



K A R D A N N . V .

Annual Report 2006



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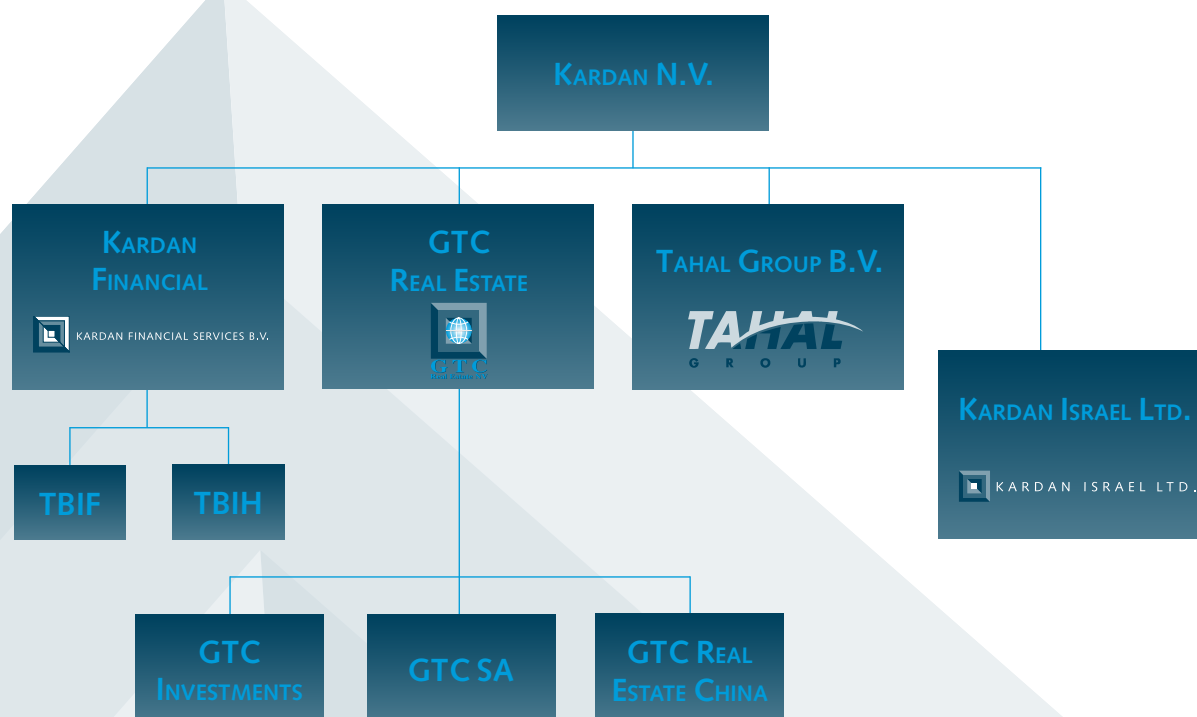
Annual Report 2006

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Kardan Group Structure



Profile

Kardan is an international investment company based in the Netherlands, listed on Euronext Amsterdam and the Tel-Aviv Stock Exchange. Kardan's business is developing, managing and realizing the value of its investments and activities in the markets in which it is present.

Focused on emerging markets mostly on Central and Eastern Europe, Kardan is primarily active in three sectors: real estate, financial services and infrastructure. In addition, Kardan is active in the automotive & consumer goods and communications and technology sectors through its subsidiary Kardan Israel.

Kardan has a consistent track record of creating long-term shareholder value through active management of investments in the group companies and by leveraging on its business experience, financial resources and local and international network.

Kardan's businesses develop through organic growth and acquisitions. Kardan provides capital and management resources to consolidate its businesses and accelerate the expansion of its activities. Its access to international capital markets enables it to finance this expansion.

Kardan reinforces its growth by forming strategic partnerships with local and international institutions, in order to add value to the business through brand recognition, operational expertise and international reputation.

The Kardan Group's total assets amounted to approximately USD 2.9 billion (31 December 2006), with revenues of USD 700.7 million in 2006 and 7,980 employees in its consolidated group companies.



Key figures

	2006 USD'000	2005 USD'000	2004 USD'000 (as restated)
Revenues	700,695	559,026	336,836
Expenses (excluding income taxes)	449,127	351,583	287,943
Net Result for the year	50,671	52,613	4,726
Cash and Cash Equivalents	538,075	185,974	203,872
Shareholders' Equity	351,300	160,917	104,347
Total Assets	2,929,797	1,799,432	1,436,501
Solvency % (*)	34.1%	28.9%	31.7%
Return on Equity(**)	14.4%	32.7%	4.5%
Number of employees in the Group	7,980	6,120	4,160
Per Share Data			
• Net Result (in USD)	0.57	0.78	0.08
• Shareholders equity (in USD)	4.41	2.42	1.68
Number of ordinary shares issued			
• At year-end	79,658,263	66,615,480	62,114,336
• Weighted average for the year	72,289,139	63,877,164	62,114,336
• Fully diluted	75,746,221	63,877,164	62,114,336

(*) Group's equity (the sum of shareholders' equity and minority interests) divided by total assets (31 December)

(**) Net profit or loss for the period divided by shareholders' equity (31 December)



Shareholders' information

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

Distribution of shares

As of 31 December 2006 a total of 79,658,263 ordinary shares have been issued and outstanding.

The following table present shareholdings of 5% or more and of related parties as of 31 March 2007:

	Number of shares held (ordinary shares of EUR 0.20 each)	Holding rate		Holding rate in full dilution	
		In capital (%)	In voting (%)	In capital (%)	In voting (%)
Yosef Grunfeld (1)	20,546,322.36	25.60%	25.60%	24.45%	24.45%
Avner Schnur (2)	17,476,584.34	21.77%	21.77%	20.80%	20.80%
Eytan Rechter (3)	4,051,725	5.05%	5.05%	4.82%	4.82%
Migdal Insurance & Financial Holdings Ltd (4)	5,682,486	7.08%	7.08%	7.11%	7.11%
Alain Ickovics (5)	3,182,590	3.96%	3.96%	4.00%	4.00%
Jay Pomrenze (6)	60,052	0.07%	0.07%	0.07%	0.07%

(1) The shares are held directly and indirectly through Talromit Financial Holdings (1995) Ltd., a company controlled (95%) by Mr. Grunfeld.

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

(3) The shares are held through Shamait Ltd., a company owned by Mr. Rechter and his wife. Mrs. Rechter is a member of the Supervisory Board of Kardan.

(4) Migdal also holds 291,655 options to shares of Kardan.

(5) Mr. Ickovics is a member of the Management Board of Kardan.

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

(7) Mr. Grunfeld, Mr. Schnur and Mr. Rechter have a voting agreement which represents approximately 51%.

KEY FINANCIALS PER SHARE

Key financials per share	2006	2005	2004
Net result	0.57	0.78	0.08
Shareholders' equity	4.41	2.42	1.68
Share prices	Euronext (EUR)	Tel-Aviv (NIS)	
Highest share price	10.45	57.71	
Lowest share price	5.05	28.53	
Year -end	9.99	57.25	

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 – 13 June 2007
 Q1 2007 Results – 31 May 2007
 Q2 2007 Results – 31 August 2007
 Q3 2007 Results – 30 November 2007

DIVIDEND POLICY

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

structure of its earnings, dividend distributions may vary from year to year.

ADDITIONAL INFORMATION

Additional information can be obtained from:
 Kardan N.V.

Prins Hendriklaan 52
 1075 BE Amsterdam
 Tel. +31 (0) 20 305 0010

Other publications and information:
www.kardan.com



Structure & composition

BOARD OF MANAGEMENT

Below is a profile of the Board of Management as of the date of the report. All members of the Board of Management are appointed for a period of 3 years.

Mr. Alon Shlank (1959)

Position: Director

Appointed: 18 May 2004

Current term: 18 May 2007

Mr. Shlank holds a degree (LL.B.) in law from the Tel Aviv University, Israel. Until 1994, Mr. Shlank was a partner in a law firm in Israel, specialising in Securities, Mergers and Acquisitions, Investments and Corporate law. During the years 1994 until 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 serves as a managing director and supervisory director in various companies within the Kardan Group, including GTC RE, TBIH, KFS, and Tahal.

Mr. Zachary Rubin (1973)

Position: Director

Appointed: 1 June 2005

Current term: 1 June 2008

Mr. Rubin holds a degree in tax law from the University of Amsterdam, the Netherlands. Until 2000, Mr. Rubin worked in the Private Equity Division of BNP Paribas in the Netherlands. From 2000 through 2002 Mr. Rubin worked for Goldman Sachs in the United Kingdom, in the Equities and Investment Banking Divisions. During the years 2003 until 2005 Mr. Rubin served as a managing director of RTG and was active as a corporate finance consultant. In 2005, Mr. Rubin joined the Kardan Group. Currently, he also serves as a managing director and supervisory director in

various companies in the Kardan Group, including GTC Real Estate N.V., GTC S.A., Tahal Group, Kardan Financial Services and TBIF Financial Services.

Mrs. Einat Gabber (1971)

Position: Director

Appointed: 19 May 2005

Current term: 19 May 2008

Mrs. Gabber is a Certified Public Accountant (Israel) and holds a BA in economics and accounting from the Tel Aviv University, Israel. Mrs. Gabber has been working as an accountant and auditor from 1997 to 2001 in Israel with Luboshitz Kasierer (Arthur Andersen). During the years 2001 until 2003 Mrs. Gabber worked for Deloitte & Touche Accountants (former Arthur Andersen) in the Netherlands. Mrs. Gabber has been working as controller of the Kardan Group since mid 2003. Mrs. Gabber has knowledge and experience with IFRS, Dutch GAAP and Israeli GAAP.

Currently she serves as a managing director in various companies within the Kardan Group, including GTC Investments B.V., GTC Real Estate N.V., and Kardan Financial Services.

Within Kardan, Mrs. Gabber is responsible for finance.

Mr. Alain Ickovics (1959)

Position: Director

Appointed: 14 June 2006

Current term: 14 June 2009

Mr. Ickovics holds an MBA in Finance From Columbia University and a BA in Industrial Engineering from the Technion, Israeli Institute of Technology. Mr. Ickovics is a director of several of the Company's operational subsidiaries, and a member of the Supervisory Board of Kardan Financial Services B.V., TBIH Financial Services Group N.V., the Company's financial services subsidiaries, Tahal Group, the infrastructure subsidiary, GTC Real Estate N.V. the Company's real estate subsidiary, and GTC SA the real estate granddaughter company listed on the Warsaw Stock Exchange.

Mr. Walter Van Damme (1972)

Mr. Van Damme holds a Bachelor's degree in law from the University of Amsterdam. Mr. Van Damme started his career as a lawyer at different law firms. From 2000 until the end of 2005

Mr. Van Damme served as one of the founding partners at First Dutch Capital. Mr. Van Damme joined Kardan N.V in January 2007 as a member of the board of management to be appointed at the next general meeting of shareholders that will be held on June 13, 2007. Mr. van Damme serves as a managing director in Tahal Group and as supervisory director in Kardan Financial Services, GTC SA, and TBIF Financial Services.



Structure & composition

SUPERVISORY BOARD

Below is a profile of the Supervisory Board as of the date of the report. All members of the Board of Management are appointed for a period of 4 years.

Mr. Joseph Krant (1948)

Position: Chairman

Nationality: Dutch

Appointed: 2003

Current term: 2007

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:

- Member of the Supervisory Board of Wereldhave N.V.
- Chairman of the Board of the Jewish Historical Museum, Amsterdam
- Member of Investment Committee of Cyrtel Fund I CV

Mrs. Karnina Rechter (1953)

Nationality: Israeli

Appointed: 2003

Current term: 2007

Ms. 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 Schnur (1948)

Nationality: Israeli

Appointed: 2003

Current term: 2007

As of 1986 Mr. Schnur serves as President of Astra Diamonds Manufacturers Ltd. He also serves as a director in Kardan Ltd. since August 1994 as well as in various Israeli companies within and related to the Kardan Group, including Talladium Holdings, Talladium Ltd., Kardan Technologies and Taldan Motors Ltd.

Other positions:

- Director of Guadalup Trading & Investments Ltd.
- Director of Raitalon Ltd.

Mr. Israel Fink (1946)

Nationality: Belgian

Appointed: 2003

Current term: 2007

Mr. Fink serves as sales and marketing manager and co-director of Fancy Diamonds International BVBA, a company incorporated in Belgium.

Since 1970, he occupied various positions in the construction management and diamond industries.

Mr. Jay L. Pomrenze (1949)

Nationality: United States of America

Appointed: 2004

Current term: 2008

Mr. Pomrenze currently acts as a partner in Cayman Partners and serves as a director in Bank Hapoalim Ltd., Poalim Capital Markets Ltd., Edmond de Rothschild Venture Capital Management and E4X. He holds a MBA from the New York University, a MA in philosophy from Yeshiva University and a Rabbinical Ordination.

Mr. Max I. Groen (1946)

Nationality: Dutch

Appointed: 2005

Current term: 2009

Mr. Groen worked as partner of KPMG Business Advisory Services/KPMG Accountants, Amsterdam, for more than 30 years. He holds a degree in Economics (Drs.) and a Postgraduate Degree in Accountancy (register accountant). He is a member of the Netherlands Institute of Certified Accountants.

Other positions:

- Supervisory Board member of Sinai Centrum
- Board member of Foundation Carel Abas
- Board member of Foundation Netherlands Sephardi Inheritance
- Member Appeals Committee of Dutch Jewish Humanitarian Fund
- Board Member of the Netherlands Synagogue Community

Mr. Hendriks Benjamins (1943)

Nationality: Dutch

Appointed: 2006

Current term: 2010

Mr. Benjamins retired in May 2006 from Koninklijke Frans Maas Groep after 15 successful career years. His last position was the CEO of the company. Between 1986-1991, Mr. Benjamins worked for Akzo Nobel as Transport Manager.

Other Positions:

- Chairman of the Supervisory Board at Grondexploitatie maatschappij Californie B.V. and Koninklijke Ahrend N.V.
- Supervisory Board Member at: FloraHolland, Vos Logistics, Maastricht Academic Hospital
- Chairman of Robur Foundation, Doortocht Foundation and Limburg Entrepreneurs Association.



Report of the Supervisory Board

We are pleased to present the annual report for the year 2006, including the annual accounts drawn up by the Board of Management and approved by the Supervisory Board. The financial statements have been audited by Ernst & Young Accountants. The auditors' report is included on page 198 of this annual report.

We recommend the General Meeting of Shareholders (General Meeting) to adopt the annual accounts during the Annual General Meeting of Shareholders (AGM) to be held in 2007. The Board of Management has proposed a new dividend policy and accordingly to declare dividend of USD 12.5 million for the year. We endorse this proposal and recommend the General Meeting to adopt this as well.

Upon adoption of the annual accounts, a separate proposal will be put before the General Meeting during the AGM to be held in 2007 discharging the members of the Board of Management from all liability with respect to their management during 2006 and the members of the Supervisory Board with respect to their supervision in the same period.

COMPOSITION OF THE SUPERVISORY BOARD

During the AGM, held on 14 June 2006, Mr. Alster has resigned as a member of the Supervisory Board. Mr. Alster is still active within Kardan as a member of the Supervisory Board of the Real Estate subsidiary Globe Trade Centre S.A. At an Extraordinary General Meeting of Shareholders, held on 26 October 2006, the General Meeting adopted the proposal to appoint Mr. Benjamins to the Supervisory Board as of 1 November 2006. The Supervisory Board now

comprises of 7 members of which 5 members can be regarded as independent under the criteria laid down in the Corporate Governance Code. These are Mr. Krant, Mr. Fink, Mr. Pomrenze, Mr. Groen and Mr. Benjamins. The other members are not independent under these criteria, as they are related by blood or marriage to shareholders that hold more than ten percent of the shares in the Company. The Company does not completely follow provisions 111.2.1 through 111.2.3 of the Corporate Governance Code (independency of Supervisory Directors) because it regards a long term alliance with these shareholders as vitally important to all the stakeholders involved in the Company. Given the extensive provisions on conflict of interest in its articles of association and the Supervisory Board Regulations, the company feels that there are - without jeopardizing the corporate governance system - good grounds for not following these provisions. The Supervisory Board is of the opinion that with this composition, it has the expertise necessary to supervise this company, bearing in mind the nature and characteristics of the Company.

SUPERVISORY BOARD MEETINGS

The Supervisory Board held 11 meetings during the year 2006, in the presence of the Board of Management. One meeting, held on 14 June 2006, took place without the presence of the Board of Management. 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 Board of Management and that of the individual managing directors, and the conclusions to be drawn from this. Discussions were also held with the external auditor and the internal auditor.

In addition to the formal meetings, informal discussions were held frequently between the Chairman of the Supervisory Board and the Board of Management and between the Chairman of the Audit Committee and the external auditor. On 14 September 2006, a working visit was made by the members of the Supervisory Board to the Company's financial services subsidiary in Sofia, Bulgaria. A formal meeting of the Supervisory Board in the presence of the Board of Management was held during this visit.

The subjects that were scheduled for discussion included company strategy, the results of and developments within the business sectors and the group as a whole, geographical expansion, risk management, corporate governance and the structure of the company and the policy to be pursued with regard to finance and investments.

The financial results and developments were discussed at length during meetings prior to the publication of the quarterly, half year and annual results. The Company's external auditor attended discussions on the half-year and annual results.

Opportunities for acquisitions as well as expansion of activities, including strategic and financial aspects and possible risks involved, were discussed with the Board of Management. The strategy of the company focuses on investment opportunities with high-growth potential. The Supervisory Board endorses the policy of the Board of Management to further strengthen the structure of the company and to pursue its growth strategy, particularly in the CEE countries.

SUPERVISORY BOARD COMMITTEES

The Audit Committee comprises of Mr. Groen (chairman), Mr. Krant and Mrs. Rechter and met 5 times during the year 2006. The Audit Committee is responsible for the assessment of the provision of the financial information. During the year 2006, the Audit Committee paid special attention to risk management, internal audit, and specific accounting issues arising from the financial statements, such as valuation of investment properties.

The General Meeting establishes the remuneration of individual members of the Board of Management based on proposal of the Supervisory Board. The individual remuneration, including bonuses, was adopted by the General Meeting during the AGM in June 2006. A specification of the remuneration of the Board of Management and Supervisory Board is included in the notes to the annual accounts (on page 179).

The Supervisory Board prepares its remuneration proposal on the basis of a remuneration policy which aims to offer remuneration appropriate to attracting qualified directors to an international company, bearing in mind the nature and character of Kardan. The scope, design and composition of the remuneration package have been drawn up so as to support the Company's short and long-term objectives. The Company believes that its senior management team is its major asset and applies incentive-based policies throughout the Kardan Group. A key element of these policies is the granting of share options or shares. After receiving the approval of the General Meeting during the Extraordinary General Meeting of Shareholders held on 26 October



2006, the Company granted share options to its managing directors. More details of these options can be found on page 31 of this annual report.

Corporate governance

In the meetings with the Board of Management, attention was devoted on every occasion to the financial and commercial developments and management issues, such as the quality of Corporate Governance and the risk management policy.

As noted in the previous annual report, we fully subscribe the meaning and usefulness for the Company of the Corporate Governance Code and the ensuing changes in the law in the Netherlands. We endorse the outlines, principles and best practice provisions of the Code with certain exceptions, as described on page 29.

In conclusion

During the AGM of 14 June 2006, Mr. Ickovics was appointed to the Board of Management. Furthermore the Supervisory Board has resolved to nominate Mr. Van Damme to be appointed as a new member of the Board of Management by the General Meeting during the AGM to be held in 2007. Upon his appointment, the Board of Management will have 5 members.

The Supervisory Board expresses its gratitude to the Board of Management, and the employees for their efforts and dedication, which they have shown again this year.

Amsterdam, 3 April 2007

**On behalf of the Supervisory Board,
Joseph Krant**



General course of events 2006

JANUARY

Kardan completes sale of office building in Poland to Allianz

GTC SA signed a final share purchase agreement with a member of the Allianz Group, for the sale of an office building for the total consideration of EUR 22.6 million.

Kardan's subsidiary GTC SA included in GPR 250 index

GTC SA, with a market cap of more than USD 1.2 billion, is the only CEE listed company to be included in the GPR 250 index.

Kardan increases holdings in its financial segment

Kardan Financial Services (KFS) signed an agreement for the purchase of 13.94% in its group company TBIH Financial Services for a consideration of approximately EUR 47.4 million.

MARCH

Kardan's subsidiary GTC SA to complete a USD 150 million capital increase

GTC SA has successfully completed the book building for a capital increase of approximately USD 150 million.

Kardan begins real estate activities in seventh CEE country

GTC SA has signed agreements for the acquisition of land plots in Bratislava, Slovakia to be developed into a residential project.

APRIL

Kardan concludes agreement with Wiener Städtische for equity investment in Kardan Financial Services

Kardan successfully completed the transaction through which Wiener Städtische acquires a 40% stake in Kardan's subsidiary KFS.

Kardan increases its real estate portfolio in Western Europe

GTC RE has made another investment in Western Europe through the acquisition of a 80% stake of a real estate portfolio in major cities in Switzerland.

MAY

Kardan raises EUR 83 million with issue of new shares

Kardan has issued 11.455 million new shares at a price of EUR 7.25 per share. The new shares have been allocated to institutional investors. Kardan raises EUR 83 million of gross proceeds.

Kardan wins two infrastructure tenders in Venezuela

Tahal Ltd. won two water related tenders in Venezuela together with a local contractor. Tahal Ltd. has a 20% share in the projects,

which are valued at USD 40 million each.

Kardan exits financial services activities in Serbia

TBIH sold its investments in a Serbian pension fund and asset management company in consideration for EUR 4.9 million.

JUNE

Kardan acquires 4 new Real Estate projects comprising a total of 130,000 sq.m of development area

GTC SA develops new luxurious residential projects in Croatia and acquires additional land plots in Hungary and Bulgaria.

JULY**Kardan's financial services group company to increase its holdings in TBIH to 100%**

KFS will acquire additional minority shareholders' 25% stake in TBIH during 2007 and 2008, which will provide full ownership of TBIH.

AUGUST**Kardan wins new real estate project in China**

GTC RE has won a governmental tender for the acquisition of a 42.3 hectare land site in Xianyang.

Kardan increases holdings in its lending and banking operations

Kardan will increase its holdings in KFS from 55.1% to 89.5% by acquiring WS' 40% stake in KFS.

Kardan to sell its minority holdings in Russian insurance companies

TBIH has sold all of its holdings in two Russian insurance companies to a Russian financial institution for a consideration of approximately USD 33 million.

OCTOBER**Kardan acquires third real estate project in China**

GTC RE has won, together with its local partner Lucky Hope, a tender for the acquisition of a 378,500 sq.m site for a new project in Shenyang.

Kardan to invest in the Ukraine together with EBRD

GTC SA and EBRD have agreed on a joint commitment of their equity investments in real estate developments in the Ukraine.

NOVEMBER**Kardan's minority investment RRSat to raise USD 45 million with Nasdaq listing**

R.R Satellite Global Communications raises approximately USD 45.3 million from the listing on the Nasdaq Stock Exchange.

Kardan to enter municipal water and sewage infrastructure partnership in Turkey

Tahal has entered a joint venture that will manage, operate and maintain municipal water and sewage networks in Turkey, servicing circa 250,000 people, during a period of 35 years.

Kardan teams up with Deutsche Bank and continues expansion in Central and Eastern Europe

GTC SA teams up with RREEF, an affiliate of Deutsche bank to develop a residential property in Romania

and expands its office and residential development to a 7th city in Poland-Katowice.

DECEMBER**Kardan closes sale of Mokotow business park Poland**

GTC SA has signed the final agreement for the sale of Mokotow Business Park in Warsaw, the largest office complex in Poland, for a consideration of USD 287 million.



Report of the Board of Management

With pleasure we present to you the 2006 Annual Report of Kardan NV. For Kardan the year 2006 was characterized by growth. Growth in total assets, in shareholders' equity, and in revenues. We also attained growth in number of countries where Kardan operates and in the number of projects undertaken.

One of last year's most important events was the secondary equity offering in the spring of 2006. Thanks to the great interest from institutional investors, the equity offering has been very successful. We see this as a vote of confidence in our current strategy and execution thereof. The proceeds of this offering are used to, amongst others, further develop our infrastructure business from consultancy into asset ownership. The latest project in Turkey reflects an important step into achieving this. The capital is also used for the consolidation of our existing businesses as well as the geographical expansion.

The consolidation of our existing businesses took form in the last year through reorganization in the financial services holdings. This reorganization will allow Kardan to increase its focus and benefit even more from the strong growth opportunities in the retail lending and asset management activities.

In the past year our real estate activities have expanded considerably. Ukraine, Slovakia and Bulgaria are amongst Kardan's recent market entries. In 2006 21 new development sites were acquired in the real estate segment and our subsidiary GTC SA reported record profits over 2006. Banking activities, under our financial subsidiary, TBIF, have expanded throughout the

year with the acquisition of the Ukrainian Bank "VAB Bank", ranked #17 in the Ukrainian market. The bank focuses mostly on retail lending. TBIF also acquired a 50% stake in BRC, a Russian regional bank, focusing mainly on consumer finance operations. TBIF intends to focus on all lending operations which include consumer finance, leasing and mortgage lending.

Although we are a truly international company, constantly expanding into new countries in the CEE region and other high growth areas, we are proud that Kardan was included in the TA 25, the index of the 25 largest listed companies in Israel, at the end of 2006. This inclusion is the result of our growth, and the increasing interest in Kardan from investors.

In 2006 the Board of Management was strengthened with the appointment of Alain Ickovics and our Supervisory Board has nominated Walter van Damme as a new member of the management board to be appointed at the next general meeting of shareholders in 2007.

Our strategy to create platforms that will prosper from strong national economic growth works. We are confident that Kardan will be able to continue pursuing its successful growth strategy in the years to come. We will continue to build on our track record of creating long term shareholder value, our main business objective.

We would like to express our gratitude to all our employees for their hard work and dedication to the company in the past year, enabling us to keep up this fast pace of expansion.

OPERATIONAL OVERVIEW

Our real estate business has had a very good year, both in terms of profit development and expansion of activities. In the beginning of the year our real estate subsidiary GTC SA successfully completed a capital increase to fund our ambitious growth strategy. The real estate activities of Kardan are rapidly expanding in Central and Eastern Europe and the development program has been accelerated to benefit from strong market demand in the CEE region. This accelerated development has resulted in the acquisition of 19 new investment projects with a total of 725,000 sq.m of building rights across CEE this year. GTC has entered Slovakia, Ukraine and Bulgaria in the CEE region. In Poland the level of activity has increased significantly, with GTC developing real estate projects in as many as seven Polish cities. In addition, we have identified the Chinese real estate market as a very attractive, with high growth prospects, and after making the strategic decision to become active in that region in October 2005, two new tenders were won. Through GTC RE, we now have four real estate projects in China, which are being developed with our local partner, the Lucky Hope Group.

Our financial services businesses continued to perform well. Investments were made in the banking sector in the Ukraine, while at the same time holdings, that did not fit the Kardan strategy, were divested in Serbia and Russia. The cooperation with Wiener Städtische (WS) was taken to the next level through their considerable investment in Kardan's insurance and pension activities. Kardan and WS intend to cooperate in pursuing further opportunities in these activities in the CEE countries.

The infrastructure business has developed consistently in the past year. The infrastructure segment continues to explore new opportunities in existing and new markets. Tahal won two new projects in Venezuela for the national water company. Tahal has a 20% share in the projects, which have a total contracted value of USD 40 million each. In addition, Tahal entered into a joint venture that will manage, operate and maintain municipal water and sewage networks in Turkey. The joint venture, Task A.S., has acquired 35 year concession agreements for the management and operation of the water and sewage networks of two cities in Turkey, providing water to over 250,000 people. This latest project is a result of the increased focus towards owning and investing in the assets side of the infrastructure business.

An overview of the main events during 2006 and the expansion of the activities are outlined per segment in the divisional reports on pages 39-59.



Financial Developments 2006

Net profit attributable to equity holders (x USD million)	Full year 2006	Full year 2005
Main businesses		
Real Estate	34.7	17.9
Financial Services	9.2	44.2
Infrastructure	1.7	3.6
Other businesses		
Automotive & Consumer Goods	3.8	6.7
Communications & Technology	6.0	5.8
Other	(4.7)	(25.6)
Total	50.7	52.6

Total net profit (attributable to equity holders of the parent) amounted to USD 50.7 million. The above table shows the contribution of each of the businesses to the result of Kardan. As profit attributable to minority shareholders has already been deducted, these figures do not represent 100% of the net profit of each segment, and can therefore not be compared to the figures presented in the review of the separate business. In that review, all figures are presented before minority interest and thus represent 100% of the results of each sector.

Kardan increased its total revenues for the Group to USD 700.7 million, an increase of 25% compared to USD 559.0 million in 2005. Main businesses (Real Estate, Financial Services and Infrastructure) contributed USD 657.1 million (2005: USD 513.8 million), while other businesses (Automotive & Consumer Goods and Communications & Technologies) contributed USD 37.8 million (2005: USD 38.0 million).

The revenues include revaluation gains in the real estate segment of USD 261.0 million, compared to USD 152.3 million in 2005. The revenues also include a gain of USD 63.6 million on the issuance of shares in subsidiaries to third parties, while the 2005 revenues included an equity gain of

USD 41.6 million as a result of the sale of two subsidiaries in the financial services segment.

The total operating result increased 34% from USD 283.8 million in 2005 to USD 381.7 million in 2006. Operating results from main businesses increased to USD 363.7 million (2005: USD 259.7 million). The operating result from other sectors showed a decrease to USD 14.7 million (2005: USD 19.2 million). Corporate activities (including other investments) contributed USD 3.3 million in 2006, compared to USD 4.9 million in the previous year.

