for GTC SA's shares on the Warsaw Stock Exchange during the 30-day period prior to the date of delivery of the exercise notice, and PLN 35 per share (adjustable for dividend). GTC SA may alternatively settle in the form of cash. As of the granting date the average fair value of the share options amounted to € 3.8 per option.

The Company used the Whaley model to calculate the value of options as of the granting date. In the valuation, the Company used half year volatility. The settlement of the Phantom Shares (cash or equity) is at the discretion of the shareholders of GTC SA.

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

**3** In addition the Supervisory Board of GTC SA. has granted certain key management personnel the right to purchase 210,000 GTC SA's shares for their nominal value in two equal tranches in May 2006 and 2007 (series B1). The vesting conditions for all share-based payments require that the persons entitled to those instruments to remain as key management personnel.



Number of shares	Series B1	Phantom Shares series 1	Phantom Shares series 2	Phantom Shares series 3
Number of options/shares vested as of 31 December 2007	105,000	2,000,000	–	–
Number of options/shares granted in the year (subject to vesting period)	–	–	–	1,000,000
Number of options exercised in the period	(105,000)	–	–	–
Extension of expiry period	–	(600,000)	600,000	–
Number of options/shares vested as of 31 December 2008	–	1,400,000	600,000	1,000,000

#### Kardan Israel

Kardan Israel and its subsidiaries granted employee options to senior managers in the various companies during the years 2006 – 2008. In 2008 and 2007, the consolidated companies of Kardan Israel incurred a total expenses amount of € 0.5 million and € 1.9 million, respectively, arising from options granted to senior managers in those companies.

Value of options granted by these companies is estimated, as of December 31, 2008 at an amount of € 2.8 million.

#### Financial Services

In 2008 and 2007 consolidated companies in the financial services sector incurred a total expenses amount of € 0.8 million and € 0.5 million, respectively, arising from options granted to senior managers in those companies.

Value of options granted by these companies was estimated at the date of grant at an amount of € 3.7 million.

#### Tahal Group International

At the beginning of 2009, the Management Board, the Supervisory Board and the General Meeting of Shareholders of TGI approved stock option plans according to which TGI will grant to key management members of the Company 1,253 options exercisable into up to 1,253 shares of the Company, constituting approximately 6% of the shares of TGI post-issuance.

The exercise price of the options has a range of €869 to € 1,717. The options can be exercised until December 31, 2012, and have different vesting periods for each of the offerees. Since TGI had constructive obligation towards the offerees as of December 31, 2008, TGI has recognized the associated cost in 2008.

Upon exercise of the options the Supervisory Board of TGI will determine whether to allocate the full number of shares deriving from exercise of the options or the number of shares reflecting only the benefit component inherent in the options, as calculated at the exercise date, or alternatively, the Supervisory Board may elect to pay that benefit in cash.

The total value of the options at date of grant was estimated at € 1.2 million. This fair value was computed by an independent external valuer.

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

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

	2008	
	Number	WAEP (EUR)
Outstanding at January 1	–	N/A
Granted for the year	1,253	1,758
Forfeited during the year	–	–
Exercised during the year	–	N/A
Expired during the year	–	–
<b>Outstanding at December 31</b>	<b>1,253</b>	<b>–</b>
Exercisable at December 31	774	–

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

	2008
Expected volatility (%)	50.52%
Interest-free interest rate (%)	2.68%
Expected life of options (years)	4
Weighted average share price (€)	1,758.24
Model used	Black & Scholes

## 24 Interest Bearing Loans and Borrowings

### A Composition

	Weighted interest rate as of December 31, 2008	December 31, 2008	December 31, 2007
	%	€ in millions	€ in millions
<b>Banks</b>			
In USD	6.1	101	106
In EUR	5.4	778	593
In NIS	–	–	15
In NIS (linked to CPI)	5.9	8	10
Linked to other currencies	9.3	173	129
<b>Others – in EUR</b>	6.1	270	195
		<b>1,330</b>	<b>1,048</b>
Less – Deferred debt issuance costs		7	3
– Current maturities		195	216
		<b>1,128</b>	<b>829</b>

### B Maturities

€ in millions	December 31, 2008	December 31, 2007
First year – current maturities	195	216
Second year	141	127
Third year	138	100
Fourth year	111	77
Fifth year	139	53
Thereafter	606	475
	<b>1,330</b>	<b>1,048</b>

## 25 Banking Customers Accounts

### A Composition

€ in millions	December 31, 2008	December 31, 2007
<b>Due to banks:</b>		
Deposits	19	32
Loans and advances	–	43
	19	75
<b>Due to customers:</b>		
Deposits from corporate clients	165	189
Deposits from individual clients	412	222
	577	411
	<b>596</b>	<b>486</b>

### B Maturities

€ in millions	December 31, 2008	December 31, 2007
First year – current maturities	469	443
Second year	17	37
Third year	102	5
Fourth year	1	1
Fifth year	7	–
Sixth year and thereafter	–	–
	<b>596</b>	<b>486</b>

Under normal circumstances, banking customers accounts which can be drawn on demand are considered covered by the banks' financial assets.

## 26 Other Long Term Liabilities

€ in millions	December 31, 2008	December 31, 2007
Deposits from tenants	3	2
Land purchase commitment	9	5
Fair value of derivatives <sup>1</sup>	79	–
	<b>91</b>	<b>7</b>

<sup>1</sup> For details regarding derivatives, please refer to Note 49.

## 27 Warrants and Options

	Balance as of December 31, 2008	December 31, 2008	December 31, 2007
	Number of options	€ in millions	€ in millions
<b>Options on Company's shares:</b>			
Options granted in connection with subsidiary's borrowings <sup>1</sup>	3,419,863	–	18
		–	18
<b>Options on Group companies' shares</b>			
The equity component of 2004 and 2005 debentures of			
GTC RE and Kardan Israel <sup>2</sup>	13,549,170	–	25
Listed warrants series 4 of Kardan Israel	1,931,274	–	2
<b>Put options granted to minority's shareholders</b>			
Kardan Israel		1	1
KFS Group <sup>3</sup>		52	98
GTC Group <sup>4</sup>		2	20
		55	146
		<b>55</b>	<b>164</b>

1 Reference is made to Note 28.

2 In 2004 and 2005 GTC RE and Kardan Israel, accordingly, issued warrants and convertible debentures. In accordance with IAS 32 and IAS 39, the warrants (series 2 and 3) and the equity component of the convertible debentures were presented at their fair value, but due to the foreign currency element of the debentures, the equity component is presented as a liability rather than equity. The fair value of these securities was calculated by an independent valuer, using models and methods applicable for such calculations and types of securities. The balance as of December 31, 2007 and 2006 solely relates to the fair value of equity component of convertible debentures, as the warrants expired in September 2006.

3 The balance includes the follows:

- € 16 million (December 31, 2007 - € 38 million) put option granted to Cavebrook, a minority shareholder in TBIF. As of December 31, 2008 Cavebrook holds approximately 9.62% in TBIF shares.
- € 20 million put options granted by the Company to minority shareholder in KFS.
- € 16 million put options granted to minority shareholders in insurance companies purchased during 2007 and 2008 (December 31, 2007 - € 15 million).

The fair value of the put options were determined based on external valuation reports used by the Group for goodwill impairment testing. For details regarding the underlying assumptions, please refer to Note 14.

Subsequent to the balance-sheet date, one of the minority shareholders in KFS exercised part of its put option and sold the Company 4.4% of the shares in KFS in consideration for € 11 million.

4 The balance includes the following put options:

- € 1.2 million put option granted to minority shareholders in GTC Investments (December 31, 2007 - € 0.9 million).
- € 0.4 million long term portion of the put option granted by GTC SA to a minority shareholder in some of its subsidiaries (December 31, 2007 - € 19.2 million).

Subsequent to the balance sheet date, on January 14, 2009, GTC SA and the minority shareholder signed an agreement in which the minority shareholder realized its right and sold all his shares in GTC S.A.'s subsidiaries to GTC S.A. in consideration of € 17.6 million. As of December 31, 2008, the financial liability is accordingly valued at this settlement price, and presented in "other payables and accrued expenses" (see Note 33).

The impact on the Company's net profit for the year 2008 is a gain of € 1.6 million (2007, loss of € 9.7 million).

## 28 Convertible Debentures

### A Composition

	Par value as of December 31, 2008	Balance as of December 31, 2008, net	Balance as of December 31, 2007, net	Interest rate	Currency and linkage	Maturities principal	Conversion rate
	€ in millions	€ in millions	€ in millions				
Kardan Israel – (June 2005) – conversion to Kardan Israel shares	27	29	26	6%	In NIS linked to CPI	2010	(1)
GTC RE – (series A) – conversion to GTC RE shares	–	–	5	6%	In NIS linked to CPI	2009	(2)
Kardan - series B – conversion to Company shares	3	3	–	6%	In NIS linked to CPI	2009	(3)
		32	31				
Less – current maturities		(3)	–				
		29	31				

(1) Each € 2.1 par value is convertible into one ordinary share of NIS 1 par value of Kardan Israel. The market value of the debentures as of December 31, 2008 and 2007, was € 24 million and € 33 million, respectively.

(2) Each € 2.9 (NIS 16.09) par value is convertible into one ordinary share of € 0.20 par value of GTC RE. The market value of the debentures as of December 31, 2008 and 2007, was € 4 million and € 7 million, respectively.

(3) Following the merger between the Company, GTC Holding, and GTC RE, as described in Note 1B, the holders of the convertible debentures of GTC RE exchanged their convertible debentures for newly issued convertible debentures of the Company and simultaneously GTC Holding assumed a debt from Kardan for the same amount. As of the day of the merger the balance of convertible debentures of GTC RE amounted to NIS 15,904,120 par value.

### B Maturities

€ in millions	December 31, 2008	December 31, 2007
First year	3	–
Second year	29	5
Third year	–	26
<b>Total</b>	<b>32</b>	<b>31</b>

### C Collateral – see note 34

## 29 Other Debentures

### A Composition

	Par value as of December 31, 2008	Balance as of December 31, 2008, net	Balance as of December 31, 2007, net	Interest rate	Currency and linkage	Maturities principal
The issuer	€ in millions	€ in millions	€ in millions	%		
The Company – 2007	210	217	218	4.45	(1)	2013-2016
The Company – 2008 (2)	236	262	–	4.9	(1)	2014-2020
GTC RE – 2007	–	–	238	4.9	(1)	2012-2020
GTC SA – 2007	212	276	223	7.45	(1)	2012-2014
The Company – 2005	22	24	22	6.6	(1)	2010
Kardan Israel – 2005	10	11	9	6.4	(1)	2009
Kardan Israel – 2005	10	11	9	5.5	(1)	2009
Kardan Israel – 2003	–	–	19	–	(1)	2008
Kardan RE – 2003	–	–	11	–	(1)	2008
Proportionately consolidated subsidiaries	–	39	42	7.2	In € or linked to €	2008-2012
		840	791			
Less – current maturities		(31)	(45)			
Debentures issuance expenses		(3)	(4)			
		806	742			

(1) In NIS linked to the Israeli CPI.

(2) Following the merger between the Company, GTC Holding, and GTC RE, as described in Note 1B, the holders of the debentures of GTC RE exchanged their convertible debentures for newly issued debentures of the Company and simultaneously GTC Holding assumed a debt from Kardan for the same amount. As of the day of the merger the balance of debentures of GTC RE amounted to NIS 1,334 million par value (€ 251.8 million).

## B Maturities

€ in millions	December 31, 2008	December 31, 2007
First year – current maturities	31	45
Second year	31	26
Third year	6	36
Fourth year	22	3
Fifth year	163	25
Sixth year onwards	587	656
<b>Total</b>	<b>840</b>	<b>791</b>

### Additional information:

- 1 In May 2008, GTC SA completed the issuance of debentures amounting to PLN 350 million (approximately € 104 million). The debentures were issued to institutional investors in Poland and are not subject to any pledge or guarantee. The debentures bear fixed interest of 6.63 % denominated in PLN and will be repaid in five years from the issuance date.
- 2 Within the framework of the merger, as described in Note 1B, the holders of the debentures issued by GTC RE received in exchange for such debentures newly issued debentures by the Company, having the same terms as the GTC RE above-mentioned debentures. The carrying amount of the debentures transferred at the date of the merger was € 276.5 million.

Regarding swap transactions in relation to the abovementioned debentures, please refer to Note 49.

## 30 Insurance Provisions

€ in millions	December 31, 2008	December 31, 2007
General insurance		
Unearned premium reserves	44	62
Outstanding claims	27	54
<b>Total general insurance</b>	<b>71</b>	<b>116</b>
Life insurance*		
Insurance reserves	–	22
Outstanding claims	–	1
<b>Total life insurance</b>	<b>–</b>	<b>23</b>
<b>Total provisions and outstanding claims</b>	<b>71</b>	<b>139</b>

\* The Life Assurance companies were sold (Helios), or are being held for sale (Bulstrad), as of December 31, 2008.

## A Issuance contract and deferred acquisition costs in general insurance

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

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

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

#### ■ Reserves for unexpired risks (unearned premium reserve)

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



#### ■ Provision for outstanding claims

##### *Valuation of the outstanding claims:*

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

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

#### ■ Deferred acquisition costs

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

*The assumptions and models used for determining the provisions*

#### ■ Reserve for unexpired risks

The above-mentioned 'Reserve for unexpired risks' in principle is not calculated according to an actuarial method and does not depend on any assumptions, but rather it constitutes an unearned premium balance. However, where the portion of unearned premium, net of DCA, is not sufficient to cover expected claims and related costs, based on the actuaries estimation, the DAC is reduced or the reserve for unexpired risks is increased, as appropriate. This is done at the level of line of business.

#### ■ Provision for outstanding claims

For the sake of valuating outstanding claims, or supplementing the claims departments' per-claim case reserves for IBNR and IBNER, the actuarial models detailed below have been used in conjunction with various assumptions:

- Chain ladder: this method is based on the development of historical claims (development of payments and/or development of amount of claims, development of the number of claims, etc.), in order to value the anticipated development of existing and future claims. The use of this method is mainly suitable after a sufficient period since the event occurred or the policy is written, when there is enough information from the existing claims in order to value the total anticipated claims.
- Bornhuetter-Ferguson (or modified version thereof): this method combines early estimates known in the Company or class of business, and additional estimates based on the claims themselves. The early estimates utilize premiums and loss ratio for evaluating the total claims. The second estimate utilizes actual claims experience based on other methods (such as chain ladder). The combined claims valuation weighs the two estimates while a larger weight is given to the valuation based on the claims experience as time passes and additional information is accumulated for the claims. The use

of this method is mainly suitable for the recent period where there is not enough information from the claims or when talking about a new business or one with insufficient historical information.

- The average payment per claim: at times, as in the Bornhuetter-Ferguson method, when the claims experience in the last periods is insufficient, the historical average method is utilized. In this method the provision is calculated based on the forecast of the number of claims (chain ladder method) and historical average claim size.

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

For some lines of business claims are discounted (e.g. Motor TPL and Green Card), while for most lines of business claims are not discounted due to the fact that most claims are settled within a very short period of time and very few claims remain outstanding for more than two or three years. There were no material changes to assumptions or models used compared to last year.

There are no material assumptions made in determining the outstanding claims provisions, other than the general broad-based assumptions that past experience regarding claims reporting and settlement patterns will be repeated in the future with changes based on trends in claim frequency and severity due to changes in regulations, policy conditions, customer mix and so on. All other assumptions only exist on a claim-by-claim basis, regarding issues such as the probability of winning a claim dispute.

## 2 Movement of outstanding claims in general insurance (gross)

€ in millions	2008	2007
<b>Balance at January 1</b>	54	30
Additions for newly consolidated companies	4	19
Disposals for companies deconsolidated	(10)	–
Transfer to 'held-for-sale'	(20)	
Claims incurred in the current accident year	53	29
Movement on claims incurred in prior accident	(1)	–
Claims paid during the year	(48)	(25)
Foreign exchange adjustment	(5)	1
<b>Balance at December 31</b>	<b>27</b>	<b>54</b>

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

### 3 Movement of unearned premium reserves in general insurance (gross)

€ in millions	2008	2007
<b>Balance at January 1</b>	62	21
Additions for newly consolidated companies	7	31
Disposals for companies deconsolidated	(5)	(1)
Transfer to 'held-for-sale'	(28)	–
Premium written in the year	89	42
Premium earned during the year	(81)	(31)
<b>Balance as of December 31</b>	<b>44</b>	<b>62</b>

## B Insurance liabilities and deferred acquisition costs in life assurance

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

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

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

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

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

- The vast majority of the mathematical reserve is for traditional products with a savings component (mainly the "Endowment" product) and pure risk products with fixed premium (mainly term insurance). This reserve is computed for each coverage as a capitalization of the cash flows for anticipated claims, net of anticipated future premiums. This is done by a theoretical calculation known as "net premium reserve", whereby instead of directly taking expenses and commissions into account, the calculation is based on "net premium" which does not include the loading for commission and expenses, based on the calculation assumptions.
- In addition to this reserve, for traditional products participating in investment income, a reserve is also computed with respect to the balance of the actual accumulated bonus. The bonus reflects the gap between the actual yield and the interest as per tariff. Note that investment participation for the company's products is mostly not on a discretionary basis, but rather according to set formulae in the products' terms and conditions, or according to local regulations.
- Reserves for unearned premium are calculated where premium is received in advance. This is particularly the case for short term life term. The reserve is calculated on a proportional basis with respect to the unexpired term of the policy for which premium has been received.
- The reserve for IBNR (incurred but not yet reported claims) is calculated based on past experience and exists mainly with respect to accident and health benefits.
- The reserve for group insurance is comprised from a reserve for unearned premium, provision for participation in profits and a reserve for IBNR.
- Liability Adequacy - The Group's subsidiaries consider each year, whether the total reserve, net of deferred acquisition costs, is sufficient to cover the future anticipated cash flows: premiums net of claims, commissions and maintenance expenses for

the policies in force, under reasonable assumptions. If the liability is not adequate then the DAC is written off (with respect to prior periods) or limited (with respect to the current period's new DAC).

