

Chapter A': Description of the general development of Kardan NV's business

1. Kardan NV's activities and a description of the development of its business

1.1 General

Kardan NV ("**Kardan NV**") was incorporated in Holland in the year 2003 as a wholly owned subsidiary company of Kardan Israel Ltd. ("**Kardan Israel**"), which at that time was a public company whose shares were traded on the Tel-Aviv Stock Exchange Ltd. ("**The Tel-Aviv Stock Exchange**"). In July 2003 Kardan NV completed an alternative purchase offer, within the framework of which it purchased their entire holdings in Kardan Israel from the share holders of Kardan Israel. Following the said process, Kardan Israel became a wholly owned subsidiary company of Kardan NV. In parallel, the shares of Kardan NV were registered for trade on the Tel-Aviv Stock Exchange and on the Pan-European Stock Exchange in Amsterdam – Euronext Amsterdam NV.

Kardan NV is subject to Dutch law, including the companies law in Holland and the securities laws in Holland, and it is not subject to the Companies Law, 5759- 1999 and the regulations that have been promulgated thereunder. In addition, Kardan NV is subject to the Securities Law, 5728 -1968 and to the regulations promulgated under that law, which apply to companies that have been incorporated outside of Israel and which are traded on the Stock Exchange in Israel.

Kardan NV is an investments and holding company, which operates, via subsidiary and related companies, in seven main fields of activity, as follows: Real estate; Financial Services - banking and retail credit; Financial Services - pensions and insurance; Infrastructure - projects; Infrastructures - assets and investments; motor vehicles and consumer products; and communication and technology. Most of Kardan NV's activities in the real estate field, its activity in banking and retail credit sector, its activity in pension and insurance sectors and its main activity in the infrastructure field are carried out overseas and are concentrated under Kardan NV, whereas its activities in the fields of motor vehicles and consumer products, communications and technology and part of the real estate activities are carried out in Israel and concentrated under Kardan Israel.

The activities of the Kardan NV Group overseas

In the mid 1990's Kardan Israel began to check the possibility of investing in Central and Eastern Europe, because of the evaluation that a window of opportunity had opened in that area, which would enable the achievement of a higher yield on its investments. Since then and to this day, the Kardan NV Group has expanded its business activities in Central and Eastern Europe and as of today its main activities in the field of real estate, in the field of banking and retail credit and in the field of pensions and insurance and are focused in those countries. Material activities are also carried on in those countries in the infrastructure sector - projects and in the infrastructure - assets and investments sector (in these fields, the Kardan NV Group also has activities in Latin America, in Asia and in Africa). In addition, in the year 2005, the Kardan NV Group decided to expand its activities in China and in Western Europe. In the year 2006 the Kardan NV Group continued to expand its activities in China and it decided not to expand its investments in income generating assets in Western Europe and it is even examining the possibility of reducing them. In the year 2007 the Kardan NV Group began to expand its activities in the real estate field in India¹ as well.

The activities of Kardan NV in Israel

¹ As at the statement date, activity in India is at a memorandum of understanding stage, entered by GTC Group to initiate a joint venture in India for building a commercial and residential project.

The activities of Kardan NV in Israel are carried out through the subsidiary company Kardan Israel. Kardan Israel was incorporated in the year 1982 under the laws of the State of Israel as a public company, and its shares were floated on the Tel-Aviv Stock Exchange in the years 1982 and 1989. In the year 2003 Kardan NV acquired all of the shares in Kardan Israel within the framework of an alternative purchase offer and Kardan Israel became a private company that is wholly owned by Kardan NV. In May 2005 Kardan Israel published a prospectus for an issue of securities to the public and an alternative purchase offer for all of the shares of Kardan Real Estate Enterprise and Development Ltd. ("**Kardan Real Estate**") and in June 2005 Kardan Israel's shares were registered for trade on the Tel-Aviv Stock Exchange and it once again became a public company (for details in respect of this process see section 7.3.1 of the report). Kardan Israel has been controlled indirectly by the present shareholders of Kardan NV since the year 1990. In the period of time that has passed since the replacement of the control in it, Kardan Israel has changed its appearance and has changed from being a small Israeli company without any uniqueness into a varied holding company. As of today, Kardan Israel's activities are focused in four fields of activity: real estate entrepreneurship, construction works, motor vehicles and consumer products and communications and technology. For a description of Kardan Israel, see section 7 of the report.

The controlling interests in Kardan NV have not made an undertaking not to carry out directly activities in the fields and in the regions in which Kardan NV operates. In practice, as of the time of the report, the controlling interests in Kardan NV are not carrying out directly any activities in the fields and in the regions in which Kardan NV operates².

1.2 Definitions and assumptions

In this report, the following terms will have the meanings that are recorded beside them:

Kardan NV	Kardan N.V.
Kardan NV Group	Kardan NV, together with its subsidiary and related companies
Kardan Israel	Kardan Israel Ltd.
GTC RE	GTC Real Estate N.V.
GTC Poland	Globe Trade Centre S.A.
GTC Group	GTC RE, together with its subsidiary and related companies
Kardan Real Estate	Kardan Real Estate Enterprise and Development Ltd.
KFS (Beheer BV)	Kardan Financial Services B. V. (formerly Herfstzon Beheer B.V.)

² Except for the investment by Mr. Eitan Richter in the company Baby First T.V. LLC ("**BFTV**") held at the rate of about 30.22% by Kardan Communications Ltd., a company that is wholly owned by Kardan, and except passive holding in yielding real estate in Israel belonging to Mr. Yosef Greenfel and Avi Shnur and holding of Mr. Eitan Richter in yielding assets in Israel and in Western Europe (including countries where GTC RE is active).