Financing expenses increased and amounted to USD 123.1 million over 2006 compared to USD 68.9 million for the prior year. The largest part of the financing expenses is due to the revaluation of the options issued by Kardan and its subsidiaries to the public and debt holders. The major part of the options relate to the debentures Kardan has issued. The increase in the Kardan share price from EUR 5.28 at 31 December 2005 to EUR 9.99 at 31 December 2006, resulted in a higher valuation of the options and a corresponding loss of USD 79.5 million (2005: USD 31.2 million). The options are valued at USD 84.9 million year-end 2006. The rest of the increase in financing expenses was caused by the additional debt

Kardan raised during 2006 from banks and other third parties to finance its current and future growth.

Taxes amounted to USD 57.2 million compared to USD 38.8 million in 2005.

Total net profit for the full year 2006 increased over 15% to USD 194.4 million, compared to USD 168.7 million for 2005. Minority interest holders' share in Kardan's profit amounted to USD 143.7 million in 2006 (2005: USD 116.0 million). The minorities' share in the profit increased due to the various transactions and changes in the holdings structure. Net profit attributable to equity holders for 2006 decreased slightly to USD 50.7 million (2005: USD 52.6 million). This represents a net profit per share of USD 0.57, compared to USD 0.78 for 2005.

Total assets as of 31 December 2006 amounted to USD 2.93 billion as compared to USD 1.78 billion at the end of 2005. This 65% increase in total assets was mainly the result of: (i) the significant increase in cash, primarily from the Kardan and GTC SA share issuance proceeds, as well as the investment of Wiener Städtische in Kardan Financial Services B.V. (KFS), the holding company of Kardan's activities in the financial services sector (ii) the increase in investment properties due to, among others, revaluation gains on existing properties and several completed projects, (iii) the increase in real estate under construction for both office projects as well as residential projects as a result of the numerous new projects started in 2006, and (iv) the investment by the financial services segment in the Ukrainian bank.

As of 31 December 2006, shareholders' equity more than doubled compared to USD 160.9 million at year-end 2005 and amounted to USD 351.3 million, mainly as a result of new capital raised from share issues.

OUTLOOK 2007

The changes in the holdings structure, the capital increases of 2006 and the funds raised during the first quarter of 2007, have positioned Kardan for significant expansion. This year, Kardan intends to invest at an accelerated pace in its main businesses to capitalize on the strong growth opportunities it foresees. In addition, Kardan intends to intensify its activities in real estate and infrastructure in China.

Amsterdam, 3 April 2007

Board of Management

E. Gabber

A. Ickovics

Z. Rubin

A. Shlank



Personnel and organization

In 2006, Kardan accelerated its growth and expanded into new countries of operation. As at year-end 2006, the number of employees engaged by Kardan N.V. and its consolidated companies had increased by 30% from 6,120 to 7,980. This was the result of the expansion of the group activities, acquisition of new subsidiaries and the organic growth. Even though staff number increased, costs were carefully managed.

The employees are employed in most countries of operation including 12 European countries, and in China, Israel and Latin America. The Kardan headquarters are in Amsterdam, the Netherlands. The majority of the employees are based in Central and Eastern European countries, where Kardan conducts most of its activities.

Excellent management is essential to our future. Kardan has a lean management structure with an entrepreneurial character and is actively involved in the management of its investee companies. Kardan is responsible for the strategic development as well as steering the policies of its subsidiaries, while contributing its business experience, local and international network and financial resources. An experienced manager with relevant background heads each sector of activity.

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

Risk management

GENERAL

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

In line with Kardan's decentralized management structure for its diversified businesses in various geographic areas, the management of the subsidiaries has the responsibility to ensure that their risk management and control systems are properly implemented. Managers at all levels have the responsibility for managing risk as an integral part of their day to day operations and decisions, monitor control processes, perform risk assessment and execute action plan.

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

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Kardan aligns its risk management and business control framework with the risk management framework as published by the committee of sponsoring organizations of the Treadway Commission (COSO – Enterprise Risk Management- Integrated Framework). Kardan is currently in the process of further implementing

the various elements thereof and will offer the management of its subsidiaries the support to ensure that their respective risk management and control systems are implemented in line with these elements.

RISK PROFILE

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

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

Macroeconomic conditions

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



Market/ Political risks

Kardan has subsidiaries in many countries, mainly in emerging markets. These subsidiaries can be exposed to changes in government regulations and potentially unfavorable political developments that may hamper the development of certain opportunities or might impair the value of local business. Emerging markets have a different risk profile than the Western European region. Political and economic changes may impact the Group's activities there as well have a significant consequence on the financial positions of the Group. The Board of Management is closely monitoring the activities in these markets in order to limit these risks.

Human Resources

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

Foreign Currency risk

Since the Group conducts business in a variety of countries, a significant part of its assets, liabilities and results is sensitive to currency movements. Subsidiaries that do not have the USD (or the Euro – from January 1, 2007) as measurement currency generally have an equity position that reflects their risk profile. On the translation of

the share in shareholder's equity, a translation gain or loss can arise because this position is not hedged. Regarding the other financing of these subsidiaries, the Group companies attempt to match the currency of the income with that of the costs and financing currency to minimize the foreign currency risk.

Subject to shareholders' approval, starting January 1, 2007, Kardan will use the Euro as its measurement and reporting currency, as the Company believes that the Euro better reflects the economic substance and the underlying events and circumstances relevant to Kardan. The Group companies will report to Kardan in Euro.

Interest rate risk

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

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

Liquidity risk

The generation of sustainable cash flow is pivotal for Kardan's strategy and value creation for all its shareholders. Kardan manages and generate cash flows through issuance of shares, debentures and sale of major properties or companies. In addition, Kardan is periodically required to renegotiate external funding and is dependent on attracting external funding for its future growth.

Credit risk

Credit risk represents the loss that would be recognized at the reporting date if counterparties failed completely to perform their payment obligations as contracted. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, derivative assets and non current financial assets. The Group's policy is to trade only with recognized, creditworthy third parties. To reduce exposure to credit risk, the Group performs ongoing credit evaluations of the financial conditions of its customers and debtors, and adjust payment terms and credit limits when appropriate.

Acquisitions

In the pursuit of further acquisitions and investments, Kardan seeks for a balance between organic and acquired growth within the limit of a conservative financial structure. In acquisitions, specifically in emerging markets, Kardan is faced with different cultures, political economic and social elements. This may affect corporate value, image and quality standards.

Due to the risk factor that is present in every acquisition, a general and intensive due diligence is carried out before an acquisition is made. The main operational risks are related to the loss

of ability to generate stable cash flows, proper valuation procedure and risk associated with pipeline projects.

Financial Reporting

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

Valuation of assets

Kardan realizes that the value of its investments may decline and cash flow returns may not be optimized. Yield shifts in the market may have a strong effect on cash flow generation as well. The valuation process is not an exact science but may very much depend upon in depth market expertise, professional judgment which is carried out with an extensive decision making process and the use of appropriate valuation models. In order to asses risk management in regards to pipeline projects, Kardan strives to ensure close and regular monitoring of market transactions, benchmark performance internally and externally and fair value accounting in the financial statements.



MANAGEMENT REVIEW

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

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

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

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

such human failures as simple error or mistake. Additionally, controls can be circumvented by the collusion of two or more people, and management has the ability to override the enterprise risk management process, including risk response decisions and control activities. Another limiting factor is the need to consider the relative costs and benefits of risk responses. Therefore, in this context 'reasonable assurance' refers to degree of certainty that would be satisfactory for a prudent manager in the management of his 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 Group's standing policies, procedures and instructions may deteriorate.

Corporate Governance

GENERAL

Kardan N.V. ("**Kardan**" or the "**Company**") is the parent company of the Kardan group of companies (the "**Kardan Group**"). Kardan was incorporated on 2 May 2003. Since 10 July 2003, its shares have been listed and traded on the Official Segment of the Stock Market of Euronext in Amsterdam (Euronext Amsterdam) and beneficial rights to its shares have been listed and traded on the Tel Aviv Stock Exchange in Israel (TASE). The Company has its seat at Amsterdam, The Netherlands.

In accordance with Dutch law, the Company has a two-tier structure with a board of management ("**Board of Management**") and a supervisory board ("**Supervisory Board**"). The members of the Board of Management are all executive directors; the members of the Supervisory Board are non-executive directors. The Supervisory Board is separate from and independent of the Board of Management. The Supervisory Board oversees the actions and policies of the Board of Management and the general course of Kardan's business activities. In its supervisory capacity, the Supervisory Board assists and advises the Board of Management in the performance of its managerial duties.

Since its incorporation, Kardan has been enhancing and improving its compliance with corporate governance standards as set out in the applicable laws and regulations. Most notable is the Dutch Corporate Governance Code adopted on 9 December 2003 (the "**Code**"), which became effective under the Dutch Civil Code in December 2004. The Board of Management and the Supervisory Board have come to the conclusion that they agree with the vast majority of the Code's

principles and best practice provisions. This chapter describes the general corporate governance structure at Kardan and explains how the Code provisions addressing the Board of Management and the Supervisory Board are applied. Reasons are set out below, where the Code is not or just partially applied. Further details on the extend and manner of implementation of the Code are found in the Company's Articles of Association, the Supervisory Board Regulations (including Profile and Audit Committee terms) and the Board of Management Regulations.

Kardan currently does not intend to substantially change its corporate governance structure. However, should there be important changes that do require the approval of Kardan's general meeting of shareholders ("**General Meeting of Shareholders**"), these changes will be put on the agenda of the General Meeting of Shareholders for discussion as a separate agenda item.

THE BOARD OF MANAGEMENT

General

The management of Kardan is entrusted to the Board of Management, which means, among other things, that the Board of Management is responsible for the development and implementation of Kardan's aims, strategy and policy. Under Dutch law, the members of the Board of Management hold their duties and responsibilities collectively. The Board of Management is accountable to the Supervisory Board and to the General Meeting of Shareholders. In performing its duties and responsibilities, the Board of Management is guided by the interests of the Company and its affiliated enterprises, and takes the interests of the Company's stakeholders



into consideration. The Board of Management is subject to the Board of Management Regulations.

The Supervisory Board may elect one of the members of the Board of Management as chairman of the Board of Management. In the event that no chairman has been elected by the Supervisory Board, the meeting of the Board of Management will itself designate a chairman for each separate meeting. The Board of Management meets regularly. It also meets whenever the chairman or two other members of the Board of Management or the Supervisory Board consider a meeting necessary. Resolutions of the Board of Management are adopted if an absolute majority of the votes cast are in favor.

Appointment and Composition

The Supervisory Board has the right to make binding nominations for candidates for the Board of Management that are subsequently appointed by the General Meeting of Shareholders. Kardan considers it in the interest of the Company that the Supervisory Board's right of nomination shall be binding, unless the General Meeting of Shareholders deprives the binding character, by a resolution passed with a majority of two-thirds of the votes cast representing more than half of the Company's issued capital, which forms a deviation from provision IV.1.1 of the Code. At present there are four members of the Board of Management; their profiles and an appointment scheme can be found on page 10-11.

Each member of the Board of Management is appointed for a period of three years, but may make himself available for re-election following the expiry of his term of office.

A member of the Board of Management may not be a Supervisory Director of more than two listed companies nor may a member of the Board of Management be the chairman of the Supervisory Board of a listed company. *Membership of the supervisory board of another company within the Kardan Group does not count for this purpose.* Currently, no member of the Board of Management serves as a member of a supervisory board of another listed company outside the Kardan Group. The acceptance by a member of the Board of Management of membership of the supervisory board of a listed company requires the approval of the Supervisory Board. Other important positions held by a member of the Board of Management shall be notified to the Supervisory Board.

Risk Management and Conflicts of Interest

Kardan considers a professional risk management and control system to be a vital element of its strategic policy. Running risks is an integral part of Kardan's business operations and can play a part in both gains and losses, in both opportunities and threats. Kardan's policy is to ensure that risks are identified in a timely manner, adequately understood, properly assessed and effectively responded to by the responsible employees at all levels within the Kardan Group. Through Kardan's risk management and control system, Kardan seeks to provide reasonable assurance that business objectives can be achieved and obligations to third parties can be met. Kardan has also considered whether it is conducive, taking into account the specifics of the Kardan Group, to implement a general Code of Conduct and Whistleblower Regulation as suggested by the Code. The conclusion of these

considerations was that Kardan will not adopt a formal general Code of Conduct or Whistleblower regulation at this moment due to the specific characteristics of the Kardan Group, but it is continuing to consider whether it will adopt such a formal code and regulation at a later time.

The articles of association of the Company include extensive provisions on conflicts of interest between the Company 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 Board of Management or in the Supervisory Board. In addition, Kardan endorses the principles and provisions of the Code that address conflicts of interest between Kardan and one or more members of the Board of Management. To this effect provisions have been included in the Board of Management Regulations.

Remuneration

The General Meeting of Shareholders directly determines the remuneration amount and composition of the remuneration of the members of the Board of Management. Accordingly, the Company believes that the provisions relating to principle II.2 of the Code have already been properly dealt with. Detailed information about the remuneration of the members of the Board of Management is found on page 179 of the notes to the financial statements.

Currently, no member of the Board of Management has been granted shares in the capital of the Company by way of remuneration and no other member of the Board of Management holds shares in the capital of the

Company than Mr. A. Ickovics who currently holds 3,182,560 shares in the capital of the Company.

During the extraordinary general meeting of shareholders of Kardan held on 26 October 2006 ("EGM"), the General Meeting of Shareholders approved the granting of the following number of options to shares in the Company to the members of the Board of Management under the terms and conditions as laid down in the Stock Option Plan of which the essential features have been put on the website of Kardan (as attachment to the notes of the agenda of the EGM):

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

After the EGM, the aforementioned options were granted.

In the chapter Corporate Governance of the Company's annual report 2005, the Company already announced its intention to put the granting of options to shares in the Company to its senior management team as an item on the agenda with the following reason: *"The Company believes that its senior management team is a major asset. In order to minimize the risk of management changes, the Company considers it to be in the best interest of the Company and the Kardan Group that incentive-based policies be applied throughout the Kardan Group. A key element of these policies is the granting of share options or shares."*



The Stock Option Plan does not include specific vesting mechanisms nor is granting subject to fulfillment of certain performance criteria. This is a deviation from the Code. The suggested allocation to the members of the Board of Management is based on their current achievements, the wish for further continuation, and the built-in incentive to focus on further value creation for the Company.

In addition to this, the allocation to the members of the Board of Management 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. The Company believes that it is not necessary to completely adhere to these principles of the Code for the reasons as mentioned above and because (i) the same Stock Option Plan rules apply to the other employees and, therefore, for the sake of unity, clarity and ease of administration, no differences are applied between the members of the Board of Management 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.

Currently, the members of the Board of Management hold no other options to shares in the Company than the aforementioned options.

In October 2005, Mrs. E. Gabber (member of the Company's Board of Management) acquired

15,000 options in GTC Real Estate N.V., which is a company that is part of the Kardan Group. The options were granted for nil consideration and the exercise price of each option amounts to NIS 8.8 adjusted to the changes in the Israeli CPI. In principle, the options can be exercised during a period of four years from the date on which the options were acquired. On 10 January 2007, Mrs. E. Gabber exercised 4,000 of the options as a result of which 2,819 shares in GTC Real Estate N.V. were issued to her.

Currently no member of the Board of Management has been granted a loan, guarantee or the like.

With respect to the notification by members of the Board of Management of all changes in holdings of shares in Dutch listed companies other than Kardan N.V. as recommended in provision II2.6 of the Code, Kardan has investigated the consequences of implementation of such provision. The conclusion of this investigation was that Kardan will not implement this provision, as it feels that the current regulations on insider trading and conflict of interest already provide sufficient rules within which the Board of Management will have to operate.

In accordance with the Code, the Company currently does not make arrangements with any member of the Board of Management regarding the event of dismissal as this is not felt to be in the interest of the Company.

THE SUPERVISORY BOARD

General

It is the duty of the Supervisory Board to supervise the Board of Management's management of the Company. In performing their duties, the members of the Supervisory Board ("Supervisory Directors") shall act in accordance with the interests of the Company and the business connected with it, and shall take into account the relevant interests of the Company's stakeholders. Supervisory Directors who are frequently absent may be asked by the Supervisory Board to account for their absence. The supervision of the Board of Management by the Supervisory Board includes the following: (i) achievement of the Company'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.

Adoption of resolutions by the Supervisory Board requires an absolute majority of the votes cast. The Supervisory Board is subject to the Supervisory Board Regulations. The Supervisory Board Regulations include a profile of the Supervisory Board's size and composition.

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

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 that could be drawn from this. The desired profile, composition and competence of the Supervisory Board may also be discussed.

Appointment and Composition

The Supervisory Board itself determines the number of Supervisory Directors, but there must always be at least three members. Currently, the Supervisory Board consists of seven members. The profiles of the present Supervisory Directors and an appointment scheme can be found on page 12-13.

The Supervisory Board itself has the right to make binding nominations for the candidates for the position of Supervisory Director that are subsequently appointed by the General Meeting of Shareholders. Kardan considers it in the interest of the Company that the Supervisory Board's right of nomination shall be binding, unless the General Meeting of Shareholders deprives the binding character, by a resolution passed with a majority of two-thirds of the votes cast representing more than half of the Company's issued capital, which forms a deviation from provision IV.1.1 of the Code.

Each member of the Supervisory Board is appointed for a period of four years and may be re-appointed for no more than two times.

The Supervisory Board can elect a chairman from its members. The chairman of the Supervisory Board sets the agenda, chairs the Supervisory



Board meetings, monitors the proper functioning of the Supervisory Board and the audit committee and arranges for the adequate provision of information to the Supervisory Directors. Furthermore, the chairman ensures that there is sufficient time for decision making, and acts on behalf of the Supervisory Board as the main point of contact towards the Board of Management. The chairman of the Supervisory Board is also the chairman of the General Meeting of Shareholders.

The chairman of the Supervisory Board can be a former member of the Board of Management of the Company (provision III.4.2). Although the current chairman, Mr. Krant, is not a former member of the Board of Management of the Company, Kardan does not consider it appropriate to exclude such situation for the future, taking into account the specific knowledge and experience that rest with its senior management and from which a Supervisory Board may well benefit when performing its tasks.

Five members of the Supervisory Board can be regarded as independent under the criteria laid down in the Code. These are Mr. Krant, Mr. Fink, Mr. Pomrenze¹, Mr. Groen, and Mr. Benjamins. The other members are not independent under these criteria. They are related by blood or marriage to shareholders that hold more than ten percent of the shares in the Company. The Company will not follow provisions III.2.1 through III.2.3 (independency of Supervisory Directors) because it regards a long-term alliance with these shareholders as vitally important to all the stakeholders involved

in the Company. Given the extensive provisions on conflict of interest in its articles of association and the Supervisory Board Regulations, Kardan feels that there are - without jeopardizing the corporate governance system - good grounds for not following these provisions.

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

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

Kardan currently is in compliance with provision III.3.4 of the Code, which states that the number of supervisory boards of Dutch listed companies

¹ Mr. Pomrenze holds 60,052 shares in Kardan which, however, does not represent ten percent or more of the issued capital of Kardan.

of which a supervisory director may be a member is limited to such an extent that the proper performance of the supervisory director's duties is assured and must in any event be no more than five, for which purpose the chairmanship of a supervisory board counts double. Currently only the Chairman, Mr. Krant, holds a position as supervisory director in another Dutch listed company, which is Wereldhave N.V. However the Supervisory Board Regulations provide that any new position that a Supervisory Director of the Company is planning to accept with another Dutch listed company will be notified to the Supervisory Board, after which the Supervisory Board will decide as a whole, on a case by case basis, and depending on the specific circumstances, whether the acceptance of such position would conflict with the ability of the relevant Supervisory Director to properly perform its role and a result of which the relevant member would be request to retire in case of acceptance of that position. Kardan believes that a case by case assessment better serves the principle behind this provision of the Code, than applying absolute numerical criteria.

Furthermore, given the nature of Kardan as holding company and the structure of the Kardan Group, as well as the position and role of the Supervisory Board and the General Meeting of Shareholders, Kardan has decided not to fully or only partially implement provision II.1.2 (approval by the Supervisory Board of certain resolutions by the Board of Management), provision III.1.4 (obligatory resignation by Supervisory Directors when this is deemed necessary by the Supervisory Board), provision III.1.7 and provision III.4.1 (the assessment of the Supervisory Board and the Board of Management).

Audit Committee

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

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

The Audit Committee has the general task of evaluating and advising the Supervisory Board on matters concerning the financial administrative control, the financial reporting and the internal and external auditing. The Audit Committee shall act as the principal contact for the external auditor if the auditor discovers irregularities in the content of the financial reports. The Audit Committee is authorised to request advice from outside experts if it considers it necessary. Where possible, the Audit Committee consists of at least one financial expert. The chairman of the Supervisory Board does not chair the Audit Committee. If and to the extent practically possible, a maximum of one member may be not independent. Although Kardan is currently in compliance with the Code, where it provides that the chairman of the Audit Committee can not be a former member of the Board of Management of the Company, Kardan considers it in the interest of the Company not to exclude this situation for the future and has therefore implemented this vision in the terms of reference of the Audit Committee.

Given the size and structure of the Company, the Supervisory Board considers it unnecessary to appoint a selection and appointment committee or a remuneration committee.



Conflict of Interest and Remuneration

As stated above, the articles of association and the Supervisory Board Regulations contain extensive provisions on conflicts of interest. These are almost identical to the conflicts of interest rules for members of the Board of Management.

The General Meeting determines the remuneration of each Supervisory Director. The remuneration of a Supervisory Director is currently not dependent on the results of the Company. 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. More information on the remuneration of the Supervisory Directors can be found in the notes to the financial statements on page 179. For the same reasons as stated above with respect to members of the Board of Management, Kardan has decided not to implement provision III.7.3 of the Code (notification requirements by Supervisory Directors of all changes in their holdings of shares in Dutch listed companies).

VOTING RIGHTS AND THE GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the forum in which the Board of Management and the Supervisory Board give their account with regard of the manner in which they have performed their duties. Kardan considers it to be in the interest of the Company that as many shareholders as possible take part 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 the Company. If and to the extent practically possible, investors in Israel may participate in General Meetings of Shareholders by means of a conference call or a video conference.

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

General Meetings of Shareholders are held at least once a year, to discuss the report of the Board of Management and the report of the Supervisory Board, to adopt the financial statements, to appoint the external auditor, to adopt any proposal concerning dividends, to, if applicable, appoint members of the Supervisory Directors and the members of the Board of Management, and to consider any other matters proposed by the Supervisory Board, the Board of Management or the shareholders in accordance with the articles of association of the Company and Dutch law. Pursuant to both Dutch law and the articles of association, the General Meeting of Shareholders, under a separate agenda item, discusses and passes resolutions discharging the members of the Board of Management 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 the Company and the shareholders when the resolution is adopted.

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

Kardan does not have anti-takeover measures in the sense of measures that exclusively or almost exclusively have the purpose of frustrating an actual or attempted hostile takeover. However, in this event, the Board of Management and Supervisory Board are authorized to exercise all powers held by them in the interest of the Company. Although Kardan does not excluded the possibility of making its position public if and when a serious bid is made (see provision IV.1.3), it considers it to be in the interest of the Company that the Board of Management preserves all rights with regard to public statements in this respect.

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

APPOINTMENT SCHEME

Board of Management

Each member of the Board of Management is appointed for a period of three years, but may be available for re-election following the expiry of his term of office.

Name	Date of initial appointment	End of term
Alon Y. Shlank	18 May 2004	AGM 2007
Einat Gabber	19 May 2005	AGM 2008
Zach Rubin	1 June 2005	AGM 2008
Alain Ickovics	14 June 2006	AGM 2009

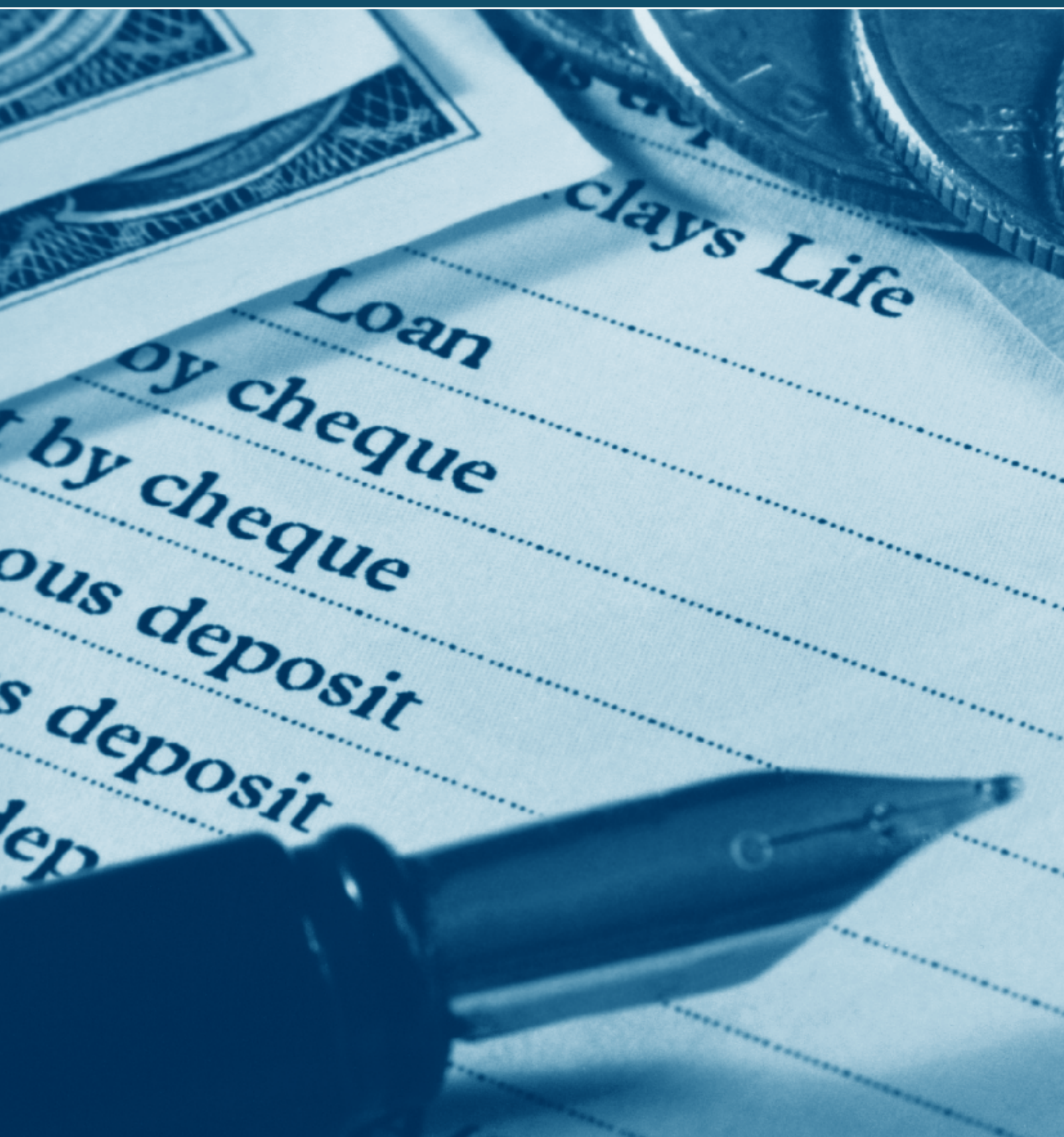
Supervisory Board

Each member of the Supervisory Board is appointed for a period of four years and may be available for re-election following the expiry of his term of office.

Name	Date of initial appointment	End of term
Israel Fink	2 May 2003	AGM 2007
Karnina Rechter	2 May 2003	AGM 2007
Avner A. Schnur	9 July 2003	AGM 2007
Joseph Krant	9 July 2003	AGM 2007
Jay L. Pomrenze	18 May 2004	AGM 2008
Max I. Groen	1 July 2005	AGM 2009
Hendriks Benjamins	1 November 2006	AGM 2010



Divisional report



Financial Services



Kardan operates in the financial services sector through its 90% holding in KFS.

KFS holds an interest in TBIF, a holding company for Kardan's banking and lending businesses, and a 40% stake in TBIH, the holding company for the insurance and pension activities.

The abovementioned structure came into force in April 2007, with the completion of a reorganization within the KFS group. As of 31.12.2006 KFS held a 74.79% stake in TBIH, which held an 89.39% stake in TBIF. Kardan's share in KFS at that time was 55.12%.

KFS provides banking, consumer finance, leasing, mortgage and asset management services as well as insurance and pensions in the following countries: Ukraine, Russia, Romania, Bulgaria, Croatia, Georgia and Slovakia.

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

INSURANCE ACTIVITIES

TBIH, through its subsidiaries, is active in the fields of general and life insurance in Bulgaria, Romania, Croatia, Ukraine and Georgia. TBIH's major insurance subsidiaries are:

- Bulgaria: Bulstrad Insurance & Reinsurance AD (Bulstrad) - operates in a wide variety of general, life and health insurance fields in Bulgaria. Bulstrad market share in the general insurance market was approximately 17% for the year 2006, and it is among the leaders in its main lines of business: green-card, motor TPL, property, marine and aviation insurance.
- Romania: TBIH holds a 50% stake in Omniasig Life SA (Omniasig) - A life insurance company with 4% market share.

- Croatia – Helios Insurance PLC - operates in a wide variety of general and life insurance fields in Croatia.

- Georgia – GPIH and IRAO provide general, life and health insurance with a combined 22% market share.

- Ukraine – In 2006 TBIH purchased a 50% stake in VAB Insurance Group, focusing on non life, life and reinsurance operations.