## 2 Movement in life assurance reserve

€ in millions	2008	2007
<b>Balance as of January 1</b>	22	23
Additions from premiums received	1	5
Claims and surrenders	(-)	(7)
Disposals from companies deconsolidated	(19)	-
Transfer from fully consolidated to held-for-sale	(4)	-
Investment income and exchange differences	-	1
<b>Balance as of December 31</b>	<b>-</b>	<b>22</b>

### ■ Changes in assumptions and actuarial models and their effect on the provisions

There were no material changes in assumptions or reserving methods compared to the previous year.

## 31 Trade Payables

€ in millions	December 31, 2008	December 31, 2007
Trade payables	99	63
Checks payables	3	2
Other	10	-
	<b>112</b>	<b>65</b>

For terms and conditions relating to payables, refer to Note 49.

Trade payables are non-interest bearing and are generally aged in between current and 60 days overdue.

## 32 Interest-Bearing Loans and Borrowings

	Weighted average annual interest rate (*)	December 31, 2008	December 31, 2007
	%	€ million	€ million
Short-term credit from banks			
In NIS	4.5	50	28
In USD	6.8	4	17
In EUR	6.0	66	13
In other currencies	12.0	88	1
Short term credit from others	6.0	239	33
		<b>447</b>	<b>92</b>
Current maturities of long-term liabilities			
Loans (see Note 24)		195	216
Debentures (see Note 29)		31	45
		<b>673</b>	<b>353</b>

\* As of December 31, 2008

Collateral – see Note 34

### 33 Other Payables and Accrued Expenses

€ in millions	December 31, 2008	December 31, 2007
Accrued expenses	81	81
Insurance companies	10	11
Payroll and related expenses	11	11
Advances from customers	11	2
Fair value of derivatives	5	6
Current maturities of long-term liabilities	7	1
Payable on acquisition of subsidiary	–	5
Promissory notes	11	–
Put option <sup>1</sup>	18	–
Other	29	21
	<b>183</b>	<b>138</b>

1 Includes the settlement price agreed on the put option granted to a minority shareholder in GTC SA. In 2007 the liability was presented as part of the long-term liabilities. For details regarding this option, please refer to Note 27.

For terms and conditions relating to other payables, refer to Note 49

### 34 Liens, Contingent Liabilities and Commitments

#### A Liens and collaterals

1 In connection with loan agreements signed with banks and financial institutions for loans amounting to approximately € 103 million as of December 31, 2008 the Company has undertaken to maintain certain financial covenants and has pledged certain assets, including, amongst others the following:

- a Maintain control over Kardan Israel;
- b Maintain unpledged holdings of at least 51 % in KFS;
- c Maintain holdings of 35% in TBIH and 51% in TBIF;
- d Commitment of the Company not to pledge all its assets;
- e Maintaining equity to balance sheet ratio at 25%-30%.

- f Shareholders' equity will not be less than € 115 million;
- g Pledge over 29% of KFS shares;
- h Pledge over shares of TGI and receivables due from TGI;
- i Pledge over Kardan Israel shares at a value of 120%-125% of the outstanding loans (€ 21 million as of December 31, 2008);
- j Pledged deposit at a value of 110% of the outstanding loan;
- k Prior approval of one of the lenders for any change in control, reorganization, capital reduction or de-listing.

As of December 31, 2008, the Company meets the abovementioned requirements.

2 To secure the repayment of debentures issued by Kardan Israel in 2005, Kardan Israel pledged 45% of Taldan Motors Ltd. ("Taldan") shares. The balance of the debentures as of December 31, 2008 was € 21 million (2007: € 36 million).

3 In addition, with respect to debentures amounting to € 21 million as of December 31, 2008 Kardan Israel has undertaken to maintain certain financial covenants as follows:

- a Equity to total assets ratio of Kardan Israel will not be less than 28%;
- b Shareholders' equity of Taldan will not be lower than NIS 90 million;
- c Kardan Israel will not sell most of the shares in Universal Motors Israel Ltd. ("UMI") and it will not lose its right to sell General Motors vehicles;
- d and it will not distribute dividends in amount higher than 50% of its profits in each of the years from 2005-2009;

As of December 31, 2008, Kardan Israel meets the aforementioned requirements.

**4** In connection with a € 100 million credit facility, GTC Holding has committed towards the lending bank to maintain certain financial covenants, including minimal shareholders' equity of € 240 million, and equity to balance sheet ratio of 40%, and maintaining effective control over GTC SA. In addition, GTC Holding has pledged in favor of the lending bank shares of GTC SA in a value equal to 250% of the outstanding loan. As of December 31, 2008 GTC Holding has withdrawn approximately € 70 million.

As of the date of these financial statements, GTC Holding meets its obligations.

Subsequent to the balance sheet date, in March 2009, GTC Holding has withdrawn additional € 20 million from the abovementioned facility.

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

**6** Under a loan agreement between KFS and a lending bank, KFS is required to comply with certain covenants. As of December 31, 2008 KFS is not compliant with some of the covenants. The management of KFS is in discussions with the bank to make suggested adjustments to the covenants. The loan, amounting to approximately € 235 million, is presented in the financial statements as of

December 31, 2008 as current liability. The management of the Company estimates, based on discussions with the Bank, that the loan will be classified as a non-current liability.

**7** The KFS Group has pledged assets amounting to € 293 million to secure liabilities amounting to € 247 million as of December 31, 2008 (as of December 31, 2007 - € 125 million and € 110 million, respectively). The assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty. The pledged assets will be returned to the Group when the underlying transaction is terminated but, in the event of the Group's default, the counterparty is entitled to apply the collateral in order to settle the liability.

**8** In order to secure the liabilities of Tahal Consulting Engineers Ltd. ('TCE') to banks and performance guarantees received from banks, fixed charges have been placed on TCE's share capital and assets including cash, bank deposits, motor vehicles, shares of investees and TCE's goodwill. Floating charges have also been recorded on TCE's assets. In addition, TCE has recorded charges on contractual rights securing execution of agreements in Israel, South American countries and Africa, and on notes in which TCE has rights, and funds that will be received from the Government of Israel in connection with services in progress.

**9** Kardan Israel and its subsidiaries recorded liens on their assets and their rights, in part or in full, as collateral for credit received from banks and from others, which credit amounted to approximately € 68 million as of December 31, 2008.

**10** The Company has provided letters of support to the managements of its subsidiaries KIL and Foodyard.

## B Guarantees

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

€ in millions	2008		2007	
	Limited in amount	Not limited in amount*	Limited in amount	Not limited in amount*
With respect to:				
– Subsidiaries	319	28	89	3
– Associated companies	24	13	1	13
	<b>343</b>	<b>41</b>	<b>90</b>	<b>16</b>

\* The amount of the guaranteed liabilities as of December 31

As of December 31, 2008, and 2007, GTC SA has provided guarantees to third parties in order to secure loans and cost overruns of its subsidiaries in a total amount of € 120 million and € 43 million respectively.

As of December 31, 2008 TGI provided bank guarantees in an amount aggregating to approximately € 52 million in favor of customers in respect of advances received from them for projects and for performing work.

to approve the claim as a collective claim was attached to each of these claims.

Kardan Sahar imports and markets electrical household appliances. The subject of the claims is excess amounts, allegedly collected illegally from buyers of the products for service provided to the product. The damage to the whole Group, as estimated by the claimants, amounts to NIS 54 million (€ 10 million).

## C Legal claims and contingencies

- Subsidiaries have liabilities with respect of warranty for the quality of the services and the work which they perform. In order to cover these obligations, the subsidiaries are insured with liability insurance up to the amount of € 7 million for each claim. Management of the subsidiaries believes - based, among others, on estimates of the insurance companies and on prior experience - that the provisions included in the financial statements with respect to the claims filed against them in excess of the existing insurance coverage and with respect to the deductible portion of the insurance are sufficient.
- Three claims were filed against Kardan Sahar Ltd. ('Kardan Sahar') in November, 2007. An application

Initial results of investigations currently conducted by the Company show that the estimated total amount of the whole group is completely refuted and that Kardan Sahar has good defense arguments against the claimant's claims. Moreover, the person responsible for collecting the amounts specified in the claim is a sub-contractor, who provides warranty services to the products and not Kardan Sahar. Based on legal opinion on the subject, the expected damage to Kardan Sahar due to the aforementioned claims is not expected to be material.

- In May 2008, disputes arose between Habas H.Z. Credit (1994) Ltd ("Habas") and a subsidiary in connection with continuation of the works on a residential tower in Tel Aviv, in consequence of



which the subsidiary gave notice of termination of the agreement between the parties.

On September 15, 2008 Habas H.Z. Credit (1994) Ltd and Habas Shikun-Dan Ltd ("the Plaintiffs") filed a claim against the subsidiary amounting to NIS 43.2 million (€ 8.2 million), out of which NIS 7.5 million (€ 1.4 million) was set off in respect of monies due to the company for works executed. The claim that was filed is in respect of the supposed termination of an agreement for the execution of works on a residential tower in Tel Aviv, which according to the Plaintiffs were executed contrary to the law. In accordance with an opinion of the subsidiary's legal advisors and in accordance with a statement of the subsidiary's management, at this preliminary stage it is difficult to assess the prospects of the claim; however, the subsidiary seems to have good defense pleas and the prospects of the claim are assessed at less than 50%.

On November 23, 2008 the subsidiary filed its defense, in which it denied Habas's pleas and argued that it did not breach the aforesaid contract and that it was forced to terminate it and cease the works on the project after Habas committed a fundamental breach of the contract. Simultaneously, the subsidiary any filed a counterclaim in the amount of NIS 28 million (€ 5.3 million) in respect of the damages supposedly caused to it. At this preliminary stage, it is difficult to assess the prospects of the counterclaim; however, it appears that the subsidiary has good pleas.

The balance of the income receivable in respect of the aforesaid project as of December 31, 2008 amounts to NIS 7.5 million. As of the date of the approval of these financial statements, mediation is underway between the parties. The subsidiary's management, in reliance, inter alia, on the opinion of its legal advisors, believes that there are good prospects of collecting the income receivable that was recorded as aforesaid. The subsidiary did not

include a provision in respect of the claim in its financial statements.

4 In February 2008 a pecuniary claim was filed against Universal Motors Ltd. ("UMI"), an associated company, in the amount of NIS 12 thousand together with an application to approve the filing of a class action amounting to NIS 220 million (€ 41.5 million).

The cause of action is the Plaintiff's plea that it was deceived by UMI with regard to the brake pads that were installed in his 2004 Isuzu Trooper motor vehicle, which according to him wore down very frequently. The Plaintiff applied for leave to file a class action on behalf of all Isuzu vehicle purchasers.

In the opinion of UMI's management, in reliance on the opinion of its legal advisors, UMI has good defense pleas and weighty answers to the claim and the application and the Plaintiff's prospects of winning the action, like the prospects of his claim being approved as a class action, are low. UMI did not include a provision in respect of the claim in its financial statements.

In December 2008, a claim and motion to certify the claim as a class action was filed with the Tel Aviv District Court against Dan Vehicle. The argument underlying the claim was that Dan Vehicle demanded compensation from the plaintiffs for damage caused to vehicles owned by Dan Vehicle as a result of an accident in which the plaintiffs were involved, in amounts which exceeded the amounts Dan Vehicle actually expended to repair the damage to the vehicles. The plaintiffs set the amount of their personal claim at NIS 3,000 and the amount of the class action at NIS 120 million (€ 23 million). Dan Vehicle filed a motion for summary dismissal of the motion to certify the claim as a class action. With respect to the motion for summary dismissal, Dan Vehicle's legal advisors believe that the company has sound arguments which have a good likelihood of being accepted in a manner that would result in the



summary dismissal of the class action motion, and it is more likely than not that the motion for summary dismissal will be accepted. It is clarified that at the present stage, Dan Vehicle's legal advisors cannot and do not address the motion to certify on the merits. Dan Vehicles did not include a provision in respect of the claim in its financial statements.

- 5 Subsequent to the balance sheet date, in February 2009, an additional claim was filed against Dan Vehicle, concurrently with a motion to certify the claim as a class action. The claim was based on the argument that Dan Vehicle had charged the plaintiff an amount which exceeds the cost of gas for Dan Vehicle by 41%, for filling the gas tank in the plaintiff's rented car. The plaintiff argued, inter alia, that the clause in the rental agreement, pursuant to which Dan Vehicle charged renters a surcharge for filling the gas tank, was misleading and a discriminatory clause in a standard contract and should be nullified. The plaintiff set the class action amount at NIS 66.2 million (€ 12.5 million). Dan Vehicle is required to file a response to the motion to certify by June 18, 2009. The claim was only filed recently and referred to Dan Vehicle's legal advisors in recent days. Under such circumstances, Dan Vehicle's legal advisors are currently unable to estimate the likelihood of success of the claim.

## D Commitments

- 1 To meet the financial needs of customers, the TBIF and its subsidiaries enter into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Group. The total outstanding commitments include financial guarantees, letters of credit and undrawn commitments to lend and amount to € 110 million as of December 31, 2008 (December 31, 2007 - € 63 million).

Letters of credit, guarantees (including standby letters of credit) commit the Group to make

payments on behalf of customers in the event of a specific act. Guarantees and standby letters of credit carry the same credit risk as loans.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

- 2 As of December 31, 2008 and 2007 the Group has contractual commitments in relation to future building construction, amounting to € 506 million and € 287 million, respectively. These commitments are expected to be financed from current financing facilities, other external financing, or future installments under already contracted sale agreements and sale agreements yet to be contracted.
- 3 A Subsidiary entered into agreements with customers on the execution of construction works, amounting to € 31 million. The construction work is expected to be finalized in 2009.

## E Operating lease commitments

### Operating lease commitments – Group as lessor

The Group has entered into various operational lease contracts with tenants related to properties in Poland, Romania, Croatia, Serbia, Hungary, Germany, Switzerland and Israel. The aggregate amount of contracted future rental income as of December 31, 2008 amounts to approximately € 498 million and is due according to the table below:

€ in millions	December 31, 2008	December 31, 2007
First year	91	76
Second to fifth year	244	236
After the fifth Year	161	109

### Operating lease commitments – Group as lessee

Durango Switzerland has commitments to pay annual lease payments for the leased land totaling CHF 10.9 million (€ 7.3 million) as of December 31, 2008. The land is leased until October 31, 2055.

The KFS Group has entered into commercial leases on premises. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at December 31, 2008 amount to € 12 million.

## 35 Segment Information

### A General

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

### *The Financial Services segment*

(A) Banking and lending

(B) Insurance and pension

Through its subsidiaries, the Company is active in Bulgaria, Romania, Turkey, Slovakia, Croatia, Serbia, Georgia, Russia and Ukraine.

### *The Real Estate segment*

Through its subsidiaries, the Company owns investment properties and is involved in the development of office, shopping centers and residential projects primarily in Central and Eastern Europe, China and Israel.

### *The Infrastructure segment*

(A) Project

(B) Assets

Through a subsidiary, the Company develops and invests in infrastructure assets and provides engineering, consulting and design services. The Company undertakes projects in Latin America, Eastern Europe, China, Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

### *The Automotive & Consumer Goods segment*

Through its subsidiaries and associates, the Company is active in the import and distribution of consumer products and motor vehicles.