KFS Group	KFS, together with its subsidiary and related companies
TBIH	TBIH Financial Services Group N.V.
TBIF	TBIF Financial Services B.V
TBIH Group	TBIH, together with its subsidiary and related companies
TBIF Group	TBIF, together with its subsidiary and related companies
Tahal International	Tahal Group B.V.
Tahal Group	Water Planning for Israel Ltd.
Tahal Assets	Tahal Assets B.V.
Tahal Group	Tahal International, together with subsidiaries and associated companies
UMI	United Motors Israel Ltd.
Kardan Communications	Kardan Communications Ltd.
The Tel-Aviv Stock Exchange	The Tel-Aviv Stock Exchange Ltd.
NASDAQ	National Association of Securities Dealers Automated Quotation system – in the USA
Euronext	The Pan-European Securities Exchange in Amsterdam – Euronext Amsterdam N.V.
Dollar	The US Dollar
The financial statements	The financial statements of Kardan NV as of December 31, 2007, prepared in accordance with the International Financial Reporting Standards (IFRS), which are included in part C of the report.
Report of the Directorate	Report of Kardan N.V. Directorate included in Part B herein.
The Securities Law	The Securities Law, 5728 – 1968
The Companies Law	The Companies Law, 5759 – 1999
Ma'alot	Standard & Poor's Ma'alot- the Israeli Securities Rating Company Ltd (formerly, Ma'a lot - the Israeli Securities Rating Company Ltd.).

Kardan NV is a holding company, in this part of the report the main details of the companies among its subsidiary and related companies that are material from Kardan NV's perspective are presented.

The significance of the companies from Kardan NV's perspective is examined by the management of Kardan NV. Some of the material companies are held by Kardan NV through Kardan Israel.

In this part information is included in the description of the material companies and in the description of the transactions, which is material from Kardan NV's perspective, and in some of the cases the description has been expanded in order to present an in depth picture of the subject that is described.

On January 1, 2007 Kardan NV changed the operating currency and the currency in which its financial statements are presented from the Dollar to the Euro, because Kardan NV's management is of the opinion that as from that time, the Euro is the currency that gives the best reflection of the economic environment in which the Kardan NV Group operates and in which its transactions take place. In the wake of the change, the figures are presented in this report in Euros.

As from January 1, 2007, Kardan NV has begun to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) (See section 5 of the report).

On the matter of the holding of shares in the companies that are mentioned in the report, figures on the holdings in any company whatsoever, including also all of the holdings in that same company which is held by means of subsidiary companies that are wholly owned by the investing company.

In any case in which contribution to profits are mentioned, this means Kardan NV's shares of the profits of the investee company, including management fees and profit from issue to a third party, if any, taking into account original differences in respect of the reporting period.

The holding rates in the shares of the investee companies are correct as of December 31, 2007, unless otherwise indicated.

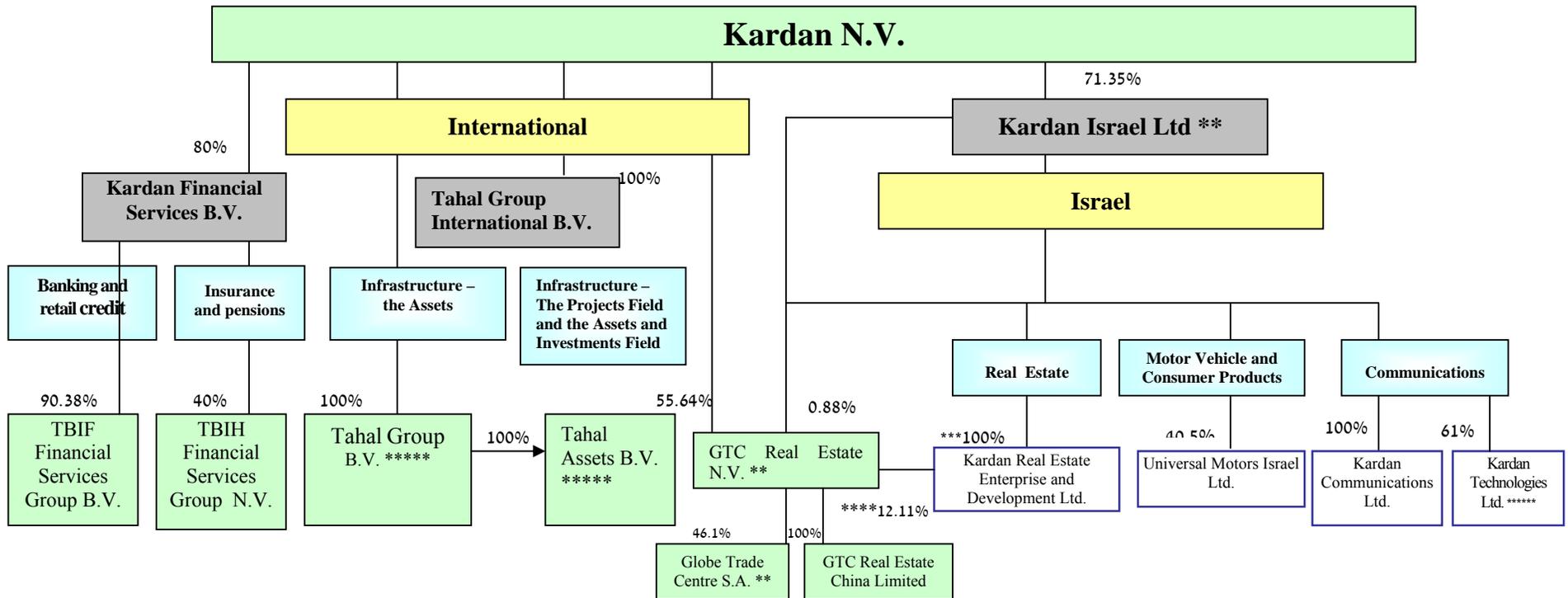
The rates of the holdings on the shares of the investee companies are calculated out of the overall capital that has actually been issued by the investee company, without taking into account any possible dilution as the result of the exercise of options and other convertible securities that have been issued by it, unless it is explicitly stated otherwise.