TBIH uses re-insurance in most insurance lines of business, in which it operates as primary insurers. Life insurance products, including savings and risk products, are less common than the general insurance products. Demand for life insurance has recently increased on the back of the expanding mortgage finance market and growth in general consumer awareness.

PENSION FUND MANAGEMENT

TBIH is active in the field of pensions through its holdings in pension fund asset management companies. TBIH Group manages pension funds in Bulgaria, Croatia, Georgia, Russia and Ukraine. In Bulgaria, TBIH holds a controlling interest in Pension Assurance Company Doverie AD (Doverie), which manages mandatory and voluntary pension funds in Bulgaria with USD 335 million assets under management. Doverie has a market share of approximately 38%. TBIH has leading pension operations in Ukraine and Georgia. TBIH has also recently commenced pension operations in Romania, in preparation for the anticipated pension reform.

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.

TBIF – BANKING, LENDING AND ASSET MANAGEMENT

In 2004 TBIF took the strategic decision to enter into the field of retail banking with the view that clear synergies exist between this field and its consumer finance, leasing and mortgage activities. During 2005 and 2006 TBIF acquired a 49% stake in Vseukrainsky Akcionerny Bank ("VAB Bank"). VAB Bank ranked #17 in the Ukrainian market. The bank is currently focused on enhancing its retail business and presence.

In 2006, TBIF also acquired a 50% in Bank Regional Credit, a regional Russian bank. KFS, through the TBIF Group, provides consumer credit to individuals to purchase consumer goods such as electrical appliances and furniture in retail outlets throughout the countries in which TBIF has a presence. TBIF is active in this field in Russia, Romania, Bulgaria and Ukraine.

The TBIF Group also extends credit under leasing arrangements usually for vehicles and equipment.

Activities in the leasing field are predominantly in Romania and Bulgaria and are developing in Russia and Ukraine.

TBIF is active in the mortgage field in Bulgaria.

Activities have recently begun in Ukraine through VAB Bank.

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

OVERVIEW 2006

KFS total earned insurance premiums amounted to USD 138 million for 2006, compared to USD 265 million for 2005. The decrease in premiums can be attributed to the disposal of insurance operations in Romania and Russia. In 2006, the insurance activities contributed to KFS an operating loss of USD 0.1 million (2005: USD 1.2 million operating profit).

Pension funds activities generated an operating loss of USD 2.8 million (2005: operating loss of USD 1.53 million). This loss was mainly caused by investments incurred to acquire new members to the pension funds which are expensed in the current period and can not be capitalized under IFRS. The number of pension fund members increased in 2006 to 1.5 million. Assets managed by these pension funds increased accordingly, from USD 418 million at 31 December 2005 to USD 651 million at 31 December 2006. All KFS pension activities experienced growth in 2006. The Serbian pension fund was disposed of during 2006.

The other financial business companies (banking, consumer credit, leasing, asset management and mortgages) contributed an operating profit of USD 8.1 million in 2006 (2005: USD 5.0 million).

2006 was predominantly a year of reorganization for KFS. Strategically, KFS views the banking and lending businesses as representing significant growth potential. In August 2006 KFS signed an agreement to sell 60% of its stake in TBIH to Wiener Städtische Versicherung AG ('WS'). At the same time the Company will transfer its holdings in TBIF to KFS. As a result TBIH will be held



60% by WS and 40% by KFS. Moreover, TBIF will no longer be a subsidiary of TBIH. Kardan and WS intend to cooperate in pursuing further opportunities in the financial services sector with a focus on insurance related activities in the CEE and CIS countries.

Additionally, in 2006 minority shareholders in TBIH, Helios (Croatian insurance company) and TBI Bulgaria AD (TBIH's holding vehicle in Bulgaria), were bought out.

In 2006 TBIH also sold its Russian insurance activities generating net gain of USD 28.6 million. In 2006 Serbian operation of TBIH and TBIF were also sold for a total capital gain of USD 6.8 million.

OUTLOOK

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

As a result of the reorganization, KFS structure has become more transparent:

With its strategic partner WS, TBIH intends to continue to develop its current portfolio as well as to commence operations in new countries such as Turkey, Albania, Macedonia and Kosovo. Accordingly, TBIH is currently in the process of acquiring sizable operations in these countries. Additionally, TBIH may consider pursuing acquisitions of additional insurance operations in Russia and Ukraine.

TBIF is focused on the development of a group with banking operations in Ukraine, Russia, Bulgaria and Romania. All lending operations such as consumer finance, leasing and mortgages will be provided under the umbrella of the banks. This structure will optimize TBIF's activities from an

operational and funding point of view. In order to achieve this structure TBIF will further develop its Ukrainian and Russian banks and will try to attain holdings in other banks in the CEE region. In February 2007 TBIF signed a term sheet to merge its Russian consumer finance and banking operations with a regional bank in Russia.





Real Estate



Kardan operates in the real estate segment through its holding in GTC Real Estate N.V. (GTC RE) and in Kardan Real Estate Ltd. (Kardan RE). GTC RE is listed on the Tel Aviv Stock Exchange. The real estate businesses of GTC RE are carried out in three regions: CEE, Western Europe and China. Kardan RE operates in the Israeli market.

GTC RE holds a 46.1% interest in Globe Trade Centre SA (GTC SA), one of the leading real estate developers in the CEE. GTC SA is listed on the Warsaw Stock Exchange and is included in major indices such as WIG 20, MSCI and GPR250. Its activities include the development and management of office buildings, shopping centers and residential projects. GTC SA has vast experience in that region and is currently operating in the following 9 countries: Poland, Hungary, Czech Republic, Romania, Serbia, Croatia, Slovakia, Bulgaria and the Ukraine. GTC SA's strategy is to focus on large scale projects in prime locations seize opportunities in booming residential markets in the region, and to team up with reputable partners.

In Israel, Kardan RE is engaged mainly in the development of residential and office projects and in providing them with management and maintenance services.

GTC RE has identified China as a growth market for its real estate development activities given the strong economy, the increasing purchasing power, the urbanization trend, and government reforms of the housing policy (availability of subsidized mortgages). The first project, the development of a large residential property near Shenyang, was started in 2005.

Last year, GTC RE has also identified Western Europe as a potential market to further expand its real estate portfolio. GTC RE has formed a joint venture with a leading Israeli investment group, which focuses on acquiring cash generating office and commercial properties throughout Western Europe.

OVERVIEW 2006

During 2006, 3 projects were completed: America House, an office building in Bucharest, Romania comprising 27,000 sqm of rentable space; Topaz building, an office building in Warsaw, Poland comprising 11,000 sqm of rentable space; and Center Point 2, an office building in Budapest, Hungary comprising 23,000 sqm of rentable space.

In December 2006, GTC SA sold the Mokotow Business Park in Warsaw. Mokotów Business Park (MBP) is the largest office complex in Poland and includes nine buildings with 107,000 sqm of net rentable area (NRA), and the right to perpetual usufruct of 7.3 hectares of land. The development of MBP started in 1995 and was GTC SA's first investment. The sale of MBP is part of GTC SA's strategy to further diversify its property portfolio in terms of sector, geographical spread and maturity of assets.

GTC's successful activity in the region has also been acknowledged by Real Estate experts.

In 2006 GTC Romania was awarded the title: "Developer of the year" in the south and Eastern Europe Real Estate Quality awards contest. The Construction and Investment Journal awarded the prize of "Best office Building" and the "Best overall development" in Hungary in 2006 to Center Point in Budapest.



Raising new equity helped to accelerate the pace of new acquisitions during 2006. In late March 2006, GTC SA successfully completed a secondary public offering, which was significantly oversubscribed, and raised USD 150 million. In November 2006, three joint ventures were signed between GTC SA and RREEF Opportunity Funds, an affiliate of Deutsche Bank (DB), whereas DB will join as a partner to three residential projects: two in Bucharest, Romania (Rose Garden and Felicity) and one in Budapest, Hungary (Sasad Resort).

During the year under review, the real estate segment continued expanding its activities through accelerated expansion in all existing countries, active entrance to three countries: Slovakia, Bulgaria and Ukraine, portfolio rebalancing in Poland through the sale of Mokotow Business Park and capital expansion. The total portfolio of investments –completed, under development or in the pipeline now comprises approximately 1.455 million sqm of net office, retail and residential space. In total in 2006 GTC SA acquired 19 new investments with 725,000 sqm of potential building rights.

GTC has continued to identify the Chinese market as a potential market to further expand its real estate activities. GTC has gradually studied the business environment, recruited a local team and opened a Chinese office. In the last two years, GTC China has entered into four agreements for the acquisition or lease of land for real estate development, mainly residential, in large scale cities together with its partner Lucky Hope. Building rights amount to approximately

1.36 million sqm with a total investment of approximately USD 400 million. GTC's share in the Chinese projects is 50%.

During 2005-2006, GTC has seized business opportunities and purchased different assets in Western Europe. The activities in Western Europe yielded positive results with a fairly low risk factor.

During 2006, Kardan RE has entered into agreements regarding the development of 3 new residential projects in various cities in Israel.

In addition, Kardan Israel acquired a 15% stake in "Emed", a prestigious Israeli Real Estate Developer.

Revenues from the real estate activities amounted to USD 445.7 million in 2006 (2005: USD 256.3 million). These activities contributed operating result of USD 353.6 million in 2006, compared to USD 195.6 million in 2005. The operational result includes gains from the revaluation of investment properties of USD 261.0 million.

OUTLOOK

CEE

GTC plans to continue developing projects in CEE and acquire additional building rights in various existing countries of operation. GTC is also considering expansion into new markets.

China

In the upcoming year, GTC intends to continue its growth through the investment and development in new residential, commercial and office buildings according to market conditions. In addition, GTC RE China plans to expand its activities in different



second and third tier cities in China, as well as to expand its activities to the development of shopping centers.

Israel

As a result of an improving real estate market in Israel, Kardan Real Estate is contemplating changes in its investment policy and in the scope of its activities. It aims to concentrate mainly on the Israeli residential sector and on "build, operate and transfer" infrastructure projects which include real estate elements.

Western Europe

Due to the increased valuations in the Real Estate market in Western Europe, and in light of the decreasing gap between the yield for these assets and the debt markets interest rate, GTC RE has slowed its investment pace in Western Europe.

Type of project	Country	No. of completed projects	Net rentable area in sq.m	Under development	Net planned area in sq.m
Office Buildings	Poland	3	34,380	14	317,648
	Hungary	2	41,760	4	142,940
	Serbia	1	13,500	2	40,234
	Romania	1	26,000	2	75,540
	Czech Republic	2	50,000	2	148,160
	Croatia	-		1	7,000
Retail Centres	Poland	2	98,300	1	49,800
	Croatia	-	-	1	26,150
	Romania	-	-	5	115,670
	Czech Republic	-	-	1	42,383
Income-yielding	Germany	7	55,300	-	-
	Switzerland	9	50,500	-	-

Residential projects	Country	No. of projects	Size	Completion stage
	Poland	3	127,000 sq.m planned for residential units	Osiedle Konstancja (Warsaw) - Stage 1 and 2- 100% sold, Stage 3- 70% sold Planned completion in 2008 Galileo Gardens (Krakow) - planned completion in 2009 Park Apartments (Poznan) - planned completion in 2009
	Hungary	2	94,300 sq.m planned for residential units	River Loft (Budapest) - planned completion in 2008 in phases Riverside Apartments (Budapest) - completed Sasad Resort (Budapest) - planned completion in 2008 in phases
	Serbia	1	17,400 sq.m planned for residential units	Park Apartments (Belgrade) - planned completion in 2007
	Romania	4	263,800 sq.m planned for residential units	Green Dream Residence (Bucharest) - planned completion in 2008 Jasmine Park (Bucharest) - planned completion in 2009 Rose Garden (Bucharest) - phase 1 to be completed in 2008 Felicity (Bucharest) - phase 1 to be completed in 2008
	Czech Republic	2	212,000 sq.m planned for residential units/ commercial	Prague Marina - phase 1- 350 apartments (30% pre - sold) Green City (Prague) - phase 1 to be completed in 2008
	Slovakia	2	76,000 sq.m residential units/ apartment hotel	Vinyard (Bratislava) -phase 1 to be completed in 2009 Park apartments (Bratislava) - planned completion in 2009
	China	3	1,417,000 sq.m planned for residential units	Qili Xiandi (Shenyang) -phase 1 completed; phase 2 - 70% completed Palm Garden (Shenyang) - planned completion in 2011 Olympic Garden (Xi'an) - planned completion in 2012



Infrastructure



Kardan is active in the infrastructure business through Kardan's wholly owned Group Company Tahal Group B.V. (Tahal), an international infrastructure engineering company. Tahal combines over 50 years of emerging markets experience, advanced technical resources and staff of over 350 engineers to provide services to governments, public utilities, water agencies and various industries across the world. Tahal is ranked as one of the world's top 75 infrastructure design companies.

The Tahal Group is active in projects in CEE, Latin America, Asia and Africa primarily in the water, sewage, environment and agriculture sectors. The projects relate to managing water resources, the supply of water, agricultural planning and marketing, irrigation, desalination, treatment and purification of waste water, environmental engineering, sewage systems and geographical data systems. In addition, the Tahal Group is active in the area of energy, gas and civil engineering. The Tahal Group is involved in the planning, supply, engineering, supervision and implementation of private and local engineering projects backed by local and international financing.

Tahal operates internationally in the fields of planning, design, construction and project management services as well as in turnkey and "build, operate and transfer" projects. Approximately 86% of the activities of Tahal are related to water and sewage systems.

Many of Tahal's international projects are initiated by foreign governments and are financed by the World Bank, regional development banks and commercial banks.

OVERVIEW 2006

Revenues for the Infrastructure sector amounted to USD 81.2 million for the year 2006 (2005: USD 61.7 million). Operating profit amounted to USD 3.2 million in 2006 compared to USD 4.7 million in 2005.

36.8% of Tahal's revenues were generated in Europe, 23.6% in Latin America, 23.6% in Asia and Africa (including Israel) and 17.6% were generated from investment activities.

During 2006 a number of new projects were won. In Turkey a joint venture was established to manage, operate and maintain the water and sewage networks in two Turkish cities (250,000 people). In Venezuela two tenders were won relating to the conveyance of water to Margarita Island in the Caribbean sea.

OUTLOOK

In 2007 Tahal aims to further develop its business from consultancy into asset ownership, by new acquisitions and investments. Furthermore, Tahal expects to continue its growth in 2007 by participating in the development of further turnkey, BOO and BOT projects in different countries. In addition Tahal has the intention to expand its infrastructure activity into China.

Automotive & Consumer Goods



Kardan is active in the automotive & consumer goods sector in Israel through Kardan Israel and its Group Companies, UMI and SFDI. UMI is the exclusive Israeli distributor for the General Motors Group ("GM Group"). UMI engages in the import and marketing of motor vehicles manufactured by the GM Group. These vehicles include family sized vehicles, executive vehicles and off road vehicles and are marketed under the brand names "Chevrolet", "Buick", "Chevy Trucks", "Cadillac" and "Hummer" (manufactured in North America and in Korea), "Opel" and "Saab" (manufactured in Europe) and "Isuzu" (manufactured in Japan and in Thailand). In addition, UMI imports trucks manufactured by Isuzu and markets them through its 50% affiliate Universal Trucks Israel Ltd. UMI's market share of the total motor vehicle deliveries in Israel was 9.3% in 2005 and 7.1% in 2006.

UMI and its affiliates are involved in the import and marketing of motor vehicle spare parts and accessories and the provision of different services in connection with its business.

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

OVERVIEW 2006

As of 31 December 2006 UMI's revenues amounted to USD 397 million, compared to USD 387 million in 2005. The revenues of UMI are not consolidated with the revenues of Kardan. The revenues of SFDI amounted to USD 22.9 million for 2006, compared to USD 18.4 million in 2005. In 2006, Kardan's Automotive & Consumer segment contributed an operating result of USD 6.4 million, compared to USD 8.8 million over 2005.

The decrease in net profit can be explained by the increase in finance expenses of UMI, that is due primarily to future transactions regarding exposure to foreign currency which amounted to approximately USD 9 million in 2006.

OUTLOOK

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



Communications & Technology



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

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

OVERVIEW 2006

In 2006, Kardan's Communications & Technologies segment contributed an operating result of 8.3 USD million, compared to a result of USD 10.4 million over 2005. During 2006 Kardan Communications invested approximately US\$ 6.7 million in its portfolio companies, primarily in Sintecmedia. Sintecmedia designs and implements innovative management systems for the broadcast, cable and satellite industries. In October 2006, RRSat was listed on the Nasdaq Stock Exchange at a post money valuation of USD 208.4 million. RRSat is an experienced comprehensive world-class provider of end-to-end transmission via satellites and production services to the global broadcasting industry. RRSat engages in TV and radio broadcast transmission via satellite and mobile broadcast units. Its main activity involves transmitting broadcasts of various TV channels to TV and radio stations around the world via satellite and broadcast systems located in Israel and in other countries. It also provides mobile broadcast units for transmitting live outside broadcasts.

In December 2006, Kardan Technologies signed a partnership agreement with Formula Vision regarding the acquisition of a portfolio comprised of five high tech companies for a consideration of USD 21 million.

Kardan Communications does not consolidate the results of its Group Companies in its financial statements. The results of RRSat, a significant holding of Kardan Communications, which engaged in the transfer of television and radio broadcasts, are included by means of the equity method. In 2006, RRSat's revenues amounted to US\$ 43.3 million. The activities of Kardan Technologies are limited to minority holdings in a venture capital fund and in several technology companies. As of 31 December 2006 Kardan Technologies assets amounted to US\$ 23.4 million.

OUTLOOK

During 2007, Kardan intends to consider further investments in the technology sector, primarily in the fields of communications and media.



Kardan n.v.

Amsterdam, the Netherlands

Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2006

Corp.	1,250,000	23,110
Corp.	170,000	59,332
	257,000	208,192
	370,000	
	587,000	
	561,000	
	717,000	
ng, Inc.	529,000	39,675
	1,474,000	90,651
	1,217,000	40,770
	553,000	23,019
	1,576,000	60,479
	450,000	51,750
	1,103,000	87,826
	582,000	18,187
	585,000	24,643
		437,000
Inc. Class E		2,218
		2,140
		358
LC ADR		80
ations Corp.	1,782,000	
	1,107,000	
MON STOCKS		
SH INVESTMENT (8.4%)		
Face Amount (000)		
ment		199,388

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Consolidated balance sheet

Assets	Note	December 31, 2006	December 31, 2005
		USD'000	USD'000
Non-current assets			
Property, plant and equipment	7	45,929	30,023
Real estate under construction	8	248,379	155,966
Investment properties	9	840,706	759,548
Intangible assets	10	153,400	86,415
Investments in associates	11	142,796	92,773
Available-for-sale financial assets	12	73,106	45,609
Long-term loans and receivables	13	128,703	59,309
Deferred acquisition costs (insurance companies)	14	8,333	12,485
Deferred income tax assets	48	5,778	5,506
		1,647,130	1,247,634
Current assets			
Inventories and contract work and buildings inventory in progress	15	210,949	69,769
Current maturities of long-term loans and receivables	13	123,963	75,657
Loans to bank customers	16	159,126	-
Trade receivables	17	55,522	31,208
VAT and income tax receivables		21,318	19,786
Other receivables and prepayments	18	57,694	66,072
Insurance receivables	19	15,460	17,909
Reinsurance assets	20	20,982	16,762
Short-term investments	21	79,578	48,661
Cash and cash equivalents	22	538,075	185,974
		1,282,667	531,798
Total assets		2,929,797	1,779,432

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

Equity and liabilities	Note	December 31, 2006	December 31, 2005
		USD'000	USD'000
Equity attributable to equity holders of the parent			
Issued and paid-in capital	23	20,982	15,717
Share premium		203,011	92,670
Property revaluation reserve		79,473	53,945
Revaluation reserve, other		596	(2,444)
Foreign currency translation reserve		13,562	(5,736)
Retained earnings		33,676	6,765
		351,300	160,917
Minority interests		646,417	353,361
Total equity		997,717	514,278
Non-current liabilities			
Interest-bearing loans and borrowings	25	619,747	584,433
Other long term liabilities	26	6,169	12,636
Warrants and options	27	176,697	39,713
Convertible debentures	28	57,270	93,870
Debentures	29	106,015	101,350
Insurance contracts liabilities	30	110,956	119,176
Deferred income tax liabilities	48	82,409	46,285
Accrued severance pay, net	31	1,765	1,386
		1,161,028	998,849
Current liabilities			
Due to customers for contract work		8,588	5,267
Advances from customers in respect of contracts		12,848	21,519
Banking customers accounts	32	187,719	-
Other payables and accrued expenses	33	140,219	70,159
Income tax payables		35,987	21,919
Trade payables	34	76,132	36,007
Interest-bearing loans and borrowings	35	309,559	111,434
		771,052	266,305
Total liabilities		1,932,080	1,265,154
Total equity and liabilities		2,929,797	1,779,432

Consolidated Income Statement

FOR THE YEAR ENDED DECEMBER 31

	Note	2006 USD'000	2005 USD'000
Revenues			
Sales and services	37	62,385	55,923
Contract revenues		81,244	61,656
Insurance activities	38	76,238	112,993
Lending activities	39	31,299	12,293
Rental revenues		90,213	71,590
Equity in net earnings of associated companies	11	8,837	10,089
Management fees		1,550	1,684
Gain on issuance of shares in associated companies and subsidiaries to third parties		63,624	18,569
Adjustment to fair value of investment properties	9	260,984	152,317
Gain on disposal of assets and other income	40	24,321	61,912
		700,695	559,026
Expenses			
Cost of sales and services	41	51,218	46,005
Contract costs		61,248	42,958
Operating expenses of insurance activities	42	78,797	111,085
Operating expenses of lending activities	39	26,771	9,822
Costs of rental operations		25,657	20,334
Selling and marketing expenses	43	18,511	14,204
General and administration expenses	44	39,239	30,153
Share based payments	24	16,511	2,537
Financing expenses	46	157,476	79,164
Financing income	46	(34,383)	(10,292)
Other expenses	47	8,082	5,613
		449,127	351,583
Net profit before income taxes		251,568	207,443
Income taxes	48	57,207	38,781
Net profit for the year		194,361	168,662
Attributable to:			
Equity holders		50,671	52,613
Minority interest holders		143,690	116,049
		194,361	168,662
Earnings per share			
Basic	49	0.67	0.82
Diluted	49	0.57	0.78

The accompanying notes are an integral part of these financial statements

Consolidated statement of changes in equity

	Attributable to equity holders of the parent							Minority interest	Total equity
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings	Total		
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance as of January 1, 2005	16,922	75,644	17,633	(614)	4,482	(9,720)	104,347	351,031	455,378
Currency translation differences	–	–	–	1,782	(13,111)	–	(11,329)	(13,096)	(24,425)
Change due to issuance of shares in subsidiaries/acquisition of subsidiaries	–	–	–	–	–	–	–	(98,766)	(98,766)
Change in unrealized revaluation reserve	–	–	184	(100)	–	–	84	(581)	(497)
Realisation of revaluation reserve	–	–	–	(3,512)	603	–	(2,909)	364	(2,545)
Share base payment	–	977	–	–	–	–	977	1,560	2,537
Total income and expense for the year recognized directly in equity	–	977	184	(1,830)	(12,508)	–	(13,177)	(110,519)	(123,696)
Net profit for the period	–	–	–	–	–	52,613	52,613	116,049	168,662
Total income /expense for the year	–	977	184	(1,830)	(12,508)	52,613	39,436	5,530	44,966
Issuance of shares (from exercise of warrants, options and conversion of debentures)	1,071	15,885	–	–	–	–	16,956	–	16,956
Sale of shares held by subsidiary	14	164	–	–	–	–	178	–	178
Dividend distributed by subsidiaries	–	–	–	–	–	–	–	(3,200)	(3,200)
Reclassification according to statutory requirements (*)	(2,290)	–	36,128	–	2,290	(36,128)	–	–	–
Balance as of December 31, 2005	15,717	92,670	53,945	(2,444)	(5,736)	6,765	160,917	353,361	514,278

Adjusted to conform to the 2006 presentation.

Consolidated statement of changes in equity (continued)

	Attributable to equity holders of the parent							Minority interest	Total equity
	Issued and paid-in capital	Share premium	Property revaluation reserve	Revaluation reserve, other	Foreign currency translation reserve	Retained earnings	Total		
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance as of January 1, 2006	15,717	92,670	53,945	(2,444)	(5,736)	6,765	160,917	353,361	514,278
Currency translation differences	–	–	–	–	25,020	–	25,020	17,103	42,123
Change in fair value of hedge instrument (net of tax – USD 146 thousand)	–	–	–	242	–	–	242	327	569
Change due to issuance of shares in subsidiaries/acquisition of subsidiaries (**)	–	–	–	–	–	–	–	128,964	128,964
Change in unrealized revaluation reserve	–	–	2,735	(938)	–	–	1,797	324	2,121
Share base payment	–	548	–	–	–	–	548	5,301	5,849
Put options granted to minority shareholders in subsidiaries	–	–	–	–	–	(967)	(967)	(2,391)	(3,358)
Total income and expense for the year recognized directly in equity	–	548	2,735	(696)	25,020	(967)	26,640	149,628	176,268
Net profit for the period	–	–	–	–	–	50,671	50,671	143,690	194,361
Total income /expense for the year	–	548	2,735	(696)	25,020	49,704	77,311	293,318	370,629
Issuance of shares	2,887	98,837	–	–	–	–	101,724	–	101,724
Exercise of warrants and options	392	9,590	–	–	–	–	9,982	–	9,982
Sale of shares held by subsidiary	–	1,366	–	–	–	–	1,366	–	1,366
Dividend distributed by subsidiaries	–	–	–	–	–	–	–	(262)	(262)
Reclassification according to statutory requirements (*)	1,986	–	22,793	3,736	(5,722)	(22,793)	–	–	–
Balance as of December 31, 2006	20,982	203,011	79,473	596	13,562	33,676	351,300	646,417	997,717

Consolidated statement of changes in equity (continued)

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

(**) The movement includes changes in minority interests following various transactions during 2006. These transactions primarily include:

- Increase due to capital increase in GTC SA and exercise of management options (see Notes 6(B)C; 24(B)4);
- Increase due to exercise of options and conversion of debentures of GTC RE (see Note 6(B)G);
- Decrease due to acquisition of minority shareholders in TBIH (see Note 6(B)H);
- Increase due to capital increase in Kardan Israel (see Note 6(B)L).