### *The Communications and Technology segment*

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

## For the year ended December 31, 2008

€ in millions	Financial services –Insurance & pension	Financial services –Banking & lending	Real estate	Infra-structure Assets	Infra-structure Projects	Automotive & consumer goods	Communi- cation & technology	Other	Total
Segment revenues	71	96	176	43	82	21	–	3	492
Adjustment to fair value of investment properties	–	–	196	–	–	–	–	–	196
Gain on disposal of assets and investments	35	–	83	2	1	–	–	–	121
<b>Segment income</b>	<b>106</b>	<b>96</b>	<b>455</b>	<b>45</b>	<b>83</b>	<b>21</b>	<b>–</b>	<b>3</b>	<b>809</b>
<b>Segment results</b>	19	(60)	327	(10)	(3)	1	(1)	2	275
Finance expenses									(12)
Unallocated expenses									(11)
<b>Profit from operations</b>									<b>252</b>
Equity in net earnings of associates	(1)	–	(4)	1	–	9	(2)	–	3
Income taxes									(81)
<b>Net profit for the year from continuing operations</b>									<b>174</b>
Net profit for the year from discontinued operations	1	–	–	–	–	–	–	–	1
<b>Net profit for the year</b>									<b>175</b>

## For the year-end December 31, 2007

€ in millions	Financial services –Insurance & pension	Financial services –Banking & lending	Real estate	Infra-structure Assets	Infra-structure Projects	Automotive & consumer goods	Communi- cation & technology	Other	Total
Segment revenues	20	72	107	9	65	23	–	1	297
Adjustment to fair value of investment properties	–	–	287	–	–	–	–	–	287
Gain on disposal of assets and investments	36	30	13	–	–	–	–	13	92
<b>Segment income</b>	<b>56</b>	<b>102</b>	<b>407</b>	<b>9</b>	<b>65</b>	<b>23</b>	<b>–</b>	<b>14</b>	<b>676</b>
<b>Segment results</b>	<b>33</b>	<b>37</b>	<b>324</b>	<b>(2)</b>	<b>2</b>	<b>2</b>	<b>(2)</b>	<b>10</b>	<b>404</b>
Finance expenses									(106)
Unallocated expenses									(13)
<b>Profit from operations</b>									<b>285</b>
Equity in net earnings of associates	(2)	–	4	1	–	7	(4)	–	6
Income taxes									(42)
<b>Net profit for the year from continuing operations</b>									<b>249</b>
Net profit for the year from discontinued operations	1	–	–	–	–	–	–	–	1
<b>Net profit for the year</b>									<b>250</b>

€ in millions	Financial services –Banking & lending	Financial services –Insurance & pension	Real estate	Infrastructure Project	Infrastructure Assets	Automotive & consumer goods	Communication & technology	Other	Total
<b>As of December 31, 2008</b>									
Allocated assets	1,117	242	2,694	83	125	70	45	–	4,376
Unallocated assets									875
<b>Total assets</b>									<b>5,251</b>
Allocated liabilities	656	176	455	55	16	21	31	1	1,411
Unallocated liabilities									2,728
<b>Total liabilities</b>									<b>4,139</b>
Capital expenditure	22	7	397	3	33	1	4	–	467
Depreciation and amortization	9	2	3	1	1	–	–	–	16
<b>As of December 31, 2007</b>									
Allocated assets	948	278	2,155	56	97	58	44	5	3,641
Unallocated assets									631
<b>Total assets</b>									<b>4,272</b>
Allocated liabilities	644	195	224	25	9	11	1	3	1,112
Unallocated liabilities									2,087
<b>Total liabilities</b>									<b>3,199</b>
Capital expenditure	37	4	187	19	16	4	3	–	270
Depreciation and amortization	4	2	4	2	–	–	–	1	13

## C Secondary segment information – geographical segments

(1) Revenues by geographical markets (according to location of customers):

€ in millions	For the year ended December 31,		
	2008	2007	2006
Europe (mainly Central & Eastern Europe)	644	620	468
China	26	6	63
Israel	115	74	6
Other	29	32	24
	<b>814</b>	<b>732</b>	<b>561</b>

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

€ in millions	Segment assets		Capital expenditures		
	December 31, 2008	December 31, 2007	For the year-end December 31,		
			2008	2007	2006
Europe (mainly Central & Eastern Europe)	3,785	3,279	380	260	169
China	230	84	54	3	33
Israel	278	228	33	7	–
Other	83	50	–	–	–
<b>Total allocated assets</b>	<b>4,376</b>	<b>3,641</b>	<b>467</b>	<b>270</b>	<b>202</b>
Unallocated assets	875	631			
	<b>5,251</b>	<b>4,272</b>			

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

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

### 36 Sales and Services

€ in millions	For the year ended December 31,		
	2008	2007	2006
From sale of merchandise	21	22	19
From services provided	2	2	2
From management of pension funds	4	4	3
From selling apartments	70	33	26
	<b>97</b>	<b>61</b>	<b>50</b>

### 37 Revenues from Insurance Activities

€ in millions	For the year ended December 31, 2008			For the year ended December 31, 2007			For the year ended December 31, 2006		
	Life insurance activities	General insurance activities	Total	Life insurance activities	General insurance activities	Total	Life insurance activities	General insurance activities	Total
Income from premiums	1	89	90	–	38	38	–	18	18
Less – reinsurance	–	(30)	(30)	–	(18)	(18)	–	(2)	(2)
Income from premiums, net	1	59	60	–	20	20	–	16	16
Change in provisions, net of share of reinsurers	–	1	1	–	(4)	(4)	–	(1)	(1)
Income from investments	1	5	6	–	–	–	–	(1)	(1)
	1	6	7	–	(4)	(4)	–	(2)	(2)
	<b>2</b>	<b>65</b>	<b>67</b>	<b>–</b>	<b>16</b>	<b>16</b>	<b>–</b>	<b>14</b>	<b>14</b>

All figures are presented net of discontinued operations (see Note 5).

### 38 Revenues from Banking and Retail Lending Activities

€ in millions	For the year ended December 31,		
	2008	2007	2006
<b>Revenues of lending and fiduciary activities</b>			
Interest income	195	109	27
Finance costs	(96)	(56)	(16)
	<b>99</b>	<b>53</b>	<b>11</b>
Commission and service fees	31	24	13
Finance advisory and fiduciary fees	12	8	2
Impairment of loans granted	(46)	(13)	(1)
	<b>96</b>	<b>72</b>	<b>25</b>

### 39 Cost of Sales and Services

€ in millions	For the year ended December 31,		
	2008	2007	2006
Cost of sale of merchandise	13	17	14
Cost of apartments sold	57	22	21
Cost of services	2	1	1
Expenses of managing pension funds	5	6	5
	<b>77</b>	<b>46</b>	<b>41</b>



## 40 Operating Expenses of Insurance Activities

€ in millions	For the year ended December 31, 2008			For the year ended December 31, 2007			For the year ended December 31, 2006		
	Life insurance activities	General insurance activities	Total	Life insurance activities	General insurance activities	Total	Life insurance activities	General insurance activities	Total
Claims paid and outstanding	–	46	46	–	20	20	–	10	10
Less – reinsurers	–	(9)	(9)	–	(4)	(4)	–	(1)	(1)
	–	37	37	–	16	16	–	9	9
Policies terminated	–	–	–	–	–	–	–	–	–
Increase (decrease) in reserves less portion attributable to reinsurers	–	–	–	–	–	–	–	–	–
Commissions paid	–	12	12	–	2	2	–	4	4
Reinsurers' share of commissions	–	–	–	–	(3)	(3)	–	–	–
General, administrative and other expenses	–	15	15	–	2	2	–	4	4
Increase in deferred acquisition costs	–	(1)	(1)	–	(2)	(2)	–	(1)	(1)
	–	26	26	–	(1)	(1)	–	7	7
	–	63	63	–	15	15	–	16	16

All figures are presented net of discontinued operations (see Note 5)

## 41 Costs of Banking and Lending Activities

€ in millions	For the year ended December 31,		
	2008	2007	2006
Staff costs	52	28	5
Impairment losses on assets other than loans portfolio	–	–	6
Other operating expenses	68	37	10
	120	65	21

## 42 Other Expenses, net

€ in millions	For the year ended December 31,		
	2008	2007	2006
Impairment of properties	–	–	4
Loss on disposal of investment	4	–	1
Other expenses, net	1	3	1
	<b>5</b>	<b>3</b>	<b>6</b>

## 43 Selling and Marketing Expenses

€ in millions	For the year ended December 31,		
	2008	2007	2006
Payroll and related expenses	5	6	5
Commissions	1	2	2
Marketing and advertising	6	5	3
Other	8	6	5
	<b>20</b>	<b>19</b>	<b>15</b>

## 44 General and Administrative Expenses

€ in millions	For the year ended December 31,		
	2008	2007	2006
Payroll and related expenses	18	19	10
Share based payment <sup>1</sup>	(27)	12	11
Management fees	8	6	4
Office maintenance	5	3	3
Professional fees	8	7	6
Depreciation and amortization	2	2	1
Other	13	7	9
	<b>27</b>	<b>56</b>	<b>44</b>

<sup>1</sup> For details please refer to Note 23.

Payroll and related expenses are as follows:

€ in millions	For the year ended December 31,		
	2008	2007	2006
Wages and salaries	16	14	5
Pension expenses	1	3	1
Unemployment contributions	1	2	–
Other social expenses	–	–	4
	<b>18</b>	<b>19</b>	<b>10</b>

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

#### 45 Gain on Disposal of Assets and Other Income

€ in millions	For the year ended December 31,		
	2008	2007	2006
Gain on disposal of subsidiaries	6	38	11
Release of negative goodwill <sup>1</sup>	77		
Gain from release of provision from preferred return	–	–	3
Other <sup>2</sup>	38	9	5
	<b>121</b>	<b>47</b>	<b>19</b>

<sup>1</sup> For details please refer to Note 1B regarding the merger.

<sup>2</sup> In 2008 includes the gain from initial recognition of the put option granted to KFS. For details please refer to Note 12.

## 46 Other Financing Expenses

€ in millions	For the year ended December 31,		
	2008	2007	2006
<b>Income</b>			
Income from bank deposits	24	25	9
Income with respect to long-term loans and receivables	5	8	1
Income from securities held for trading	-	6	-
Exchange differences	145	-	12
Other	3	3	3
<b>Total financing income</b>	<b>177</b>	<b>42</b>	<b>25</b>
<b>Expenses</b>			
Interest on long-term loans and borrowings	78	47	36
Interest on debentures and convertible debentures	4	8	14
Exchange differences	152	39	8
Short term loans and borrowings	3	2	2
Other	10	8	3
<b>Total financing expenses</b>	<b>247</b>	<b>104</b>	<b>63</b>

## 47 Taxes on Income

### A The Company has its statutory seat in The Netherlands, and therefore is subject to taxation according to the Dutch law.

The Company benefits from the Participation Exemption ("Participation Exemption"). According to the participation exemption, a Dutch company meeting certain specified criteria may benefit from a tax exemption for its entire revenue, derived from dividends and capital gains, from shares held by such company in an investee.

Starting from 2007, the participation exemption applies to any holding of 5% or more in the shares of an investee. However, holdings in passive companies which are subject to an effective tax at a rate lower than 10% (which is to be calculated according to Dutch tax law), shall not entitle a company to the participation exemption. An exception to this rule is holdings of 5% or more in companies where at least 90% of the (consolidated) assets are real estate assets.

Holdings in such companies shall benefit from the participation exemption even if the investees have been classified as passive companies subject to an effective tax rate of less than 10%.

The enacted tax rates in the various countries were as follows:

Tax rate	2008	2007
Bulgaria	10%	10%
China	25%	33%
Croatia	20%	20%
Germany	15.825%	26.4%
Hong-Kong	17.5%	17.5%
Hungary	20%	20%
Israel	27%	29%
Poland	19%	19%
Romania	16%	16%
Russia	24%	24%
Serbia	10%	10%
Slovakia	19%	19%
The Netherlands	25.5%	25.5%
Turkey	20%	20%
Ukraine	25%	25%
Switzerland	23%	23%

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

€ in millions	For the year ended December 31,		
	2008	2007	2006
Current taxes	14	8	23
Current tax in respect of prior years	–	–	(1)
Deferred taxes	67	34	24
	<b>81</b>	<b>42</b>	<b>46</b>

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

€ in millions	For the year ended December 31,		
	2008	2007	2006
Accounting profit	255	292	203
Tax expense (tax benefit) computed at the weighted average taxable rate of 23% (2007 – 18.5%; 2006 – 16%)	58	54	33
<b>Increase (decrease) in tax expense (tax benefit) due to:</b>			
– Unrecognized tax losses	8	27	15
– Equity in net earnings of associated companies and gain on issuances of shares to third parties which are not taxable	(14)	(1)	(1)
– Tax effect of unrealized foreign currency related to investment property	24	(6)	(5)
– Tax effect of revenues exempted from tax	–	(15)	(9)
– Taxes with respect of prior years	–	–	(1)
– Non deductible expenses (incomes) and others	5	(17)	14
	<b>81</b>	<b>42</b>	<b>46</b>
Average effective tax rate	32%	14%	22%

**D Composition of deferred taxes**

€ in millions	Consolidated balance sheet		Recorded in the income statement		
	December 31, 2008	December 31, 2007	Movement for the year ended December 31,		
			2008	2007	2006
<b>Deferred income tax assets (deferred tax liabilities) with respect to:</b>					
Investment properties	(143)	(98)	(45)	(41)	(23)
Tangible fixed assets	(15)	(2)	(13)	(2)	(7)
Contract work in progress	–	(1)	1	(1)	1
Temporary differences relating to investments in companies	–	(2)	2	(1)	(2)
Financial assets	(19)	(2)	(17)	(1)	5
Carry forwards losses available for offset against future taxable income	4	6	2	2	(1)
Valuation allowance	–	–	–	2	–
Basis differences	8	8	–	8	3
Financial liabilities	1	2	(1)	2	–
Other	10	(4)	4	(2)	–
	<b>(154)</b>	<b>(93)</b>	<b>(67)</b>	<b>(34)</b>	<b>(24)</b>

### E Tax presented in the consolidated balance sheet is broken down as follows:

€ in millions	December 31, 2008	December 31, 2007
Net deferred income tax asset	18	17
Net deferred income tax liability	(172)	(110)
	<b>(154)</b>	<b>(93)</b>

### F Loss carry-forwards and final tax assessments

The Group has tax losses of €209 million that are available for offset between five years and indefinitely. Deferred tax assets have not been recognized in respect of tax loss carry forwards amounting to €189 million as they may not be used to offset taxable profits elsewhere in the Group and the losses are of subsidiaries that have generated losses for extended periods.

The Company has received final tax assessments for the years 2003 and 2004. The Company filed an appeal regarding the 2003 tax assessment.

Kardan Israel has been issued with final tax assessments in Israel up to and including fiscal year 2003. Part of the main subsidiaries in Israel has been issued with final tax assessments until and including 2003-2006 and some did not received final tax assessments from the day of incorporation.

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

European Area (EEA) but also countries who have association agreements with the EU based on article 56 EC (free movement of capital with third countries).

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

At present it is not possible to ascertain the outcome of the appeal against the corporate tax assessments raised by the tax Inspector. Should GTC RE be successful in its appeal then it would be able to deduct €1 million for 2001, €0.6 million for 2002, and €3.1 million for 2003.

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

### G Tax regulations in Eastern Europe

Restrictive tax regulations exist in Eastern European countries regarding value-added tax, company tax and national insurance (social security) payments. Since these regulations were enacted in recent years, they often include internal contradictions that cause problems in their interpretation. Differences in interpretation of the tax regulations between various tax-related entities and tax authorities, and the taxpayers cause numerous disputes. Arrangements regarding taxation and other areas of activity (such as foreign currency transactions) may be subject to supervision by the tax authorities and by other authorities that are empowered to levy material penalties including interest on the penalties. In these circumstances, business activity in Eastern European countries includes more serious tax risks than in countries with a more stable tax base. Eastern European countries do not have a formal procedure for determining the amount of the final tax. Tax arrangements may be audited at any time during a number of years. A risk exists that the tax authorities' interpretation of the tax legislation will be different from the interpretation of the subsidiaries in Eastern Europe, a fact that may affect the tax liability of those companies.

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

## 48 Earnings per Share

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

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

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

	2008	2007	2006
Net profit (loss) attributable to ordinary equity holders of the parent (€ in millions)	52	90	41
Effect of dilution of earnings of group companies	(13)	(1)	(6)
Effect of dilution of convertibles and options of the Company	(16)	–	–
	<b>23</b>	<b>89</b>	<b>35</b>
Weighted average number of ordinary shares for basic earnings per share	82	81	73
Effect of dilution: shares options	1	–	–
<b>Adjusted weighted average number of ordinary shares for diluted earnings per share</b>	<b>83</b>	<b>81</b>	<b>73</b>

In the calculation of the earning per share convertible securities issued by Kardan Israel (series 4 warrants) were not included in the calculation of diluted earnings per share for the year 2007 because they were anti-dilutive.



In addition, employee options granted by the Company during 2006 and 2008 were excluded, and in accordance with their vesting conditions, they have, as of December 31, 2008 and 2007 a negative benefit rate and on that basis no shares would have been issued.

Approximately 50% of the earnings per share for 2008 are attributable to the early adoption of IAS 40 (revised) with respect to accounting for investment property under construction at fair value.

## 49 Financial instruments and Risk Management

### A The Kardan Group

#### Financial risk management

The Group's principal financial instruments, other than derivatives, comprise bank loans, debentures, convertible liabilities, cash deposits and granted loans. The main purpose of these financial instruments is to raise finance for the Group's operations and to act as a bank and as insurance company. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

Operations of the Group expose it to various financial risks, e.g., market risk (including currency risk, interest rate, fair value risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group employs derivative financial instruments, principally interest rate swap transactions, to hedge certain exposures to risks.

The Management Boards, Supervisory Boards and Boards of Directors (as applicable) of the various Group's companies provide overall risk-management principles, and also the specific policy on certain exposure to risks, e.g., exchange rate risk, interest rate risk, credit risk and use of derivative financial instruments.

#### Market risk

The Group operates in various sectors in emerging markets. The Group is exposed to inherent risks in developing countries, mainly political and other risks which include local economic and legal issues.

Success of the Group in the emerging markets depends on the continued development of these markets, continued development of real-estate business, development of financial services and infrastructures. Decreased development rate of the said markets may have an adverse impact on the business of the Company. It should also be noted that the official information published in developing countries is not always reliable or complete. Dependence in such information is a risk factor.

The economical environment and the economical condition in Central-Eastern Europe and in China – the Company conducts considerable operations in Central-Eastern Europe, mainly in real estate and financial services sectors, while in China the Group operates in the real estate and infrastructure sectors. The Company continues to direct management and financial resources to investments in Central-Eastern Europe, following the economic growth experienced by this region in recent years and in expectation that the trend of decreasing general and economical differences between Eastern to Western Europe will continue and apply to investments in China as well, which is considered to be the largest economy in the world, which has been gradually shifting over the last 25 years from a central government controlled economy to an open market economy, that opens up to international markets. A change in these trends in countries where the Group operates may have an adverse impact on its operations.