In the descriptions of the companies that are held by Kardan NV, the details are sometimes based on various surveys and pieces of research. Kardan NV is not responsible for the contents of the said surveys and pieces of research.

Part A of this periodic report should be read together with the other parts of the report, including the notes to the financial statements.

1.3 Chart of the structure of the holdings

The following is a chart of Kardan NV's holdings in material investee companies as of the time of this report³.



³ The chart only includes the holdings of the Kardan NV Group in material companies. The chart does not include the holdings in subsidiary and related companies, which are held by the material companies/ for a description of the structure of the holdings of each of the material companies, see the description that appears within the framework of the description of the framework of fields of activity.

** Public company.

*** 26 Shares of Kardan Real Estate, out of approx. 39 million shares (0.0006%) are held by a third party. If the transaction to buy all Delek Real Estate Ltd., in Dankner Investments Ltd., by Kardan Real Estate against allocation of Kardan Real Estate shares (see section 7.3.3 herein), Kardan Israel will hold about 60% of Kardan Real Estate shares.

**** On February 17, 2008, Kardan Real Estate filed an application to the court, requesting it to approve division of all GTC RE shares it holds as a dividend in kind to Kardan Israel. See additional details in section 7.3.2 herein.

***** As of the date of this report, activities in the communications fields are undergoing re-organization, under which Kardan NV's holdings in Tahal Group will be transferred to Tahal International, which is a wholly-owned subsidiary of Kardan NV, and Tahal Group's holdings in Tahal Assets will be transferred to Tahal International. For more information, see Section 10.5.1 to the report.

***** Kardan Technologies is not a substantial company in Kardan NV, but is presented in this chart so as to provide a full picture regarding the communications and technologies field.

In addition to the holdings in the material companies, Kardan NV has holdings in additional companies within the framework of its fields of activity. See details within the framework of the description of the various fields of activity.

1.4 Structural changes, mergers or material acquisitions

1.4.1 **The transfer of overseas operating companies from Kardan Israel to Kardan NV**

As from the end of the year 2003 and up to the first half of the year 2005, the companies in the Kardan NV Group that operate overseas were transferred from the ownership of Kardan Israel (directly or by means of a company that was a wholly owned subsidiary company of Kardan Israel's – Holdanco International Investments B.V. ("**Holdanco**") to Kardan NV. As a part of this process, five agreements were signed in the course of this process, in accordance with which there were transferred to Kardan NV:

- [A] Approximately 10.6% of the shares in GTC International B.V. ("**GTC Int'l**") (which was a subsidiary company of GTC RE, which is active in the real estate field overseas) from Holdanco to Kardan NV;
- [B] Approximately 83.6% of the shares in KFS, which is active in the financial services field (which constituted all of Kardan Israel's shares in KFC at the time of the transfer) from Holdanco to Kardan NV;
- [C] Approximately 50% of the shares in GTC RE from Kardan Israel to Kardan NV;
- [D] Approximately 99.99% of the shares in Tahal, which operates in the infrastructure field, from Kardan Israel to the company Tahal Group, which is a company that is registered in Holland that is wholly owned by Kardan NV;
- [E] 100% of the shares in Holdanco in consideration for debt in the amount of 91,307 thousand Dollars. In April 2005, the time of the sale, Holdanco's main asset was a debt due to it from Kardan NV, besides holdings in a number of immaterial companies, some of which were dormant. In June 2005 Holdanco was merged into Kardan NV.

All of the transfers to Kardan NV, which are described in this section 1.4.1 were carried out against the debt of Holdanco, which was transferred to Kardan NV, which amounted at the beginning of the year 2005 to approximately 132,000 thousand Dollars. During the course of the year 2005, part of the balance of the debt, in an overall amount of approximately 67,200 Dollars, and by way of a reduction of capital, in an amount of approximately 34,000 Dollars, which received court approval in Tel-Aviv in June 2005. The balance of the debt was organized in an agreement between the companies and in March 2007 the debt was repaid in full.

1.4.2 The floatation of Kardan Israel

For details in respect of the prospectus that was published by Kardan Israel in May 2005, see section 7.3.1 of the report.

1.4.3 The allocation of shares in GTC RE to Kardan NV and transactions in the shares and bonds of GTC RE

In July 2005 Kardan NV transferred its entire holdings in GTC Int'l, which constituted approximately 10.29% of the issued share capital of GTC Int'l⁴ to GTC RE. In consideration for the transfer, GTC RE allotted 9,393,377 shares in GTC Re, which immediately after the allotment constituted 15.3% of the issued share capital of GTC RE and 28,582,453 bonds (Series A'), which are convertible into share in GTC RE, from the series of bonds (Series a'), which were issued within the framework of the prospectus, which GTC RE published in August 2004, to Kardan NV. For additional details in respect of transactions in the shares of GTC Int'l see sections 8.5.3[A] and [C], 8.5.5[B], 8.5.14[A][1], 8.5.14[A][6]-[8] and 8.5.18[A][3] of the report. Similarly, Kardan NV has purchased, up to the time of the report, in transactions on the Stock Exchange and off the Stock Exchange 114,600,743,41 additional bonds (Series A) in GTC RE and 47,288,866.94 shares in GTC RE, and in November 2007 converted the majority of GTC RE bonds (Series A) it held, namely bonds (Series A') in NIS143,183,170 par value into 8,897,426 ordinary shares of GTC RE. As of the time of the report, Kardan NV holds 47,288,866.94 shares in GTC RE (constituting approximately 55.64% of GTC RE's issued share capital) and 26.41 bonds (Series A) of GTC RE. the acquisition of the bonds and the acquisition of the shares and the conversion of the bonds into shares, as aforesaid, enabled Kardan NV to increase its holdings in GTC RE as declares in the prospectus that Kardan NV published in Holland in May 2006. Part of the said purchases were executed according to the decision of Kardan N.V. Supervisory Board, as detailed in section 8.5.5[F] herein.