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



Consolidated cash flow statement

FOR THE YEAR ENDED DECEMBER 31

	2006	2005
	USD'000	USD'000
Cash flow from operating activities		
Net profit before taxes on income	251,568	207,443
Adjustment to reconcile net profit (loss) to net cash		
Charges/ (credits) to profit/loss not affecting operating cash flows:		
• Equity earnings of associated companies	(8,837)	(10,089)
• Dividend received from associated companies	4,309	6,845
• Gain on issuance of shares in associated companies and subsidiaries to third parties, net	(63,624)	(18,569)
• Gain on disposal of investments in companies, property, plant and equipment and investment properties, net	(20,124)	(50,743)
• Impairment of investments	–	3,935
• Share based payment	6,156	2,537
• Depreciation and amortization	5,502	6,942
• Fair value adjustments of investment properties	(260,984)	(152,317)
• Exchange differences, net	48,449	(23,836)
• Change in fair value of options	103,768	31,216
• Decrease (increase) in fair value of securities held for trading, net	2,861	(1,308)
• Decrease (increase) in fair value of hedge instrument	(2,171)	–
• Increase in accrued severance pay, net	226	(181)
Adjusted net profit	67,099	1,875
Changes in operating assets and liabilities		
• Change in insurance provisions and deferred acquisition costs, net	14,217	19,138
• Change in outstanding insurance premiums, reinsurance receivables and insurance companies	(9,565)	(6,324)
• Change in trade and other receivables	(2,634)	(17,970)
• Change in inventories and in contract work in progress, net of advances from customers	(69,461)	(8,433)
• Change in trade and other payables	180,023	6,520
Net cash generated from (used in) operations	179,679	(5,194)
Income taxes paid	(4,754)	(3,948)
Net cash provided by (used in) operating activities	174,925	(9,142)

Consolidated cash flow statement (continued)

FOR THE YEAR ENDED DECEMBER 31

	2006	2005
	USD'000	USD'000
Cash flow from investing activities		
Acquisition of property, plant and equipment and investment properties	(173,257)	(129,628)
Investments in companies and partnerships	(80,172)	(161,674)
Collecting (granting) of loans to associated companies, net	(22,217)	(9,772)
Proceeds from disposal of property, plant and equipment and investment properties	280,950	26,797
Granting of long-term loans	(445,681)	(116,233)
Collecting of long-term loans and receivables	315,242	59,659
Change in short-term investments	(53,563)	(27,125)
Acquisition of newly-consolidated subsidiaries, net of cash acquired (see A below)	(68,445)	(4,613)
Increase in cash resulting from sale of investments in formerly consolidated subsidiaries (see B below)	55,764	40,864
Increase in cash resulting from sale of investments in formerly proportionately consolidated subsidiaries (see C below)	25,736	15,267
Change in deferred brokerage fees	(1,467)	(1,748)
Income taxes paid	3,810	–
Change in other assets	(120)	(3,180)
Net cash used in investing activities	(163,420)	(311,386)
Cash flows from financing activities		
Proceeds from exercise of warrants of issuance of Company's shares	102,116	3,584
Proceeds from issuance of shares to minority shareholders of subsidiaries, net	160,423	9,357
Treasury shares sold	1,366	350
Dividend to minority shareholders in subsidiaries	(262)	(3,397)
Issuance of debentures	5,244	127,752
Issuance of warrants in subsidiaries	–	306
Repayment of debentures	(41,151)	(31,173)
Receipts of long-term loans	330,335	305,533
Repayment of long-term loans	(214,255)	(111,398)
Costs related to issuance of debt and shares	(3,261)	(2,230)
Change in deposits from tenants	(967)	723
Purchase of option rights	(2,887)	–
Change in short-term loans and borrowings, net	(18,380)	(2,598)
Net cash provided by financing activities	318,321	296,086

Consolidated cash flow statement (continued)

FOR THE YEAR ENDED DECEMBER 31

	2006	2005
	USD'000	USD'000
Foreign exchange differences relating to cash and cash equivalents	22,275	5,821
Increase (decrease) in cash and cash equivalents	352,101	(17,898)
Cash and cash equivalents at the beginning of the period	185,974	203,872
Cash and cash equivalents at the end of the period	538,075	185,974
A. Acquisition of newly-consolidated subsidiaries, net of cash acquired		
Assets and liabilities of subsidiaries as of date of consolidation:		
Cash	9,713	4,273
Working capital (excluding cash)	(93,714)	6,807
Non-current assets	(41,454)	(20,578)
Goodwill on acquisition	(21,224)	(6,358)
Non-current liabilities	47,542	9,388
Minority interest	3,583	(2,418)
Total purchase price	(95,554)	(8,886)
Cash of subsidiaries acquired	9,713	4,273
Payable on account of investment	2,540	–
Reclassification from investment in associates	14,855	–
Cash used in acquisition, net of cash acquired	(68,445)	(4,613)
B. Increase in cash resulting from sale of investment in formerly consolidated subsidiary		
Cash	5,310	32,097
Working capital (excluding cash)	(36,747)	(39,890)
Non-current assets	105,037	80,934
Non-current liabilities	(44,612)	(29,841)
Minority interest	(674)	(4,088)
Gain on disposal of investments	22,082	55,670
Total consideration	50,397	94,882
Cash of subsidiary which ceased to be consolidated	5,310	(32,097)
Tax expenses in the period	–	3,847
Change in capital reserves	(1,758)	738
Other receivables from disposal of investments	1,815	(26,506)
Cash flows from disposal, net of cash disposed	55,764	40,864

The accompanying notes are an integral part of these financial statements

Consolidated cash flow statement (continued)

FOR THE YEAR ENDED DECEMBER 31

	2006	2005
	USD'000	USD'000
C. Increase in cash resulting from sale of investment in formerly proportionately consolidated subsidiary		
Cash	20,225	7,046
Working capital (excluding cash)	(52,829)	(844)
Non-current assets	(2,742)	39,948
Non-current liabilities	(22,451)	(32,011)
Minority interest	(10,024)	(3,381)
Gain on disposal of investments	–	11,555
Total consideration	(67,821)	22,313
Cash of subsidiary which ceased to be consolidated	20,225	(7,046)
Payable on account of investment	69,246	–
Release of long-term payable	4,085	–
Cash flows from disposal, net of cash disposed	25,736	15,267
Material non-cash transactions		
Purchase of real estate under construction against payable	21,766	11,837
Conversion of debentures into subsidiary's shares	21,671	–
Conversion of debentures into Company's shares	9,590	7,806

The accompanying notes are an integral part of these financial statements



Notes to the consolidated financial statements

December 31, 2006

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1. General

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

The total number of employees in the Company and its subsidiaries was 7,980 as of December 31, 2006 and (December 31, 2005 - 6,120).

The registered office address of the Company is located at Prins Hendriklaan 52, Amsterdam, The Netherlands.

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

These financial statements are not meant to be statutory financial statements of Kardan N.V. The statutory financial statements will differ from these financial statements as directors' report will also have to be included.

2. Basis of preparation

BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments, and available-for-sale financial assets that have been measured at fair value. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand (USD'000) except when otherwise indicated.

In order to present comparative figures in line with 2006, the following items were reclassified: *Balance Sheet* – Advances from buyers of USD 10,861 thousand as of december 31, 2005 were reclassified from "buildings inventory in progress" to "other payables and accrued expenses"; *Income statement* – Result of lending and fiduciary activities of USD 2,471 thousand for the year ended december 31, 2005 which was presented as part of financing income on a net basis in 2005, is now presented separately and accordingly USD 12,293 thousand was reclassified to revenues and USD 9,822 thousand was reclassified to operating expenses of lending and fiduciary activities.

STATEMENT OF COMPLIANCE

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

The differences between IFRS and IFRS adopted by the EU only relate to IAS 39 and are as follows:

a) In the 2004 annotation, the fair value option for liabilities at initial recognition has been carved out (IAS39-34b). However, in 2005 the IASB changed IAS 39, allowing fair valuing liabilities but only if certain conditions are met, it is

- i) fair valuing liabilities would remove inconsistencies in the balance sheet (9B i)
 - ii) a group of assets and liabilities are together managed and its performance is measured on the basis of fair value (9B ii)
 - iii) an instrument includes an embedded derivative (11A).
- b) IAS 39 paragraph 84 does not allow hedge accounting of a portfolio of core deposits. The EU has carved out this restriction.

Accordingly the EU exceptions do not affect these financial statements.

BASIS OF CONSOLIDATION

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

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

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

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 parent shareholders' equity. 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 recognised as goodwill.

CHANGES IN ACCOUNTING POLICIES

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Group.

- IAS 1 "Presentation of Financial Statements";
- IAS 19 Amendment -Employee Benefits (*)
- IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds (*)
- IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (*)

(*) Not applicable to the Group due to nature of activities



The principal effects of these changes are as follows:

IAS 21 The Effects of Changes in Foreign Exchange Rates

As of January 1, 2006 the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from monetary item that forms part of the Group's net investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change had no impact as at December 31, 2006 or December 31, 2005.

IAS 39 Financial Instruments:

Recognition and Measurement Amendment for financial guarantee contracts (issued August 2005) and *IFRS 4 Insurance contracts* – For periods beginning on or after January 1, 2006 an entity is required to account for a financial guarantee under IAS 39, unless it elects to apply IFRS 4. The latter should be applied only when the entity previously asserted explicitly that it regards such contracts as insurance contracts and it used accounting specifically applicable to insurance contracts. Financial guarantees accounted for under IAS 39 are initially recognized at fair value and subsequently measured at the higher of the amount determined under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization under IAS 18 *Revenue*. Comparative information for previous periods should be restated.

Amendment for hedges of forecast intragroup transactions (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, hence the amendment did not have an effect on the financial statements.

IFRIC 4 Determining Whether an Arrangement contains a Lease

The Group adopted IFRIC Interpretation 4 as of January 1, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had an impact on the Group as at December 31, 2006 or December 31, 2005.

3. Significant accounting judgements, estimates and assumptions

JUDGMENTS

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

ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amounts of the assets and liabilities and the amounts of the contingent liabilities disclosed in the notes as at balance sheet date as well as reported income and expenses for the period. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present values of those cash flows. The carrying amount of Goodwill as at December 31, 2006 was USD 135 million, of which USD 37.7 million is allocated to real estate

under construction. Where Goodwill is paid in compensation for future project development profit the goodwill is reduced commensurate with the amount of development profits subsequently realised. Goodwill amounting to approximately USD 94.8 million is allocated to financial services activities.

Deferred tax assets

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

Fair value of equity instruments

Fair value of equity instruments, primarily Put options granted to minority shareholders, employee options, phantom options and equity components of convertible debentures, have been valued, in most cases, by independent external valuers, using applicable valuation models, or based on the value of the respective companies as assigned in transactions with third parties. The valuations are necessarily based on certain assumptions, and hence they are subject to uncertainty. The fair value of such equity instruments as of December 31, 2006 was approximately USD 171 million (2005 – USD 34 million).



4. Summary of significant accounting policies

A. INTEREST IN JOINT VENTURES

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

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

B. FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in USD, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the

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

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

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

	EUR	NIS	CPI
December 31, 2006	1.32	4.225	109.9
December 31, 2005	1.18	4.603	110.0
Change in 2006	11.9%	(8.2)%	(0.1)%
Change in 2005	(15.1)%	6.8%	2.4%

Following changes of the functional currencies of various Group companies, as of January 1, 2007 the Company has changed its functional currency from USD to EUR.

C. PROPERTY, PLANT AND EQUIPMENT

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

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

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

Software	3 years
(Office) Equipment	5-10 years
Vehicles	2-7 years
Buildings	25-50 years
Land improvement	5 years

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

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

D. REAL ESTATE UNDER CONSTRUCTION

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

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

Construction in progress is not depreciated until such time as the relevant assets are completed and are ready for use.



Amounts paid for leased land for the purpose of developing and constructing an investment properties are classified as construction in progress.

E. INVESTMENT PROPERTIES

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

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

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

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

occupation or commencement of development with a view to sale.

F. CONTRACT WORK AND BUILDING INVENTORY IN PROGRESS

Costs relating to the construction of the residential properties and other projects are included as inventory as follows:

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

Such costs include:

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

G. MERCHANDISE INVENTORIES

Merchandise inventories are stated at the lower of purchase cost or net realizable value, cost being determined by the "first-in, first-out" method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

H. BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative

translation differences and unamortised goodwill is recognised in the income statement.

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

I. OTHER INTANGIBLE ASSETS

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

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

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

J. INVESTMENT IN ASSOCIATES

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



is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable in the statement of changes in equity.

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

K. IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In

determining the fair value less costs to sell, an appropriate valuation model is used.

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

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

Goodwill 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 recognised.

L. INVESTMENTS AND OTHER FINANCIAL ASSETS

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

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

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held

for trading are recognised in profit or loss as part of the financing income or expenses.

Held-to-maturity investments

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

Loans and receivables

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

M. CASH AND CASH EQUIVALENTS

Cash and short term deposits in the balance sheet comprise cash at banks and at hand and short term deposits with an original maturity of three



months or less. Unless otherwise disclosed, cash is unrestricted and is considered to have very limited fair value risk, if any.

N. INSURANCE RECEIVABLES

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

O. IMPAIRMENT OF FINANCIAL ASSETS

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

Assets carried at amortised cost

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

impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in

profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

P. TREASURY SHARES

Treasury shares are presented in the balance sheet as a deduction from shareholders' equity. No gain or loss is recognized in the profit and loss statement on the sales, issuance, or cancellation of treasury shares. Consideration received is presented in the financial statements as a change in shareholders' equity.

Shares purchased by subsidiaries are accounted for as treasury shares.

Q. CONVERTIBLE DEBENTURES

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

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

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

R. DEBENTURES

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

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

S. INTEREST BEARING LOANS AND BORROWINGS

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

After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortized cost. Amortized cost is calculated by taking into account premiums paid at initiation of the loans and using the effective interest method. Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.



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.

T. INSURANCE LIABILITIES

Insurance contracts liabilities

Life insurance contracts liabilities

The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation.

Insurance contracts with fixed and guaranteed terms

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and

the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and policy administration expenses, based on the valuation assumptions used. The liability is based on assumptions as to morality, persistency, investment income and maintenance expenses that are established at the time the contract is issued.

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.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the income statement in the order that revenue is recognised over the period of risk or, for annuities, the amount of expected future benefit payments.

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. Any inadequacy is immediately charged to the income statement by establishing an unexpired risk provision.

Product classification

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependant on both the probability of an insured event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

U. DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass through arrangement; and
- the Group has transferred its rights to receive cash flows from the asset and either (a) has

transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange



or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

V. PROVISIONS

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

W. SHARE-BASED PAYMENT TRANSACTIONS

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

Equity-settled transactions

The cost of equity-settled transactions with employees (or consultants) is measured by

reference to the fair value at the date at which they were granted. In most cases, the fair value is determined by an external valuer using an appropriate pricing model.

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

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

Cash-settled transactions

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

X. LEASES

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

Group as a lessee

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

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

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

Group as a lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset

and recognised over the lease term on the same bases as rental income.

Y. REVENUE RECOGNITION

General

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

Sale of goods

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

Contract revenues

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

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms. Costs of



rental operations are recorded in the same period as rental income is recognised. The aggregate cost of rental incentives are recognised as a reduction of rental income over the lease term on a straight line basis.

Sale of apartments

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues comprise amounts received or receivable, net of Value Added Tax and discounts.

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

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

Rendering of services (including management fees)

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

Revenues from managing pension funds are recognised upon the receipt of member contributions. Contributions to the pension

funds are recorded when received. The fee for management of pension funds are recorded on an accrual basis.

Investment income

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

Income from insurance

Premium income

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

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

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

Z. INSURANCE BUSINESS

Life Insurance Business

- a. Premiums, including savings, are accounted for on an accrual basis. Accrued premiums include premiums for this line of business which are outstanding for up to one year.
- b. Surrenders are accounted for when paid.
- c. Death claims include estimates of claims which occurred up until balance sheet date.
- d. Life assurance reserve and the reinsurers' share therein, are determined on the basis of annual actuarial valuations computed by the subsidiaries' actuary, consistent with the previous year. In the calculation of the reserve, the actuary uses the same interest rates and mortality tables used by the subsidiaries in determining the insurance tariffs of the various insurance reserves.
- e. Acquisition costs are deferred by the "DAC" method. According to the principles, the DAC includes agent's commissions and other expenses related to the acquisition of new policies, including a part of administrative and general expenses. According to these principles the DAC is amortized in equal parts during the policy period but not over more than 15 years. Deferred acquisition costs relating to cancelled policies are charged to income at cancellation date.
- f. Profit from life assurance business is determined out of the surplus resulting from the annual actuarial valuation of the reserve.
- c. The premium reserve and the reinsurers' share in reinsurance receivables are calculated on a daily basis.
- d. The portion of commissions and other acquisition costs, relating to the unearned premium, is carried forward as deferred acquisition costs. These deferred expenses are calculated according to the actual rates, although in many cases rates that are lower than the actual rates were used due to low premiums that based on past experience were insufficient to cover the claims and the actual costs.
- e. Claims comprise the settlement and handling cost of paid and outstanding claims arising from events occurring in the reporting year and adjustments to outstanding claims reserves established in prior years. Any such adjustments are currently reflected in earnings.
- f. Outstanding claims are included on the basis of actuarial valuations or case by case estimate if higher.
- g. Business from other insurance companies and underwriting agencies are included to the extent such results are reported in statements received by the balance sheet date.
- h. Investment income, including the inflationary restatement of non-monetary items (mainly fixed assets, investments in investees and shareholders' equity) is charged to general insurance business and the profit and loss statement based on the ratio of the investments relating to insurance liabilities and equity and other liabilities.

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.

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



Reinsurance

- a. The reinsurers' shares in insurance reserves and outstanding claims are presented separately in the balance sheet, net of an allowance for doubtful or bad debts, based on management's estimate.
- b. The reinsurers' liabilities to the subsidiaries do not release the subsidiaries from their obligation to their policyholders insured under the insurance policies. A reinsurer who will not fulfil his future obligations under the reinsurance treaties may cause the Group losses in the future.
- c. Accounting policy regarding reinsurance strategy - In order to reduce the insurance risks the company utilises a reinsurance program. The majority of reinsurance business ceded is placed on a quota share/ excess (in aviation line of business the company writes business only with facultative cover with no significant retention) of loss basis with retention limits varying by product line and territory (see separate table per line of business in Note 14). Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. Reinsurance is placed with high rated counterparties and concentration of risk is avoided by following policy guidelines in

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

AA. TAXES

Current income tax

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

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

Deferred income tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences

associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

BB. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

The Company has judged that the fair value of some of the balance sheet items does not differ significantly from their current carrying amounts. This is valid for cash items, receivables from



banks, customers' loans, and other negotiated receivables and liabilities. The Company believes that the current carrying amount of these assets and liabilities approaches their fair value, especially when they are short-term or their interest rates are changing together with the change in the current market conditions.

CC. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability;

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

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss. For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the

firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flow that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

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

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

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

Hedges of a net investment

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

DD. PUT OPTION GRANTED TO MINORITY SHAREHOLDERS

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

The Group recognises a financial liability under the above contracts at their fair value. The minority interest herein is presented as a financial liability. Cost of re-measurement of the financial liability is accounted for through the profit and loss account.

EE. FUTURE CHANGES IN ACCOUNTING POLICIES

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



- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*
- IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*
- IFRS 7 *Financial Instruments: Disclosures*
- IFRS 8 *Operating Segments*
- IAS 1 *Presentation of Financial Statements*

The amendments have been analysed by the Company. The standards, which come into force after 2007, will not impact on the financial data presented in these financial statements. However, as the result of implementation of IFRS 7 in the year beginning January 1, 2007 the disclosures on financial instruments as well as on risk policies of the Company will change.

5. Segment information

A. GENERAL

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

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

The Financial Services segment - The Company through its subsidiaries is active in Bulgaria, Romania, Slovakia, Croatia, Serbia, Georgia, Russia and Ukraine. The activity is focused on financial services including the management of pension funds, insurance and reinsurance and lending activities.

The Infrastructure segment - The Company, through a subsidiary, provides engineering, consulting and design services. The Company undertakes projects in Latin America, Eastern Europe, Israel and in other countries, mainly relating to the environment, water, sewage, drainage, irrigation, energy and agriculture.

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

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



For the year ended December 31, 2006

	Real Estate	Financial Services	Infrastructure	Automotive & Consumer Goods	Communications & Technology	Other	Total
Segment revenues	445,699	130,126	81,249	27,609	10,168	5,844	700,695
Segment results	353,572	6,875	3,257	6,422	8,282	3,297	381,705
Unallocated expenses							(7,044)
Profit from operations							374,661
Financing expenses, net							(123,093)
Taxes on income							(57,207)
Net profit for the year							194,361
Minority interests							143,690
Equity holders							50,671
As of December 31, 2006							
Allocated assets	1,804,815	708,819	69,880	65,444	58,483	3,241	2,710,682
Unallocated assets							219,115
Total assets							2,929,797
Allocated liabilities	162,150	476,566	36,530	15,101	992	1,849	693,188
Unallocated liabilities							1,238,892
Total liabilities							1,932,080
Capital expenditure	172,470	51,899	825	19	27,226	989	253,428
Depreciation and amortization	424	3,590	1,251	49	14	173	5,502

For the year ended December 31, 2005

	Real Estate	Financial Services	Infrastructure	Automotive & Consumer Goods	Communications & Technology	Other	Total
Segment revenues	256,325	195,455	62,041	26,404	11,622	7,179	559,026
Segment results	195,609	58,972	5,142	8,796	10,388	4,906	283,813
Unallocated expenses							(7,498)
Profit from operations							276,315
Financing expenses, net							(68,872)
Taxes on income							(38,781)
Net Profit for the year							168,662
Minority interests							116,049
Equity holders							52,613
As of December 31, 2005							
Allocated assets	1,185,402	273,283	57,002	45,880	27,921	39,591	1,629,079
Unallocated assets							150,353
Total assets							1,779,432
Allocated liabilities	62,383	163,255	37,633	5,105	1,161	1,356	270,883
Unallocated liabilities							983,410
Total liabilities							1,254,293
Capital expenditure	270,784	26,480	2,364	101	3,213	287	303,229
Depreciation and amortization	1,427	2,408	1,875	64	121	626	6,521



B. SECONDARY SEGMENT INFORMATION – GEOGRAPHICAL SEGMENTS*(1) Revenues by Geographical Markets (according to location of customers):*

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Central & Eastern Europe	584,002	471,237
China	7,973	783
Israel	78,584	72,517
Other	30,136	14,489
	700,695	559,026

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

	Segment Assets		Capital expenditures	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
	USD'000	USD'000	USD'000	USD'000
Europe (mainly Central & Eastern Europe)	2,419,139	1,140,008	223,530	297,221
China	23,207	5,597	303	42
Israel	249,460	480,090	28,774	5,966
Other	18,876	3,384	821	-
Total allocated assets	2,710,682	1,629,079	253,428	303,229
Unallocated assets	219,115	150,353		
	2,929,797	1,779,432		

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

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

6. Business combinations and investment in Subsidiaries and Joint Ventures

A. 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		
			2006	2005	
Kardan N.V.	Kardan Israel Ltd.	Israel	78.0	80.5	Subsidiary
	Kardan Financial Services B.V.	Netherlands	55.1	88.2	Subsidiary
	GTC Real Estate N.V.	Netherlands	61.4 (*)	69.1(*)	Subsidiary
	Tahal Group B.V.	Netherlands	100	100	Subsidiary
Kardan Israel Ltd.	Kardan Real Estate Enterprise and Development Ltd.	Israel	100	100	Subsidiary
	Kardan Motors Ltd.	Israel	100	100	Subsidiary
	Kardan Technologies Ltd.	Israel	60.7	56.4	Subsidiary
	Kardan Communications Ltd.	Israel	100	100	Subsidiary
Tahal Group B.V.	Israel Water Planning Ltd.	Israel	100	100	Subsidiary
Kardan Real Estate Enterprise and Development Ltd.	Sofir Construction Ltd.	Israel	50	50	Joint venture
Kardan Motors Ltd.	Taldan Motors Ltd.	Israel	90	90	Subsidiary
	S.F.D.I. Ltd.	Israel	100	100	Subsidiary
Israel Water Planning Ltd.	IWP Engineers and Consultants Ltd.	Israel	100	100	Subsidiary
Kardan Financial Services B.V.	TBIH Financial Services Group N.V.	Netherlands	74.8	58.2	Joint venture

(*) Effective holding percentage



Holding Company	Name of Subsidiary or Joint Venture	Country of incorporation	% equity interest as of December 31		
			2006	2005	
TBIH Financial Services Group N.V.	TBI Bulgaria AD	Bulgaria	87.7	56.8	Subsidiary
	Dunav – TBI AD Belgrade	Serbia	-	51	Subsidiary
	TBIF Financial Services B.V.	Netherlands	89.4	100	Subsidiary
	Helios Insurance Company Ltd.	Croatia	100	70.2	Subsidiary
	Georgian Insurance Pension Holding Ltd.	Georgia	61	51	Subsidiary
	Alpha Insurance & Reinsurance Broker Limited	Gibraltar	85	85	Subsidiary
	Hannover Re (Guernsey) PCC Limited – Cell TBIH	Guernsey	100	100	Subsidiary
	TBI (RUSS) LLC	Russia	100	100	Subsidiary
	UPIH B.V.	Netherlands	50	100	Subsidiary
TBI Bulgaria AD and subsidiaries	Doverie Pension Fund A.D.	Bulgaria	92	91.8	Subsidiary
	TBI AD	Bulgaria	100	100	Subsidiary
	Bulstrad Insurance & Reinsurance AD	Bulgaria	97.3	97.3	Subsidiary
	European Insurance & Reinsurance Brokers Limited	United Kingdom	85	85	Subsidiary
	Bulstrad DSK Life	Bulgaria	90.9	90.9	Subsidiary
	Bulstrad Health Insurance AD	Bulgaria	100	100	Subsidiary
	TBIF Bulgaria AD	Bulgaria	100	100	Subsidiary
	TBI Leasing AD (**)	Bulgaria	100	90	Subsidiary
TBIF Financial Services B.V.	TBI Leasing AD (**)	Bulgaria	100	90	Subsidiary
	TBI Credit EAD (**)	Bulgaria	100	100	Subsidiary
	TBI Asset Management AD (**)	Bulgaria	100	100	Subsidiary
	TBI Invest AD (**)	Bulgaria	100	100	Subsidiary
	HypoCredit AD	Bulgaria	50	50	Subsidiary
	TBI Leasing SA	Romania	100	100	Subsidiary
	Sympatia Finance o.c.p	Slovakia	100	100	Subsidiary
	Stockbroker a.d.	Serbia	-	78.5	Subsidiary
	TBIF Financial Services GmbH	Austria	100	100	Subsidiary
	TBI Leasing d.o.o	Serbia	-	100	Subsidiary
	Regional Credit Bank	Russia	77.8 (*)	-	Subsidiary
	VA Bank	Ukraine	48.7	-	Joint venture
	TBIH Russian Funds LLC	Russia	100	50	Joint venture
UPIH B.V.	VAB Pension	Ukraine	100	100	Subsidiary
	VAB Insurance	Ukraine	90	-	Subsidiary

Holding Company	Name of Subsidiary or Joint Venture	Country of incorporation	% equity interest as of December 31		
			2006	2005	
TBI (RUSS) LLC and subsidiaries	NPF Victoria Fund	Russia	100	100	Subsidiary
	TBIH-IMS RUS	Russia	100	100	Subsidiary
	Standard Reserve Insurance	Russia	-	50.01	Subsidiary
	So Vita	Russia	-	63.6	Subsidiary
	Arka Finance	Russia	50	50	Joint venture
	Arka Insurance	Russia	100	-	Joint venture
GTC Real Estate N.V.	GTC International B.V. (*)	Netherlands	-	97.1	Subsidiary
	GTC Real Estate Asia Ltd.	Hong Kong	100	100	Subsidiary
	GTC Investment B.V.	Netherlands	46.25	48.8	Joint venture
	Globe Trade Centre S.A.	Poland	46.4	50.7	Subsidiary
Globe Trade Centre S.A.	GTC Hungary Real Estate Development Company Ltd.	Hungary	97.5	97.5	Subsidiary
	GTC Real Estate Investments Romania B.V.	Netherlands	94.6	94.6	Subsidiary
	GTC Real Estate Investments Serbia B.V.	Netherlands	97.5	97.5	Subsidiary
	GTC Real Estate Investments Croatia B.V.	Netherlands	97.2	97.2	Subsidiary
	GTC Real Estate Investments Slovakia B.V.	Netherlands	95.0	-	Subsidiary
	GTC Real Estate Investments Ukraine B.V.	Netherlands	85.5	-	Subsidiary
	GTC Real Estate Asia Ltd.				
	GTC Real Estate China Ltd.	Hong Kong	100	100	Subsidiary
	Shenyang Real Estate Development Ltd.	China	50	50	Joint venture
GTC Investment B.V.	Blitz Portfolio GmbH	Germany	85	85	Subsidiary
	Durango Switzerland B.V.	Netherlands	80	-	Subsidiary

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



B. TRANSACTIONS IN 2006

Real Estate

- a. In April 2006 GTC Investments B.V. ('GTC Investments') has signed an agreement for the acquisition of an 80% stake in Durango Switzerland B.V. which company subsequently purchased a real estate portfolio comprising 9 office properties in Switzerland. The properties are quality office buildings situated in major cities throughout Switzerland: Bern, Zurich, Fribourg, Neuchatel and others. The majority of the properties are let to Swisscom. The total consideration for the real estate portfolio amounts to approximately CHF 96.4 million (USD 77.2 million) including acquisition costs. Approximately CHF 80 million (USD 65.3 million) of the total consideration will be financed through a bank loan. GTC Investments is consolidating the results of Durango Switzerland B.V. as of the date of acquisition, whereby goodwill paid is allocated to the fair value of the investment properties.
- b. GTC RE and Mr. Alroy signed a consulting agreement according to which Mr. Alroy will provide the Company with services in relation with its investment in GTC Investments B.V. In consideration for the consulting services the parties agreed as follows:
- GTC RE will transfer to Alroy 450 shares in GTC Investments constituting 2.5% of the share capital of GTC Investments in consideration for their nominal value;
 - The shares will vest in three annual equal tranches starting in November 2005;
 - GTC RE will assign to Alroy shareholders' loans

granted to GTC Investments and will advance future loans on behalf of Alroy to GTC Investments.

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

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

GTC RE has agreed with one of its directors, who is also a director of the Company, holding 1.25% in GTC Investments, that GTC RE will finance shareholders' loans equal to 80% of the financing the director has to provide to GTC Investments. The director will provide 20% of such financing from his own resources. Further, GTC RE has granted the director a Put Option to sell his shares in GTC Investments to GTC RE. The Put Option can be exercised upon a change in control over GTC Investments and during a 12 months period commencing in November 2010, or the date the director ceased to provide services to GTC Investments. The exercise price of the option shall be the fair value of the shares transferred as of the date of exercise of the option, and shall be paid in cash or in shares at the discretion of GTC RE.

- c. On March 24, 2006 GTC S.A. successfully completed the issuance of 17,120,000 new shares at a price of PLN 28.5 per share (USD 8.74). The newly issued shares constitute approximately 7.9% of the share capital of GTC S.A. As a result of the issuance the Company's indirect holding in GTC S.A. was reduced to 29.8% and the Company recorded a gain of approximately USD 41.5 million (USD 26.1 million after minority interests). As of December 31, 2006 the Company has a 28.5% indirect interest in GTC S.A.

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

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

GTC S.A.'s interest in the sold subsidiary as at transaction date comprised the following:

	April 28, 2006
	USD'000
Non-current assets	176,326
Current assets (other than cash)	5,473
Cash	2,653
Long-term liabilities	(96,126)
Current liabilities	(8,660)
Net assets	79,666

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

	USD'000
Real estate under construction	23,181
Investment properties	2,506
Inventories	26,339
Current assets	679
Minority interests	(1)
Long-term liabilities	(6,255)
Current liabilities	(748)
Total purchase price	45,701
Less – cash in subsidiaries acquired	(129)
	45,572

f. During 2006 the Company and third parties exercised options and converted convertible debentures into shares of GTC RE. The exercise price paid by the Company amounted to approximately USD 1.9 million. In addition the Company has acquired on TASE approximately 654 thousand shares of GTC RE in consideration of USD 4.2 million. As a result the Company's interest in GTC RE was reduced from 69.1% to 61.38% and the Company recognised a gain of approximately USD 8.2 million.

g. During 2006 the Company purchased NIS 89,725,149 par value convertible debentures of GTC RE in consideration for approximately USD 38 million. As a result and in accordance with IAS 32, the Company recorded a loss of USD 6 million. Through this purchase, the Company believes it will be able to increase its holding in GTC RE at an attractive price, which will result in higher profits in the future.