Throughout 2007 and 2008, significant market turmoil was experienced in the credit markets, beginning with concerns over US sub-prime mortgages and then widening into a general banking liquidity crisis. Management is carefully reviewing and monitoring the impact of the crisis on its financing position, valuation

of assets, and liquidity position. Through a range of bond offerings it has secured a good cash position, and real estate in Central and Eastern Europe has, in the opinion of management and as validated by external appraisers, not yet suffered. Also the Group has not significantly invested in residential mortgage backed securities and collateralized debt obligations which are nowadays subject to significant value adjustments. Reference is made however to the paragraph on significant judgments as included in Note 3 of these financial statements.

The home mortgage market in the countries of operation is not yet sufficiently developed. Difficulty in obtaining loans on easy terms for purchasing apartments may affect the demand for home units in the projects undertaken by the Company.

The Management of the Group believes that the following factors contribute significantly to its operating success and handling of the above-mentioned risks.

- 1 Skilled and experience management team and a constant local presence in the countries of operation.
- 2 Close working relations with international financing institutions.
- 3 Focus on selection of major projects which are developed in stages, according to demand.
- 4 Strict due diligence before embarking on a project, and adherence to project completion dates committed to.

### **Capital management**

The primary objective of the Group's capital management is to ensure capital preservation and maintain healthy capital ratios in order to support its business and maximize shareholder value.

In addition, capital management objectives ensure that relevant group companies comply with externally imposed capital requirements (e.g. banks, insurance companies). The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group decides on leverage policy,

repayment of loans, investment or divestment of assets, dividend policy and the need, if any, to issue new shares or debentures.

### **Risk management structure**

The Management Board of Kardan and of each Group company is ultimately responsible for identifying and controlling risks. However, there are separate independent bodies within the Group that are responsible for managing and motoring risks.

#### *(i) Corporate level*

The Supervisory Board has the responsibility to monitor the overall risk process. The Management Board is responsible for the overall risk-management approach and for approving the risk strategies and principles. Within the Management Board of Kardan, the Chief Operating Officer (COO) is responsible for risk management. The COO works closely with risk managers within the Group and together the COO has developed functional lines of responsibility and has the overall responsibility for the development of the risk strategy and implementation of principles, frameworks, policies and limits.

#### *(ii) Group companies*

Some of the Kardan Group companies have appointed risk managers at corporate levels as well as at country levels or subsidiary levels (f.e. in TBIF). When a country has a risk manager, the risk manager is in charge of all risk-related issues in that country. The country risk manager is guided from a professional point of view by the chief risk manager of the relevant subsidiary.

#### *(iii) Risk mitigation*

Kardan uses the analysis of the structure of its portfolios in order to mitigate excessive risk in each of the countries and each of the business segments. The risk is spread among the different activities of the Kardan Group. The diversification of the businesses (commercial and residential real estate, banking and lending, insurance and pension, infrastructure projects

and asset ownership) as well as collateral management are useful risk mitigation tools as well.

*(iv) Excessive risk concentration*

Concentrations arise when a number of entities in the Kardan Group are engaged in similar business activities, in the same geographical region. Concentrations indicate the relative sensitivity of Kardan's performance to development affecting a particular industry or geographical location.

In order to avoid excessive concentration of risks, Kardan's policy is to maintain a diversified portfolio in terms of geography, industry, products and product features – geographical diversification (CEE, CIS, China etc.); industry concentration (financial services, real estate, infrastructure); product concentration (i.e. residential and commercial real estate, lending, banking, insurance, pension, etc.).

**Price risk**

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest-rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Kardan's price-risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investments in each country, Because of the Group's operations in different countries, it has no significant concentration of price risk.

**Political risk**

The Group has significant business in Central and Eastern Europe and in Israel. Certain Central and Eastern Europe countries are considered to be emerging markets. These emerging markets have a different risk profile than the Western European area. Political and economic changes in these regions can have consequences for the Group's activities there, as

well as an impact on the results and financial positions of the Group. By closely monitoring these businesses the Board of Management intends to limit the risks of those changes.

**Credit risk**

The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits, and other financial assets (including granted loans). It is the policy of the Group to trade only with recognized, top-ranking creditworthy third parties.

The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, with respect to specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts is not significant.

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

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

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

Counter-parties to financial instruments consist of a large number of prime financial institutions. The Group does not expect any counter-parties to fail to meet their obligations, given their high credit ratings. The Group has no significant concentration of credit risk with any single counterpart or group of counter-parties.

The possible exposure on assets is considered immaterial.

With respect to trade receivables, the maximum exposure equals to the amount on the face of the balance sheet.

As of December 31, 2008, cash and cash equivalent amounted to € 540 million, and restricted deposits in banks amounted to € 59 million. All deposits are deposited with the highest-rated financial institutions in the countries of operation.

#### **Insurance risk**

For a detailed description of the insurance risk, please consult the note on financial instruments for the financial services activities.

#### **Interest-rate risk**

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

**a Details of group companies hedging transactions are presented as follows:**

Party	Loan hedged	Hedged amount € in millions
Discount Bank	Debentures	59.9
FIBI Bank	Debentures	36.0
Polim Bank	Debentures	54.5
Discount Bank	Debentures	37.0
Leumi Bank	Debentures	38.0
Leumi Bank	Debentures	100.2
Discount Bank	Debentures	35.4
Discount Bank	Debentures	36.4
Discount Bank	Debentures	81.6
Raffaisen Bank	Loan from EBRD (GTC Serbia)	22.5
EUROHYPO	Topaz	13.1
MBK Bank	Loan from MBK (GTC Hungary)	31.5
MBK Bank	Loan from MBK (GTC Hungary)	28.2
MBK Bank	Loan from MBK (GTC Hungary)	35.3
MBK Bank	Loan from MBK (GTC Hungary)	32.0
Bank PEKAO S.A	Bonds	21.8
Bank PEKAO S.A	Bonds	190.6
Bank PEKAO S.A	Bonds	203.0
ING Bank	Newton office building	11.5
ING Bank	Edisson office building	13.0
ING Bank	Globis Poznan office building	18.2
ING Bank	Platinum 1 + 2 office building	42.0
ING Bank	Nothus + Zephyrus office building	36.0
EUROHYPO	Nefryt office building	33.0
BPH bank	Globis Wroclaw office building	29.0
Aeral bank	Loan from Aareal (GTC galeria kazimierz)	50.6
		10.0
<b>Total</b>		

Commence date	Expiration date	Interest rate on bank loan (swapped)	Interest to be paid	Accounting treatment as of December 31, 2008	Accounting treatment as of December 31, 2007	Fair value as of December 31, 2008 € in millions	Fair value as of December 31, 2007 € in millions
Aug-07	Jan-16	4.45% +CPI	5.64%	Hedge accounting	Hedge accounting	6.9	2.8
March-07	Jan-16	4.45% +CPI	5.43%	Hedge accounting	Hedge accounting	2.7	(-)
March-07	Jan-16	4.45% +CPI	5.38%	Hedge accounting	Hedge accounting	4.4	(-)
March-07	Jan-16	4.45% +CPI	5.43%	Hedge accounting	Hedge accounting	2.1	(-)
Feb-07	Jan-16	4.45% +CPI	5.54%	Hedge accounting	Hedge accounting	3.0	(0.6)
Feb-07	Feb-20	4.9%+CPI	5.94%	Hedge accounting	Hedge accounting	7	(3.5)
Dec-07	Jan-20	4.9%+CPI	6.44%	Hedge accounting	Hedge accounting	1.0	(1.7)
Jan-08	Jan-20	4.9%+CPI	6.21%	Hedge accounting	n/a	0.3	-
Sep-08	Jan-20	4.9%+CPI	7.06%	Hedge accounting	n/a	(9.5)	-
08-May-06	05-Aug-11	Floating	Fixed 3.85%	Hedge accounting	Hedge accounting	(0.4)	0.4
Jan-08	Dec-11	Floating	Collar 3.2%-4.1%	Profit and loss	Profit and loss	(0.3)	0.1
Apr-06	Jan-09	Floating	Collar 3.41%-3.70%	Profit and loss	Profit and loss	(0.2)	0.3
Jan-09	Jan-14	Floating	Collar 3.77%-4.15%	Profit and loss	Profit and loss	(0.8)	0.4
Jan 08	Oct 09	Floating	Collar 4.03%-4.6%	Profit and loss	Profit and loss	(0.3)	-
Oct 09	Oct 11	Floating	Collar 3.89%-4.6%	Profit and loss	Profit and loss	(0.5)	0.1
Apr-07	Apr-12	Floating PLN	Fixed EUR 5.745%	Hedge accounting	Profit and Loss	(2.7)	0.7
Apr-07	Apr-14	Floating PLN	Fixed EUR 5.745%	Hedge accounting	Profit and loss	(27.5)	10.3
May-08	May-13	Floating PLN	Fixed EUR 6.63%	Hedge accounting	n/a	(25.6)	-
Feb-08	May-15	Floating	Fixed 3.56%	Hedge accounting	n/a	(0.7)	-
Feb-08	May-15	Floating	Fixed 3.9%	Hedge accounting	n/a	(0.4)	-
Jul-08	Jun-14	Floating	Fixed 4.99%	Hedge accounting	n/a	(1.5)	-
July-08	Dec-15	Floating	Fixed 4.83%	Hedge accounting	n/a	(3.7)	-
July-08	Dec-15	Floating	Fixed 4.74%	Hedge accounting	n/a	(3.0)	-
August-08	Dec-15	Floating	Fixed 4.68%	Hedge accounting	n/a	(2.6)	-
March-09	March-15	Floating	Fixed 4.81%	Hedge accounting	n/a	(2.3)	-
Apr-07	Mar-11	Floating	Collar 3.25%-5.5%	Profit and loss	Profit and loss	(0.4)	-
May-06	May-11		Fixed 3.92%	Hedge accounting	Hedge accounting	(0.1)	0.1
						(55.1)	9.4

**b The composition of derivatives as presented in the balance sheet:**

€ in millions	December 31, 2008	December 31, 2007
Derivatives in non-current assets	27	–
Derivatives in current assets	2	15
Derivatives in non-current liabilities	(79)	–
Derivatives in current liabilities	(5)	(6)
	<b>(55)</b>	<b>9</b>

**c Movement**

The movement in the fair value of derivatives for the years ended December 31, 2008 and 2007 was as follows:

€ in millions	December 31, 2008	December 31, 2007
Fair value at the beginning of the year	9	1
Charged directly to equity	(63)	(8)
Charged to income statements	(3)	16
<b>Fair value at the end of the year</b>	<b>(55)</b>	<b>9</b>

On October 1, 2008, GTC SA designated some of its IRS instruments as hedge instruments. As from that date, the differences in value of such hedge instruments are recognized in equity. GTC SA found that such treatment would be more appropriate, as the purpose of the hedge is to mitigate risks and reduce unnecessary volatility of GTC SA's financial performance. Starting from October 1, 2008 the instruments meet the requirements of hedge accounting and hedge accounting is applied.

**d The tables below present the sensitivity of the equity and the profit and loss (before tax) due to change in EURIBOR, PLN Wibor and Israeli NIS interest.**

The fair values of the derivatives are determined by taking into account the EURIBOR, PLN Wibor and Israeli NIS interest anticipated future curves.

€ in millions	Effect on Equity 2008			
	+20%	+10%	–10%	–20%
EURIBOR	27	14	(14)	(29)
PLN Wibor*	(10)	(5)	5	11
Israeli NIS Interest	(14)	(7)	8	15

€ in millions	Effect on Equity 2007			
	+20%	+10%	–10%	–20%
EURIBOR	16	8	(8)	(16)
Israeli NIS Interest	(16)	(8)	8	16

€ in millions	Effect on profit and loss 2008			
	+20%	+10%	–10%	–20%
EURIBOR	1	1	(1)	(1)
Israeli NIS Interest	(1)	–	–	1

€ in millions	Effect on Equity 2007			
	+20%	+10%	–10%	–20%
EURIBOR	13	7	(7)	(13)
PLN Wibor*	(13)	(7)	7	13

\* Until the fourth quarter of 2008, part of the swap transactions relating to PLN denominated liabilities were not accounted for using hedge accounting. Accordingly, the impact of the changes in the PLN Wibor had an impact in 2007 only on the profit and loss, and in 2008 on shareholders' equity.

e The tables below present the sensitivity of the consolidated profit (loss) of the Group before tax due to change in interests rates, not including derivatives.

The sensitivity analysis regarding derivatives are presented in the tables in D above.

€ in millions	Sensitivity to change in EURIBOR			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2008	(8)	(4)	4	8
2007	(8)	(4)	4	8

€ in millions	Sensitivity to change in Israeli Interest			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2008	–	–	–	–
2007	(2)	(1)	1	2

€ in millions	Sensitivity to change in Libor			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2008	(3)	(2)	2	3
2007	(2)	(1)	1	2

€ in millions	Sensitivity to change in Russian interest			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2008	7	4	(4)	(7)
2007	–	–	–	–

€ in millions	Sensitivity to change in Other Interests *			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2008	1	–	–	(1)
2007	4	2	(2)	(4)

\* Primarily include Romanian Ron interest and Turkish lira interest



### Liquidity risk

The Group finances its operations through short-term and long-term credit obtained from banking and non-banking organizations. The company raises financing according to needs and market conditions at that time.

As of December 31, 2008 and 2007, the Group holds assets for mortgaging, which according to estimates of the Group's management are sufficient to finance its future operations.

The tables below summarize the maturity profile of the Group's financial liabilities at December 31, 2008 and 2007 based on contractual undiscounted payments. The table includes repayments of principal amounts as well as interest due. Interest due was estimated based on actual amortization schedules of the loans and known variable interest rates as of December 31, 2008, and amounts to € 409 million as of December 31, 2008 and € 303 million as of December 31, 2007.

€ in millions	Year ended December 31, 2008						Total
	Less than a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	
Short term credit	488	–	–	–	–	–	488
Trade payables	112	–	–	–	–	–	112
Other payables and accrued expenses	256	–	–	–	–	–	256
Banking customers accounts	470	23	137	1	10	–	641
Interest bearing loans and borrowings	258	208	198	165	169	738	1,736
Convertible Debentures	5	31	–	–	–	–	36
Other Debentures	79	80	53	69	534	354	1,169
Other financial liabilities	21*	5	–	1	–	33	60
Other –insurance contract liabilities	20	51	–	–	–	–	71
	<b>1,709</b>	<b>398</b>	<b>388</b>	<b>236</b>	<b>713</b>	<b>1,125</b>	<b>4,569</b>

\* Include € 20 million put options granted to minority shareholders in KFS, which will be fully vested in 2009. These options are presented as long term liability on the face of the balance sheet.

€ in millions	Year ended December 31, 2007*						Total
	Less than a year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	
Short term credit	92	–	–	–	–	–	92
Trade payables	62	–	–	–	–	–	62
Other payables and accrued expenses	95	–	–	–	–	–	95
Banking customers accounts	477	48	6	1	–	–	532
Interest bearing loans and borrowings	302	140	134	94	65	616	1,351
Convertible Debentures	6	2	28	–	–	–	36
Other Debentures	54	51	52	20	48	803	1,028
Other financial liabilities**	31	98	4	16	–	40	189
Other –insurance contract liabilities	94	–	–	–	–	–	94
	<b>1,213</b>	<b>339</b>	<b>224</b>	<b>131</b>	<b>113</b>	<b>1,459</b>	<b>3,479</b>

\* Restated to include interest payments.

\*\* Includes put options and conversion component of convertible debentures which are all presented on the face of the balance sheet as non-current liabilities.

The maturity table does not include any assets. However, the Group most significant commitments relate to real estate projects under construction and infrastructure projects. These commitments are substantially covered by revenue stream from the underlying assets and undrawn bank facilities and thus have no major impact on liquidity.

#### Foreign currency risk

Since the Group conducts business in a variety of countries, it is exposed to a foreign currency exchange rate risk, resulting from exposure to different currencies. The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of each company in the Group.

Group companies conduct currency translation transactions at times to hedge the exposure to the foreign currency risk. Additional details of hedging transactions are presented in the interest rate risk note.