1.4.4 For details of reorganization of KFS holdings, see section 9.5.1[C] herein.

1.4.5 For details of organizational restructure, through which the infrastructure department was split into a Projects department in Infrastructures and to Assets and Investments, see section 10.4 herein.

1.4.6 For details of Kardan Israel and Kardan Real Estate transaction to buy Dankner Investments Ltd., shares, see section 7.3.3 herein.

1.5 Acquisitions, sales or transfers of assets in a material scale other than in the ordinary course of business

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In the year 2006, when GTC Re held all of the issued share capital of GTC Int'l, GTC Int'l was merged into GTC RE with effect from January 1, 2006.

See details of assets purchases, sales or transfers In material volumes, outside the normal business course in the descriptions of the different fields of operations.

2. **Fields of activity**

The Kardan NV Group has seven fields of activity, which are reported as business segments in the financial statements, as detailed below:

2.1 **Real Estate Field**

Real estate overseas – Kardan NV, by means of the GTC Group, is engaged in the location, initiation, development, rental, sale and management of real estate projects in nine countries in Central-Eastern Europe: Poland, Hungary, Romania, the Czech Republic, Serbia, Croatia, Slovakia, Bulgaria and the Ukraine and also in China and recently entered a memorandum of understanding to set up a joint venture in India for building a commerce and residential housing project. Similarly, as of the time of the report, the GTC Group is engaged in an additional investment in income generating assets in Western Europe (Germany and Switzerland)⁵.

The projects of the GTC Group in Central-Eastern Europe include office buildings, shopping centers and residential developments. The projects in which the GTC Group are involved in Central – Eastern Europe include, as of December 31, 2007, approximately 259,883 square meters of income generating assets, approximately 778,211 square meters of office space in various stages of planning and development, approximately 234,003 square meters of shopping centers in planning and under construction and approximately 790,500 square meters of residential property in planning and under construction. In addition, as of December 31, 2007, the GTC Group has building rights in China with a size of 2.6 million square meters, primarily for residential property and approximately 49,000 square meters for a commercial center. The GTC Group focuses on those markets that present, to the best of its understanding, a large potential for growth in the medium- long-term.

Real estate in Israel – Kardan Real Estate, a wholly owned subsidiary of Kardan Israel, is engaged in the initiation, development, construction and sale of real estate for residential purposes and in location, initiation, development, sale, rental and management of office buildings, commercial areas and parking lots in Israel. As from July 2007 Kardan Real Estate holds 50% of the shares of El Har Engineering and construction Ltd. ("**El-Har**"). El Har operates as an executing contractor of real estate projects (an activity that is not material for Kardan NV). In March, 2008, Kardan Israel and Kardan Real Estate undertook a transaction, whereby Kardan Real Estate would buy all the issued share

⁵ In the year 2006 the GTC Group decided not to expand its investments in income generating assets in Western Europe and it is even examining the possibility of reducing them.

capital of Dankner Investments Limited, a company dealing in the initiation, planning, development, and construction of residential projects in Israel, in return for the allocation of shares constituting 40% of Kardan Real Estate's issued share capital. This transaction is contingent on the fulfillment of various conditions. For more information, see Section 7.3.3 to the report. Moreover, Kardan Israel has an indirect holding of 15% of the issued share capital of Amed Real Estate Development and Investments Ltd. ("**Amed**"). Amed is a private company, which is engaged, inter alia, in the real estate field in Israel, in renting out yielding real estate assets (offices, commercial areas and parking lots) and owns vacant land assets, primarily in the Gush Dan area around Tel-Aviv. Amed started to initiate, develop and build residential housing real estate in 2006 (Amed is not material for Kardan NV). Moreover, Kardan Israel holds approximately 40% of Mikdan Management and Maintenance Ltd., which is engaged in the management and maintenance of buildings in Israel and in Central-Eastern Europe (an activity that is not material for Kardan NV).

For additional details in respect of the this field of activity, see section 8 of the report.

Kardan NV's financial activity is carried out and concentrated under the KFS Group, and is divided into two spheres of activity, as detailed in sections 2.2 and 2.3, below.

2.2 **Financial Services Field Banking and retail credit (“Banking and Retail Credit Field”)**

Kardan NV Group is engaged, through the TBIF Group in the field of banking and retail credit, including, leasing, mortgages and assets management in countries in Central-Eastern Europe and in countries in the Former Soviet Union, as follows:

- * Leasing services in Bulgaria, in Romania, in the Ukraine and in Russia;
- * Retail credit activity in Bulgaria, in Romania, in the Ukraine and in Russia;
- * Assets management services in Bulgaria, Ukraine and Slovakia;
- * Mortgages activity in Bulgaria, Ukraine and Russia.
- * Banking activity in the Ukraine and Russia.

2.3 **Financial Services Field - Insurance and pension (“Insurance and Pension Field”)**

The Kardan NV Group is engaged, through the TBIH Group in the fields of insurance and pension in countries in Central-Eastern Europe, in countries in the Former Soviet Union and in Turkey, as follows:

- * Management of pension funds in Bulgaria, Croatia, the Ukraine, Russia, Georgia, Romania and Albania;
- * Insurance businesses in Bulgaria, Romania, Croatia, Georgia, the Ukraine, Russia, Turkey, Albania, Macedonia and Kosovo.

- * The banking field in the Ukraine and in Russia,

For additional details in respect of the insurance and pensions field and the banking and retail credit field, see section 8 of the report.