Financial Services

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

In January 2006, KFS signed an agreement with the minority shareholders in TBIH according to which KFS will purchase from

the minority shareholders additional shares of TBIH, according to TBIH's value as reflected in the abovementioned transaction between KFS and WS. According to the agreement KFS will purchase, in the first stage, approximately 13.94% of TBIH's shares in consideration of approximately EUR 47.4 million. The transaction was completed in April 2006.

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

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

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

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

As part of the transaction in KFS shares, the shareholders signed a joint control agreement. Accordingly and following the investment in

KFS the Company consolidates the financial statements of KFS using the proportionate consolidation method starting from the second quarter of 2006.

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

The excess of cost over the carrying value of the investment in TBIH amounted to approximately USD 57.7 million was off-set against the unrecognised gain of USD 39.7 million, and is presented as goodwill.

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

It was further agreed between the parties that WS will acquire a 60% direct stake in TBIH, with the remaining 40% held by KFS. TBIH will focus exclusively on the insurance and pension business. TBIH will remain under the joint control of KFS and WS (subject to certain conditions) until December 2010.

Following the completion of the transaction describe in Note 5J, KFS will initially hold 100% of TBIH, which will be diluted to 40% as a result

of the above-mentioned transaction. TBIH holds both the pension and insurance businesses, and an 89% interest in TBIF, which manages the retail lending and asset management activities. TBIF will be transferred from TBIH and put directly under KFS. The insurance and pension activities will remain within TBIH.

The net effect of the transaction in terms of Kardan's holdings will be an increase in the retail lending activities from 49.3% to 80.0% and a decrease in its insurance and pension activities from 55.1% to 35.8%.

In addition, TBIH has signed an agreement for the purchase of the minority interests (43.17%) in its Bulgarian subsidiary TBI Bulgaria AD ('TBIB'), for consideration of EUR 56 million. TBIB holds all of Kardan's financial services activities in Bulgaria. Following the acquisition, the retail lending and asset management activities will be transferred to TBIF, and subsequently TBIF will be transferred under KFS as described above.

The transactions are subject to various conditions precedent, including regulatory approvals.

The Company is evaluating the accounting implications of the above-mentioned transactions.

- j. In October 2005 TBIF signed a series of agreements for the purchase of up to 50% of Joint Stock Company Vseukrainsky Aktsionerny Bank ('VA Bank'), a Ukrainian bank.



In March 2006 TBIF subscribed for newly issued shares in a capital increase, investing a total of EUR 62 million, as a result of which its stake in VA Bank increased from 9.6% to 49%. Following the receipt of all regulatory approvals, TBIF and the current controlling shareholders hold jointly about 98% of the shares of VA Bank in equal parts.

The excess of cost over the net fair value of the identifiable assets amounted to approximately USD 29.6 million (EUR 22.5 million for TBIF) and is presented as goodwill.

TBIF has formal contractual arrangements with the other shareholders in VA Bank which allow it to exercise joint control. The assets and liabilities of VA Bank have been consolidated using the proportional consolidation method for the first time on June 30, 2006.

- k. In August 2006, TBIH has signed an agreement to sell all of its holdings in two Russian insurance companies and in its Serbian pension fund for a total consideration of approximately USD 39 million. The transaction has generated an equity gain of USD 12.5 million for the Company.

Kardan Israel

- l. In December 2006 Kardan Israel has issued 2,076,125 ordinary shares to institutional investors in Israel in consideration of approximately NIS 30 million (USD 7.1 million). As a result the Company's interest in Kardan Israel was reduced from 80.12% to 77.98% and the Company recognised a gain of approximately USD 3.3 million.

C. INVESTMENT IN JOINT VENTURES

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

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Current assets	237,271	24,748
Non-current assets, net	872,870	202,141
	1,110,141	226,889
Current liabilities	507,616	19,812
Non-current liabilities	307,589	82,892
	815,205	102,704
	2006	2005
	USD'000	USD'000
Revenues	211,332	53,142
Expenses	150,594	20,103

D. THE GROUP'S INVESTMENTS IN SUBSIDIARIES WHOSE SHARES ARE PUBLICLY-TRADED:

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Kardan Technologies		
Carrying value	6,897	4,612
Market value	7,113	4,020
GTC RE		
Carrying value	154,681	166,947
Market value	484,172	91,935
Kardan Israel		
Carrying value	94,637	76,498
Market value	202,568	131,855
In addition, GTC RE holds a 46.4% stake in GTC S.A. for which the relevant information as follows:		
GTC S.A.		
Carrying value	273,797	182,905
Market value	860,398	385,482



7. Property, plant and equipment

	Freehold land and buildings	Plant and equipment	Motor vehicles	Office furniture and equipment	Leasehold improve- ments	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cost						
Balance at January 1, 2005	41,455	20,510	7,629	6,365	449	76,408
Additions (1)	824	2,867	1,428	1,848	322	7,289
Disposals (2)	(17,993)	(4,450)	(5,105)	(2,317)	(511)	(30,376)
Exchange differences	(2,472)	(563)	(258)	(929)	(23)	(4,245)
Balance at December 31, 2005	21,814	18,364	3,694	4,967	237	49,076
Cost						
Balance at January 1, 2006	21,814	18,364	3,694	4,967	237	49,076
Additions (1)	11,784	8,307	3,109	2,258	119	25,578
Disposals (2)	(1,044)	(3,693)	(754)	(987)	(112)	(6,590)
Exchange differences	(1,221)	543	219	458	33	32
Balance at December 31, 2006	31,333	23,521	6,268	6,695	277	68,095
Accumulated depreciation						
Balance at January 1, 2005	2,345	13,879	4,062	3,691	211	24,188
Depreciation for the year (1)	610	2,484	917	798	18	4,827
Eliminated on disposals (2)	(1,872)	(3,263)	(3,011)	(1,061)	–	(9,207)
Exchange differences	(50)	(30)	(29)	(625)	(21)	(755)
Balance at December 31, 2005	1,033	13,070	1,939	2,803	208	19,053
Accumulated depreciation						
Balance at January 1, 2006	1,033	13,070	1,939	2,803	208	19,053
Depreciation for the year (1)	623	4,204	1,023	1,254	17	7,121
Eliminated on disposals (2)	(455)	(3,031)	(452)	(152)	(158)	(4,246)
Exchange differences	(175)	171	88	140	16	239
Balance at December 31, 2006	1,026	14,414	2,598	4,045	83	22,166
Net book value						
December 31, 2005	20,781	5,294	1,755	2,164	29	30,023
Net book value						
December 31, 2006	30,307	9,108	3,670	2,644	193	45,929

(1) Includes additions resulting from newly consolidated subsidiaries: December 31, 2006 cost – USD 9,259 thousand; accumulated depreciation – USD 2,306 thousand. (2005: cost – USD 1,998 thousand; accumulated depreciation – USD 802 thousand).

(2) Includes disposals resulting from deconsolidation of subsidiaries: December 31, 2006 cost – USD 1,515 thousand; accumulated depreciation – USD 434 thousand (2005: cost – USD 28,505 thousand; accumulated depreciation – USD 8,139 thousand).

Land and buildings include owner occupied property with a net book value of December 31, 2006 USD 8,606 (2005: USD 7,493) thousand under a lease whose term is 49 years ending in 2044 with an option for additional 49 years. The balance constitutes mainly property of insurance companies.

Buildings include revaluation amounting to USD 3,029 thousand as of December 31, 2006 (December 31, 2005 – USD 3,096 thousand).

Liens – see Note 36

8. Real estate under construction

Real Estate under construction relates to development of investment properties. Movements are as follows.

	2006	2005
	USD'000	USD'000
Carrying value as of January 1	155,966	182,203
Acquisition of subsidiaries	23,181	–
Additions	163,812	126,201
Disposals	(2,190)	(179)
Transfers to investment properties and inventory	(98,665)	(132,715)
Foreign exchange differences	6,275	(19,544)
Carrying value as of December 31	248,379	155,966

Borrowing costs capitalised to real estate under reconstruction amounted to USD 4,918 thousand (2005: USD 5,128 thousand)



As of December 31, 2006 and 2005, real estate under construction includes land in projects in various development stages, as follows:

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Freehold land	73,600	22,391
Leasehold land	77,972	31,379
Total	151,572	53,770

The value of leasehold land principally relates to lease payments made in advance.

9. Investment properties

	2006	2005
	USD'000	USD'000
Carrying value as of January 1	759,548	462,913
Capitalized subsequent expenditure and transfers from real estate under construction	144,607	140,534
Additions of newly proportionally consolidated subsidiary	2,506	62,030
Disposal of previously consolidated subsidiary	(5,472)	(601)
Investment property sold	(369,443)	(42,474)
Adjustment to fair value (*)	262,024	152,317
Foreign currency translation differences	41,579	(20,846)
Deferred brokerage fees	5,357	5,675
Carrying value as of December 31	840,706	759,548
Includes:		
Investment properties on freehold land	263,100	57,622
Investment properties on leasehold land	577,606	701,926
	840,706	759,548

(*) The 2006 adjustment of fair value includes USD 2,810 thousand related to revaluation of disposed fixed assets. In addition, adjustment to fair value of USD 1,040 thousand is included in the income statement under revenues of insurance activities.

On August 11, 2006 GTC S.A. has agreed on terms for the sale of the office complex Mokotow Business Park in Warsaw, in consideration for approximately USD 281.2 million. The transaction was completed on December 1, 2006.

As of December 31, 2006 investment properties primarily include the following:

Country	Property	Total rentable/ saleable space (sq.m)	Details
Poland	Galeria Kazimierz (100% of area) (*)	36,200	Shopping centre in Krakow
	Galeria Mokotow (100% of area) (*)	62,100	Shopping centre in Warsaw
	Galileo	10,300	Office building in Krakow
	Globis Poznan	13,000	Office building in Poznan
	Topaz office building	11,000	Office building in Warsaw
Hungary	Centre Point I	18,600	Office building in Budapest
	Centre Point II	23,000	Office building in Budapest
Romania	America House	26,000	Office building in Bucharest
Serbia	GTC House	13,500	Office building in Belgrade
Germany	Blitz portfolio	55,300	7 office buildings in Germany
Switzerland	Swiss portfolio	50,500	9 office buildings in Switzerland

(*) Operated through joint venture

Investment properties of the Group are presented based on the fair value model. Appraisal of investment properties by independent valuers is based on their market value periodically or estimated by discounting future cash flows.

Deferred brokerage fees and rental revenues either arose subsequent to appraisal or were simultaneously written off as these fees were deemed to be included in the uplift to the fair value.

Revenues and costs of rental operations are presented in Note 5. Costs of rental operations comprise direct operating expenses (including

repairs and maintenance) from investment properties that generate rental income during the year. All investment properties, except those related to the acquisition of the newly proportionate consolidated subsidiary, generated rental income during the year.

In 2006 the construction of the following assets was completed: Topaz office building in Warsaw, America House office building in Bucharest, and Center Point II in Budapest.

Securities for long term loans from banks are by way of pledges over buildings and land.



10. Intangible assets

	Goodwill	Other	Total
	USD'000	USD'000	USD'000
Cost at January 1, 2005 net of accumulated amortization	50,494	2,286	52,780
Additions	43,008	563	43,571
Decreases due to disposals of investments	(9,373)	(170)	(9,543)
Amortization charge for the year	–	(393)	(393)
Cost at December 31, 2005 net of accumulated amortization	84,129	2,286	86,415
At January 1, 2005			
Cost	62,353	8,522	70,875
Less – Accumulated amortization	11,859	2,085	13,944
	50,494	6,437	56,931
At December 31, 2005			
Cost	95,988	4,764	100,752
Less – Accumulated amortization	11,859	2,478	14,337
	84,129	2,286	86,415
Cost at January 1, 2006 net of accumulated amortization	84,129	2,286	86,415
Additions	59,666	16,472	76,138
Change due to disposal and acquisition of investments	(7,050)	206	(6,844)
Decrease due to completion of projects and revaluation of assets (*)	(7,062)	-	(7,062)
Amortization charge for the year	-	(668)	(668)
Foreign currency exchange differences	5,333	88	5,421
Cost at December 31, 2006 net of accumulated amortization	135,016	18,384	153,400
At January 1, 2006			
Cost	95,988	4,764	100,752
Less - Accumulated amortization	11,859	2,478	14,337
	84,129	2,286	86,415
At December 31, 2006			
Cost	135,079	19,347	154,426
Less - Accumulated amortization	63	963	1,026
	135,016	18,384	153,400

(*) Transferred to investment property

Goodwill on the acquisition of companies in the insurance and pension sectors until March 31, 2004 was amortized by the straight-line method over periods of ten or fifteen years. Goodwill on the acquisition of other subsidiaries until March 31, 2004 was amortized using the straight-line method over periods of five or ten years. Goodwill arising on business combinations of subsidiaries after March 31, 2004 is not amortized. As from 1 January 2005, the date of adoption of IFRS 3, goodwill was no longer amortised but is now subject to annual impairment testing.

The additions in 2006 amounting to approximately USD 60 million mainly relates to goodwill resulted from acquisition of minority shareholders in TBIH, investment in VA Bank and other subsidiaries in the financial service group.

Goodwill amounting to approximately USD 43 million was created in 2005 and mainly resulted from the buy-out of minority shareholders in GTC and acquisition of other subsidiaries.

Other intangible assets primarily relate to the customer base of acquired companies, brand names of acquired companies, banking licenses and costs incurred to originate operating leases.

Goodwill acquired through business combinations have been allocated to the relevant cash-generating units, in each reportable segments, and is primarily allocated to anticipated future profits from development projects.

The recoverable amount of the goodwill has been determined based on the values used for valuations of each reportable segment, according

to methods and assumptions applicable for such segment. The Company annually assesses impairment.

As of December 31, 2006 goodwill is allocated to groups of cash-generating units as follows:

	December 31, 2006	December 31, 2005
	USD'000	USD'000
GTC RE and its subsidiaries	37,716	44,155
KFS and its subsidiaries	94,750	37,464
Tahal Group and its subsidiaries	2,550	2,510
	135,016	84,129



11. Investments in associates

A. PRINCIPAL ASSOCIATES

		% of ownership and control by the holding company as of			
Holding Company	Name of Company	December 31, 2006	December 31, 2005	Country	
Taldan Motors Ltd.	Universal Motors Israel Ltd.	45	45	Israel	
Kardan Communications Ltd	Lidan Investment Agencies (1994) Ltd.	49	49	Israel	
	R.R. Satellite Communication Ltd.	24.6	32.5	Israel	
	I.V.P. Ivory Video Productions Ltd.	51.8	40	Israel	
	Teledata Networks Ltd.	37.5	37.5	Israel	
	Unicell Advanced Cellular Solutions Ltd.	29	29	Israel	
Kardan Technologies Ltd.	Concord Venture 1	6.6	6.4	Israel	
	Formula Vision Portfolio Holdings Limited Partnership	49	-	Israel	
Kardan Israel Ltd.	Ocif Nichsey Emed	30	-	Israel	
	Avis Israel	1.4	-	Israel	
Kardan Real Estate Enterprise and Development Ltd	Holyland Park Ltd	30	30	Israel	
Globe Trade Centre S.A.	Lighthouse Holdings Ltd. S.A	31.6	31.6	Luxembourg	
	Vokovice BCP Holding S.A.	31.6	31.6	Luxembourg	
	Holesovice Residential Holding S.A.	31.6	31.6	Luxembourg	
	CID Holding S.A.	31.6	31.6	Luxembourg	
TBIH Financial Services Group N.V.	Ereste d.o.o	29	29	Croatia	
	Kredit Export Bank	14.96	14.96	Serbia	
	Omniasig Life	49.99	49.99	Romania	

B. COMPOSITION

	December 31, 2006	December 31, 2005
Name of associated company	USD'000	USD'000
Universal Motors Israel Ltd.	38,146	33,537
Lidan Investment Agencies (1994) Ltd.	7,401	8,184
Holyland Park Ltd.	8,827	7,329
Associates of Globe Trade Centre S.A.	32,735	14,710
R.R. Satellite	15,519	3,562
Unicell	1,740	-
Ocif Nichsey Emed	6,670	-
Avis Israel	1,130	-
Concord	1,307	-
Formula Vision Portfolio Holdings Limited Partnership	21,185	-
Erste d.o.o	4,078	3,586
Kredit Export Bank	-	1,192
Va Bank	-	14,552
Omniasig Life	2,786	2,442
Others	1,272	3,679
	142,796	92,773

Comprised of:

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Equity investments in associates	88,119	50,892
Loans	54,677	41,881
	142,796	92,773



C. MOVEMENT IN THE EQUITY INVESTMENTS IN ASSOCIATES IS AS FOLLOWS:

	2006	2005
	USD'000	USD'000
Balance as per January 1.	50,892	44,057
Additions, net	29,132	4,694
Equity earnings	8,837	10,089
Dividend distributed	(4,056)	(6,845)
Currency translation	3,314	(1,103)
Balance as per December 31.	88,119	50,892

D. LOANS

The investment in associated companies includes loans as follows:

	Interest rate (*)	December 31, 2006	December 31, 2005
		USD'000	USD'000
In NIS (linked to the CPI) (1)	2.9 %	31,245	21,724
In EUR (2)	5.42 %	23,125	11,066
In USD	6.54 %	307	9,091
		54,677	41,881

(*) Average as of December 31, 2006

(1) As of December 31, 2006, an amount of USD 10,729 thousand bears variable interest at the rate of 8.0 % (as of December 31, 2005 an amount of USD 8,903 thousand bears variable interest at the rate of 8 %) and an amount of USD 684 thousand bears fixed interest rate of 5%. The balance of the loans does not bear interest.

(2) As of December 31, 2006 the balance bears interest at a variable rate of 85% of Euribor +2% (as of December 31, 2005 – same).

As the loans bear variable interest rates linked to currency in which the loans are denominated, the loans balance approximates their fair value. Maturity dates of the loans have not been determined yet.

The movement in loans granted to associates is as follows:

	2006	2005
	USD'000	USD'000
Balance as per January 1.	41,881	35,050
Additional loans granted, net	12,796	6,831
Balance as per December 31.	54,677	41,881

E. GOODWILL ARISING ON ACQUISITION OF ASSOCIATED COMPANIES

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Cost	4,993	6,621
Less – accumulated amortization	956	726
	4,037	5,895

These goodwill amounts are included in the carrying amount of the equity investments in associates.

F. ADDITIONAL INFORMATION

1. In November 2006, the associated company R.R. Satellite Global Communications Network Ltd. ('RRSat') has completed the issuance and listing of 4,370,000 shares on the NASDAQ stock exchange. The Company held a 26.1% indirect interest in RRSat through its subsidiary Kardan Communications Ltd. Following the share issuance, the Company's interest was reduced to 19.7%, and the Company recognized a gain of approximately USD 8 million. The market value of the investment in RRSat as of December 31, 2006 was USD 42,876 thousand, and the carrying value was USD 12,413 thousand.
2. During 2006 Kardan Technologies and Kardan Communications invested approximately USD

21 million in various companies engaged in the technologies and communication field. These investments are accounted for under the equity method or at cost.

3. In June 2006 Ocif Emed Properties Ltd. ('the Joint Company') has acquired 50% of the shares of Emed Real Estate Development and Investments Ltd. ('Emed') in consideration for USD 79 million.
The Joint Company is 30% held by Kardan Israel. Kardan Israel's stake in financing the investment amounted to USD 24 million. The excess of cost over the carrying value of the investment resulted from transaction amounted to USD 27 million, of which Kardan Israel's stake is 30%.
Emed is engaged in real estate activities in Israel and also holds a 54% equity stake in



Dan Vehicle and Transportation Ltd., which is active in the fields of car rental and operational leasing.

4. The Company indirectly holds 2.3% of the shares of DBS Satellite Services (1998) Ltd. ('DBS') through an investment in associate. As of December 31, 2006 the balance of the investment of the Company in DBS amounts to USD 8.4 million net of a provision for impairment losses of USD 5.7 million (of which USD 1.5 million was recorded in 2006). The auditors of DBS draw attention in their

auditors' report on the financial statements of DBS to the financial position of DBS, According to management of DBS, it is likely that the financing required by DBS to continue to operate for the coming year will be arranged. According to the management, the recoverable amount of the investment in DBS is not lower than the carrying value of the investment. This estimate is based, inter alia, on an independent valuation that was prepared for the Company. According to the said valuation, the value of DBS is between USD 331 million and USD 379 million.

12. Available for sale financial assets

A. COMPOSITION

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Financial investments of insurance companies (1)	51,837	36,045
Investments in unlisted companies and venture capital funds (2)	21,269	9,564
	73,106	45,609

(1) These mainly constitute investments in marketable debentures of Eastern European states that are guaranteed by the governments of those states.

(2) Investments in unlisted companies and venture capital funds are carried at cost less a provision for any impairment.

13. Long-term loans and receivables

A. COMPOSITION

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Reinsures deposits	647	611
In USD	51,446	19,636
In EUR	86,063	87,139
In NIS	2,426	8,362
In other currencies	119,851	18,481
	260,433	134,229
Less – current maturities	123,963	75,657
	136,470	58,572
Capital note issued by related party	895	737
Provision for doubtful debts	(8,662)	–
	128,703	59,309

As of December 31, 2006 long-term loans and receivables include:

- (1) Loans in the amount of USD 15,808 thousand granted to minority shareholders in subsidiaries against a lien on their shares in that subsidiary. The loans are primarily in EUR and bear annual interest of EURIBOR +3%. Repayment date has not yet been determined.
- (2) Loans in the amount of USD 7,137 thousand granted by insurance companies, mainly in or linked to EUR, and bearing variable interest rate of EURIBOR + 4% - 8%. The loans are secured by life assurance policies, bank guaranties and real estate.
- (3) Loans in the amount of USD 28,812 thousand represent the proportionate share of the Group's loans granted to joint ventures.
- (4) Receivables in respect of the activities of subsidiaries in the financial services segment in the amount of USD 171,400 thousand (2005 – USD 86,575 thousand) which are included at the net present value of the future minimum payments. Most of the loans are secured by various collaterals. The above amount represents loans to thousands debtors.



	December 31, 2006	December 31, 2005
	USD'000	USD'000
Financial leases (*)	55,847	41,128
Consumer credits	109,037	41,617
Mortgages	6,516	3,830
	171,400	86,575
Under one year	114,205	47,858
Over one year	57,195	38,717
	171,400	86,575

(*) Net investment in financial leases:

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Not later than one year	28,191	24,592
Later than one year and not later than five years	41,974	24,898
Later than five years	1,474	437
Gross receivables from financial leases	71,639	49,927
Less – gross earnings allocated to future periods	(15,621)	(8,658)
Less - allowance for impairment losses	(171)	(141)
Net investment in financial leases	55,847	41,128
Not more than one year	20,884	17,941
Later than one year and not later than five years	33,794	22,899
Later than five years	1,169	288
	55,847	41,128

(5) Capital note in the amount of NIS 6,520 thousand par value (USD 1,543 thousand), 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%.

B. MATURITIES

	December 31, 2006	December 31, 2005
	USD'000	USD'000
First year – current maturities	123,963	75,657
Second year	31,263	20,182
Third year	18,863	20,836
Fourth year	8,987	5,003
Fifth year and thereafter	19,743	3,590
Not yet determined	57,614	8,961
	260,433	134,229

14. Deferred acquisition costs

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Life assurance	3,809	2,898
General insurance	4,524	9,587
	8,333	12,485



Movement in deferred acquisition costs relating to life assurance:

	2006	2005
	USD'000	USD'000
Balance as per January 1.	2,898	6,754
Additions for the period, net	1,006	2,254
Depreciation - fluent	(206)	(246)
Depreciation – due to cancellation	(92)	(96)
Disposal for companies deconsolidated	(164)	(4,076)
Currency translation	367	(1,692)
Balance as per December 31.	3,809	2,898

15. Inventories and contract work and buildings inventory in progress

A. COMPOSITION

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Building inventory in progress, net of customer advances	200,988	60,429
Contract work in progress	5,144	5,885
Merchandise inventories	4,817	3,455
	210,949	69,769

B. ADDITIONAL INFORMATION

(1) Building inventory in progress, net of customer advances

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Cost of buildings inventory in process	272,202	132,437
Less – costs charged to income statement	67,162	67,883
repayment of commitment regarding construction services	4,052	3,504
provision for losses	–	621
	200,988	60,429

The above primarily relates to construction of residential projects in Poland, Hungary, Romania, China and Israel as undertaken GTC S.A., GTC China and Kardan Real Estate.

(2) Contract work in progress

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Contract costs incurred	220,256	204,992
Recognized profits	68,105	73,305
	288,361	278,297
Progress billings	(291,805)	(277,679)
	(3,444)	618
Presented in balance sheet as follows:		
Current assets – Contract work in progress	5,144	5,885
Current liabilities – Due to customers for contract work	(8,588)	(5,267)
	(3,444)	618

The above details relate to contract works performed by Tahal Group B.V. ('Tahal'). Tahal is engaged in providing engineering and planning services in the fields of water, sewage and agriculture.



16. Loans to bank customers

A. COMPOSITION

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Loans and advances to individuals:		
Direct customer loans	16,927	–
Mortgage loans	11,300	–
Other loans and advances by banks	3,671	–
Credit cards	1,263	–
	33,161	–
Corporate loans	110,921	–
Loans and advance to banks	19,014	–
Total loans and advances gross	163,096	–
Less - allowance for impairment losses	(3,970)	–
	159,126	–

B. MATURITIES

	December 31, 2006
	USD'000
Up to 3 months	26,456
From 3 to 6 months	4,660
From 6 to 9 months	4,602
From 9 to 12 months	15,106
From 1 to 2 years	23,051
From 2 to 5 years	56,021
Later than 5 years	33,200
	163,096
Less – allowance for impairment losses	(3,970)
	159,126

17. Trade receivables

A. COMPOSITION

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Trade receivables	43,341	25,337
Checks and credit card receivables	12,342	7,033
	55,683	32,370
Less – allowance for doubtful accounts	161	1,162
	55,522	31,208

Accounts receivable as included under current assets mature within one year.

18. Other receivables and prepayments

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Advances to suppliers	6,599	10,377
Prepaid expenses and income receivable	29,993	18,568
Other receivables in insurance companies	6,387	2,024
Income receivable – disposal of subsidiaries	9,709	26,505
Other	5,006	8,598
	56,694	66,072



19. Insurance receivables

	December 31, 2006	December 31, 2005
	USD'000	USD'000
General insurance	20,061	22,738
Less – allowance for doubtful accounts	(6,044)	(5,420)
	14,017	17,318
Life insurance	1,443	591
	15,460	17,909

The above amounts include outstanding receivables by a subsidiary on a Bulgarian airline company in the approximate amount of USD 9 million relating to life insurance policies in the years 1994 – 1997. As of December 31, 2006 the subsidiary provided for all outstanding balances.

20. Reinsurance assets

A. COMPOSITION

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Provision for outstanding claims - reinsured	6,556	9,530
Provision for unearned premiums - reinsured	8,472	5,567
Other reinsurance receivables	5,954	1,665
	20,982	16,762

B. SUMMARY OF THE MAIN REINSURANCE TREATIES IN THE GROUP PER SUBSIDIARY

Line of business	Treaty currency	Type of Treaty	Maximum exposure per claim (retention) in '000	Limit of reinsurance cover in '000
(1) Bulstrad – Bulgaria				
Green card	EUR	Excess of Loss	EUR 400	Unlimited
Property catastrophe	EUR	Excess of Loss	EUR 300	EUR 15,000
Property fire and natural perils	EUR	Surplus	EUR 300	EUR 12,900
Marine	USD	Excess of Loss	USD 250	USD 6,000
Liability	EUR	Excess of Loss	EUR 100	EUR 2,000
Cargo	USD	Excess of Loss	USD 150	USD 12,000
Motor TPL	EUR	Excess of Loss	EUR 100	-
(2) Helios - Croatia				
Motor TPL	EUR	Excess of Loss	EUR 250	EUR 4,200
Motor Casco	EUR	Quota share	EUR 162	EUR 320
Marine and cargo	EUR	Quota share	EUR 75	EUR 2,025
CAT XL FIRE	EUR	Excess of Loss	EUR 162	EUR 400
Earthquake	EUR	Excess of Loss	EUR 715	EUR 11,000
Liability	EUR	QS and Surplus	EUR 100	EUR 800
Life	EUR	Excess of Loss	EUR 125	EUR 1,375
(3) GPIH - Georgia				
Motor TPL	USD	Quota share	USD 150	USD 350
Motor Casco	USD	Quota share	USD 28	USD 66
Marine and cargo	USD	Excess of Loss	USD 30	USD 970
Property	USD	Excess of Loss	USD 70	USD 930
Life	USD	Quota share	USD 25	USD 475
Liability	USD	Excess of Loss	USD 30	USD 930
Property	USD	Excess of Loss	USD 70	USD 930
Personal accident	USD	Quota share	USD 150	USD 350

21. Short-term investments

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Bank deposits in NIS	3,893	658
Bank deposits in EUR	9,133	9,385
Bank deposits in USD	6,684	–
Bank deposits in other currencies	8,452	8,137
Restricted bank deposits	50,137	27,820
Securities held for trading	1,279	489
Investment in participating units in NIS	–	2,172
	79,578	48,661

Restricted short-term deposits can be used for permitted purposes as determined in the loan agreements. An amount of USD 3,240 thousand relates to funds deposited in escrow accounts until completion of certain transactions (mainly acquisition of land).