## Currency Exposure

a as of December 31, 2008:

€ in millions	In €	USD or linked to it	Ukraine Hryvna	Romanian Ron	Russian Rouble
<b>Assets</b>					
Cash and cash equivalent	330	70	10	6	38
Short term investments	45	2	5	–	–
Insurance companies and reinsurers	–	–	–	–	–
Insurance receivables	2	7	1	–	–
Trade receivables	7	7	1	2	–
Inventories, contract work and cost of buildings in progress	–	–	–	–	–
Account receivables and tax receivables	11	4	18	21	8
Loans to bank customers	30	170	67	–	188
Investments in associates and others	23	11	–	–	–
Long term investments and receivables and current maturities of long term receivables	194	40	–	85	170
Investment properties, under construction, fixed assets, deferred purchase expenses, other assets, deferred taxes and assets held for sale	–	–	–	–	–
	<b>642</b>	<b>311</b>	<b>102</b>	<b>114</b>	<b>404</b>
<b>Liabilities</b>					
Interest bearing loans and borrowings	257	55	–	10	68
Trade payable	15	13	2	15	–
Other payables and accrued expenses, taxes, payable and liabilities held for sale	81	10	2	7	16
Banking customers accounts	59	151	87	–	292
Prepayments less construction in progress cost	–	–	–	–	–
Convertible debentures and other debentures	788	–	3	–	–
Interest bearing loans and borrowing (including current maturities)	1,007	101	–	34	44
Convertible debentures conversion component and options liabilities	–	–	–	–	–
Insurance contracts liabilities	–	1	12	–	2
Deferred taxes	–	–	–	–	–
Accrued severance pay	–	–	–	–	–
Other liabilities	10	1	–	–	–
	<b>2,217</b>	<b>332</b>	<b>106</b>	<b>66</b>	<b>422</b>
<b>Differences between assets and liabilities</b>	<b>(1,575)</b>	<b>(21)</b>	<b>(4)</b>	<b>48</b>	<b>(18)</b>

In NIS linked to Israel CPI	In NIS not linked	In other currency or linked to it	At Fair Value	Non- monetary items	Total
–	17	69	–	–	540
–	–	14	3	–	69
–	–	25	–	–	25
–	–	17	–	–	27
–	39	6	–	–	62
–	–	–	–	477	477
–	5	78	–	36	181
–	–	–	–	–	455
45	–	1	–	72	152
–	9	138	181	–	817
–	–	83	–	2,363	2,446
<b>45</b>	<b>70</b>	<b>431</b>	<b>184</b>	<b>2,948</b>	<b>5,251</b>
1	53	3	–	–	447
3	8	56	–	–	112
4	20	87	22	133	382
–	–	2	–	5	596
–	–	–	–	22	22
75	–	–	–	–	866
8	34	95	–	–	1323
–	–	–	55	–	55
–	–	56	–	–	71
–	–	–	–	172	172
–	–	1	–	1	2
1	1	1	77	–	91
<b>92</b>	<b>116</b>	<b>301</b>	<b>154</b>	<b>333</b>	<b>4,139</b>
<b>(47)</b>	<b>(46)</b>	<b>130</b>	<b>30</b>	<b>2,615</b>	<b>1,112</b>

b as of December 31, 2007:

€ in millions	In €	USD or linked to it	Ukraine Hryvna	Romanian Ron	Russian Rouble
<b>Assets</b>					
Cash and cash equivalent	543	191	16	4	33
Short term investments	23	6	–	–	–
Insurance companies and reinsurers	8	2	–	–	–
Insurance receivables	12	6	–	–	–
Trade receivables	3	1	–	–	–
Inventories, contract work and cost of buildings in progress	–	–	–	–	–
Account receivables and tax receivables	51	2	25	4	7
Loans to bank customers	6	171	58	–	162
Investments in associates and others	15	3	–	–	–
Long term investments and receivables and current maturities of long term receivables	236	19	68	67	12
Investment properties, under construction, fixed assets, deferred purchase expenses, other assets, deferred taxes and assets held for sale	–	–	–	–	–
	<b>897</b>	<b>401</b>	<b>167</b>	<b>75</b>	<b>214</b>
<b>Liabilities</b>					
Interest bearing loans and borrowings	129	43	38	7	41
Trade payable	24	1	–	2	–
Other payables and accrued expenses, taxes, payable and liabilities held for sale	73	5	1	6	12
Banking customers accounts	89	115	114	21	147
Prepayments less construction in progress cost	–	–	–	–	–
Convertible debentures and other debentures	588	–	10	–	–
Interest bearing loans and borrowing (including current maturities)	663	99	–	27	2
Convertible debentures conversion component and options liabilities	–	–	–	–	–
Insurance contracts liabilities	65	3	–	–	–
Deferred taxes	–	–	–	–	–
Accrued severance pay	–	–	–	–	–
Other liabilities	–	6	–	–	–
	<b>1,631</b>	<b>272</b>	<b>163</b>	<b>63</b>	<b>202</b>
<b>Differences between assets and liabilities</b>	<b>(734)</b>	<b>129</b>	<b>4</b>	<b>12</b>	<b>12</b>

In NIS linked to Israel CPI	In NIS not linked	In other Currency or linked to it	At Fair Value	Non- monetary items	Total
–	12	94	–	–	893
17	32	10	–	–	88
–	–	22	–	–	32
–	–	18	–	–	36
6	–	6	28	–	44
–	–	–	–	297	297
–	7	23	–	32	151
–	–	–	–	–	397
44	–	–	–	65	127
–	7	10	65	6	490
–	–	–	–	1,717	1,717
<b>67</b>	<b>58</b>	<b>183</b>	<b>93</b>	<b>2,117</b>	<b>4,272</b>
2	74	19	–	–	353
1	10	27	–	–	65
2	16	28	7	110	260
–	–	–	–	–	486
–	–	–	–	12	12
175	–	–	–	–	773
–	12	26	–	–	829
–	–	–	164	–	164
–	–	71	–	–	139
–	–	–	–	110	110
–	–	–	–	1	1
–	1	–	–	–	7
<b>180</b>	<b>113</b>	<b>171</b>	<b>171</b>	<b>233</b>	<b>3,199</b>
<b>(113)</b>	<b>(55)</b>	<b>12</b>	<b>(78)</b>	<b>1,884</b>	<b>1,073</b>

c The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably realistic change in the Euro or USD exchange rates compared to other main currencies in which the Group operates, when all other variables are held constant:

€ in millions	Sensitivity to change in EURO/USD			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%

2008	(7)	(3)	3	7
2007	(22)	(11)	11	22

€ in millions	Sensitivity to change in EURO/RMB			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%

2008	–	–	–	–
2007	(4)	(2)	2	4

€ in millions	Sensitivity to change in EURO/PLN			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%

2008	(1)	(1)	1	1
2007	(6)	(3)	3	6

€ in millions	Sensitivity to change in EURO/HUF			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%

2008	2	1	(1)	(2)
2007	2	1	(1)	(2)

€ in millions	Sensitivity to change in EURO/RUB			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%

2008	7	4	(4)	(7)
2007	(3)	(1)	1	3

€ in millions	Sensitivity to change in EURO/RON			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%

2008	3	1	(1)	(3)
2007	(3)	(1)	1	3

€ in millions	Sensitivity to change in EURO/UHA			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%

2008	(1)	–	–	1
2007	(4)	(2)	2	4

€ in millions	Sensitivity to change in EURO/NIS			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%

2008	1	–	–	(1)
2007	2	1	(1)	(2)

€ in millions	Sensitivity to change in EURO/Israeli CPI*			
	Effect on profit and loss			
	+2%	+1%	-1%	-2%

2008	–	–	–	–
2007	3	1	(1)	(3)

\* In 2007 debentures and convertible debentures were sensitive to changes in the Israeli CPI. In 2008 convertible debentures were sensitive to the Israeli CPI (less than 1 million)

€ in millions	Sensitivity to change in EURO/Other currencies*			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%

2008	4	2	(2)	(4)
2007	1	1	(1)	(1)

\* Primarily include the Turkish lira.

€ in millions	Sensitivity to change in USD/UHA			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2008	9	4	(4)	(9)
2007	(2)	(1)	1	2

€ in millions	Sensitivity to change in USD/RUB			
	Effect on profit and loss			
	+20%	+10%	-10%	-20%
2008	(5)	(2)	2	5
2007	–	–	–	–

d. The following table demonstrates the sensitivity to a reasonably realistic change in shares prices, with all other variables held constant, of the Group's profit before tax

€ in millions	Sensitivity to change in Shares Prices			
	Effect on profit and loss			
	+30%	+15%	-15%	-30%
2008	8	4	(4)	(8)
2007	(50)	(25)	24	47



## Fair Value Risk

Set out below is a comparison by class of the differences between the carrying amounts and fair values of the Group's financial instruments.

€ in millions	Methods of determining fair value	Carrying amount		Fair value	
		2008	2007*	2008	2007*
<b>Assets</b>					
Cash and cash equivalents	(1)	540	893	540	893
Short-term investment	(1)	69	65	69	65
Held-to-maturity financial assets	(2)	50	–	51	–
Reinsurance receivables and insurance companies		25	32	25	32
Insurance premium receivable	(2)	27	36	27	36
Long-term loans and receivables	(3)	672	425	664	425
Investments in associates		80	62	80	62
<b>Liabilities</b>					
Interest-bearing loans and borrowings	(2)	(673)	(353)	(673)	(353)
Banking customers accounts	(2)	(591)	(486)	(589)	(486)
Convertible and non convertible debentures	(1), (2)	(892)	(848)	(598)	(858)
Interest-bearing loans and borrowings	(2)	(1,775)	(1,186)	(1,685)	(1,193)
Other long term liabilities	(3)	(91)	(7)	(91)	(7)
Warrants and options	(3)	(55)	(164)	(55)	(164)
Insurance provisions	(2)	(71)	(139)	(71)	(139)

\* Restated to include those financial assets and liabilities where there was no difference between their fair value and carrying value.

Methods of determining the fair value of the financial assets and liabilities:

- (1) Level 1 – Published price quotations in an active market
- (2) Level 2 – A valuation technique derived using market-observable inputs.
- (3) Level 3 – A valuation technique derived using non-market-observable inputs.

Additional information regarding determining the fair value:

- 1 The carrying amount of cash and cash equivalents and short-term investments, which include bank deposits, approximates their fair values, due to the nature of such financial assets.
- 2 Market values have been used to determine the fair value of listed convertible and non convertible debentures issued by the Company and subsidiaries.
- 3 The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

- 4 Loans granted to associates are deemed to be equity investments and accordingly their carrying values approximates their fair values.
- 5 Warrants, options and certain long-term receivables were valued by independent external valuers. The valuations were based on Discount Cash Flows or Residual methods. Management concurred with the outcome of these valuations.
- 6 Financial instruments for which fair value could not be determined are immaterial.

## B Additional information on financial instruments and risk management in the financial services sector

### Regulatory capital requirements

#### Banking

TBIF's policy is to maintain an actively managed capital base to cover risks inherent in the business. The adequacy of capital of the banks in TBIF is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the National Bank of Ukraine and National Bank of Russia in supervising the banks.

During the past year, the banks in TBIF had complied in full with all its externally imposed capital requirements

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision, as implemented by the National Bank of Russia and National Bank of Ukraine for supervisory purposes. The minimum Tier 1 ratio is 4% and the minimum total capital ratio is 8% of all risk-weighted assets including off-balance sheet items and market risk associated with trading portfolios.

#### Regulatory capital

The table below summarizes the required capital of the main insurance companies:

€ in millions	Ukraine		Russia	
	2008	2007	2008	2007
Tier 1 capital	32	43	46	14
Tier 2 capital	9	–	16	4
<b>Total capital</b>	<b>41</b>	<b>43</b>	<b>62</b>	<b>18</b>
<b>Risk-weighted assets</b>	<b>280</b>	<b>359</b>	<b>317</b>	<b>139</b>
Tier 1 capital ratio	11.6%	11.9%	14.6%	10.1%
Total capital ratio	14.9%	11.9%	19.5%	13.1%

## Insurance

In most jurisdictions in which TBIH operates, including Bulgaria, Croatia and Turkey, the local insurance or financial regulator makes capital requirements from insurance companies and other regulated entities such as pension-fund management companies. These requirements are put in place to ensure sufficient solvency margins. It is TBIH's policy to comfortably meet these requirements but not to exceed them so materially as to prevent the use of the limited capital in other ventures.

TBIH manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. In order to maintain or adjust the capital structure, TBIH may adjust the amount of dividends paid or inject further capital in those entities that require it.

€ in millions	December 31, 2008		December 31, 2007	
	Minimum required capital	Actual capital	Minimum required capital	Actual capital
<b>Company</b>				
Ray Sigorta (Turkey)	36.5	29.0	14	11
UIG (Ukraine)	7.0	12.8	–	–

As of December 31, 2008, Ray Sigorta had a capital deficiency of € 7.5 million (2007 - € 3 million). The shareholders of Ray Sigorta decided to increase the capital by YTL 20 million (€9.4 million) in the second quarter of 2009. Ray Sigorta has one year to address the shortfall, and the timing planned will fit this time frame.

### a Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectation. This is influenced by the frequency of claims, severity of claims, actual benefits paid, and unfavorable decisions of the local courts and subsequent development of long-term claims.

Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The majority of insurance business ceded is placed on an excess of loss basis and surplus with retention limits varying by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreement. The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

## 1 Life Insurance Contracts

As a result of selling Helios Insurance Company and the Bulstrad Life Insurance Company, the Group is no longer exposed to any material risks relating to life insurance. A minority of the group's subsidiaries write an immaterial amount of life insurance, and the type of products sold are very short term (e.g. one year) such that the risk to which they are exposed is very minor. These contracts are classified together with accident insurance in the group's reporting.

## 2 General insurance contracts

The group's main subsidiaries, Ray Sigorta in Turkey, Bulstrad in Bulgaria (partially sold as of December 31, 2008) and UIG in Ukraine, all write mainly non-life

insurance. The main types of non-life insurance are motor vehicle-related – third-party liability and casco and property insurance. Some of the company's subsidiaries, including GPIH in Georgia also write short term health insurance and a small amount of short-term life insurances. Risks under non-life insurance policies usually cover a twelve-month duration.

For general insurance contracts the most significant risks arise from changes in the relevant legal environment, changes in behavior of policyholders, natural disasters and terrorist activities. For healthcare contracts the most significant risks arise from epidemics, natural disasters and increases in healthcare costs. The nature of these risks does not vary significantly in relation to the location of the risk insured by the Group.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim-review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and investigation of possible fraudulent claims are all policies and processes put in place to reduce the risk exposure of the Group. Where appropriate, the Group further enforces a policy of actively managing and promoting pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

The Group has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements. The reinsurance arrangements limit the exposure to individual risks and the exposure to catastrophic events (e.g. hurricanes, earthquakes and flood damages). In known earthquake zones such as Turkey, the company

acquires specific reinsurance cover that is designed to limit the effect of any earthquakes on the group's activities.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Group's risk appetite as decided by management.

The tables below sets out the concentration of non-life insurance contract liabilities (including liabilities for unexpired risk and for outstanding claims) by type of contract:

€ in millions Line of business	December 31, 2008								
	Gross			Reinsurance share			Net		
	Gross Unearned Premiums Provision	Out-standing claims	Total	Gross Unearned Premiums provision	Out-standing claims	Total	Premiums provision	Out-standing claims	Gross Unearned Premiums provision
Total motor lines of business	20	17	37	1	2	3	19	15	34
Marine & cargo	1	1	2	1	–	1	–	1	1
Property	10	5	15	5	6	11	5	(1)	4
Aviation	5	2	7	2	5	7	3	(3)	–
Other	6	3	9	2	1	3	4	2	6
<b>Total</b>	<b>42</b>	<b>28</b>	<b>70</b>	<b>11</b>	<b>14</b>	<b>25</b>	<b>31</b>	<b>14</b>	<b>45</b>

€ in millions Line of business	December 31, 2007								
	Gross			Reinsurance share			Net		
	Gross Unearned Premiums Provision	Out-standing claims	Total	Gross Unearned Premiums provision	Out-standing claims	Total	Premiums provision	Out-standing claims	Gross Unearned Premiums provision
Total motor lines of business	39	37	76	5	4	9	34	33	67
Marine & Cargo	1	1	2	1	1	2	1	–	1
Property	12	6	18	8	4	12	3	2	5
Aviation	3	3	6	3	3	6	–	–	–
Other	6	6	12	1	2	3	5	4	9
<b>Total</b>	<b>61</b>	<b>53</b>	<b>114</b>	<b>18</b>	<b>14</b>	<b>32</b>	<b>43</b>	<b>39</b>	<b>82</b>

### Key assumptions

The principal assumptions underlying the estimates relate to how the Group's future claims development experience will differ, if at all, from the past claims development experience. This includes, for each accident period, assumptions with respect to average claim costs, claim handling costs, claim inflation factors, number of claims and delays between the claim events, claim reporting and claim settlement. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In the countries in which the Group operates, some assumptions, such as public attitude to claiming and economic conditions, are more subject to volatility than those in more developed countries with large and long-established insurance operations. Other assumptions include variation in interest rates and changes in foreign currency rates.

THIB's functional currency is the euro. Since year 1997, the exchange rate of the Bulgarian lev, the functional

currency of the Bulstrad Group, has been a fixed number of euros. The Turkish lira and Ukrainian grivna, the functional currencies, respectively, of the Ray Group and Ukrainian companies (UIG and VAB insurance), are floating. The Turkish lira has in past years been subject to significant fluctuations and the Ukrainian grivna had a significant devaluation in 2008. A large number of policies issued by GPIH, in Georgia are linked to the US dollar rather than the euro. The US dollar is therefore the presentation currency of the local subsidiary.

### Sensitivities

The non-life insurance claims provision is sensitive to the above key assumptions. It has not been possible to quantify the sensitivity of certain assumptions, such as legislative changes or uncertainty in the estimation process, in isolation.

The analysis below is performed for reasonably realistic movements in key assumptions (or combinations of the effect of several assumptions) with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in some of these assumptions may not be linear.

€ in millions	December 31, 2008				
	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity*
Average claim severity/cost of incurred claims due to motor property damage	+10%	1	1	(1)	(-)
Average claim severity/cost of incurred claims due to liability & motor bodily injury or death*	+10%	–	–	(-)	(-)
Average claim severity (cost) of incurred claims in all other (non-motor) lines of business*	+10%	1	–	(-)	(-)
Average claim frequency or severity of future claims in all lines of business	+10%	2	2	(2)	(-)

€ in millions	December 31, 2007				
	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity*
Average claim severity/cost of incurred claims due to motor property damage	+10%	3	3	(3)	(2)
Average claim severity/cost of incurred claims due to liability & motor bodily injury or death*	+10%	1	1	(1)	(1)
Average claim severity (cost) of incurred claims in all other (non-motor) lines of business*	+10%	2	1	(1)	(1)
Average claim frequency or severity of future claims in all lines of business	+10%	4	4	(4)	(3)

\* Impact on equity reflects adjustment for tax, when applicable (15% on average).