Kardan NV operations in the infrastructure field are performed and concentrated through Tahal Group and divided into two operations fields, detailed in sections 2.4 and 2.5 below.⁶

2.4 **Infrastructure Field - Projects (hereinafter “the Projects Field”)**

Kardan NV Group operates through the Tahal Group, fully owned subsidiary, in the projects in infrastructures field mainly in countries in Eastern Europe, Asia, Africa and South America. Tahal Group, through subsidiaries and associated companies, provides engineering design and supervision services in the fields of water - sewage, water treatment and disposal; energy, gas and agriculture and executes and builds projects in water resources and supply, irrigation, desalination, effluents treatment and purification, environmental engineering, civil engineering, water supply, sewage systems, agriculture, and geographical information systems and the solid waste field..

2.5 **Infrastructure Field - Assets and Investments (“Assets and Investments”)**

Kardan NV Group operates through the Tahal Assets, wholly owned subsidiary, in the field of assets and investments field mainly in countries in Eastern Europe, Asia, Africa and South America. Tahal Assets, through subsidiaries and associated companies, invests in entities holding revenue yielding assets or itself initiates projects in the infrastructures field, e.g., desalination plants, licenses to operate municipal water systems, hydroelectric power stations, collection of water and municipal tax fees for municipal authorities, and maintenance of water and sewage infrastructure. It locates business opportunities in fields of infrastructures, establishes companies and ventures for promising demand fields, buys stakes in existing companies and also bids in tenders for obtaining rights to build and operate infrastructure facilities according to B.O.T. or B.O.O methods, for water desalination, operation of municipal water and sewage systems, operation of water supply systems, waste disposal and handling collection for local municipalities.

For additional details on the projects field, and the assets and investments field, see section 10 of the report.

⁶ Tahal Group decided during Q4/2007 and Q1/2008 to initiate an organizational restructure, resulting in splitting operations of Tahal Group in the infrastructures field into two fields of operation, described in sections 2.4 and 2.5 herein. See details in section 10.4 herein.

2.6. **Motor vehicles and consumer products Field**

Kardan NV's main activity in this field is the holding, through companies that it controls, of 28.89% of the issued share capital of UMI. UMI imports and markets motor vehicles that are manufactured by General Motors, Opel, Isuzu and Saab. In addition, UMI markets spare parts for the motor vehicles that it imports, and is engaged in a number of complementary or related activities.

Moreover, Kardan NV holds approximately 21.4% of the capital of Osif Assets Amed Ltd. ("**Osif Assets Amed**"), which holds 50% of the capital of Amed. Amed holds, inter alia, approximately 54% of the issued capital of Dan Motor Vehicles and Transportation D.R.T. ("**Dan Motor Vehicles**"). Kardan Israel also holds directly additional 5.78% of the issued capital of Dan Motor Vehicles. Total indirect holding of Kardan N.V. in Dan Motor Vehicles, as at the report date amounts to about 9.93%. Dan Motor Vehicles is a public company, traded on the Tel Aviv stock exchange, that operates mainly in the operational leasing field and in the field of short-term car rentals. It also holds the franchise for the "Avis" brand in Israel. Dan motor Vehicles is not a material holding for Kardan N.V. In addition, Kardan NV has an indirect holding of approximately 71.35% of the issued share capital of S.F.D.I. Ltd. ("**SFDI**"), which coordinates the importing and marketing activities for a range of electrical products. SFDI holds 70% of the shares in Kardan Trade Ltd., which is engaged in the import and marketing of domestic electrical products (a white line and a brown line), primarily those manufactures by Bauknecht, Whirlpool and Sanyo, and also 70% of the shares in Electrofan Trade Ltd., which is engaged in the import and marketing of domestic electrical products, which bear the "Bellers" brand name. SFDI is not a material investee company of Kardan NV's.

For additional details in respect of this field of activity, see section 11 of the report.

2.7 **Communications and Technology Field**

The Kardan NV Group is active in the communications and technology markets, primarily through Kardan Communications and Kardan Technology Ltd. ("**Kardan Technology**").

Kardan Communications is a wholly owned company of Kardan Israel's, which is material for Kardan NV. Kardan Communications concentrates the communications activity of Kardan Israel and holds companies, which are not material to Kardan NV, as follows:

Kardan Communications holds approximately 24.5% of the issued capital of RR Sat Global Communications Network Ltd. ("**R.R. Sat**") which is engaged in satellite communications in Israel and worldwide. Kardan Communications

holds about 30.22% of the rights in Baby First T,V, LLC (“**BFTV**”), which operates a TV channel for babies and toddlers; Kardan Communications holds about 4.69% (indirectly through Lidan Investments Agencies Ltd.) of D.B.S Satellite Services (1998) Ltd. (“**YES**”) capital (about 3.97% in full dilution) which is DBS franchisee in Israel. Kardan Communications also holds additional companies which are not material to Kardan NV, in the media field; in development and assimilation of software for TV networks; in development and delivery of innovative access products and network solutions for communication exchanges; in provision of call center services in Central-Eastern Europe; in provisions of data and added value services to cellular telephones and in a venture capital fund specializing in the technology field.

Kardan Technology Ltd., is a public company traded on the Tel-Aviv Stock Exchange. As at the report date, Kardan Israel holds approximately 61% of the issued capital of Kardan Technologies.. Kardan Technology's material holding is the rights in a partnership, which holds a portfolio of four companies, active in the Technology field (“**The Partnership**”). Kardan Technologies is not a material company of Kardan NV.

For additional details in respect of this field of activity, see section 12 of the report.