22. Cash and cash equivalents

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Cash at bank and in hand	60,600	62,128
Short-term deposits	477,475	123,846
	538,075	185,974

The Group's joint venture VA Bank is required to maintain, in the form of a non-interest earning cash deposit, certain cash reserves with the National Bank of Ukraine ('NBU') (obligatory reserve), which are computed as a percentage of certain of the Bank's liabilities less cash on hand and other eligible balances. There are no restrictions on the withdrawal of funds from the NBU, however, if minimum average reserve requirements are not met, the Bank could be subject to certain penalties. The Bank was obligated to and maintained the minimal cumulative average reserve calculated on a daily basis over a monthly period. The average daily requirement for the period from 1 to 31 December 2006 was UAH 72,075 thousand (USD 14,980 thousand). The Bank meets the NBU obligatory reserve requirements of UAH 60,163 thousand (USD 11,914 thousand) as at December 31, 2006. () The amounts represent 100% of VA Bank reserve requirements. The Company has a 24% indirect interest in VA Bank.*

In addition, although the subsidiaries owning the cash balances can, with the exception of the above, use it without restrictions, the cash balances cannot be freely transferred across the Group. The cash balance which is owned by the Company, on a stand alone basis, amounts to approximately USD 28 million as of December 31, 2006.

23. Share capital

A. COMPOSITION

	December 31, 2006		December 31, 2005	
	Authorized	Issued and Paid-in	Authorized	Issued and Paid-in
	Number of shares		Number of shares	
Ordinary shares with nominal value of EUR 0.20 each	225,000,000	79,658,263	225,000,000	66,615,480

B. ISSUANCE AND EXERCISE OF WARRANTS AND OPTIONS

- (1) In May 2006, the Company completed a share offering to investors in Europe. The Company issued 11,455,000 ordinary shares and raised EUR 83 million. The offering contributed USD 102 million to the Company's equity after fees, costs and expenses.
- (2) During 2006 the holders of warrants route 1 and other options of the Company exercised their warrants into 1,587,783 ordinary shares of the Company. As a result the share capital and share premium of the Company increased by USD 392 thousand and USD 9,590 thousand, respectively. Subsequent to the balance sheet date additional 716,650 warrants route 1 were exercised into 566,657 ordinary shares of the Company. Following this exercise, the outstanding balance of warrants route 1 amounts to 2,703,213.
- (3) During 2006, 2006 Kardan Israel sold 164,948 ordinary shares of the Company that it held in consideration for USD 1,366 thousand. The sale was recorded as an increase of share premium in the Company's equity. As of December 31, 2006 Kardan Israel does not hold any shares of the Company.

24. Share-Based Payments

A. THE EXPENSE RECOGNISED DURING THE YEAR IS SHOWN IN THE FOLLOWING TABLE:

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Expense arising from equity-settled share-based payment transactions of subsidiaries	5,608	2,537
Expense arising from equity-settled share-based payment transactions of the Company	548	–
Expense arising from cash-settled share-based payment transactions	10,355	–
	16,511	2,537



B. OPTION PLANS:

The share-based payment option plans granted by the Group to its employees and directors are described below. During the years 2005 and 2006 the option plans were not modified or cancelled.

The Company

(1) In October 2006, the management board, the supervisory board and the general meeting of shareholders of the Company approved a stock option plan according to which the Company will grant to members of the management board, employees of the Company and employees of the Kardan Group, without consideration, 1,099,327 options (of which 716,927 options were granted to members of the management board) exercisable to up to 1,099,327 ordinary shares of the Company each having par value of EUR 0.20 (subject to adjustments). The exercise price of each option equals to EUR 8.568 (NIS 46.512). The options can be exercised during a period of 5 years from the date of grant. One third of the options can be exercised one year following the date of grant, one third two years following the date of grant, and one third – three years from the date of grant.

Upon exercise of the options the supervisory board of the Company will determine whether to allocate the full number of shares deriving from exercise of the options or the number of shares reflecting only the benefit component inherent in the options, as calculated at the exercise date, or alternatively, the supervisory board may elect to pay that benefit in cash.

The total value of the options at date of grant was estimated at approximately USD 5.6 million. This economic value was computed by an independent external valuer. For details regarding the main input used to determine the value, please refer to section C below.

The Company accounts for the options granted in accordance with IFRS 2, assuming equity payments will be affected.

GTC RE and its subsidiaries

(2) 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 to up to 280,000 ordinary shares of GTC RE each having par value of EUR 0.20. The exercise price of each option equals to NIS 8.80 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 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 the Company 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.

The fair value of the options as of the date of grant was estimated at approximately USD 423 thousand.

- (3) On July 11, 2006 GTC RE has granted additional 40,000 employee options to the chairman of its 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 approximately USD 160 thousand.

- (4) As described in Note 6B, GTC RE granted to Mr. Alroy a Put Option to sell to GTC RE any or all of his shares in GTC Investments. The Put Option can be exercised in whole or in part during a 12 months period commencing upon the later of five years from the effective date (being November 29, 2005) or the date Alroy ceased to provide consulting services to GTC RE. The exercise price of the option shall be the fair value of the shares transferred as of the date of exercise of the option, and shall be paid in cash or in shares at the discretion of GTC RE.

GTC RE estimated the fair value of this option as of December 31, 2006 at USD 413 thousand, and recorded such cost in the income statement.

- (5) In March 2006, GTC S.A. has granted certain key management personnel a total of

2,000,000 "Phantom Shares" that may be exercised in several tranches during the years 2007-2010 (subject to vesting period). The Phantom Shares grant the entitled persons a right for a settlement from GTC S.A. in the amount equal to the difference between the average closing price for GTC S.A.'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 S.A. may alternatively settle in the form of cash. As of the granting date the average fair value of the share options amounts to USD 2.8 per option. The settlement of the Phantom Shares (cash or equity) is at the discretion of the shareholders of GTC S.A.

Phantom Shares expenses have been provided for assuming equity payments will be affected in accordance with IFRS 2.

- (6) In addition the Supervisory Board of GTC S.A. has granted certain key management personnel the right to purchase 210,000 GTC S.A.'s shares for their nominal value in two equal tranches in May 2006 and 2007. The vesting conditions for all share-based payments require from the persons entitled to those instruments to remain as key management personnel.
- (7) On June 26, 2006 the chairman of the Supervisory Board of GTC S.A. exercised 1,179,170 subscription warrants at a price of PLN 0.1 each and 83,960 subscription warrants at a price of PLN 4.282 each. The remaining 224,820 subscription warrants



expired and will not be exercised. As a result, 1,263,130 shares were issued and the Company's interest was diluted from 46.7% to 46.4% and the Company recorded an equity loss of approximately USD 2.4 million.

Subsequent to the balance sheet date, in January 2007 the chairman has exercised additional 1,341,450 subscription warrants into shares of GTC S.A. and the remaining 146,500 subscription warrants expired. As a result, the Company's interest in GTC S.A. was further diluted to 46.1%.

- (8) On May 1, 2006 GTC S.A. has entered into agreement with the chairman of its supervisory board and AYRAD, a company under his control (together 'AYRAD'). The agreement supersedes the agreement between GTC RE (as a successor of GTC International B.V.) and AYRAD dated March 8, 2004. Following are the main changes in the new agreement:
- i. The mechanism for calculation of annual bonus
 - ii. In the event that GTC S.A. undertakes any investment through a new subsidiary, AYRAD or a company under his control is entitled to acquire shares in such subsidiary in an amount equal to 5% of the combined holding of GTC S.A. and AYRAD.
 - iii. GTC S.A. granted AYRAD a Put Option to sell to GTC S.A. any or all of his shares in GTC S.A.'s subsidiaries within 24 months following the termination of AYRAD's relationship with such subsidiary. AYRAD granted GTC S.A. a Call Option to buy any or all of his shares in such subsidiaries within 30 days following the expiration of the above-mentioned Put Option. The exercise price of the options shall be the

fair value of the shares being transferred, as of the date of the Put or Call exercise notice.

The Company considers the combination of existing shares and the put options thereon to be share appreciation rights and recognized a financial liability under the above contract at its fair value, amounting to USD 12.4 million as of December 31, 2006. The impact on the Company's net profit for the year 2006 amounted to USD 9 million and is included in the Company's consolidated income statement. An amount of USD 3.4 million was charged directly to the Group's equity.

Any subsequent re-measurement of the financial liability will be accounted for through the income statement.

The fair value of the Put Option has been determined by an independent valuer as of December 31, 2006. The main assumptions applied in determining the fair value of the financial liability were as follows:

Investment properties were stated at their fair value as included in the financial statements.

Projects in development stage were estimated using the residual value method to arrive at the respective fair value.

Projects not yet in development stage were estimated using the comparable value method to arrive at respective fair value.

TBIH and its subsidiaries

(9) TBIH authorized the issuance of up to 36,097 shares constituting 5% of its share capital, for the benefit of employees and consultants of TBIH, upon the exercise of options granted under TBIH's stock option plan. As of December 31, 2006, TBIH granted options representing 23,344 shares, all of which were vested. 19,198 options have an exercise price of EUR 122.95 per share and 4,146 options have an exercise price of EUR 236.05 per share, in each case, increased by notional interest at the rate of LIBOR + 2% from January 1, 2003 and January 11, 2005, respectively, and are exercisable for 5 years following vesting, subject to the terms of the stock option plan.

In the event that TBIH issues additional shares (other than incentive shares and conversion of debt), the option holders will receive additional options in order to maintain their percentage post-exercise shareholdings, with an exercise price equal to the issuance price plus notional interest thereon through the date of exercise at the rate of LIBOR + 2%. In the event of a change in the effective control of TBIH, the optionees shall be entitled to sell their interests in TBIH to TBIH or its subsidiaries.

In the framework of the reorganization transaction (see Note 6) the TBIH options will be swapped into shares in KFS upon the closing of the deal.

(10) In connection with an investment in TBIH in January 2005, TBIH granted options to brokers to purchase up to 5,345 shares. During 2006 all of the broker options have

been bought back from the brokers in consideration of EUR 0.656 million.

(11) In September 2006 Cavebrook Services LLC ('Cavebrook') exercised its option to purchase from TBIH 15% of its shares in TBIF for consideration of EUR 10.8 million. As a result, TBIH's interest in TBIF was reduced to 89.81% and TBIH recorded a loss of EUR 1.1 million.

(12) TBIF granted options to a senior manager of to purchase shares representing up to 1.5% of TBIF. The exercise price is based on a TBIF valuation of EUR 179 million plus interest, through the date of exercise, at the rate of LIBOR + 3%. The option vests 1% on October 1, 2009 and an additional 0.25% on October 1, 2010 and October 1, 2011 and is exercisable through 180 days following termination of the employment by TBIF. At the date of granting of the option the exercise price was higher than the value of the TBIF.

(13) TBIF granted options to a senior manager of TBI Credit and TBI Leasing in Bulgaria to purchase shares representing up to 2.5% of each of the companies. The exercise price is based on a company valuation of EUR 9.25 million and EUR 3.1 million for TBI Credit and TBI Leasing, respectively, plus interest, through the date of exercise, at the rate of LIBOR + 3%. The exercise price is adjustable to capital increases and dividends. There is an anti dilution mechanism that allows the manager not to participate in capital increases of up to EUR 11 million and EUR



4 million for TBI Credit and TBI Leasing, respectively. The option vests in five equal portions on January 1 of each year from 2006 to 2010, provided that the optionee will continue in his position, or 30 days after the termination of his position. The fair value of the options in TBI Credit and TBI Leasing was estimated at EUR 430 thousand (USD 566 thousand).

- (14) TBIF granted options to a senior manager of TBI Leasing SA, to purchase shares representing up to 5% in TBI Leasing SA. The exercise price is TBIF's average per share investment plus interest, through the date of exercise, at the rate of LIBOR + 3%. The option vests 3% on March 2005, 1% on March 2006, and 1% on March 2007, and is exercisable through 30 days following termination of the employment by TBI Leasing.

During the last quarter 2006 the senior manager exercised 40% of the options in consideration of a 2% stake in TBI Leasing SA. The fair value of the options as of the date of grant was estimated at approximately EUR 178 thousand (USD 234 thousand).

- (15) TBIH and TBIF have granted various options to senior managers in the subsidiaries: TBI Asset Management EAD, TBI Invest EAD, TBI Leasing SA, Helios and TBIH RUS LLC. All these options were granted prior to November 7, 2002 and accordingly are not accounted for as share-based payment transaction under IFRS 2.

Kardan Israel

- (16) In July 2005 Kardan Israel granted to its employees 460,000 options exercisable into ordinary shares of Kardan Israel. The exercise price of each option amounts to NIS 9.18 (linked to CIP). The economic value of each option was NIS 0.5. Kardan Israel did not record costs related to share-based payment transactions as at grant date the options were fully vested.

- (17) In September 2006 Kardan RE signed an agreement with the chairman of its Board of Directors, according to which the chairman will receive an option to purchase 6% of the shares of Kardan RE or any other company that will hold all the real estate activities of the Group in Israel. The shares can be acquired in consideration of 90% of the book value of the relevant company at its date of incorporation. The right to exercise the option covers a period of 3 years. The parties are entitled to convert the option to a "phantom option". The value of the option at date of grant was estimated at approximately USD 0.9 million.

- (18) Kardan Israel is negotiating with two employees in its 100% subsidiary Kardan Communication regarding the grant of options to acquire shares of Kardan Communication. Currently, the parties have not agreed the terms of the option, however, Kardan Israel estimates that the value of the benefit will amount to approximately USD 1 million.

Further, Kardan Israel agreed with the employees that it will entitle to grant the employees its own listed shares. The option will be exercisable at grant.

C. ADDITIONAL INFORMATION REGARDING EMPLOYEES OPTIONS GRANTED BY THE COMPANY

Movement in the year

The following table illustrates the number and weighted average exercise prices ('WAEP') of, and movement in, share options issued by the Company during the year:

	2006	
	No.	WAEP EUR
Outstanding at January 1	–	
Granted during the year	1,099,327	8.568
Outstanding at December 31	1,099,327	
Exercisable at December 31	–	

The following table lists the inputs to the models used to determine the fair value of the equity-settled share-based payments:

	2006
Expected volatility (%)	31 %
Risk-free interest rate (%)	4 %
Expected life of options (years)	5.0
Weighted average share price (NIS)	51.5
Model used: Merton and adjusted Black & Scholtes	

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.



25. Interest bearing loans and borrowings

A. COMPOSITION

	Interest rate (1)%	December 31, 2006	December 31, 2005
		USD'000	USD'000
Banks			
In USD	7.03%	84,292	279,001
In EUR	6.32%	505,347	297,436
In NIS	6.70%	19,690	5,990
In NIS (linked to CPI)	5.16%	15,206	15,136
Linked to other currencies (2)	3.70%	57,554	20,361
Others – mainly in USD	6.0%	120,280	17,941
		802,369	635,865
Less -Deferred debt issuance costs		3,947	6,229
- Current maturities		178,065	44,642
- Minority interest in shareholders' deficiency of subsidiaries (3)		610	561
		619,747	584,433

(1) Weighted average annual interest rate as of December 31, 2006.

(2) Mainly in Hungarian Forint

(3) Shareholders' deficiency was financed by long-term loans of minority shareholders, included in the above balance.

B. MATURITIES

	December 31, 2006	December 31, 2005
	USD'000	USD'000
First year – current maturities	178,065	44,642
Second year	56,391	104,033
Third year	80,420	55,543
Fourth year	39,884	60,499
Thereafter	440,559	363,632
Not yet determined	7,050	7,519
	802,369	635,865

C. COLLATERAL – SEE NOTE 36.

D. ADDITIONAL INFORMATION

- The average effective interest rate on the Group's loans in 2006 was 6.15% (2005 – 5.62%).
- The fair value of loans bearing fixed interest rates is higher than the value at amortized cost presented in these financial statements (see Note 50).
- Substantially all investment properties and construction in progress have been pledged to secure long term loans from banks. The fair value of these assets exceeds the carrying value of the related loans.

26. Other long term liabilities

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Deposits from tenants	1,938	3,513
Payable on account of land lease (1)	3,555	1,102
Provision for preferred return on investment	–	7,413
Other	676	608
	6,169	12,636

(1) On December 6, 2004 a subsidiary in Serbia signed an Agreement with the Land Agency for the building and construction land, Belgrade for the lease of state-owned construction land in New Belgrade, with the purpose of development of a business-commercial building. The Leased Building Plot is leased to the subsidiary for a finite period of 99 (ninety nine) years, commencing upon coming into force of this Agreement. During 2006 the subsidiary paid the remaining liability.

In 2006 another Serbian subsidiary concluded a lease agreement with the Land Agency for the building and construction land, Belgrade for the lease of certain land plots located in New Belgrade. The Leased Building Plots are leased to the subsidiary for a finite period of 99 years, commencing upon coming into force of this Agreement. Both lease and compensation fees are payable to the Agency.

The total lease liability amounts to USD 8.4 million, payable in 6 instalments. The first lease payment was made in March 2006. The lease payments are linked to the retail price index published by the City Bureau of Statistics and Information. According to the Agreement, the subsidiary is entitled to accelerate payment of outstanding instalments and to receive a 30% discount on the remainder of the liability. Based on this provision, and according to the intention to use this right, the liability is presented in the balance sheet at the discounted balance.



27. Warrants and options

	Balance at December 31, 2006	December 31, 2006	December 31, 2005
	No. of options	USD'000	USD'000
Options to Company's shares:			
Phantom options granted to banks and financial institutions (1)		–	462
Options granted in connection with subsidiary's borrowings (2)	3,419,863	35,232	14,992
Equity component of 2001B debentures of Kardan Israel		–	1,287
		35,232	16,741
Options to Group companies' shares			
Listed warrants series 2 and 3 of GTC RE (3)		–	5,086
Equity component of 2004 and 2005 debentures of GTC RE (3)	13,549,170	43,790	15,158
Listed warrants series 1 of Kardan Israel	2,000,000	5,914	841
Options to TBIH's shares (4)		–	1,888
Put options – KFS Group (5)		78,959	–
Put options – GTC Group (6)		12,802	–
		141,465	22,972
		176,697	39,713

(1) See Note 23

(2) See Note 36

(3) In 2004 GTC RE 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 are 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 value of warrants 2 and 3 was calculated based on the number of outstanding warrants and the market price on TASE as of each cut-off date. The balance as of December 31, 2006 solely relates to the fair value of equity component of convertible debentures, as the warrants expired in September 2006.

(4) In connection with loans amounting to USD 15 million, TBIH granted options to Nederlandse Financierings- Maatschappij voor Ontwikkelingslanden N.V. ('FMO'), to purchase up to 12,215 shares of TBIH according to a variable exercise price which is based on a company valuation of USD 220- 180 million in different periods until August 17, 2010. TBIH can repurchase this option for USD 1 million through March 31, 2006, and for USD 2 million thereafter. During 2006 all of the FMO options have been bought back from FMO for consideration of USD 5.25 million.

(5) This balance refers to the following Put options:

- An amount of approximately USD 7.1 million refers to Put option granted to minority shareholder in TBIF. As of December 31, 2006 Cavebrook holds a 10.62% interest in TBIF. Within the framework of the share purchase agreement, TBIH has

granted Cavebrook a Put option. According to the agreement, Cavebrook shall have the option to sell its 10.62% stake in TBIF to the Company provided that neither (i) shares of TBIF are listed for trading on a stock exchange, nor (ii) TBIF remains controlled by TBIH and shares of TBIH are listed for trading on a stock exchange.

The shares will vest in three equal portions on 30th June of each of the years 2008, 2009, and 2010. The Exercise price will be determined by agreement among the TBIH and Cavebrook. If the parties fail to reach such agreement the exercise price will be determined according to a valuation reflected from the most recent transaction (within the past 12 months), and if that is not applicable, by a valuation by a qualified entity to be mutually agreed upon.

- An amount of approximately USD 71.9 million relates to Put option granted by KFS to minority shareholders in TBIH as described in Note 6B.

(6) This balance includes the Put options referred to in Note 24B.

28. Convertible debentures

	Par value as of December 31 2006	Balance as of December 31 2006, net	Balance as of December 31 2005, net	Interest rate	Linkage basis	Maturities principal	Conversion rate
	USD'000	USD'000	USD'000				
Conversion to the Company shares:					In NIS		
Kardan Israel – (series B)		–	2,069	5.85%	linked to CPI	2006	(1)
Kardan Israel (June 2005) – conversion					In NIS		
to Kardan Israel shares	37,027	35,663	37,773	6%	linked to CPI	2010	(2)
GTC RE – (series A) – conversion to GTC					In NIS		
RE shares	23,606	22,965	59,104	6%	linked to CPI	2009	(3)
Less - current maturities		58,628	98,946				
		-	(2,069)				
Debentures issuance expenses		(1,358)	(3,007)				
		57,270	93,870				

(1) Each USD 3.7 par value is convertible into one ordinary share of EUR 0.20 par value of the Company

(2) Each USD 2.6 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, 2006 was approximately USD 46 million.

(3) Each USD 3.8 par value is convertible into one ordinary share of EUR 0.20 par value of GTC RE.

The market value of the debentures as of December 31, 2006 was approximately USD 69 million.



B. MATURITIES

	December 31, 2006	December 31, 2005
	USD'000	USD'000
First year – current maturities	–	2,069
Second year	–	–
Third year	22,965	–
Fourth year	35,663	59,104
Fifth year	–	37,773
Total	58,628	98,946

C. COLLATERAL – SEE NOTE 36.**29. Debentures**

	Par value as of December 31 2006	Balance as of December 31 2006, net	Balance as of December 31 2005, net	Interest rate	Linkage basis	Maturities principal
	USD'000	USD'000	USD'000			
Kardan NV – issued in 2005	26,035	26,667	24,515	6.6%	In NIS linked to CPI	2010
Kardan Israel – issued in 2005	11,834	12,043	11,076	6.4%	In NIS linked to CPI	2009
	11,834	12,043	11,075	5.5%	In NIS linked to CPI	2009
Kardan Israel – issued in 2003	23,669	23,660	21,596	6.2%	In NIS linked to CPI	2008
Kardan RE – issued in 2003	14,392	14,328	13,043	6.5%	In NIS linked to CPI	2008
Debentures issued by proportion- ately consolidated companies		29,980	24,659	7.3%	In EUR or linked to EUR	2007 - 2011
		118,721	105,964			
Less – current maturities		(12,465)	(3,924)			
Debentures issuance expenses		(241)	(690)			
		106,015	101,350			

B. MATURITIES

	December 31, 2006	December 31, 2005
	USD'000	USD'000
First year – current maturities	12,465	3,924
Second year	48,187	10,816
Third year	29,137	44,557
Fourth year	26,667	22,151
Fifth year	2,265	24,516
Total	118,721	105,964

C. COLLATERAL – SEE NOTE 36.

30. Insurance contracts liabilities

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Life insurance		
Assurance reserves	41,970	34,609
Outstanding claims	1,862	1,187
Total life insurance	43,832	35,796
General insurance		
Unearned premium reserves	27,183	42,610
Outstanding claims	39,941	40,770
Total general insurance	67,124	83,380
Total provisions and outstanding claims	110,956	119,176



A. ISSUANCE CONTRACT AND DEFERRED ACQUISITION COSTS IN GENERAL ASSURANCE

(1) The methods for determining various types of insurance liabilities and deferred acquisition costs

The reserve for unexpired risks and outstanding claims, including reinsurers' share in the reserve and in the outstanding claims, and deferred acquisition costs in general insurance were calculated according to generally accepted actuarial methods according to the actuaries' discretion.

The Company calculated the reserves using principles consistent with the previous year.

Reserves for unexpired risks (unearned premium reserve)

The reserve for unexpired risks is based on written premium and is calculated on a proportional basis in respect of the unexpired term of the policy for which premium has been received.

Provision for outstanding claims

Valuation of the outstanding claims:

Gross outstanding claims and outstanding claims net of reinsurers' share thereof, are calculated by actuaries in the lines of business that have relatively long tails and/or enough data to allow the application of actuarial-statistical methods. These lines are generally the Motor lines (including Casco, Third Party Liability and Green Card) and the Personal Accident line. The methods used include the usual actuarial methods such as the chain ladder, the average payment per claim method, and 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.

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.

(2) 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.

Provision for outstanding claims

For the sake of valuating outstanding claims, 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), for other lines of business claims are not discounted due to the fact that most claims are settled within a very short period of time and very few claims remain outstanding for more than 2 of 3 years.

There were no material changes to assumptions or models used compared to last year.

There are no material assumptions made in determining the outstanding claims provisions, other than the general broad-based assumptions that past experience regarding claims reporting and settlement patterns will be repeated in the future (except in specific cases where the actuaries determined otherwise). All other assumptions only exist on a claim-by-claim basis, regarding issues such as the probability of winning a claim dispute. None of these claims are of a material level on their own.



(3) Composition of gross outstanding claims in general insurance

December 31, 2006	Statistics line of business		Non-Statistics line of business		
Line of business	Actuarial estimation of outstanding claims	Additions to the actuarial claims	Estimation of claims department	Additions - IBNR	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Total motor lines of business	29,927	13	–	–	29,940
Marine & Cargo	–	–	629	–	629
Property	–	–	2,156	–	2,156
Aviation	–	–	942	–	942
Other	–	–	4,874	1,400	6,274
Total	29,940	13	8,601	1,400	39,941
December 31, 2005	Statistics line of business		Non-Statistics line of business		
Line of business	Actuarial estimation of outstanding claims	Additions to the actuarial claims	Estimation of claims department	Additions - IBNR	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Total motor lines of business	29,358	–	–	–	29,358
Marine & Cargo	–	–	3,568	–	3,568
Property	–	–	2,249	–	2,249
Aviation	–	–	258	–	258
Other	–	–	3,814	1,523	5,337
Total	29,358	–	9,889	1,523	40,770

(4) Movement of outstanding claims in general insurance

	2006	2005
	USD'000	USD'000
Balance at January 1,	40,770	47,300
Additions for newly consolidated companies	378	4,476
Disposals for companies deconsolidated and decrease in proportionately consolidated investment	(7,815)	(21,439)
Claims incurred in the current accident year	24,934	47,678
Movement on claims incurred in prior accident years	7,544	(3,766)
Claims paid during the year	(30,758)	(39,559)
Foreign exchange adjustment	4,888	6,079
Balance at December 31	39,941	40,770



(5) Claim development table

Accident year	2001	2002	2003	2004	2005	2006	Total
Claims paid (cumulative):							
At the end of the year	10,515	10,495	9,795	10,542	14,410	19,257	75,014
1 year later	17,394	17,024	16,061	17,042	22,284	–	89,805
2 years later	20,342	19,800	18,102	20,090	–	–	78,334
3 years later	21,665	21,474	19,505	–	–	–	62,644
4 years later	22,373	22,932	–	–	–	–	45,305
5 years later	23,076	–	–	–	–	–	23,076
Estimate of ultimate Claims costs (paid + outstanding)							
At the end of the year	23,839	26,920	22,339	22,465	25,747	33,307	154,617
1 year later	25,193	25,285	22,456	24,427	28,776	–	126,137
2 years later	24,900	25,384	23,080	25,033	–	–	98,397
3 years later	25,584	24,732	23,982	–	–	–	74,298
4 years later	25,228	26,052	–	–	–	–	51,280
5 years later	26,044	–	–	–	–	–	26,044
Surplus (shortage) in original estimation	(2,205)	868	(1,643)	(2,568)	(3,029)	–	
0% of deviation	-9.25%	3.22%	-7.35%	-11.43%	-11.76%		
Current estimate of cumulative claims	26,044	26,052	23,982	25,033	28,776	33,307	163,194
Current payments to date	23,076	22,932	19,505	20,090	22,284	19,257	127,144
Liability recognised in the balance sheet	2,968	3,120	4,477	4,943	6,492	14,050	36,050
Liability in respect of prior years	–	–	–	–	–	–	4,994
Liability in respect of newly consolidated companies	–	–	–	–	–	–	200
Total gross outstanding claims included in the balance sheet							41,244

(*) The amounts in the table above are presented in EUR and represent 100% of the claims of TBIH motor line of business.

B. INSURANCE LIABILITIES AND DIFFERED ACQUISITION COSTS IN LIFE ASSURANCE

(1) The methods for determining various types of insurance liabilities and deferred acquisition costs

The Company holds reserves in respect of its insurance liabilities in accordance with each country's regulations, generally accepted accounting principles and actuarial methods. The Company calculates the reserves in accordance to the data of the respective cover, such as: the age of the insured, the time length of the coverage, type of insurance, amount of insurance etc. The Company computed the reserves consistently with the basis of the previous year.

For "Endowment" ("Conventional") type policies - traditional products combining the savings component with an insurance component, and pure risk products (mainly term insurance) a mathematical reserve is computed. In addition, reserves are computed for IBNR claims, unearned premiums and participation in investment income. Reserves for these products are computed by the Company's actuary according to the methods described below.

The methods for determining this reserve, relevant to the types of reserve and various products, are as follows:

- The vast majority of the mathematical reserve is for traditional products with a savings component (mainly the "Endowment" product) and pure risk products with fixed premium (mainly term insurance). This reserve is computed for each coverage as a capitalization

of the cash flows for anticipated claims, net of anticipated future premiums. This calculation is based on the assumptions that the products were priced, including interest rate (hereunder – tariff interest), mortality or morbidity table. 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. The interest rates for capitalization are between 3.0% and 6.0%.

- In addition to this reserve, for traditional products participating in investment income, a reserve is also computed in respect of the balance of the actual accumulated bonus. The bonus reflects the gap between the actual yield and the interest as per tariff. Note that investment participation for the company's products is not on a discretionary basis, but rather according to set formulae in the products' terms and conditions, or according to local regulations.
- Reserves for unearned premium are calculated where premium is received in advance. This is particularly the case for short term life term. The reserve is calculated on a proportional basis in respect of the unexpired term of the policy for which premium has been received.
- The reserve for IBNR (incurred but not yet reported claims) is calculated based on past experience or as a reasonable percentage of premium where past experience is not available.
- The reserve for group insurance is comprised



from a reserve for unearned premium, provision for participation in profits, a reserve for IBNR, and a provision for future losses if required.