The method used for deriving sensitivity information and significant assumptions did not change from the previous period, however the scope of the information has been increased.

### Claims development table

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance-sheet date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated into euros at the rate of exchange that applies at the end of the accident year. The impact of exchange differences is shown at the bottom of the table. The table shows the most material lines of business (motor casco and motor third party liability). There are no material lines of business that the Group underwrites with a long tail. In the claims development tables below, the cumulative claims estimates and cumulative payments are translated into euros at the rate of exchange that applied at the end of the accident year. The impact of exchange differences is shown at the bottom of the table.

The Group aims to maintain strong reserves in respect of its non-life insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the Group transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.



**Claims development table***Gross non-life insurance claims for 2008 in € million:*

€ in millions	Before 2002	2002	2003	2004	2005	2006	2007	2008	Total
<b>Accident year</b>									
<b>Cumulative claims payments</b>									
Accident year	8	7	11	17	24	33	28	32	160
One year later	10	9	13	22	30	41	37		162
Two years later	10	9	14	22	30	42			128
Three years later	10	9	14	22	31				86
Four years later	10	9	14	22					55
Five years later	10	9	14						33
Six years later	10	9							19
Seven years later	10								10
Cumulative claims paid to 31/12/2008	11	9	14	22	31	42	37	32	198
<b>Current outstanding claims reserve</b>									
	–	1	–	1	–	1	2	12	17
<b>Current estimate of incurred claims</b>									
	11	10	14	23	31	43	39	44	215

**Cumulative incurred claims (claims paid + o/s claims liability)**

€ in millions	Before 2002	2002	2003	2004	2005	2006	2007	2008	Total
<b>Accident year</b>									
Accident year	11	9	15	22	30	42	38	42	209
One year later	10	24	35	22	31	44	39		170
Two years later	10	24	35	22	32	43			131
Three years later	10	24	36	23	31				88
Four years later	10	24	36	23					57
Five years later	10	24	36						34
Six years later	10	24							20
Seven years later	10								10
Current estimate of incurred claims	11	24	36	23	31	43	39	42	213
Current estimate of deficiency in original claims estimates	1	–	(1)	–	1	1			4
Deficiency as % of initial estimate of incurred claims	8%	1%	(1%)	2%	3%	3%	2%		2%

**Reconciliation of liability in above development triangles to liability in balance sheet:**

€ in millions	Gross	Net
<b>Accident year</b>		
Current insurance claim		
liabilities from motor lines in above tables	16	14
Current insurance claim		
liabilities from other lines of business from companies included above	11	(1)
<b>Total current insurance claim liabilities as per balance sheet</b>	<b>27</b>	<b>13</b>

**Credit risk – banking and lending**

Credit risk is the risk that the Group will incur a loss because of the inability of its customers to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counter-parties and for geographical and industry concentration, and by monitoring exposures in relation to such limits.

The Group has established a credit-quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit-risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit-quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

*(i) Credit-related commitments risks*

TBIF makes available to its customers guarantees which may require that TBIF makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose TBIF to similar risks to loans

and these are mitigated by the same control processes and policies.

*(ii) Maximum exposure to credit risk*

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

€ in millions	December 31, 2008	December 31, 2007
Cash and cash equivalents (excluding cash on hand)	104	9
Deposits in banks	–	107
Balances with central banks	18	23
Marketable debt securities	16	9
Consumer credit and mortgage loans	332	227
Banking loans granted	455	397
Finance leases	157	119
Other loans and long-term receivables	32	13
Available for sale financial assets	33	18
Held to maturity financial assets	50	–
Other receivables	28	36
	1,229	958
Financial guarantees	13	31
Letters of credit	22	18
Undrawn commitments to lend	79	15
	114	64
<b>Total credit risk exposure</b>	<b>1,343</b>	<b>1,022</b>

Where financial instruments are recorded at fair value the amounts shown above represent the current credit-risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

*(iii) Risk concentrations of the maximum exposure to credit risk*

The tables below show the maximum exposure to credit risk for the components of the balance sheet and the off-balance sheet commitments and contingencies, broken down according to TBIF main lines of business and geographical regions, before the effect of mitigation through the use of collateral agreements.

Risk concentration of the maximum exposure to credit risk as of December 31, 2008:

€ in millions	Banking	Consumer mortgage	Leasing	Asset Management	Others	Total
Ukraine	377	–	22	–	–	399
Russia	397	151	18	–	–	566
Romania	–	98	87	–	–	185
Bulgaria	–	113	41	2	–	156
Others	–	–	–	1	36	38
	<b>774</b>	<b>363</b>	<b>167</b>	<b>3</b>	<b>36</b>	<b>1,343</b>

Risk concentration of the maximum exposure to credit risk as of December 31, 2007:

€ in millions	Banking	Consumer mortgage	Leasing	Asset Management	Others	Total
Ukraine	445	–	7	–	–	452
Russia	160	82	7	–	–	249
Romania	–	88	88	–	–	176
Bulgaria	–	83	30	1	–	114
Others	–	–	–	1	30	31
	<b>605</b>	<b>253</b>	<b>132</b>	<b>2</b>	<b>30</b>	<b>1,022</b>

*(iv) Collateral and other credit enhancements*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

- The main types of collateral obtained are as follows:
- Cash deposits, both in retail and in corporate lending (mostly small and medium enterprises)
- Non-commercial premises in the large cities (high liquidity) for retail lending
- Moveable assets (cars, equipment)
- Commercial premises (in good shape and condition) for corporate lending

TBIF obtains guarantees from parent companies for loans to their subsidiaries, but the benefits are not included in the above table.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

*(v) Carrying amount per class of financial assets whose terms have been renegotiated*

€ in millions	December 31, 2008	December 31, 2007
Consumer credit and mortgage loans	6	–
Banking loans granted	–	54
Finance leases	–	2
Other loans and long-term receivables	–	–
<b>Total credit risk exposure</b>	<b>6</b>	<b>56</b>

*(vi) Impairment assessment*

The main considerations for the loan-impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit-rating downgrades, or infringement of the original terms of the contract. TBIF addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

*Individually assessed allowances*

TBIF determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

*Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the

time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with TBIF's overall policy. Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

#### *Credit risk – insurance and pension*

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The large majority of investments held were issued by the local government or guaranteed by it. This means that credit risks, even though they exist, are mainly limited to the local governments in the countries in which the group operates.

The following policies and procedures are in place to mitigate the Group's exposure to credit risk:

- A Group credit-risk policy setting out the assessment and determination of what constitutes credit risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each counterparty or Group of counter-parties, geographical and industry segment (i.e., limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held).
- Reinsurance is placed with counter-parties that have a good credit rating and concentration of risk is avoided by following policy guidelines with respect to counter-parties' limits that are set each year by the Board of Directors and are subject to regular reviews. Reinsurance counterparties are approved by the group's senior management after input by VIG.

At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

- The Group sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings per individual subsidiary.
- The credit risk with respect to customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated.

Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

#### **Collateral**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for lending. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral then needed and performs an impairment valuation when applicable.

*Credit risk –indicators financial services segment*

**Maximum exposure to credit risk**

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

€ in millions	2008	2007
Financial leases, consumer credits, and mortgages	489	347
Loans and advances to bank customers	455	397
Bank deposits	7	172
Balances with central banks	18	23
Financial assets classified at fair value through P&L	25	21
Other loans and receivables	132	89
Available-for-sale financial assets	34	35
Held-to-maturity financial assets	50	–
Assets held for sale	83	–
Reinsurance assets	24	32
Insurance receivables	27	36
Cash and cash equivalents	120	60
	<b>1,464</b>	<b>1,212</b>
Financial guarantees	13	31
Letters of credit	22	18
Undrawn commitments to lend	79	15
	<b>114</b>	<b>63</b>
<b>Total credit-risk exposure</b>	<b>1,578</b>	<b>1,275</b>

Where financial instruments are recorded at fair value the amounts shown above represent the current credit-risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

*Credit quality per class of financial assets*

The tables below show the credit quality by class of assets, based on the internal credit-rating systems.

Credit quality per class of financial assets as of December 31, 2008:

€ in millions	Neither past due nor impaired				Total
	High grade	Standard grade	Low grade	Past due/ impaired	
Cash in banks	53	67	–	–	120
Deposits in banks	–	7	–	–	7
Consumer credit and mortgage	–	271	–	61	332
Banking loans granted	–	266	132	58	456
Finance leases	–	63	40	54	157
Balances with central banks	18	–	–	–	18
Other securities	2	21	2	–	25
Assets held for sale	83	–	–	–	83
Available-for-sale financial assets	8	26	–	–	34
Held-for-maturity financial assets	–	50	–	–	50
Reinsurance assets	23	1	–	–	24
Insurance receivables	2	24	1	–	27
Other receivables	4	122	4	–	130
	<b>193</b>	<b>918</b>	<b>179</b>	<b>173</b>	<b>1,463</b>

Credit quality per class of financial assets as of December 31, 2007:

€ in millions	Neither past due nor impaired				Total
	High grade	Standard grade	Low grade	Past due/ impaired	
Cash in banks	55	4	1	–	60
Deposits in banks	91	77	4	–	172
Consumer credit and mortgage	11	184	4	29	227
Banking loans granted	–	370	20	7	397
Finance leases	2	90	–	28	119
Other loans and receivables	39	15	–	–	54
Government debt securities	10	–	–	–	10
Other securities	3	51	–	–	53
Reinsurance assets	29	3	–	–	32
Insurance receivables	12	21	–	3	36
Other receivables	3	30	–	1	34
	<b>256</b>	<b>844</b>	<b>28</b>	<b>67</b>	<b>1,196</b>

*Aging analysis of past due but not impaired loans and receivables*

Aging analysis of past due but not impaired loans and receivables as of December 31, 2008:

€ in millions	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Consumer credits and mortgage	13	7	4	7	31
Banking loans granted	15	7	–	1	23
Finance leases	18	4	2	6	30
	<b>46</b>	<b>18</b>	<b>7</b>	<b>14</b>	<b>84</b>

Aging analysis of past due but not impaired loans and receivables as of December 31, 2007:

€ in millions	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Consumer credits and mortgage	10	5	2	1	19
Banking loans granted	–	1	1	1	3
Finance leases	9	12	3	1	25
	<b>19</b>	<b>19</b>	<b>6</b>	<b>3</b>	<b>47</b>

### 3 Liquidity risk and funding management

*Liquidity risk – banking and lending*

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they are due under normal circumstances. To limit this risk, management has arranged diversified sources in addition to deposit bases (only in the banking subsidiaries), manages assets with liquidity in mind and monitors future cash flow and liquidity on a daily basis. This incorporates assessments of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

TBIF's subsidiaries maintain a portfolio of marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. TBIF and some of its subsidiaries have certain committed lines of



credit that are available to meet liquidity needs. In addition, all banks in the Group maintain statutory deposits with the central banks in their countries of incorporation in compliance with the requirements of the local legislation.

The KFS Group uses maturity tables in managing its liquidity risk by performing maturity gap analysis, including estimations of deposit roll forwards for the banks in the Group. The Group focuses on maintaining a diversified mix of funding sources and assets that allows for secured funding. The tables below show an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled, as well as the contractual expiry by maturity of the Group's contingent liabilities and commitments.

The Group estimates that the contractual maturity of financial assets and liabilities matches their expected maturity, due to the following:

- The Group expects that its financial liabilities will be settled on the earliest date on which Group entities can be required to pay;
- There is no active market for the majority of financial assets held by the Group and they are not readily saleable;
- The Group does not have very diverse funding sources.

#### **Liquidity risk – insurance and pensions**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk:

- A country-by-country liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Group.
- The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures, and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance contracts obligations.

- Setting up contingency funding plans on a Group side basis which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

#### **Maturity profiles**

The Group uses maturity tables in managing its liquidity risk. The tables below show an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled, as well as the contractual expiry by maturity of the Group's contingent liabilities and commitments.

The Group has not recognized any contingent assets on its balance sheet due to the uncertainty of the assets' recoverability.

The Group has no significant concentration of liquidity risk.

Interest bearing debt falling within one year is substantially covered by the Group's cash position and its credit facilities. Under normal circumstances, banking customers accounts which can be drawn on demand are considered covered by the banks' financial assets.

*Liquidity risk – indicators of financial services sector*

Maturity analysis of KFS's liabilities as of  
December 31, 2008:

€ in millions	up to 1 year	1-2 years	2-3 years	3-5 years	Thereafter	Total
Liabilities with no term						
to maturity	–	–	–	–	–	–
Bank Customer accounts	491	23	137	11	–	662
Insurance contract						
liabilities	20	51	–	–	–	71
Borrowings	242	137	85	316	186	966
Non convertible						
debentures	10	9	8	20	–	47
Other liabilities	108	5	–	–	–	113
	<b>871</b>	<b>225</b>	<b>229</b>	<b>347</b>	<b>186</b>	<b>1,859</b>

Maturity analysis of KFS's liabilities as of  
December 31, 2007:

€ in millions	up to 1 year	1-2 years	2-3 years	3-5 years	Thereafter	Total
Liabilities with no term						
to maturity	–	–	–	–	2	2
Insurance contract						
liabilities	94	15	4	16	6	136
Borrowings	710	100	130	61	78	1,079
Other liabilities	55	–	–	15	42	112
	<b>860</b>	<b>115</b>	<b>134</b>	<b>92</b>	<b>128</b>	<b>1,329</b>

Maturity analysis of KFS's contingent liabilities and commitments as of December 31, 2008:

€ in millions	up to 1 year	1-2 years	2-3 years	3-5 years	Total
Financial guarantees	11	1	–	1	13
Letters of credit	18	2	3	–	22
Undrawn commitments to lend	55	9	6	8	79
<b>Total</b>	<b>84</b>	<b>12</b>	<b>9</b>	<b>9</b>	<b>114</b>

Maturity analysis of KFS's contingent liabilities and commitments as of December 31, 2007:

€ in millions	up to 1 year	1-2 years	2-3 years	3-5 years	Total
Financial guarantees	29	2	–	–	31
Letters of credit	17	–	1	–	18
Undrawn commitments to lend	15	–	–	–	15
<b>Total</b>	<b>61</b>	<b>2</b>	<b>1</b>	<b>–</b>	<b>64</b>

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

## 50 Related Parties Disclosure

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

## 1 Balances

€ in millions	December 31, 2008	December 31, 2007
<b>Assets</b>		
Long-term loans and receivables granted to associates:		
Associates in GTC Group	34	15
Associates in Tahal Group	13	14
Associates in Kardan Israel Group	33	26
	<b>80</b>	<b>55</b>
Capital note issued by a related party	1	1

Long-term loans and receivables include loans granted to associates. For details regarding these loans please refer to Note 9.

Capital note issued by a related party relates to one of the controlling shareholders. For details please refer to Note 12.

## 2 Transactions

€ in millions	For the year ended December 31,		
	2008	2007	2006
Management fees from associated companies	3	2	1
Financing income from associated companies, net	5	1	2

Management fees from associated companies primarily relates to management fees paid by the associates of Kardan Israel and GTC SA.

Financing income relates to interest on the loans granted to associates as described above.

**3 Remuneration to directors<sup>1</sup>**

	Options granted by the Company	For the year ended December 31,	
		2008	2007
	No. of options	€'000	€'000
<b>Fees to Management Board:</b>			
A. Shlank	179,232	262	204
E. Oz-Gabber	149,360	170	144
Z. Rubin <sup>2</sup>	105,000	105	161
W. van Damme <sup>3</sup>	150,000	210	76
A. Ickovics	179,232	244	200
J. Slootweg <sup>4</sup>	175,000	109	–
<b>Fees to Supervisory Board:</b>			
J. Krant		32	26
I. Fink		20	18
J. Pomrenze		22	18
M.I. Groen		24	22
A. Schnur		20	18
K. Rechter		22	22
H. Benjamins		22	18
<b>Fees and salaries to shareholders employed by the Company:</b>			
Y. Grunfeld		458	307
E. Rechter		432	299
<b>Shares of the Company held by directors:</b>			
(directly and through companies under their control)		24.7%	30.6%

1 Amounts paid directly by the Company and by Group companies.

2 Resigned from the Management Board in June 2008.

3 Member of the Management Board since June 2007.

4 Member of the Management Board since June 2008.

The remuneration to the members of the Management Board and Supervisory Board is presented every year to the Annual General Meeting of Shareholders of the Company and approved by it.

## 51 Subsequent Events

All subsequent events which were already published to the public:

**A** In February 2009 Bank Pekao S.A. ("the Bank") restricted unilaterally certain amounts held by GTC SA on its accounts to secure the Bank's exposure related to cross-currency IRS instruments as described in Note 49. As of the date of the approval of these financial statements the restricted funds amounted to € 52.8 million. In the opinion of the management of GTC SA, the Bank had no legal basis to restrict the above-mentioned amount. Currently both parties discuss the conditions for release of the restricted funds, apart from a € 5 million security deposit and certain other collaterals. The above arrangement, if finalized, will be subject to approval of GTC SA's Supervisory Board and the Bank's credit committee. If such agreement could not be reached within reasonable time and the Bank's actions adversely affect operating activity of GTC SA, the management of GTC SA will consider legal steps to protect the interest of the Company and its shareholders.