3. **Investments on the capital of Kardan NV and transactions in its shares during the course of the year 2006, 2007 and 2008 (up to the time of this report)**
- 3.1 During the course of the years 2005 and 2006 31,962,667 par value of bonds 2001 (Series B') issued by Kardan Israel were converted into 1,997,658 shares in Kardan NV. On December 31, 2006 Kardan Israel repaid the balance of the principal of the bonds 2001 (Series B') in an amount of NIS 8,836,147 par value and accordingly the right to convert the bonds 2001 (Series B') into shares in Kardan NV expired.
- 3.2 In the years 2006 and 2007, 1,496,607 option warrants 1 and 1,499,940 option warrants 1 were exercised into 972,821 and into 1,212,920 shares in Kardan NV, respectively. The total amount of the consideration that Kardan NV received from the exercise of the options, as aforesaid, amounts to 2.7 million ⁷. During 2008 and up to the time of the report, a further 44,998 option warrants 1 were exercised into 33,614 shares in Kardan NV for a consideration in the amount of 7,000 Euros.
- 3.3 On July 6, 2005, 781,250 phantom type options in Kardan NV were awarded to the institutional investors, who made a loan available to Kardan Israel (see section 7.10.4 of the report) the exercise price of the options is NIS 16, linked

⁷ The exercise price was adjusted following the distribution of a dividend in July 2007 and it was set at an amount of NIS 11.7618, linked to the Consumer Prices Index in respect of the month of May 2007.

to the known index at the time of their allotment. The options could be exercised up to March 15, 2007. In practice, the entire quantity of shares that derive from the exercise of the options was not allotted to the institutional investors, but rather, only the shares that represent the element of the benefit, with the addition of the par value of the shares that were issued, against a payment for the par value. On June 6, 2006 the said options were exercised into 495,743 shares in Kardan NV. In consideration for the exercise, Kardan NV received an amount of 128 thousand Dollars (99 thousand Euros).

- 3.4 On July 6, 2005 a bank, which made a loan available to Kardan NV, was granted options whose cumulative overall exercise price is not to exceed 1.5 million euros. On February 22, 2006 all of the options were exercised and 119,222 shares in Kardan NV were allotted in respect of them.
- 3.5 On May 9, 2006, Kardan NV issued 11,455,000 regular shares of par value 0.2 euros each to institutional investors from outside of Israel, which constituted approximately 14.4% of the issued share capital of Kardan NV. The consideration for the issue was approximately 102 million Dollars (some 80 million Euros) (after expenses and commissions).
- 3.6 In October 2006 716,927 option warrants, convertible up to the end of five years from the date of the allocation (October 2011) into 716,927 regular shares in Kardan NV of par value 0.2 Euros each, were allotted to four members of the managing board of directors of Kardan NV. Similarly 382,400 option warrants, convertible into 382,400 regular shares in Kardan NV of par value 0.2 Euros each, were allotted to ten employees from the Kardan NV Group. As of the time of this report, 11,933 option warrants had been exercised into shares in Kardan NBV and 39,500 option warrants had expired. For further details see section 14 of this report.

4. **Distribution of Dividends**

Kardan NV is subject to the companies laws in Holland in all that is connected to the possibility of distributing a dividend and other distributions out of its shareholders' equity.

In June 2007 the general assembly of the shareholders of Kardan NV approved a dividend distribution policy, according to which Kardan NV will distribute a dividend each year in an amount that will constitute between 20% and 30% of the Kardan NV's net income for the year in accordance with international accounting principles, and this taking into account the annual profit, liquidity, shareholders' equity, financial needs and also the financial liabilities (covenants), and all this subject to the legal provisions that apply to Kardan NV.

In July 2007, Kardan NV distributed a dividend for the year 2006 in an overall amount of 12,500 thousand Dollars (approximately 9,408 thousand Euros) which represented approximately 25% of Kardan NV's net income for the year 2006 in accordance with international accounting principles.

In accordance with the provisions of the Dutch law, as of December 31, 2007, Kardan NV had profits available for distribution in an overall amount of approximately 71,000 thousand Euros.

External restrictions on the distribution of a dividend: Within the framework of loans that Kardan NV took up from banks and from institutional investors, Kardan NV has committed itself under various financial undertakings (covenants), including a commitment for a minimum level of shareholders' equity and for the maintenance of certain ratios between its shareholders' equity and the balance sheet total. For further details in connection with the said undertakings, see section 15 of the report. For the restrictions on the distribution of dividends in the various investee companies see the description of the entire field of activities.

In June 2007 Kardan NV's general assembly empowered the managing board of directors for a period of 18 months, to purchase shares in Kardan NV in trading on the Stock Exchange or off the Stock Exchange, subject to the provisions of the law and the articles of association of Kardan NV and subject to the approval of the supervising board of directors for every purchase, at a price that will vary between the par value of the shares and the their opening price on the Euronext, on the day of the purchase, with the addition of 10%. Kardan NV did not carry out any purchases in the said period.

For the restrictions on the distribution of dividends in the various investee companies see the description of the entire field of activities.

Part B': Other Information

5. Financial information in respect of the fields of activity of Kardan NV

For financial information in respect of the fields of activity of Kardan NV, see Note 37 to the Financial Statements.

For an explanation of the operating results of the fields of activity of Kardan NV see A4 in the report of the board of directors.

The adoption of the International Financial Reporting Standards (IFRS)

Kardan NV prepares its financial statements in accordance with the International Financial Reporting Standards ("The IFRS Standards"), as from the reporting period, which commenced in January 1, 2007. The financial statements of Kardan NV as of December 31, 2007, which are included in the report, were prepared in accordance with the IFRS Standards.

6. **The general environment and the impact of external factors on the activities of Kardan NV**

Kardan NV is an international holding company that is registered for trade on the Euronext and on the Tel-Aviv Stock Exchange. As such, Kardan NV is affected by many external factors, both in the markets in which it is traded and also in the countries and in the field in which it operates, and including:

Investments in developing markets: Kardan NV is an international holding company which focuses on investments in developing markets having significant potential for growth. Activity in these markets is exposed to various risks, which are different in their nature to the risks associated with operating in developed markets, such as: political risks, regulatory risks, legal risks and economic risks. Together with this, the Kardan NV Group is in the habit of initiating new projects in developing fields in these markets out of a strategy of creating value in the medium to long term. This "pioneering spirit", which involves the risks that are mentioned above, has been the main engine for growth of the Kardan NV Group in recent years.