Outstanding Claims

Outstanding claims are provided for on a case-by-case basis for all reported but not-yet-paid claims.

Liability Adequacy

The Company's actuaries consider each year, if the total reserve, net of deferred acquisition costs, is sufficient to cover the future anticipated cash flows: premiums net of claims, commissions and maintenance expenses for the policies in force, under reasonable assumptions. If the liability is not adequate then the size of the DAC is written off (in respect of prior periods) or limited (in respect of the current period's new DAC).

(2) The manner of determining the assumptions used for calculating actuarial type reserves

The assumptions used for calculating actuarial type reserves are determined as follows:

- In most cases the interest rate used for calculating the reserve for each policy is the pricing rate of interest used for that policy. In some cases, where the pricing rate of interest is considered to be too high for it to be supportable by expected future investment returns, the interest rates were reduced.
- The mortality and morbidity rates are identical to the rates used for determining the tariff duly approved by the local regulator.
- The company's actuaries consider all assumptions in terms of reasonability and prudence in relation to their expectations.

(3) Movement in Life assurance reserve

	2006	2005
Balance at January 1,	34,609	49,868
Disposals for companies deconsolidated and decrease in proportionately consolidated investment	(1,700)	(19,249)
Additions from premium received	7,681	12,643
Claims and surrenders	(3,244)	(3,866)
Investment income and exchange differences	4,624	(4,787)
Balance at December 31	41,970	34,609

C. CHANGES IN ASSUMPTIONS AND ACTUARIAL MODELS AND THEIR AFFECT ON THE PROVISIONS

There were no material changes in assumptions or reserving methods compared to the previous year, except for the decrease of the discount rate from 4.75% to 4.5% in the life insurance business of Helios (Croatia).

D. SUMMARY OF MAIN TERMS AND CONDITIONS OF THE MAJOR PRODUCTS

Non-Life Insurance

- a. *Casco* - These are policies for up to one year, covering property damage from accidents and theft of motor vehicles. Damage is limited to the value of the vehicle.
- b. *Motor TPL* - These are compulsory policies, for up to one year, covering third-party property and bodily-injury damage, resulting from accidents caused by the insured. Damage is limited according to local regulations, with the limits being very low compared to Western European standards.
- c. *Green Card* - These are policies for short periods, up to one year at the most, covering third-party property and bodily-injury damage, resulting from accidents caused by the insured while driving in a foreign country. The damage is limited according to the limits in the country where the accident occurs. Conditions of the coverage are regulated by international laws and agreements.
- d. *General Property* - These are policies for one year normally, covering physical damage to properties such as houses, buildings, machinery and other equipment.

Life and Health Insurance

- a. *Term Insurance* - This product pays out a guaranteed pre-determined sum-insured on the death of the insured, in return for a single or monthly premium. Most of these products are sold to people who take credit from another financial institution and are required by that institution to buy Life Insurance to pay back the loan if the person dies. Therefore most of these policies are for relatively short terms, such as 3 years, but they vary from between 1 and 20 years.
- b. *Endowments* - These are traditional products that combined savings and Life Insurance. Premiums are paid regularly during the term of the policy, which varies between 10 and 30 years in most cases. At the end of the term, or on death, if earlier, the insured will get the guaranteed sum-insured specified when buying the policy. In addition, most of these policies participate in investment returns earned by the company in excess of the built-in interest rate used to price the product.
- c. *Accidental Death and Injury* - These are products that are sold on their own (usually for only 1 year, as personal accident insurance) or as a supplementary benefit to an Endowment. They pay out the sum insured on accidental death and/or severe injuries caused by accident, and sometimes pay certain smaller sums for such things as a daily hospital benefit.

E. RISKS AND SENSITIVITIES

Non-Life Insurance

The main risks faced by the company are an increase in the number of accidents or thefts, and changes to the legal environment

regarding bodily injury claims in the countries where company provides third-party coverage (including Green Card). The following table provides an indication of the sensitivity of profits to these risks:

Hypothetical change in risk factor	Effect on 2006 profit before tax of the change
10% increase in accidents and theft	EUR 5.5 million less profit
10% increase in legal awards for bodily injury	EUR 1.3 million less profit

Life Insurance

The main risks faced by the company are lower than expected investment returns, and higher mortality due to natural and accidental causes. The following table provides an indication of the sensitivity of profits to these risks:

Hypothetical change in risk factor	Effect on 2006 profit (before tax) of the change
Investment return being lower by 1 % during the year	EUR 0.7 million
Decrease of 1 % in interest rate used for calculating reserves	EUR 3.6 million
10% increase in mortality and injuries from all causes	EUR 0.2 million

31. Accrued severance pay, net

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Accrued severance pay	1,886	1,476
Less - deposits	121	90
	1,765	1,386

The obligation of Group companies in Israel to make severance payments to their employees is covered primarily by deposits with pension funds and insurance companies. The amounts deposited at in the funds and the insurance companies are not under the control or management of Group companies, and accordingly, neither those amounts nor the corresponding liabilities for severance pay are reflected in the balance sheet. The amounts with the severance pay fund include profits accumulated to balance sheet date. The amounts deposited may be withdrawn only after fulfilment of the obligations under the Severance Pay Law. The obligation of Group companies for severance payment to employees not covered by the aforementioned deposits is presented in the balance sheet as stated above.

32. Banking customers accounts

A. COMPOSITION

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Due to banks:		
Demand deposits	862	—
Term deposits-current	3,945	—
	4,807	—
Loans and advances-current	49,765	—
Loans and advances-non current	1,334	—
	51,099	—
	55,906	—
Due to customers:		
Demand deposits	32,959	—
Term deposits-current	41,140	—
Term deposits-non current	57,714	—
	131,813	—
	187,719	—

B. MATURITIES

	December 31, 2006
	USD'000
Demand	2,856
Up to 3 months	76,401
From 3 to 6 months	13,028
From 6 to 9 months	2,678
From 9 to 12 months	22,959
From 1 to 2 years	57,362
From 2 to 5 years	597
Later than 5 years	11,838
	187,719

33. Other payables and accrued expenses

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Accrued expenses	42,486	19,131
Premium in advance	2,116	1,867
Amounts owed on account of reinsurance	39	37
Amounts owed on account of direct insurance	10,186	4,761
Payroll and related expenses	5,142	3,976
Advances from customers	41,254	15,539
Unearned revenues	1,114	886
Associated companies	–	4,984
Current maturities of long-term liabilities	4,822	–
Payable on acquisition of subsidiary	16,897	–
Other	16,163	18,978
	140,219	70,159

34. Trade payables

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Trade payables	75,739	35,818
Checks payables	393	189
	76,132	36,007

35. Interest-bearing loans and borrowings

	Weighted average annual interest rate (*) %	December 31, 2006	December 31, 2005
		USD'000	USD'000
Short-term credit from banks -			
In NIS	5.48%	34,781	19,429
In USD	6.60%	4,529	8,515
In or linked to EUR	6.88%	24,277	16,517
In NIS (linked to CPI)		–	1,008
In other currencies	18.39%	50,306	12,352
Short-term credit from related party		642	2,978
Short term credit from others		4,494	–
		119,029	60,799
Current maturities of long-term liabilities			
Loans		178,065	44,642
Debentures		12,465	5,993
		309,559	111,434

(*) As of December 31, 2006

Collateral – see Note 36



36. 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 USD 90.8 million the Company has undertaken to maintain certain financial covenants and has pledged certain assets, as follows:

- a. First rank pledge over a total of 28,238,801 shares of GTC RE;
- b. First rank pledge over a total of NIS 76,317,017 par value of convertible debentures of GTC RE held by the Company;
- c. Maintain control over GTC RE;
- d. Maintaining equity to balance sheet ratio at 25%-30% (according to Israeli GAAP);
- e. Shareholders' equity will not be less than USD 98 million;
- f. Pledge over the Company's holding in KFS;
- g. Commitment not to pledge any TBIH's shares other than certain events pre-described by the lender;
- h. Prior approval of one of the lenders for any change in control, reorganization, capital reduction or de-listing.

As of December 31, 2006 the Company meets the abovementioned requirements.

(2) To secure the repayment of debentures and convertible debentures Kardan Israel pledged assets and rights as follows:

- a. With respect to 2003 debentures amounting to USD 20.9 million as of December 31, 2006, a first rank pledge on 40% of the shares of Taldan Motors Ltd. ('Taldan');
 - b. With respect to 2003 debentures amounting to USD 3.3 million as of December 31, 2006, a first rank pledge on 5% of Taldan's shares and a pledged bank deposit amounting to the accrued interest of the debentures, such that both pledges will not be less than 125% of the balance of the related debentures;
 - c. With respect to 2006 debentures amounting to USD 24.2 million as of December 31, 2005, a first rank pledge on 45% of Taldan's shares.
 - d. With respect to 2003 debentures issued by Kardan RE amounting to USD 14.6 million as of December 31, 2006, a first rank pledge on 5.5% of GTC RE's shares.
- (3) In addition, with respect to debentures amounting to USD 48.5 million as of December 31, 2006 Kardan Israel has undertaken to maintain certain financial covenants as follows:
- a. Shareholders' equity will not be less than USD 50,254 thousand;
 - b. Equity to total assets ratio of Kardan Israel will not be less than 28%-30%;
 - c. With respect to 2003 debentures – the equity of Taldan will not decrease to less than USD 19.6 million;
 - d. With respect to 2005 debentures and 2005 debentures – Kardan Israel will not sell most of the shares in Universal Motors Israel Ltd.

('UMI') and it will not lose its right to sell General Motors vehicles; and it will not distribute dividends in amount higher than 50% of its profits in each of the years 2005-2009;

- e. With respect to 2003 debentures issued by Kardan RE – GTC RE will not repay its loan to Kardan RE in amount exceeding 58.8% of the net profit of GTC RE. In addition, Kardan RE committed that in the event GTC RE will sell GTC S.A.'s shares, Kardan RE will pledge in favour of the debenture holders a liquid deposit amounting to the outstanding balance of the debentures.

As of December 31, 2006 the Group companies meet the aforementioned requirements.

- (4) With respect to a USD 50 million loan, GTC RE has committed toward the lender to maintain certain financial covenants regarding its equity, dividend distribution and others. As of December 31, 2006 GTC RE met its obligations.

Subsequent to the balance sheet date, in January 2007, GTC RE has fully repaid the loan.

- (5) With respect to a USD 20 million loan, GTC RE has committed towards the lending party to maintain certain financial covenants including minimal shareholders' equity of USD 30 million (according to Israeli GAAP) and equity to balance sheet ratio of 14%. Furthermore, the Company has committed to obtain the lender's approval for capital reduction, dividend distribution and purchase of its own shares.

As of the date of these financial statements, GTC RE meets its obligations.

- (6) In connection with a EUR 100 million credit facility, GTC RE has committed towards the lending bank to maintain certain financial covenants, including minimal shareholders' equity of USD 87 million (according to Israeli GAAP) and equity to balance sheet ratio of 28%. As of December 31, 2006 GTC RE has withdrawn approximately USD 40.3 million.

As of the date of these financial statements, GTC RE meets its obligations.

- (7) In most cases, in its financing agreements with banks, the GTC Group undertakes to comply with certain financial covenants that are prescribed in those agreements, the principal elements of which are: maintaining a balance in a certain amount in the bank accounts, maintaining a certain ratio between the loan and the value of the project, maintaining certain ratios between the net revenues from the lease of the financed project and the amounts of the various expenses, such as interest and commissions, maintaining certain ratios between the net revenues from the financed project and the principal and interest that the borrowing company is required to pay for a period of a quarter.

As of the date of these financial statements, the borrowing Group companies are fulfilling their liabilities in connection with the financial covenants.



(8) In respect of loans received by TBIH amounting to approximately USD 18 million, TBIH has undertaken not to lose its control over some of its subsidiaries and to maintain certain financial ratios regarding its leverage and liquidity.

As of December 31, 2006 TBIH meets the required financial ratios.

B. GUARANTEES

Following are the guarantees provided by the Company and its Group companies as of December 31:

	2006		2005	
	Limited in amount	Not limited in amount (*)	Limited in amount	Not limited in amount (*)
	USD'000	USD'000	USD'000	USD'000
In respect of:				
- Subsidiaries	138,284	4,409	88,911	4,023
- Associated companies	534	64,298	3,761	21,073
	138,818	68,347	92,672	25,096

(*) The amount of the guaranteed liabilities as of December 31

Also, subsidiaries provided bank guarantees in a total amount of approximately USD 62 million in favour of customers in respect of advances received for contracts and projects.

C. LEGAL CLAIMS AND CONTINGENCIES

- (1) In 2004 the liquidator of Callis Soft S.A. ("Callis") filed a claim against the directors of Callis. Callis, a French company, is a 20% investment of Global E-nvestment Development (G.E.D.) B.V. ("GED"), a subsidiary of Kardan Technologies. The investment in Callis was written off in prior years.

The subject of the claim is the liability of the directors and officers of Callis to the excess of liabilities over assets in Callis, amounting to approximately EUR 14.9 million. According to the French law, the court can decide that directors and officers of a company under liquidation should cover the excess liabilities in case it was proven that certain actions taken by these directors and officers contributed to the capital deficiency of the company.

According to the legal advisors of GED, which served as a director of Callis, GED has grounds to contest the claim, and the chances that the Company will suffer any financial loss as a result of the claim against GED are considered remote.

- (2) Subsidiaries have liabilities in respect of warranty for the quality of the services and the work which they perform. In order to cover these obligations, the subsidiaries are insured with liability insurance up to the amount of USD 10 million for each claim. Management of the subsidiaries believes based, among others, on estimates of the insurance companies and on prior experience, that the provisions

included in the financial statements in respect of the claims filed against them in excess of the existing insurance coverage and in respect of the deductible portion of the insurance are sufficient.

D. COMMITMENTS

As of December 31, 2006 the Group has contractual commitments to invest in construction of real estate an amount of approximately USD 310 million.

In the normal course of banking business (VA Bank, Ukraine), the Group becomes a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments involving varying degrees of credit risk are not reflected in the balance sheet. These include guarantees issued and similar commitments, letters of credit and unused lines of credit. As at December 31, 2006, the Group's proportional share in the nominal or contract amounts were USD 34.8 million and risk-weighted amounts were approximately USD 24 million.

E. CONTRACTED FUTURE RENTAL INCOME AND COSTS

The Group has entered into various operational lease contracts with tenants related to investment properties in Poland, Serbia, Romania, Croatia, Hungary, Germany and Switzerland. The aggregate amount of contracted future rental income amounts to approximately USD 614 million as of December 31, 2006, of which approximately 16% are due within one year and 38% are due after five years.



37. Sales and services

	For the year ended December 31, 2006 2005	
	USD'000	USD'000
From sale of merchandise	23,299	19,039
From services provided	2,317	1,494
From management of pension funds	4,026	5,996
From selling apartments	32,743	29,394
	62,385	55,923

38. Revenues from insurance activities

	For the year ended December 31, 2006			For the year ended December 31, 2005		
	Life insurance activities	General insurance activities	Total	Life insurance activities	General insurance activities	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Income from premiums	10,426	86,211	96,637	16,358	144,374	160,732
Less - reinsurance	360	19,380	19,740	1,162	20,617	21,779
Income from premiums, net	10,066	66,831	76,897	15,196	123,757	138,953
Change in provisions, net of share of reinsurers	–	(6,732)	(6,732)	–	(32,737)	(32,737)
Income from investments	2,561	3,512	6,073	3,841	2,936	6,777
	12,627	63,611	76,238	19,037	93,956	112,993

39. Lending activities

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Revenues of lending activities		
Interest income	33,682	11,430
Finance costs	(21,122)	(4,634)
	12,560	6,796
Commission and service fees	16,569	4,105
Finance advisory fees	2,170	1,392
	31,299	12,293
Operating expenses of lending activities		
Staff costs	6,376	3,618
Impairment losses	7,824	55
Other operating expenses	12,571	6,199
	26,771	9,822



40. Gain on disposal of assets and other income

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Gain on disposal of subsidiaries	13,500	50,431
Gain on disposal of associates	–	450
Gain on disposal of property, plant and equipment	28	651
Income/(loss) from insurance brokerage, net of expenses	–	301
Gain from arbitration	–	9,625
Gain from release of provision for preferred return	4,085	–
Other	6,708	454
	24,321	61,912

A subsidiary of GTC S.A. received from the city council a decision approving an amount of overpaid property tax. The overpaid property tax will be refunded in cash until January 2008.

As a result of the above in 2006, USD 3,463 thousand was recognised within other income.

41. Cost of sales and services

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Cost of sale of merchandise	17,366	14,529
Cost of apartments sold	27,274	23,386
Cost of services	1,010	1,182
Expenses of managing pension funds	5,568	6,908
	51,218	46,005

42. Operating expenses of insurance activities

	For the year ended December 31, 2006			For the year ended December 31, 2005		
	Life insurance activities	General insurance activities	Total	Life insurance activities	General insurance activities	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Claims paid and outstanding	3,204	46,920	50,124	1,704	60,405	62,109
Less - reinsurers	129	3,207	3,336	157	3,899	4,056
	3,075	43,714	46,788	1,547	56,506	58,053
Policies terminated	1,082	–	1,082	3,216	–	3,216
Increase in reserves less portion attributable to reinsurers	4,683	–	4,683	9,027	–	9,027
Commissions paid	1,238	13,770	15,008	2,312	24,366	26,678
Reinsurers' share of commissions	(121)	(2,097)	(2,218)	(312)	(2,187)	(2,499)
General, administrative and other expenses	2,861	13,450	16,310	3,506	23,249	26,755
Increase in deferred acquisition costs	(718)	(2,137)	(2,856)	(1,758)	(8,387)	(10,145)
	3,260	22,985	26,244	3,748	37,041	40,789
	12,099	66,698	78,797	17,538	93,547	111,085



43. Selling and marketing expenses

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Payroll and related expenses	6,117	5,085
Commissions	2,050	742
Marketing and advertising	4,381	4,685
Depreciation and amortization	29	27
Other	5,934	3,665
	18,511	14,204

44. General and administrative expenses

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Payroll and related expenses	11,967	8,695
Management fees	5,838	1,791
Office maintenance	3,919	5,957
Professional fees	7,957	6,400
Bad and doubtful debts	15	(140)
Depreciation and amortization	810	1,299
Other	8,733	6,151
	39,239	30,153

45. Labour costs

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Wages and salaries	40,991	32,089
Pension expenses	4,898	3,484
Unemployment contributions	2,052	1,926
Other social expenses	1,876	1,548
	48,917	39,047

Labour costs are included in the income statement under various expense categories.



46. Financing income and expenses

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Income		
Income from bank deposits	11,293	6,967
Income in respect of long-term loans and receivables	1,102	–
Income from securities held for trading	3,010	–
Gain on forward exchange contracts	352	–
Exchange differences	15,564	–
Other	3,062	3,325
Total financing income	34,383	10,292
Expenses		
Long-term loans and borrowings	44,493	26,552
Change in fair value of options	79,549	31,216
Debentures and convertible debentures	16,952	11,143
Exchange differences	10,127	6,741
Loss on forward exchange contracts	–	362
Short term loans and borrowings	2,271	711
Other	4,084	2,439
Total financing expenses	157,476	79,164
	(123,093)	(68,872)

The consolidated financing expenses in 2006 are net of borrowing costs amounting to USD 4,918 thousand (2005 - USD 5,128 thousand) which were capitalized as real estate under construction.

47. Other expenses, net

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Impairment of investments in associates	–	4,435
Impairment of assets	212	–
Impairment of available-for-sale investments	5,750	–
Loss on disposal of subsidiaries and associates	867	125
Other expenses, net	1,253	1,053
	8,082	5,613

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48. Taxes on income

A. TAX LAW APPLICABLE TO THE GROUP

The Group companies are subject to tax laws applicable in the states in which they operate.

B. INCOME TAX EXPENSE

Tax presented in the consolidated income statement is broken down as follows:

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
In respect of the year of accounts		
Current	28,321	8,402
Tax in respect of prior years	(1,459)	32
Deferred	30,345	30,411
	57,207	38,781



C. THE RECONCILIATION BETWEEN TAX EXPENSE AND THE PRODUCT OF ACCOUNTING PROFIT MULTIPLIED BY THE APPLICABLE TAX RATE AS FOLLOWS:

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Accounting profit	251,568	207,443
Tax expense (tax benefit) computed at the weighted average taxable rate of 16% (2005 – 32%)	44,845	66,382
Tax effect on non deductible expenses, net	13,144	10,527
Tax effect of unrealized foreign currency	–	4,688
Increase (decrease) in tax expense (tax benefit) due to:		
· Unrecognized tax losses	18,228	30
· Equity in net earnings of associated companies and gain on issuances of shares to third parties which are not taxable	(8,750)	(3,228)
· Utilisation of tax losses carried forwards	(360)	–
· Tax effect of unrealized foreign currency related to investment property	(6,361)	4,688
· Tax effect of revenues exempted from tax	(3,966)	(39,586)
· Effect of changes in tax rates	1,885	–
· Taxes in respect of prior years	(1,458)	(32)
	57,207	38,781

D. COMPOSITION OF DEFERRED TAXES

	Consolidated Balance sheet		Movement for the year ended December 31	
	December 31, 2006	December 31, 2005	2006 Recorded in the income statement	2005
	USD'000	USD'000	USD'000	USD'000
Deferred income tax assets (deferred tax liabilities) in respect of:				
Investment properties	(75,692)	(43,492)	(29,138)	(21,825)
Property, plant and equipment	299	9,154	(8,858)	12,075
Contract work in progress	(40)	(1,663)	1,443	(394)
Temporary differences relating to investment in investee companies	(1,343)	–	(1,875)	–
Financial instruments	(1,100)	(6,713)	10,030	(18,792)
Carry forward losses available for offset against future taxable income	5,488	4,098	(845)	(88)
Valuation allowance	(3,103)	(2,629)	(474)	27
Other	(1,140)	466	(1,628)	(1,414)
	(76,361)	(40,779)	(30,345)	(30,411)

Presented in balance sheet as follows:

Net deferred income tax liability	(82,409)	(46,285)
Net deferred income tax asset	5,778	5,506
	(76,361)	(40,779)



Additional information:

Taking into consideration the structure of the Group, the tax base of some investment properties is higher than its original historic costs. These are not considered timing differences but give rise to future permanent differences. Accordingly no deferred tax liability is required on the difference between the tax base and historic costs of those assets.

Future benefit for the loss carry forwards and other deferred tax assets have been reflected in these consolidated financial statements to the extent that it is probable that taxable profits will be available when timing differences that gave rise to such deferred tax assets reverse.

GTC SA has contributed organized parts of its business, which comprises of certain office buildings, a shopping centre and associated assets and liabilities into certain subsidiaries. In accordance with local regulations, the contributed buildings were revalued as of the date of contribution. The revalued amounts form the tax base for these assets. Hence the deferred taxation liability relating to the accumulating timing differences until contribution date in connection with these investment properties was released. If the shares in these subsidiaries are sold, the cost that will be deductible for tax purposes will be based on the net historical cost of the contributed items prior to the revaluation and in such case the tax liability that would arise at that date is estimated at USD 42.5 million (2005 – USD 51 million). There is no present intention of selling the shares of these subsidiaries, and therefore no related liability was recognized.

E. LOSS CARRY FORWARDS AND FINAL TAX ASSESSMENTS

Deferred tax assets have not been recognized in respect of tax loss carry forwards amounting to approximately USD 94 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. These losses are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Kardan Israel received final tax assessments, or assessments deemed to be final, for tax years through 2001. Some of the principal subsidiaries have received final assessments or assessments deemed to be final, for tax years through 2001. For some of the subsidiaries, no final tax assessments have been issued since inception.

According to the Corporate Income Tax Act costs with regard to (indirect) foreign (non-EU) participation are non-deductible. GTC RE, upon the advice of its advisors, has decided to appeal against corporate tax assessments raised by the inspector of taxes with regards to the fiscal years 2001-2003 on the basis that the decision of the European Court of Justice (C-168/01), upon which the Dutch Supreme court amended the Corporate Income Tax Act should be extended to cover not only the EU and Economic European Area (EEA) but also countries who have association agreements with the EU based on article 56 EC (free movement of capital with third countries).

For the year 2001 the appeal has been made to the Tax Court, and for the years 2002 and 2003 at the Tax Authorities.

At present it is not possible to ascertain the outcome of the appeal against the corporate tax assessments raised by the Inspector of Taxes. Should GTC RE be successful in its appeal then it would be able to deduct USD 1,461 thousand for 2001, USD 899 thousand for 2002, and USD 4,623 thousand for 2003.

GTC RE's tax provision is based upon the assessments raised by the Inspector of taxes.

F. TAX REGULATIONS IN EASTERN EUROPE

Restrictive tax regulations exist in Eastern European countries regarding value added tax, company tax and national insurance (social security) payments. Since these regulations were enacted in recent years, they often include internal contradictions that cause problems in their interpretation. Differences in interpretation of the tax regulations between various tax related entities and tax authorities, and the taxpayers cause numerous disputes. Arrangements regarding taxation and other areas of activity (such as foreign currency transactions) may be subject to supervision by the tax authorities and by other authorities that are empowered to levy material penalties including interest on the penalties. In these circumstances, business activity in Eastern European countries includes more serious tax risks than in countries with a more stable tax base. Eastern European countries do not have a formal procedure for determining the amount of the final tax. Tax arrangements may be audited at any time during a number of years. A risk exists that the tax authorities' interpretation of the tax legislation will be different from the interpretation of the subsidiaries in Eastern

Europe, a fact that may affect the tax liability of those companies.

Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These frequent changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies. Tax settlements and other areas of activity (e.g. customs or foreign currency related issues) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in the Group's countries than in countries that have a more established taxation system.

G. SPECIAL TAX ARRANGEMENT WITH THE INCOME TAX COMMISSIONER IN ISRAEL

On August 4, 2002, the Law for the Amendment of the Income Tax Ordinance (Amendment No. 132), 2002, was enacted in Israel. The Law states that commencing in 2003 income of companies from dividends and interest received from investee companies will be subject to tax in Israel even if the income was not received in Israel. Also, the Law states that, under certain circumstances, an Israeli resident that is a controlling shareholder in a foreign company, most of whose income is passive income (as defined in Section 2A of the Income Tax Ordinance) will be subject to tax (at



the rate of 25%) on that income, as though it was distributed as a dividend to Israel, and eligible for a credit in respect of the foreign tax liability.

As a result of the aforementioned Law in April 2003 Kardan Israel reached a special tax arrangement with the Income Tax and Property Tax Commissioner ('the Commissioner'). According to the agreement, Kardan Ltd. will pay tax, at the rate of 5% of accumulated profits realized and of profits not yet realized ('increase in value profits') through December 31, 2002, of investee companies of Kardan Ltd. that are located outside of Israel. According to the arrangement, Kardan Israel will pay tax in the amount of approximately USD 2.7 million, of which USD 0.2 million constitutes 5% of Kardan Israel's share of the retained earnings for financial reporting purposes in Israel that are available for distribution ('arranged dividends'). The balance of USD 2.6 million constitutes 5% of the increase in value profits originating in foreign resident companies in which Kardan Ltd. has direct or indirect holdings and that hold assets in foreign countries ('the foreign assets'). Increase in value profits are profits arising from the difference between the carrying value of the foreign assets as recorded in the financial statements, and their fair value as of December 31, 2002.

The arrangement provides that Kardan Israel will not be subject to additional tax in respect of dividends received from the foreign resident investee companies up to the amount of the arranged dividends and in respect of gains from the sale of the foreign assets up to the amount of the increase in value profits.

The tax obligation of Kardan Israel pursuant to the arrangement is payable commencing from May 2003 in 24 equal monthly instalments linked to the CPI plus interest in accordance with the Israel Income Tax Ordinance.

At the time of signing of the arrangement with the Commissioner, an associated company, Kardan Real Estate also signed an arrangement based on the same principles as the arrangement signed by Kardan Israel, pursuant to which Kardan Real Estate will pay taxes in the amount of USD 4.1 million.

49. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary

equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares, adjusted for the effects of dilutive options and dilutive convertible debentures.

The following reflects the income and share data used in the basic and diluted earnings per share computations:	2006	2005
Net profit (loss) attributable to ordinary equity holders of the parent (USD '000)	50,671	52,613
Effect of dilution of earnings of group companies	(7,315)	(2,510)
	43,356	50,103
Weighted average number of ordinary shares for basic earnings per share	72,289,139	63,877,164
Effect of dilution: Shares options	457,081	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	75,746,221	63,877,164

The following equity instruments could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share for the year 2006 because they were anti-dilutive:

- 2001 debentures issued by Kardan Israel
(see Note 27)
- Series 1 warrants issued by Kardan Israel
(see Note 28)

In addition, employee options granted by the Company during 2006 were excluded as, in accordance with their vesting conditions, they have, as at December 31, 2006, a negative benefit rate and on that basis no shares would have been issued.



50. Financial Instruments

Financial risk management:

The Group's principal financial instruments, other than derivatives, comprise bank loans, debentures, convertible liabilities, financial leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations in a widely diversified way, attracting funds from different markets and investors. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swap and forward currency contracts. The purpose is to manage the currency and interest rate risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board of management reviews and agrees policies for managing each of these risks and they are summarized on the next page.

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 mix of fixed and variable rate debt. 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 board of management discusses instruments to be used. Hedge accounting is only allowed if detailed requirements are met.