**B** Subsequent to the balance sheet date, in March 2009, the Company has reached an agreement with Israel Discount Bank ("IDB") to buy back the stake of 11% IDB holds in KFS. After the transaction, Kardan and management of KFS will own 100% of the shares of KFS. The purchase price amounts to €38.5 million and is payable in two instalments. The first instalment amounting to € 30 million is payable upon closing; the second instalment of € 8.5 million is due after 7 years and bears no interest. Part of the agreement is that the Company will grant IDB an option to repurchase a 5% stake in KFS during the next six years, at a price reflecting a valuation of KFS of € 386 million plus 5% interest from the third year. Furthermore IDB approved new credit facilities for Kardan Group in amounts in excess of the purchase price. The agreements were signed on March 31, 2009.

The accounting treatment of the transaction is being reviewed.

**C** Subsequent to balance sheet date the global crisis continued to have its impact on global real estate and financial services markets, as well as in the infrastructure business. This may have a further adverse impact on the fair values of properties, financial instruments and other assets.. At present, management is not able to estimate the financial impact hereof.



# Company-only Statutory Dutch GAAP Financial Statements

## Balance Sheet

December 31, 2008 – Before Appropriation of Net Result

€ in millions	Note	December 31, 2008	December 31, 2007
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible fixed assets	3	44	99
Long-term receivable	4	27	–
		71	99
<b>Financial fixed assets</b>			
	5		
Investments in consolidated subsidiaries		516	418
Loans to consolidated subsidiaries		281	117
		797	535
<b>Current assets</b>			
Cash and cash equivalents	6	109	47
Short-term investments	7	31	18
Other receivables		18	5
		158	70
<b>Total assets</b>		<b>1,026</b>	<b>704</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
	8		
Share capital		23	17
Share premium		230	176
Property revaluation reserve		140	109
Revaluation reserve, other		(35)	(5)
Currency translation reserve		(43)	(25)
Retained earnings (accumulated deficit)		1	(19)
Result for the period		52	90
		368	343
<b>Long-term liabilities</b>			
Debentures	9	505	215
Loans from banks and others	10	43	66
Warrants and Options	11	20	63
		568	344
<b>Current liabilities</b>			
Current maturities of long-term loans		59	5
Other payables	12	31	12
		90	17
<b>Total equity and liabilities</b>		<b>1,026</b>	<b>704</b>

See accompanying notes.



# Company-only Statutory Dutch GAAP Income Statement

Year ended December 31

€ in millions	Note	2008	2007
Net result from investments for the year	5D	48	57
Other income, net	13	4	33
<b>Net profit</b>		<b>52</b>	<b>90</b>

See accompanying notes.

# Notes to the Company-only Statutory Dutch GAAP Financial Statements

December 31, 2008

## 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.

## 2 Significant Accounting Policies

The company-only statutory Dutch GAAP financial statements are drawn up in accordance with accounting policies generally accepted in The Netherlands (Dutch GAAP) and are the same as described in the Notes to the Consolidated IFRS financial statements with the exception of the following: investments in consolidated subsidiaries are stated at the Company's share in their net asset value. In accordance with Article 402 of part 9, Book 2, of the Netherlands Civil Code, the company-only statutory Dutch GAAP income statement of operations is condensed, as its income statement is already included in the consolidated IFRS income statement.

## 3 Intangible Fixed Assets

Intangible fixed assets include goodwill arising on the acquisition of subsidiaries. Movements are as follows:

€ in millions	2008	2007
Cost at January 1, net of accumulated amortization	99	6
Acquisition of subsidiaries	–	101
Impairment losses	(28)	–
Release due to revaluation of investment properties	(26)	–
Amortization	(1)	–
Decrease due to changes in investments	–	(8)
Cost at December 31, net of accumulated amortization	<b>44</b>	<b>99</b>
At January 1,		
Cost	100	7
Less – accumulated amortization	(1)	(1)
	<b>99</b>	<b>6</b>
At December 31,		
Cost	100	100
Less – accumulated amortization and impairment losses	(56)	(1)
	<b>44</b>	<b>99</b>

## 4 Long Term Receivable

Long-term receivable relates to the fair value of derivatives as further described in Note 49 to the consolidated IFRS financial statements.

## 5 Financial Fixed Assets

### A Investments in consolidated subsidiaries

The movement in the investment in consolidated subsidiaries can be summarized as follows:

€ in millions	2008	2007
January 1	418	262
Acquisition of shares in subsidiaries and investments	4	100
Deferred revenue on linked transaction	–	2
Conversion of loan to equity	9	–
Disposals	–	(4)
Treasury shares	(21)	–
Acquisition of minority shares in subsidiary against issuance of Company's shares	136	–
Capital reserves*	(34)	(8)
Net result of investments for the year	4	66
December 31	<b>516</b>	<b>418</b>

\* Primarily relates to foreign currency exchange differences arising on translation of foreign operations.

A further specification is as follows:

Names of significant subsidiaries	2008		2007	
	Ownership %	Total value € in millions	Ownership %	Total value € in millions
Kardan Israel Ltd. (1)	73.7	69	71.35	76
GTC Real Estate Holding B.V. (2)	100.0	360	64.6	196
Kardan Financial Services B.V. (3)	80.0	68	80.0	128
Tahal Group International B.V. (4)	100.0	19	100.0	18
<b>Total investments in significant consolidated subsidiaries</b>		<b>516</b>		<b>418</b>

## B Additional Information:

- (1) As described in Note 1B to the consolidated IFRS financial statements, as a result of the merger between the Company, GTC RE and GTC Holding, the Company has issued 10,506,111 of its own shares to Kardan Israel in exchange for its 15.5% interest in GTC RE. These shares of the Company are accounted for as treasury shares, and accordingly an amount of € 21 million was deducted from the investment account. This amount represents the market value of the Company's shares at the date of the merger (being 10,506,111 shares at € 1.97). These shares are deducted from the shareholders' equity of Kardan.
- (2) In 2007, the Company had a 64.6% interest in GTC Real Estate N.V. Following the completion of the merger, as described in Note 1B to the consolidated IFRS financial statements, the Company has acquired all minority shareholders in GTC RE in exchange for issuance the Company's shares. Following the completion of the merger, in December 2008, all assets and liabilities, except for the GTC RE debentures and GTC RE convertible debentures, were transferred to GTC Holding, and GTC RE ceased to exist.
- (3) The main reason for the decrease in the investment are operating losses over 2008, and negative capital reserves, mainly due to the devaluation of the Russian Rubble and the Ukrainian Hryvna compared to the Euro.
- (4) In the first quarter of 2008 the Company has completed a restructuring of its infrastructure holdings. The holding company, Tahal Group B.V. became the holding company of the projects activities; a new company, Tahal Group Assets B.V., was incorporated and became the holding company of the asset ownership activities; both are now 100% held by Tahal Group International B.V., a newly incorporated 100% subsidiary of Kardan. In line with the restructuring, certain subsidiaries of Tahal Group B.V. were transferred to the new company Tahal Group Assets B.V. The restructuring did not have an impact on the Company.

## C Loans to consolidated subsidiaries:

Loans to consolidated subsidiaries include a loan to Tahal Group International B.V. amounting to € 86 million, a loan to KFS amounting to € 29 million, and a loan to GTC Holding amounting to € 178 million. The loans are primarily denominated in Euro.

- The loan to KFS bears interest of Euribor + 2.875% per annum and it matures no later than 2013.
- The loan to Tahal bears interest of Euribor + 3% per annum and matures not earlier than December 31, 2009.
- The loan to GTC Holding bears interest of Euribor + 3% per annum, and has its final maturity date in 2020.

The movement in the loans is as follows:

€ in millions	2008	2007
Balance as of January 1	117	18
Loans granted to subsidiaries	210	113
Loans repaid by subsidiaries	(32)	–
Conversion of loan into capital	(9)	(19)
Accrued interest and foreign currency differences, net	7	5
December 31	<b>293</b>	<b>117</b>
Less – current maturities	(12)	–
	<b>281</b>	<b>117</b>

**D Net result from investments for the year:**

€ in millions	2008	2007
Net result of investments for the year (see Note 5A)	4	66
Gain from issuance of shares in subsidiaries	2	–
Release of goodwill due to revaluation of investment properties	(26)	–
Impairment losses	(9)	–
Gain from merger (release of negative goodwill)	77	–
Loss from investment in debentures issued by consolidated subsidiaries	–	(1)
Decrease due to changes in holdings	–	(8)
	<b>48</b>	<b>57</b>

**6 Cash and Cash Equivalents**

Cash and cash equivalents comprise only short term deposits.

The average interest earned on short term deposits is 2.8%-3.6% (in 2007 - 3%-3.5%).

**7 Short Term Investments**

€ in millions	2008	2007
Bank deposits in EUR	–	12
Bank deposits in USD	1	–
Pledged deposits in EUR	30	6
	<b>31</b>	<b>18</b>

The pledged deposits relate to security for a loan and certain swap transactions.

The average interest rate earned was 4% (2007: 7.5%–10.5%).

## 8 Dutch GAAP Shareholders' Equity

€ in millions	Attributable to equity holders of the parent						Total
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings	
<b>Balance as of January 1, 2007</b>	<b>17</b>	<b>160</b>	<b>65</b>	<b>–</b>	<b>(14)</b>	<b>39</b>	<b>267</b>
Currency translation differences	–	–	–	–	(11)	–	(11)
Change in fair value of hedge instrument	–	–	–	(4)	–	–	(4)
Adjustment due to restatement of subsidiary	–	–	–	–	–	(5)	(5)
Change in unrealized revaluation reserve	–	–	–	(1)	–	–	(1)
Total income and expense for the year recognized directly in equity	–	–	–	(5)	(11)	(5)	(21)
Net profit for the period	–	–	–	–	–	90	90
Total income /expense for the year	–	–	–	(5)	(11)	85	69
Share-based payment	–	2	–	–	–	–	2
Exercise of warrants and options	–	14	–	–	–	–	14
Dividend distributed	–	–	–	–	–	(9)	(9)
Reclassification according to statutory requirements*	–	–	44	–	–	(44)	–
<b>Balance as of December 31, 2007</b>	<b>17</b>	<b>176</b>	<b>109</b>	<b>(5)</b>	<b>(25)</b>	<b>71</b>	<b>343</b>

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

€ in millions	Attributable to equity holders of the parent						Total
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings	
<b>Balance as of January 1, 2008</b>	<b>17</b>	<b>176</b>	<b>109</b>	<b>(5)</b>	<b>(25)</b>	<b>71</b>	<b>343</b>
Currency translation differences	–	–	–	–	(18)	–	(18)
Change in fair value of hedge instrument	–	–	–	(30)	–	–	(30)
Total income and expense for the year recognized directly in equity	–	–	–	(30)	(18)	–	(48)
Net profit for the period	–	–	–	–	–	52	52
Total income /expense for the year	–	–	–	(30)	(18)	52	4
Issuance Company's shares to minority shareholders	6	51	–	–	–	–	57
Share-based payment	–	1	–	–	–	–	1
Issuance of Company's shares to consolidated company (treasury shares)	–	–	–	–	–	(21)	(21)
Exercise of warrants and options	–	2	–	–	–	–	2
Dividend distributed	–	–	–	–	–	(18)	(18)
Reclassification according to statutory requirements*	–	–	31	–	–	(31)	–
<b>Balance as of December 31, 2008</b>	<b>23</b>	<b>230</b>	<b>140</b>	<b>(35)</b>	<b>(43)</b>	<b>53</b>	<b>368</b>

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

### Additional information

As described in Note 1B to the consolidated IFRS financial statements, as a result of the merger between the Company, GTC RE and GTC Holding, the Company has issued 10,506,111 of its own shares to Kardan Israel in exchange for its 15.5% interest in GTC RE. These shares of the Company are accounted for as treasury shares, and accordingly an amount of EUR 21 million was deducted from shareholders' equity (presented as issuance of shares to consolidated company in the shareholders' equity movement above).

## 9 Debentures

Composition:

€ in millions	December 31, 2008	December 31, 2007
Debentures – issued in 2007	242	218
Debentures – issued in 2008 in connection with the merger	266	–
Convertible debentures – issued in 2008 in connection with the merger	3	–
	<b>511</b>	<b>218</b>
Less – debt issuance expenses	(3)	(3)
Less – current maturities	(3)	–
	<b>505</b>	<b>215</b>

For further details please refer to Note 28 and 29 to the consolidated IFRS financial statements.

## 10 Loans from Banks and Others

Composition:

€ in millions	December 31, 2008	December 31, 2007
Phoenix (1)	24	22
Mercantile Discount Bank (2)	14	6
Israel Discount Bank (3)	6	5
Leumi Bank (4)	30	14
Mizrachi Bank (5)	20	20
Union Bank (6)	6	6
	<b>100</b>	<b>73</b>
Less – deferred debt issuance costs	(1)	(2)
	99	71
Less – current maturities	(56)	(5)
	<b>43</b>	<b>66</b>

The fair value of the long term loans from banks and others at year end, being the current values of the liabilities calculated using estimated interest rates, approximates the book value (see also Note 49 to the consolidated IFRS financial statements).

(1) In January 2005, the Company issued a debenture to Phoenix Israel Insurance Company Ltd. ('Phoenix'), pursuant to which the Company received a loan amounting to NIS 110.0 million (€ 21 million) from Phoenix. The debenture is for a term of 5 years and bears interest at a fixed rate of 6.6% per annum. The principal and interest are linked to the Israeli CPI. The principal of the debenture will be repaid in one instalment, 5 years following the date of issuance. The interest is to be repaid in five annual instalments, the first falling due on February 1, 2006. As security for the debenture, the Company pledged a deposit amounting to € 25.4 million, which should not be lower than 110% of the value of the outstanding debenture for a period longer than 5 days. In the event of certain conditions not being fulfilled the debenture can be called for immediate repayment. Some of these conditions relate to the company-only equity of Kardan, which (i) must not fall below NIS 150 million (€ 28 million) during a continual three-month period; (ii) must not fall below NIS 140 million (€ 26 million) during one month; and (iii) must not fall below 28% of the balance sheet total for a three month period. In addition, prior approval by Phoenix should be received for any change in control, re-organization, reduction of capital and delisting of the Company.

(2) In April 2005, the Company received a loan in the amount of € 7.5 million from Mercantile Discount Bank Ltd ('Mercantile'). The loan was granted for a period of 6 years and bears interest at a rate of EURIBOR + 1.4% per annum. The principal is repaid in annual instalments of € 1.5 million each, and the interest is paid quarterly. As a security for the loan the Company issued to Mercantile options for no consideration. In February 2006 Mercantile exercised its option and received 119,222 Shares. In addition, the Company has pledged in favour of Mercantile 10,264,103 shares of Kardan Israel, which comprise 125% of the outstanding balance of the loan. In addition, in March 2008 the Company has signed another loan agreement with



Mercantile for a rolling short-term loan amounting to € 10 million. The Company and Mercantile agreed that the loan will be replaced by a loan-term loan. The loan bears interest of EURIBOR +2.5% per annum. As a security to the loan the Company has pledged in favour of Mercantile 22,543,605 shares of Kardan Israel, which equal 125% of the outstanding balance of the loan. In addition, the Company has committed that at the end of each calendar quarter the shareholders' equity of Kardan will be the higher of € 115 million or 30% of the assets of the company-only financial statements of the Company.

(3) In August 2005, the Company received a loan from Israel Discount Bank Ltd. ('Discount Bank') in the amount of NIS 29.4 million (€ 5.5 million). The term of the loan is for 4 years and it bears interest at a rate of 5% per annum. The loan is linked (principal and interest) to the Israeli CPI. The principal of the loan has to be repaid in one instalment, 4 years following the date of the loan. The interest has to be paid in four instalments, falling due on each 31 August of the years 2006 through 2009. As security for the loan the Company has pledged in favour of Discount Bank the profits from a hedge transaction conducted through Discount Bank. In addition, the Company has guaranteed inter alia that its equity (company - only), shall not fall below 30% of its balance sheet total.

(4) In April 2006 the Company signed a credit facility agreement with Leumi Bank regarding a total facility of € 23 million. The loan drawn under this facility bears interest of EURIBOR or LIBOR + 1.3% and is repayable in 5 equal annual instalments during the years 2007-2011. Interest is payable per quarter.

In March 2008 the Company has signed an additional loan agreement with Leumi Bank for € 13.7 million loan bearing interest of EURIBOR + 1.43% per annum. The loan is repayable in 5

instalments during the years 2009-2013. The interest is paid on a quarterly basis.

The interest rate for both loans was increased by 0.7% in October 2008 due a change in rating of the Company's debentures.

As security for both loans the Company pledged its holdings in KFS in favour of the bank and, in addition, committed itself to maintain an equity-to-balance sheet ratio of 26% and also has guaranteed that the equity of the Company will not fall below USD 98 million. Further, the Company has committed itself not to pledge shares of TBIH for purposes other than those described in the agreement, and that KFS will hold at least 51% of TBIF and 35% of TBIH.

(5) In November 2006 the Company signed a loan agreement with Mizrachi Bank. The loan, amounting to € 20 million, bears interest of EURIBOR +1.3% per annum and matures in 2009. The interest is to be paid annually.

As security, the Company has pledged in favour of the bank shares of Tahal Group International, and its receivables due from Tahal Group International.