The economic environment and the economic situation in Central-Eastern Europe, in China and in India:⁸ The Kardan NV Group is exposed to the real estate field in Central-eastern Europe, in China and in India through its holding of GTC RE shares. Central-Eastern Europe region experienced economical growth in general and specifically in the real estate market in recent years. China, is considered to be the largest economy in the world, which gradually shifted, over the past 25 years, from an economy controlled by central government to a market economy, open to international markets. The market in India is a large developing market with a long term value generation ability. A change in these trends in the countries in which the Kardan NV Group operates in Central-Eastern Europe, China and India could have a negative impact on the activities of the Kardan NV Group.⁹

The economic environment and the economic, security related and political-diplomatic situation in Israel -The activities of Kardan NV in Israel, through Kardan Israel, focus primarily on the fields of real estate initiation, motor vehicles and consumer products, communications and technology and construction, are affected by the state of the Israeli economy and by the security, political and diplomatic situation in Israel and in the Middle East. Moreover, the security situation and the economic situation in Israel can also affect the preparedness of foreigners to enter into business relations with Israeli companies, such as the companies that are held by Kardan NV. The Kardan NV Group will examine the extent of its activities in Israel in the light of the

⁸ Further details on recent fluctuations in the different markets, see "Financial Markets Crisis" herein.

⁹ As at the report date, operation in India only reached a first memorandum of understanding on establishing a joint venture in India to build a commercial and residential housing project.

changes in the state of the market in Israel (for additional details see section 24.5 of the report).

The situation in the capital markets - Kardan NV is registered for trade on the Euronext and on the Tel-Aviv Stock Exchange. Moreover, the Kardan NV Group has a number of material subsidiary companies, which are registered for trade. In the light of the aforesaid, the Kardan NV Group is affected by the state of the global capital markets in general and from the state of the capital markets in which the shares of the companies in the Kardan NV Group are traded in particular. As a holding company, which is engaged in the initiation of and in investments in companies that are in the initial stages of their existence, out of a strategy of creating value in the medium to long term, the Kardan NV Group uses private and public floatations for the purpose of floating the economic value of its holdings. A worsening of the situation in the global capital markets could have an adverse impact on the rate of growth of the Kardan NV Group and on the possibilities for developing its business.

The way in which the capital markets relate to holding companies - In recent years the fondness for holding companies has fallen off, both in the various capital markets and also on the part of financing bodies. There is a clear preference by investors and by financing bodies for an investment (in shareholders' equity or in external equity) in companies that are focused and in which the actual activity takes place. This trend may make the activities of all of the holding companies, including Kardan NV more difficult. Despite the aforesaid, the management of Kardan NV is of the opinion that its activities as a diverse holding company constituted the basis for its growth, in the light of the following characteristics:

- * The Kardan NV Group has focused its main activities in selected fields, primarily in the developing markets of Central-Eastern Europe. This focusing differentiates it not only in the Israeli capital market, but also in the markets in Western Europe.
- * The extensive activity in the developing markets constitutes a source for diversified business development. The experience that has accumulated and the presence in developing countries whilst operating in a specific field enables business development in additional fields with the potential for growth.
- * A holding company is able to afford the developing projects, which operate in developing markets a depth of management, international experience and financial support. In many cases, the reputation of an international holding company projects a favorable light for the activities of its various holdings in those markets.
- * The spread of the activities in a number of fields and in various countries reduces the risk for the Kardan NV Group and contributes to its stability.

Holding company - Kardan NV's financial data are affected by the financial data and the business results of its investee companies, and also by exercise or purchasing activities in those companies. Accordingly, Kardan NV is affected by the factors that affect each of its fields of activity, which are detailed in the descriptions of the fields of activity. As a holding company, Kardan NV enjoys routine receipts of cash flows from dividends, from management fees and from payments of interest on the loans that it has extended to companies in the Kardan NV Group. In addition, from time to time, Kardan NV and Kardan Israel raise loans or bonds for the purpose of financing their activities and also from the disposal of shares in the companies that they hold. Kardan NV's ability to make financial resources available for the development of its business and to meet its commitments, is dependent to a considerable degree on the routine cash flows that are channeled to it by the companies which it holds and by its ability to raise loans and to dispose of holdings.

Exchange rates - As an international holding company, the Kardan NV Group is exposed to changes in the exchange rates of the currencies in which it carries out its activities, the main currencies being: the Euro, the Dollar and the New Israeli Shekel. Changes in the exchange rates of the currencies may have an impact on the value of Kardan NV and on its financial results.

Taxation -The Kardan NV Group conducts its business in various countries through local companies. Accordingly, the activities of the Kardan NV Group are subject to the various tax laws in the various countries. The calculation of the tax liabilities of the Kardan NV Group involves interpretation and the implementation of tax laws and treaties in a number of countries. The Kardan NV Group calculates its tax liability in reliance upon its understanding and the understanding of its various advisors of the tax laws and treaties. A change in these laws and treaties or some other interpretation could have an impact on the tax liabilities of the Kardan NV Group.

Crisis in the Financial Markets - International financial markets experienced considerable shocks from the second half of July 2007, as a result of the crisis in the sub-prime¹⁰ mortgages market, swiping along other financial sectors. It also transpired that institutions and financial investors in and outside the U.S.A. are considerably exposed to the sub-prime loans through different debt instruments, depending on these loans. The uncertainty about the extent of the damage and exposure volume led to a sharp decrease in prices of debt instruments and increased demand for U.S.A. government bonds. At the same time, world share markets suffered a shock, accompanied by investors uncertainty regarding the expected extent of the damage to the financial system and the real activity, which affects and may continue to affect the ability to

¹⁰

A "sub-prime" loan is usually a loan that recycles an existing loan, granted at a higher interest rate than the original loan. This loan is relatively inferior, with a higher risk to the granting party and intended for people with low credit rating.

raise funds in finance markets. The said crisis may also effect the world credit market, e.g., causing financial organizations to implement a stricter credit and mortgages granting policy and increase interest rate on credit. It seems that the direct economical implications of the sub-prime crisis are still rolling and estimates of the extend of the damage differ. Moreover, leading commercial banks and investment houses in Europe and in the U.S.A., announced in recent months, expected losses of billions Dollars, due to direct and indirect exposure to instruments depending on sub-prime loans. During the period after the balance sheet date, world leading capital and finance markets suffered great shocks, including significant decrease in securities prices throughout the world and dropping rates in the Israeli capital market (including securities of companies in Kardan NV Group). The sharp decrease in the representative USD/ NIS exchange rate continues. Shocks in these markets may have an adverse effect on the results of Kardan NV Group, the value of its assets, assets realization ability, business condition and the ability of Kardan NV Group to raise finance and also on funding terms. Since it is impossible to foresee the expects developments in these markets, it is too early, at this stage, to evaluate the implications for Kardan NV Group.