The Group has the following derivatives:

Party	Loan hedged	Commence	Expiration date	Interest rate on bank loan (swapped)	Interest to be paid by the Company	Accounting treatment
Raiffaisen Bank	Loan from EBRD (GTC Serbia)	8 May 2006	5 August 2011	Floating	Fixed 3.85%	Directly to Equity
EUROHYPO	Loan from EUROHYPO	January 2006	December 2007	Floating	Cap 3.5%	Directly to Equity
	(GTC Topaz Office)	January 2008	December 2011		Collar 3.2% - 4.1%	Profit and Loss
MKB	Loan from MKB (GTC Hungary)	April 2006	January 2009	Floating	Collar 3.41% - 3.7%	Profit and Loss
		February 2009	January 2014		Collar 3.77% - 4.15%	Profit and Loss
Aareal bank	Loan from Aareal	April 2006	March 2007		Fixed 3.32%	Directly to Equity
	(GTC Galeria Kazimierz)	April 2007	March 2011	Floating	Collar 3.25% - 5.5%	Profit and Loss
		May 2006	May 2011		Fixed 3.92%	Directly to Equity

Expired in the year:

Deutsche Bank	Loan from BPH Bank (GTC Mars)	December 2001	July 2006	Fixed	Floating	Profit and Loss
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Derivatives agreements related to GTC Serbia and GTC Hungary were signed during 2006.

The fair value of the above-mentioned derivatives amounts to an asset of USD 774 thousand as of December 31, 2006 (December 31, 2005 – a liability of USD 2,060 thousand).

The following table, that relates to VA Bank, proportionally consolidated bank in Ukraine, presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.



	December 31, 2006			
	UAH	USD	EUR	Other currencies
Assets				
Loans to banks	7%	5%	3%	0.1%
Loans to customers	18%	13%	12%	-
Investments available for sale	12%	-	-	-
Liabilities				
Loans and advances from banks	7%	7%	4%	
Customer accounts (term deposits)	13%	9%	8%	2%
Customer accounts (demand deposits)	2%	1%	1%	1%
Debt securities issued	13%	-	-	-
Subordinated debt	-	-	-	-

Foreign currency risk

Since the Group conducts business in a variety of countries, a significant part of its assets, liabilities and results is sensitive to currency movements. Subsidiaries that do not have the USD as functional currency generally have an equity position that reflects their risk profile. On the translation of the share in shareholders' equity, a translation gain or loss can arise because this position is not hedged. Regarding the other financing of these subsidiaries, the Group companies attempt to match the currency of the income with that of the costs and financing currency to minimize the foreign currency risk.

As of December 31, 2006 the Group has entered the following transactions:

- Forward transactions:
Purchase USD 3,965 thousand in consideration for NIS 17,290 thousand;
Purchase EUR 700 thousand in consideration for NIS 3,777 thousand
- Foreign currency options:
Purchase NIS 103,750 thousand in consideration for USD 25,000 thousand.

The fair value of these transactions as of December 31, 2006 amounts to an asset of USD 44 thousand.

In addition, the Group has entered a forward transaction for the payment of NIS 100,000 thousand (USD 23,669 thousand) linked to the Israeli CPI against receipt of NIS 103,734 thousand (USD 24,552 thousand). The fair value of this transaction amounts to a liability of USD 797 thousand as of December 31, 2006.

Currency exposure

As of December 31, 2006 the Group has monetary assets in excess of monetary liabilities (monetary liabilities in excess of monetary assets) as follows (USD in millions):

	December 31, 2006	December 31, 2005
In NIS	(94.1)	19.4
In NIS linked to the CPI	(124.4)	(202.3)
In EUR	(443.6)	(270.8)
In other currencies	(26.9)	(17.4)

Some of the Group companies' measurement currency is a currency other than the USD. Accordingly, in such cases the Company's profit and loss statement will not be affected by the changes in the value of those currencies.

Credit risk

The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, derivative assets and non-current financial assets. The Group trades only with recognized, creditworthy third parties. The Group companies regularly monitor the credit status of their customers and debtors and record appropriate provisions for the possibility of losses that may be incurred from provision of credit, in respect of specific debts whose collection is doubtful. As a result, the Group's exposure to bad debts is not significant.

Credit risks, or the risk of counter parties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. To manage this risk GTC periodically assesses the financial viability of customers.

The extent of the Group credit exposure is represented by aggregate balance of amounts receivable, reduced by the effects of netting arrangements with counter parties.

Concentration of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counter parties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial instruments is broadly diversified along product and geographic lines, and transactions are entered into with diverse creditworthy counterparties, thereby mitigating any significant concentration of credit risk. The

Company and its subsidiaries perform ongoing credit evaluations of their customers' financial condition and require collateral as deemed necessary.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures and finance leases.

Political risk

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

Insurance risk

For detail description of the insurance risk please see Note 30 E.

Fair value risks

Investment properties are valued at fair market value and accordingly the Group is exposed to yield shifts.

The fair value of cash and cash equivalents, deposits, trade and other receivables, short term credit from banks and others, trade and other payables, and long term liabilities equals or is close to the carrying value.



The fair value of long term loans from banks and others bearing fixed interest is estimated to be higher than their carrying value by approximately USD 4 million. The fair value of long term loans from banks and others bearing variable interest rates equals or is close to their carrying value, as the interest such loans bear is not materially

different than the current market interest rates applicable for similar loans.

The fair value of debentures and convertible debentures is estimated to be higher by approximately USD 13 million than their carrying value.

51. Related parties disclosure

The Group has entered into a variety of transactions with its related parties. It enters into transactions in the normal course of business on an arm's-length basis. The sales and purchases from related parties are made at normal market prices. Outstanding balances relating to such sales

and purchases at year-end are unsecured, interest free and settlement occurs in cash. Outstanding loans from related parties are unsecured and presented with accrued interest. The most significant of these balances and transactions are as follows:

(1) BALANCES

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Assets		
Long-term loans and receivables		
Associated companies	54,676	33,364
Capital note issued by a related party	895	736
Liabilities		
Short-term credit from related party	642	1,045

(2) TRANSACTIONS

	For the year ended December 31,	
	2006	2005
	USD'000	USD'000
Management fees from associated companies	1,550	1,535
Financing income from associated companies, net	2,241	1,726
Financing income/(expenses) from related parties, net	(60)	(58)

(3) REMUNERATION TO DIRECTORS (1)

	Options granted by the Company	For the year ended December 31,	
		2006	2005
	No. of options	USD'000	USD'000
Fees to Management Board:			
H. Harel (2)		–	256
B. Bremer		–	41
A. Shlank	179,232	170	146
E. Gabber	149,360	175	133
Z. Rubin	209,103	187	87
A. Ickovics	179,232	128	–
Fees to Supervisory Board (2):			
J. Krant		30	24
I. Fink		22	19
H. Alster		6	19
J. Pomrenze		23	21
M.I. Groen		29	6
A. Schnur		22	–
K. Rechter		27	–
H. Benjamins		5	–
Fees and salaries to shareholders employed by the Company:			
Y. Grunfeld		366	366
E. Rechter		320	309
Shares of the Company held by directors: (directly and through companies under their control)		26.9%	32.3%

(1) Amounts paid directly by the Company and by Group companies

(2) In 2005 until July 15, 2005



52. Subsequent events

1. Subsequent to the balance sheet date in January 2007 GTC RE has issued debentures to institutional investors in Israel in consideration of NIS 550 million (USD 130 million). The debentures are linked to the Israeli CPI and bear annual interest at a rate of 4.9%. The principal is repayable in 7 equal instalments during the years 2014 to 2020. The interest payments will be made annually.
GTC RE intends to list the debentures for trade on the Tel Aviv Stock Exchange within 12 months from issuance. Until the listing will take place, GTC RE will pay the debenture holders additional interest of 0.5% per annum. In the event the debentures will not be listed for trade during the mentioned period, the debenture holders will have a right for early repayment.
2. Subsequent to the balance sheet date a Group company has signed a memorandum of understanding for the lease of a 460,000 sq.m. land in China in consideration of USD 55 million. The land will be used for residential development.
3. Subsequent to the balance sheet date, in February 2007 the Company has issued debentures to institutional investors in Israel in consideration of NIS 840 million (USD 200 million). The debentures are linked to the Israeli CPI and bear annual interest at a rate of 4.45%. The principal is repayable in 4 equal instalments during the years 2013 to 2016. The interest payments will be made annually.
The Company intends to list the debentures for trade on the Tel Aviv Stock Exchange within 12 months from issuance. Until the listing will take place, the debenture holders are entitled to increased interest of 5.25% per annum. In the event the debentures will not be listed for trade during the mentioned period, the debenture holders will have a right for early repayment.
4. On February 21, 2007 TBIF signed a term sheet with the shareholders of a regional bank in Russia (the Bank) to merge TBIF's Russian lending operations with those of the Bank.

Under the terms of the proposed transaction, TBIF will merge its lending operations in Russia with the activities of the Bank under a joint holding company. In addition, TBIF will increase the capital of the holding company by USD 39.5 million, through contribution of cash and receivables from its Russian lending operations. Following the completion of the transaction, TBIF will have a 47% interest in the bank (indirectly, through the joint holding company) and 50% of the voting rights. TBIF will have the option to increase its shareholdings to 50%.
5. On March 16, 2007 TBIH signed a memorandum of understanding (MOU), whereby TBIH will purchase 60% of Sigma Albania (Sigma) an Albanian insurance company, for a consideration of EUR 12.9 million. The MOU includes the option for TBIH to purchase the remaining 40% stake in Sigma within the next four years. The final agreement and the closing of the transaction are subject to the receipt of certain regulatory approvals and the completion of due diligence.
6. On March 20, 2007 TBIH signed an agreement to purchase a 58.2% stake in Ray Sigorta A.S. (Ray Sigorta), a Turkish insurance company, for a consideration of USD 81.5 million. During the course of 2010 and 2011, the minority shareholder in Ray Sigorta will have the option to sell its remaining 20% holding in the company TBIH at the current transaction price increased by LIBOR. The remaining 21.8% Ray Sigorta shares are traded at the Istanbul Stock Exchange and it is expected that TBIH will be required to make a tender offer for these publicly listed shares. This would require an additional investment of up to USD 30.5 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 between USD 17 million and USD 30 million. The closing of the transaction is subject to due diligence and receipt of regulatory approvals.

Other Information

As mentioned in Note 2 to the financial statements, the Company prepares financial statements in accordance with IFRS. Since the Company's shares are traded in the TASE, the Company prepares its financial statements that are published in Israel in accordance with Israeli Generally Accepted Accounting Principles ("GAAP").

The differences in equity and earnings are primarily due to fair value accounting for investment properties and derivatives, and the impact of such differences in accounting principals on accounting for acquisitions and disposals of investments.

The reconciliation between shareholders' equity, results of operations and total assets and liabilities of the Company in accordance with Israeli GAAP (as were published in Israel) and shareholders' equity, results of operations and total assets and liabilities of the Company in accordance with IFRS is as follows:

Income statement:

For the year ended December 31, 2006

	IFRS USD '000	Reconciliation USD '000	Israeli GAAP USD '000
Net profit (attributable to equity holders)	50,671	31,422	82,093
Basic profit per share (USD)	0.67	0.42	1.09
Diluted profit per share (USD)	0.57	0.36	0.93

For the year ended December 31, 2005

	IFRS USD '000	Reconciliation USD '000	Israeli GAAP USD '000
Net profit (attributable to equity holders)	52,613	6,966	59,579
Basic profit per share (USD)	0.82	0.12	0.94
Diluted profit per share (USD)	0.78	0.10	0.88

Balance sheets:

As of December 31, 2006

	IFRS USD '000	Reconciliation USD '000	Israeli GAAP USD '000
Assets	2,929,797	(1,134,068)	1,795,729
Liabilities	1,932,080	(906,993)	1,025,087
Minority interests	646,417	(203,388)	443,029
Shareholders' equity	351,300	(23,687)	327,613

As of December 31, 2005

	IFRS USD '000	Reconciliation USD '000	Israeli GAAP USD '000
Assets	1,779,432	(614,876)	1,164,556
Liabilities	1,265,154	(390,325)	874,829
Minority interests	353,361	(184,244)	169,117
Shareholders' equity	160,917	(40,307)	120,610

Company-only financial statements

Company-only balance sheet

Before appropriation of net result

	Note	December 31, 2006 USD'000	December 31, 2005 USD'000
Assets			
Non-current assets			
Property, plant and equipment	3	23	33
Intangible fixed assets	4	8,011	6,866
Available-for-sale investments	5	–	1,130
		8,034	8,029
Financial fixed assets	6		
• Investments in consolidated subsidiaries		343,805	218,282
• Investment in associates		–	136
• Loans to consolidated subsidiaries		24,060	31,893
• Investment in debentures issued by consolidated subsidiaries		77,153	9,928
		445,018	260,239
Current assets			
• Cash and cash equivalents		28,353	1,970
• Short-term investments		39,209	–
• Other receivables		1,830	2,184
		69,392	4,154
Total assets		522,444	272,422
Equity and liabilities			
Equity	7		
Share capital		20,982	15,717
Share premium		203,011	92,670
Revaluation reserve		80,069	51,501
Currency translation reserve		13,562	(5,736)
Retained earnings (accumulated deficit)		(16,995)	(45,848)
Result for the period		50,671	52,613
		351,500	160,917
Long-term liabilities	8	166,201	99,132
Current liabilities	9	4,943	12,373
Total equity and liabilities		522,444	272,422

See accompanying notes.

Company-only income statement

FOR THE YEAR ENDED DECEMBER 31

	Note	2006 USD'000	2005 USD'000
Net result from investments for the year	6	47,889	71,719
Other income (expenses), net		2,782	(19,106)
Net profit		50,671	52,613

See accompanying notes.

Notes to the company-only financial statements

DECEMBER 31, 2006

1. General

The description of the Company's activity 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 accounts are drawn up in accordance with accounting policies generally accepted in The Netherlands (Dutch GAAP) and are the same as those described in the Notes to Consolidated Financial Statements. There are no material differences between IFRS and Dutch GAAP relevant to these financial statements.

Investments in subsidiaries and associated companies 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 statement of operations is condensed, as its profit and loss statement is already included in the consolidated profit and loss statement.

3. Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT INCLUDE OFFICE FURNITURE AND EQUIPMENT:

	2006 USD'000	2005 USD'000
Cost		
Balance at January 1	114	–
Additions	26	26
Additions from merger with subsidiary	–	88
Balance at December 31	140	114
Accumulated depreciation		
Balance at January 1	81	–
Depreciation for the year	36	14
Additions from merger with subsidiary	–	67
Balance at December 31	117	81
Net book value		
December 31	23	33

4. Intangible fixed assets

Intangible fixed assets include goodwill arising on the acquisition of subsidiaries and associated companies.

Movements are as follows:

	2006 USD'000	2005 USD'000
Cost at January 1, net of accumulated amortization	6,866	6,319
Acquisition of subsidiaries	5,756	4,429
Decrease due to changes in investments	(4,611)	(3,072)
Impairment losses	–	(810)
Cost at December 31, net of accumulated amortization	8,011	6,866
At January 1		
Cost	7,662	6,305
Less - Accumulated amortization	796	14
	6,866	6,319
At December 31		
Cost	8,807	7,662
Less - Accumulated amortization and impairment losses	796	796
	8,011	6,866

5. Available for sale investments

As of January 1, 2006 the company held 731,240 warrants series 2 of gtc re. During 2006 the company exercised these options into 731,240 ordinary shares of gtc re in consideration for an exercise price amounting to USD 1.9 Million in total. The fair value of the options at the date of exercise amounted to USD 3.6 Million.

6. Financial fixed assets

A. INVESTMENTS IN CONSOLIDATED SUBSIDIARIES

The movement in the investment in consolidated subsidiaries can be summarized as follows:

	2006 USD'000	2005 USD'000
January 1	218,282	208,685
Acquisition of shares in subsidiaries	2,237	25,462
Capital reduction in subsidiary	–	(33,457)
Deferred revenue on linked transaction	(39,718)	–
Disposals	–	(22,978)
Issuance of shares in subsidiary and investments	76,906	–
Options granted by the Company to debt holders of subsidiary	–	(15,594)
Dividend received	–	(1,460)
Capital reserves (*)	26,091	(13,567)
Other changes	141	(878)
Net result of investments for the year	59,866	72,069
December 31	343,805	218,282

(*) Primarily relates to foreign currency exchange differences arising on translation of foreign operations.

A further specification is as follows:

	Ownership	2006 Total Value	Ownership	2005 total value
	%	USD'000	%	USD'000
Kardan Israel Ltd. (1)	77.98	95,984	80.32	77,450
Bug Multisistems Distribution (1997) Ltd.	100.00	(288)	100.00	(264)
GTC Real Estate N.V. (2)	61.38	121,137	69.10	72,790
Kardan Financial Services B.V. (3)	55.12	100,041	88.20	69,667
Tahal Group B.V. (4)	100.00	26,931	100.00	(1,361)
Total investments in consolidated subsidiaries		343,805		218,282





B. ADDITIONAL INFORMATION:

- (1) As described in Note 6B(L) to the consolidated financial statements, in December 2006 Kardan Israel has issued shares in a private placement to institutional investors. As a result the Company's shareholding in Kardan Israel decreased to 77.98% and it recorded a gain of approximately USD 3.3 million.
- (2) As described in Note 6B(F) to the consolidated financial statements, during 2006 the Company and others exercised options and converted debentures into GTC RE shares. In addition the Company acquired shares of GTC RE. As a result the Company's holding in GTC RE was reduced to 61.4% and the Company recognised a gain of approximately USD 8.2 million.
- (3) As described in note 6B(H) to the consolidated financial statements, the Company has concluded a transaction with WS regarding the acquisition of 40% stake in KFS. As a result the Company's interest in KFS was reduced to 55.12%. In addition, as described in the abovementioned note, following the new agreement signed by KFS regarding the investment in TBIH, the Company recorded an unrecognised gain of USD 39.7 million, which is deducted from the balance of investments in consolidated subsidiaries.
- (4) During 2006 the Company has committed itself to increase the capital of Tahal Group B.V. by converting a loan granted to Tahal Group B.V. in the amount of USD 26.2 million. As this is considered a constructive obligation, the conversion has been accounted for in these financial statements.

C. LOANS TO CONSOLIDATED SUBSIDIARIES:

Loans to consolidated subsidiaries include a loan to Tahal Group B.V. amounting to USD 10.6 million and a loan to KFS amounting to USD 13.5 million. Both loans are denominated in Euro. The loan to

KFS bears interest of Euribor + 2.5% per annum and matures no later than November 2007; the loan to Tahal bears interest of Euribor + 3% per annum and matures no later than December 31, 2009.

Movements are as follows:

	2006 USD'000	2005 USD'000
January 1	31,893	–
Loans granted to subsidiaries	23,440	26,143
Loans repaid by subsidiaries	(5,903)	–
Conversion of loan into capital	(26,199)	–
Loans assumed	–	5,935
Accrued interest and foreign currency differences	829	1,345
Loan reclassified to other payables	–	(1,530)
December 31	24,060	31,893



D. INVESTMENT IN DEBENTURES ISSUED BY CONSOLIDATED SUBSIDIARIES:

- (1) In connection with the contribution-in-kind of GTC RE's shares in July 2005, the Company received USD 6,680 thousand par value convertible debentures of GTC RE. During 2006 the Company additionally acquired NIS 89,725,149 par value convertible debentures in TASE in consideration for USD 38 million. As a result and in accordance with IAS 32, the Company recorded a loss of USD 6 million. The value of the debentures as of December 31, 2006 amounts to USD 76.9 million.
- (2) In June 2005 the Company purchased NIS 800 thousand par value convertible debentures issued by its subsidiary Kardan Israel. The value of these debentures as of December 31, 2006 amounts to USD 211 thousand.

E. NET RESULT FROM INVESTMENTS FOR THE YEAR

	2006 USD'000	2005 USD'000
Net result of investments (see Note 6A)	59,866	72,069
Loss from investment in debentures issued by consolidated subsidiaries (see Note 6D)	(6,000)	–
Write-off of goodwill due to decrease in holdings (see Note 4)	(4,611)	–
Sale of treasury shares held by subsidiary	(1,366)	(350)
	47,889	71,719

7. Shareholders' equity

	Issued and paid-in capital	Share premium	Net unrealized gains and revaluation reserve	Foreign currency translation reserve	Retained earnings	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance as of January 1, 2005	16,922	75,644	17,019	4,482	(9,720)	104,347
Currency translation differences	–	–	1,782	(13,111)	–	(11,329)
Change in unrealized revaluation reserve	–	–	84	–	–	84
Realisation of revaluation reserve	–	–	(3,512)	603	–	(2,909)
Share base payment	–	977	–	–	–	977
Total income and expense for the year recognized directly in equity	–	977	(1,646)	(12,508)	–	(13,177)
Net profit for the period	–	–	–	–	52,613	52,613
Total income /expense for the year	–	977	(1,646)	(12,508)	52,613	39,436
Issuance of shares (from exercise of warrants, options and conversion of debentures)	1,085	15,699	–	–	–	16,784
Sale of shares held by subsidiary	–	350	–	–	–	350
Reclassification according to statutory requirement	(2,290)	–	36,128	2,290	(36,128)	–
Balance as of December 31, 2005	15,717	92,670	51,501	(5,736)	6,765	160,917



	Issued and paid-in capital	Share premium	Net unrealized gains and revaluation reserve	Foreign currency translation reserve	Retained earnings	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance as of January 1, 2006	15,717	92,670	51,501	(5,736)	6,765	160,917
Currency translation differences	–	–	–	25,020	–	25,020
Change in fair value of hedge instrument (net of tax – USD 146 thousand)	–	–	242	–	–	242
Change in unrealised revaluation reserve	–	–	1,797	–	–	1,797
Share base payment	–	548	–	–	–	548
Put options granted to minority shareholders in subsidiaries	–	–	–	–	(967)	(967)
Total income and expense for the year recognized directly in equity	–	548	2,039	25,020	(967)	26,640
Net profit for the period	–	–	–	–	50,671	50,671
Total income /expense for the year	–	548	2,039	25,020	49,704	77,311
Issuance of shares	2,887	98,837	–	–	–	101,724
Exercise of warrants and options	392	9,590	–	–	–	9,982
Sale of shares held by subsidiary	–	1,366	–	–	–	1,366
Reclassification according to statutory requirement	1,986	–	26,529	(5,722)	(22,793)	–
Balance as of December 31, 2006	20,982	203,011	80,069	13,562	33,676	351,300

Exchange rates of USD/EUR used:

December 31, 2005 – 1.1797

December 31, 2006 – 1.317

8. Long-term liabilities

	December 31, 2006	December 31, 2005
	USD'000	USD'000
Warrants and options (1)	35,232	16,741
Loans from:		
Kardan Israel Ltd (2)	37,728	39,632
Kardan RSA (3)	2,156	2,303
Talladium (4)	642	1,045
Phoenix (5)	26,426	24,197
Mercantile Discount Bank (6)	8,951	8,827
Israel Discount Bank (7)	7,045	6,387
Leumi Bank (8)	21,683	–
Mizrachi Bank (9)	26,338	–
Total non-current liabilities	166,201	99,132

The fair value of the long term liabilities at year end, being the current values of the liabilities calculated using estimated interest rates, approximates the book value (see also Note 50 to the consolidated financial statements).

(1) See Note 27 to the consolidated financial statements.

(2) The loan was granted for a period of 6 years and it bears interest at the rate of LIBOR + 2.25% per annum. The principal of the loan will be repaid in 2 instalments, on 1 November 2008 and on 1 November 2011. The interest will be repaid in seven annual instalments, commencing on 31 August 2005. As security for the loan, the Company issued and accepted a first ranked fixed pledge on (i) 22.9% of the shares of GTC RE, and (ii) the shares of Tahal which are held by the Company. In addition a second ranked fixed pledge was issued and accepted on 6.2% of the shares of GTC RE. Subsequent to the balance sheet date, in March 2007 the Company has early repaid the loan.

(3) The loan bears interest at the rate of LIBOR + 1% per annum. The maturity date is not yet determined. Subsequent to the balance sheet date, in March 2007 the Company has fully repaid the loan.

(4) The loan bears interest at the rate of LIBOR + 1.25% per annum; and its maturity date is not yet determined.

(5) 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 (USD 25.1 million) from Phoenix. The debenture is for a term of 5 years and bears interest at a fixed rate of 6.6% per annum. The principal and interest are linked to the Israeli CPI. The principal of the debenture will be repaid in one instalment, 5 years following the date of issuance. The interest



is to be repaid in five annual instalments, the first falling due on February 1, 2006. As security for the debenture, the Company issued and accepted a primary fixed lien on its holding of GTC RE shares at 125% of the value of the debenture. In the event of certain conditions not being fulfilled the debenture can be called for immediate repayment. Some of these conditions relate to the company only equity of Kardan according to Israeli GAAP, which (i) must not fall below NIS 150 million (USD 32.6 million) during a continual three-month period; (ii) must not fall below NIS 140 million (USD 30.4 million) during one month; and (iii) and must not fall below 28% of the balance sheet total for a three month period. In addition, prior approval by Phoenix should be received for any change in control, re-organization, reduction of capital and delisting of the Company. As of December 31, 2006 the Company met these financial and control covenants.

- (6) In April 2005, the Company received a loan in the amount of EUR 7.5 million (USD 9.6 million) from Mercantile Discount Bank Ltd ("Mercantile"). The loan was granted for a period of 6 years and bears interest at a rate of EURIBOR + 2.0% per annum. As a security for the loan the Company issued to Mercantile options for no consideration. The options are exercisable into up to 369,437 shares, which will comprise of, following their issuance, approximately 0.6% of the issued and paid-in capital of the Company (0.5% on a fully diluted basis). The Company can choose to pay Mercantile the benefit component of the options in cash or an equivalent amount of shares representing only the benefit

component. The exercise price of the options is NIS 18.0 per share (linked to the Israeli CPI) until April 18, 2007; NIS 30.0 per share (linked to the Israeli CPI) until April 18, 2009; and NIS 38.0 per share (linked to the Israeli CPI) until April 18, 2011. These exercise prices are subject to adjustments following dividend distribution or issuance of option rights during the exercise period. In February 2006 Mercantile Discount Bank exercised its option and received 119,222 shares. The exercise of the option did not have an impact on the outstanding balance of the loan.

- (7) In August 2005, the Company received a loan from Israel Discount Bank Ltd. ('Discount Bank') in the amount of NIS 29.4 million (USD 6.5 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 been paid in four instalments, falling due on each 31 August of the years 2006 through 2009. As security for the loan the Company issued and accepted a primary fixed lien on Series A debentures of GTC RE having fair value of NIS 28,582,453 (USD 6.2 million). If the fair value of the security falls below 60% of the loan balance, the Company is committed to provide additional security. In addition, the Company has guaranteed inter alia that its equity (company only according to Israeli GAAP), shall not fall below 30% of its balance sheet total, and that it shall not lose control over GTC International. As of December 31, 2006 the Company meets these covenants.

(8) In April 2006 the Company signed a credit facility agreement with Leumi Bank regarding a total facility of USD 30 million. The loan drawn under this facility bears interest of EURIBOR or LIBOR + 2.25% and is repayable in 5 equal annual instalments during the years 2007-2011. Interest is payable per quarter.

As security the Company pledged its holdings in KFS in favour of the bank and, in addition, committed itself to maintain a equity to balance sheet ratio of 26% and also has guaranteed that the equity of the Company will not fall below USD 98 million (all according to Israeli GAAP). Further the Company has committed itself not to pledge shares of TBIH for purposes other than those described in the agreement.

As of December 31, 2006 the Company met these financial covenants. As of December 31, 2006 the Company has withdrawn EUR 16.5 million from the facility.

(9) In November 2006 the Company signed a loan agreement with Mizrahi Bank. The loan, amounting to EUR 20 million, bears interest of EURIBOR + 1.3% per annum and matures in 2009. The interest is to be paid annually.

As security, the Company has pledged in favour of the bank of the bank NIS 47,734,564 par value convertible debentures of GTC RE.

In the event that the fair value of the pledged debentures will fall below 105% of the outstanding balance of the loan, the Company has to provide additional securities.

(10) Subsequent to the balance sheet date, in January 2007, the Company signed a loan agreement with Union Bank. The loan, amounting to EUR 5.8 million bears interest of 5.615% per annum maturing in January 2009 in one instalment. The interest is to be paid annually. As security the Company has pledged in favour of the bank NIS 11,382,843 par value convertible debentures of GTC RE, and in addition, committed to maintain an equity to balance sheet ratio of 25% and that the Kardan Group will hold control of at least 50% over GTC RE.



9. Current liabilities

	December 31 2006	December 31 2005
	USD'000	USD'000
Short term loan from Bank Leumi	–	8,515
Employees and other salary related liabilities	204	36
Taxes	883	1,071
Accrued expenses	818	696
Accrued interest on loans	2,051	1,721
Other payables	765	256
Payable to associated company	222	78
	4,943	12,373

10. Remuneration of directors and supervisory board

The Company's Directors and Supervisory Board received remuneration in 2006 as described in note 51 to the consolidated financial statements.

Directors

A. Shlank

E. Gabber

Z. Rubin

A. Ickovics (appointed June 14, 2006)

Supervisory Board

J. Krant

A. Schnur

K. Rechter

I. Fink

H. Alster (resigned June 14, 2006)

J. Pomrenze

M. Groen

H. Benjamins (appointed October 26, 2006)

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.

PROPOSED APPROPRIATION OF THE NET RESULT FOR THE YEAR

The Company is considering recommending a dividend payment within the framework of a revised dividend policy to be approved by the upcoming Annual General Meeting of Shareholders.



TO: THE MANAGEMENT AND SHAREHOLDERS OF KARDAN N.V.

Auditor's report

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Kardan N.V. as set out on pages 63 to 197. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2006, the company profit and loss account for the year then ended and the notes thereto.

Management's responsibility

Management is responsible for the preparation and fair presentation of the 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2006, 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 financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Kardan N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Apeldoorn, April 3, 2007

for Ernst & Young Accountants

Signed by A. J. Buisman