(6) In January 2007, the Company signed a loan agreement with Union Bank. The loan, amounting to € 6 million bears interest of 5.615% per annum maturing in January 2009 in one instalment. The loan was fully repaid as scheduled.

Subsequent to the balance sheet date, in February 2009, the Company has signed a new loan agreement with Union Bank for the same amount of loan. The new loan bears interest of EURIBOR + 2.5% and is repayable in 8 half-annual instalments during the years 2009-2013. As a security to the loan, the Company has pledged 11,578,390 shares of Kardan Israel which equal 120% of the outstanding balance of the loan. In addition, the Company has committed to maintain shareholders'

equity of at least 25% of the company-only total balance sheet, and that Kardan will continue to control Kardan Israel.

As of December 31, 2008 the Company met all its financial covenants.

## 11 Warrants and Options

As for the warrants and options issued/granted by the Company, please refer to Note 27 to the consolidated IFRS financial statements.

## 12 Other Payables

€ millions	December 31, 2008	December 31, 2007
Accrued expenses (mainly accrued interest)	25	11
Others	6	1
	<b>31</b>	<b>12</b>

## 13 Other Income

In 2008, other income comprises finance income of € 9 million, management fees of € 1 million, and general and administrative and other expenses of € 6 million.

In 2007 the € 33 million other income derived mainly from finance income due to the Company's holding in GTC RE debentures (revaluation of the conversion component in GTC RE debentures).

## 14 Audit Fees

The table below summarizes the fees invoiced to the Company's by its auditors, Ernst & Young Accountants LLP in 2008 and 2007:

€ in thousand	December 31, 2008	December 31, 2007
Audit and review of financial statements	251	348
Other audit services	142	40
Tax services (related to the financial statements)	2	2
Other non-audit services	17	7
	<b>412</b>	<b>397</b>

## 15 Remuneration of Management Board and Supervisory Board

The Company's Management Board and Supervisory Board received remuneration in 2008 and 2007 as described in Note 50 to the consolidated IFRS financial statements.

## 16 Commitments, Contingent Liabilities, Guarantees and Subsequent Events

For commitments, contingent liabilities, guarantees, and subsequent events please refer to Notes 34 and 51 respectively of the consolidated IFRS financial statements.

### Management Board

A. Ickovics  
A. Shlank  
Z. Rubin (resigned in June 2008)  
E. Oz-Gabber  
W. van Damme  
J. Slootweg (appointed in June 2008)

### Supervisory Board

J. Krant  
A. Schnur  
K. Rechter  
I. Fink  
J. Pomrenze  
M. Groen  
H. Benjamins

## Other Information

### Statutory arrangements in respect of the appropriation of net result

The Articles of Association of the Company provide that the appropriation of the net result for the year is decided upon at the Annual General Meeting of Shareholders.

The dividend policy of Kardan N.V. recommends an annual dividend distribution between 20% and 30% of net income, taking into consideration amongst others the liquidity and capital position and future financing requirements. According to this policy, the Management Board, with the approval of the Supervisory Board, has decided to allocate the entire profit to the reserves and therefore no dividend will be distributed for the financial year 2008. This decision is based upon the strategy followed as of the middle of 2008 to preserve cash as much as possible in order to be able to fulfill the commitments of the Kardan Group towards suppliers.

# Auditor's Report

To: The Management and Shareholders of Kardan N.V.

## Report on the Statutory Financial Statements

We have audited the statutory financial statements of Kardan N.V. as set out on pages 76 to 241. 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 of December 31, 2008, 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, 2008, the company-only Dutch GAAP income statement for the year then ended and the company-only Dutch GAAP notes thereto.

### Management's responsibility

Management is responsible for the preparation and fair presentation of the statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the statutory financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on the statutory financial statements based on our audit. We

conducted our audit in accordance with Dutch law.

This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the statutory financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statutory financial statements.

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

### Opinion with respect to the consolidated IFRS financial statements

In our opinion, the consolidated IFRS financial statements give a true and fair view of the financial position of Kardan N.V. as of December 31, 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

**Opinion with respect to the company-only statutory Dutch GAAP financial statements**

In our opinion, the company-only statutory Dutch GAAP financial statements give a true and fair view of the financial position of Kardan N.V. as of December 31, 2008, 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 f 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, April 17, 2009  
for Ernst & Young Accountants LLP  
Signed by A.J. Buisman

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# Supplementary Information

Company-only IFRS Financial Statements

# Company-only IFRS Balance Sheet

December 31, 2008

€ in millions	Note	December 31, 2008	December 31, 2007
<b>Assets</b>			
<b>Financial fixed assets</b>			
Long term receivables		27	–
Equity interests	4	452	380
Loans to equity investments	4	281	117
Investments in equity interests		<b>733</b>	<b>497</b>
<b>Current assets</b>			
Other receivables		18	5
Short term investments	5	31	18
Cash and cash equivalents	6	109	49
		<b>158</b>	<b>70</b>
<b>Total assets</b>		<b>918</b>	<b>567</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Shareholders equity	10	280	250
<b>Long-term liabilities</b>			
Non convertible debentures	7	529	237
Loans from banks and others	8	19	45
Other long term liabilities		–	18
		<b>548</b>	<b>300</b>
<b>Current liabilities</b>			
Current maturities of long-term borrowings		59	5
Other payables	9	31	12
		<b>90</b>	<b>17</b>
<b>Total equity and liabilities</b>		<b>918</b>	<b>567</b>

# Company-only IFRS Income Statement

€ in millions	For the year ended December 31,		
	2008	2007	2006
Gain from sale of shares	–	6	–
Management fees	1	1	(*)
Financial income	9	37	9
<b>Total revenues</b>	<b>10</b>	<b>44</b>	<b>9</b>
General and administration expenses	(5)	(6)	(3)
Other expenses	(1)	–	–
<b>Total expenses</b>	<b>(6)</b>	<b>(6)</b>	<b>(3)</b>
<b>Net profit for the year</b>	<b>4</b>	<b>38</b>	<b>6</b>

(\*) Represents number smaller than € 0.1 million.



# Company-only IFRS Statement of Changes in Equity

Year ended December 31, 2008

€ in millions	Issued and paid-in capital	Share premium	Foreign currency translation reserve	Hedge reserve	Retained earnings	Total
Balance at January 1, 2006	15	71	–	–	30	116
Currency translation differences	–	–	(4)	–	–	(4)
Exercise of warrants and options into Company's shares	–	8	–	–	–	8
Issuance of shares	2	80	–	–	–	82
Net profit for the period	–	–	–	–	6	6
<b>Balance at December 31, 2006</b>	<b>17</b>	<b>159</b>	<b>(4)</b>	<b>–</b>	<b>36</b>	<b>208</b>
Share-based payment	–	2	–	–	–	2
Exercise of options into Company's shares	–	14	–	–	–	14
Dividend distributed	–	–	–	–	(9)	(9)
Change in fair value of hedge instruments	–	–	–	(3)	–	(3)
Net profit for the period	–	–	–	–	38	38
<b>Balance at December 31, 2007</b>	<b>17</b>	<b>175</b>	<b>(4)</b>	<b>(3)</b>	<b>65</b>	<b>250</b>
Share-based payment	–	1	–	–	–	1
Exercise of options into Company's shares	–	2	–	–	–	2
Issuance of shares	6	51	–	–	–	57
Dividend distributed	–	–	–	–	(18)	(18)
Change in fair value of hedge instruments	–	–	–	(16)	–	(16)
Net profit for the period	–	–	–	–	4	4
<b>Balance as of December 31, 2008</b>	<b>23</b>	<b>229</b>	<b>(4)</b>	<b>(19)</b>	<b>51</b>	<b>280</b>

# Company-only IFRS Cash Flow Statement

€ in millions	For the year ended December 31,		
	2008	2007	2006
<b>Cash flow from operating activities</b>			
Net profit for the year	4	38	6
<b>Adjustment to reconcile net profit to net cash</b>			
Charges to net profit not affecting operating cash flows:			
– Share-based payment	1	2	–
– Change in fair value of hedge instruments	(27)	–	–
– Exchange differences on long-term liabilities	12	7	21
– Exchange differences on long-term receivables	–	(46)	(24)
– Gain from sale of shares in subsidiary	(2)	(6)	–
<b>Changes in working capital</b>			
– Change in receivables	(16)	(4)	–
– Change in payables	13	10	1
<b>Net cash provided by (used in) operating activities</b>	<b>(15)</b>	<b>1</b>	<b>4</b>
<b>Cash flow from investing activities</b>			
– Purchase of subsidiary debentures	–	(19)	(30)
– Proceeds from sale of shares in subsidiaries	–	9	–
– Short term investments, net	(11)	12	(31)
– Repayment of loans	85	–	3
– Loans granted	–	(118)	(14)
– Investments in subsidiaries	(5)	(32)	(14)
<b>Net cash provided by (used in) investing activities</b>	<b>69</b>	<b>(148)</b>	<b>(86)</b>
<b>Cash flow from financing activities</b>			
– Proceeds from exercise of options into the Company shares	–	–	82
– Dividend distributed	(18)	(9)	–
– Proceeds from issuance of debentures	–	211	–
– Proceeds from long-term debt	31	13	20
– Repayment of long-term debt	(5)	(43)	–
<b>Net cash provided by financing activities</b>	<b>8</b>	<b>172</b>	<b>102</b>
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>62</b>	<b>25</b>	<b>20</b>
Cash and cash equivalents at beginning of the period	47	22	2
<b>Cash and cash equivalents at end of the period</b>	<b>109</b>	<b>47</b>	<b>22</b>

## Significant non-cash transactions

As a result of the merger between the Company, GTC RE and GTC Holding, as described in Note 1B to the consolidated financial statements, the cost base of the investments in subsidiaries increased with € 58 million against issuance of the Company's shares.

# Notes to the Company-only IFRS Financial Statements

December 31, 2008

## 1 General

The description of the Company's activities and the Group structure, as included in the Notes to the consolidated financial statements, also apply to the company-only financial statements.

## 2 Significant Accounting Policies

The company-only IFRS accounts have been drawn up in accordance with the same accounting policies as applied to the consolidated IFRS financial statements with the exception of investments in consolidated subsidiaries, which are valued at historical cost in these company-only IFRS financial statements. For that reason, and only for that reason, the consolidated equity differs from the company-only shareholders' equity.

Historical cost represents the cost base at initial recognition, increased by any subsequent capital contributions and decreased by any capital repayments and dividends received.

These company-only IFRS financial statements do not represent the statutory company-only financial statements as these statutory company-only financial statements are drawn up in accordance with Netherlands Accounting Principles as enacted in Title 9, Book Two of the Netherlands Civil Code and the Guidelines for Annual Reporting as issued by the Netherlands Council for Annual Reporting. The disclosure notes to these company only IFRS financial statements are, unless otherwise stated, limited to providing composition and, where relevant, movements schedules of balance sheet and income statement items. For more detailed background information, reference is made to the Notes to the consolidated IFRS financial statements.

As stated above the statutory company-only financial statements are presented according to Dutch GAAP. In this respect it is noted:

- the only difference between Dutch GAAP and IFRS with respect to company-only financial statements relates to the valuation of subsidiaries (see above).

- none of the exemptions provided by IFRS 1 were used in drawing up these IFRS company-only financial statements.

## 3 Merger

As described in Note 1B to the consolidated financial statements, the Company completed a legal merger with GTC RE and GTC Holding. The effect on the company-only financial statements is an increase in the cost base of its investment in subsidiaries equal to the fair value of the shares issued to minority shareholders, amounting to €58 million (being 29,600,956 shares issued at a price of €1.97 each).

## 4 Financial Fixed Assets

### Equity interests

The movement in investments in equity interests, which comprises consolidated subsidiaries can be summarized as follows:

€ in millions	2008	2007
Opening balance	380	206
Additions	5	33
Sale of shares in subsidiaries	–	(3)
Change due to merger	58	–
Conversion of debt to equity of subsidiaries	9	144
	<b>452</b>	<b>380</b>

The cost of investments does not include put options granted to minority shareholders. For details regarding these put options, which constitute a commitment of the Company, please refer to Note 23 to the consolidated financial statements.

For details regarding the merger, please refer to Note 3 above.

The movement in the loans granted to consolidated subsidiaries can be summarized as follows:

€ in millions	2008	2007
Opening balance	117	18
Additional loans granted, net	178	113
Conversion of loans to equity	(9)	(19)
Accumulated interest	9	6
Foreign currency translation differences	(2)	(1)
Current maturities	(12)	–
Balance as of December 31	<b>281</b>	<b>117</b>

## 5 Short-term Investments

€ in millions	2008	2007
Bank deposits in EUR	–	12
Pledged deposits in EUR <sup>1</sup>	30	6
Investment in marketable securities	1	–
	<b>31</b>	<b>18</b>

<sup>1</sup> The pledged deposits constitute a security for swap transactions. The deposits bear interest at a rate of 4% p.a. as of December 31, 2008.

## 6 Cash and Cash Equivalents

The cash primarily comprise short term deposits.

The average interest rate on short term deposits was 2.8% - 3.6% p.a. in 2008 (in 2007 - 3%-3.5%).

## 7 Non-convertible Debentures

Reference is made to Note 29 to the consolidated financial statements.

## 8 Loans from Banks and Others

€ in millions	Effective Interest rate	December 31, 2008	December 31, 2007
Banks			
In EUR	6.6%	69	46
In NIS	5%+CPI	6	5
Debt issuance expenses		–	(1)
<b>Total long-term debt</b>		<b>75</b>	<b>50</b>
Less: Current portion		(56)	(5)
		<b>19</b>	<b>45</b>

Repayments of long-term loans are scheduled as follows:

€ in millions	December 31, 2008	December 31, 2007
First year	56	5
Second year	6	36
Third year	8	4
Fourth year	3	5
Fifth year	2	–
Thereafter	–	–
	<b>75</b>	<b>50</b>

## 9 Other Payables

€ in millions	December 31, 2008	December 31, 2007
Accrued expenses*	25	11
Others	6	1
	<b>31</b>	<b>12</b>

\* Primarily includes accrued interest on long-term loans.

## 10 Shareholders Equity

The differences between the shareholders equity between the consolidated financial statements and the shareholders equity in the company-only financial statement mainly derive from the differences in accounting of for consolidated subsidiaries. In the company-only financial statements the investment in these equity investments are accounted for according to the historic cost method. In the consolidated financial statements, such investments are accounted for either through consolidation or equity accounting, included at net assets value.

The equity in the company-only IFRS financial statements is also € 21 million higher than the consolidated equity due to accounting for the merger. In the company-only IFRS financial statements the issue of shares of the Company to Kardan Israel are accounted for as a step up value amounting to € 21 million, which equals the fair value of the Company's shares issued to Kardan Israel on the merger date. In the consolidated financial statements these shares are treated as treasury shares and deducted from equity. For details regarding the merger, please refer to Note 1B to the consolidated financial statements. The combined difference as of December 31, 2008 amounts to € 88 million (December 31, 2007 – € 93 million).

## 11 Commitments, Contingent Liabilities, Guarantees, Banking Covenants and Subsequent Events

For commitments, contingent liabilities, guarantees, banking covenants and subsequent events please refer to Notes 34 and 51 respectively to the consolidated IFRS financial statements.

# Auditor's Report

To: The Management and Shareholders of Kardan N.V.

## Report on the company-only IFRS financial statements

We have audited the accompanying company-only IFRS financial statements for the year ended December 31, 2008 which comprise the company-only IFRS balance sheet as of December 31, 2008, the company-only IFRS income statement, the company-only IFRS statement of changes in equity and the company-only IFRS cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The company-only IFRS financial statements are provided for filing under the Israeli stock exchange regulations.

### Management's responsibility

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

### Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company-only IFRS financial statements. The procedures selected depend on the auditor's judgment,

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

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

### Opinion

In our opinion, the company-only IFRS financial statements give a true and fair view of the financial position of Kardan N.V. as of December 31, 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Other matters

The company-only IFRS financial statements are provided for information purposes only and are used for filing under the Israeli stock exchange regulations. The company-only IFRS financial statements are consistent in all material aspects with the company-only statutory Dutch GAAP financial statements. The only difference is the use of the financial reporting framework.

Apeldoorn, April 17, 2009  
for Ernst & Young Accountants LLP  
Signed by A.J. Buisman









## Profile

Kardan is a leading emerging markets player, active in setting up and developing business platforms in emerging markets, mainly in CEE (Central and Eastern Europe), CIS (Common Wealth of Independent States) and China. Kardan focuses on sectors that benefit from a growing middle-class demand: real estate, financial services and infrastructure. Kardan is building on its strong positions, both through organic growth and acquisitions in markets, which are characterized by high growth potential.

€ in millions	2008	2007	2006
Revenues	492	297	227
Net profit before income taxes	255	291	203
Net profit	175	250	157
Net profit net of minority interest	52	90	41
Total shareholders' equity	1,112	1,073	758
Shareholders' equity net of minority interest	368	343	267
Total consolidated assets	5,251	4,272	2,225
Solvency (equity/total assets)	21.2%	25.1%	34.1%
Return on average equity net of minority interest	14.6%	29.5%	20.3%
Number of employees	14,959	13,411	7,980

€ per share	2008	2007	2006
Basic earnings	0.63	1.11	0.55
Diluted earnings	0.28	1.10	0.47
Equity net of minority interest	3.3	4.2	3.4
Number of shares			
December 31	110,976,911	80,871,183	79,658,263
Weighted average for the year	81,926,520	80,759,951	72,289,139
Fully diluted	83,204,750	83,752,604	75,746,221

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