Credit Rating - The Capital Market, Insurance and Saving Commissionaire in the Ministry of Finance published in February 2008 a draft circular, requiring rating companies¹¹ to publish a conversion scale to convert the local rating scale to the international rating scale, starting on January 1, 2009. The rating companies are also required to constantly monitor the conversion scale and update it, if needed. The draft also indicated that the rating companies will be obliged to publish this scale in the near future as the first stage in a process requiring the rating companies to rate local companies according to the international rating scale in a few years time. As at the report date, Kardan NV cannot estimate if the actual circular will be published, its actual contents and cannot estimate the effect of publishing a conversion scale converting the local rating scale to the international rating scale.

For additional details in respect of the external factors that affect each field of activity, see the descriptions of the fields of activity.

¹¹ Rating companies approved by the Capital Market, Insurance and Saving Commissionaire to act as a rating company.

7. **Kardan Israel Ltd.**

As aforesaid, Kardan NV's activities in Israel are performed through its subsidiary, Kardan Israel, which is a holdings company. Below is a description of Kardan Israel, which is a significant company of Kardan NV. For a description of additional companies through which Kardan NV operates, see the activity field descriptions (real-estate, banking and retail credit, pension and insurance, infrastructure – projects and infrastructure – assets and investments) in sections 8.5, 9 and 10 of the report.

7.1 Below are data related to Kardan NV holdings in Kardan Israel as of December 31st, 2007:

Holding rate	Sum of investment in Kardan Israel registered in Kardan NV books (thousands of Euros)	The rate constituting the sum of investment in Kardan Israel, out of the total equity of Kardan NV¹²	Market value of the investment (in thousands of Euros)	Contribution to the net profit of Kardan NV (thousands of Euros)
71.35%	75,025	21.9%	157,707	5,592

7.2 Kardan Israel was incorporated in 1982 under the laws of the State of Israel as a public company, and its shares have been issued in the Tel-Aviv Stock Exchange in 1982 and 1989. In 2003, Kardan NV bought all Kardan Israel shares as part of an exchange purchase offer, and Kardan Israel became a private company under full ownership of Kardan NV. In May, 2005, Kardan Israel published a security issuance forecast, and a full exchange purchase offer for the shares of Kardan Real-Estate, and in June 2005, Kardan Israel shares have been registered for commerce in the Tel-Aviv Stock Exchange, and again it became a public company (for details regarding this move, see section 7.3.1 of the report). Kardan Israel is indirectly controlled by the present controlling shareholders of Kardan NV since 1990.

Kardan Israel's activities are currently focused on four fields of activity: real-estate entrepreneurship, construction works, vehicles and consumer products, communications and technologies.

¹² Equity attributed to company shareholders (without minority shares).

7.3 Structural Change, Merger of Significant Purchases

7.3.1 Kardan Israel Issue – in May, 2005, Kardan Israel, which was at the time a private company, completely owned by Kardan NV, published a public securities offer forecast an a full exchange purchase offer to Kardan Real-Estate shareholders ("**Kardan Israel Forecast**").

[A] As part of the purchase offer, Kardan Israel approached all Kardan Real-Estate shareholders (except of Kardan Israel itself) and offered them to trade their shares in exchange for Kardan Israel shares, in such a manner that any Kardan Real-Estate shareholder who will take up the offer, will be entitled to receive for each Kardan Real-Estate share of 1 NIS in nominal value he holds, 0.7331 Kardan Israel ordinary shares of 1 NIS in nominal value (gross, before tax deduction at source). The purchase offer was stipulated on receiving the approval of the general assembly of Kardan NV shareholders, which has been received in June 2005, and a minimal response. The purchase offer was successfully completed. Upon the completion of the purchase offer, Kardan Real-Estate shareholders became Kardan Israel shareholders, Kardan Real-Estate shares were cleared from trading in the Tel-Aviv Stock Exchange, and it became a company under full ownership of Kardan Israel.¹³

[B] In addition, as part of the Kardan Israel forecast, Kardan Israel issued ordinary shares and convertible securities, as detailed in section 7.4.1 of the report. Kardan Israel shares, together with the shares it has issued to Kardan Real-Estate shareholders, as part of the exchange purchase offer, and together with the convertible securities and shares it has issued to the public, were registered for commerce in the Tel-Aviv Stock Exchange. A profit of 4 million euros, before taxation, was generated for Kardan NV as a result of the issue, and its holdings in Kardan Israel were diluted from 100% to 80.32%.

[C] Following the clearance of Kardan Real-Estate shares from commerce in the Tel-Aviv Stock Exchange, and its becoming a private company, and in accordance with the Securities Regulations (Purchase Offer), 1960 – 2000, Kardan Israel approached, in July 2005, holders of Kardan Real-Estate convertible bond (series A), which were at the time traded in the Tel-Aviv Stock Exchange, and offered them to purchase their bonds. Approximately 2% of bond (series A) holders agreed to the offer, and therefore the holders (except of Kardan Real-Estate) kept most of the bonds (approximately 97.87%), which continued to be traded in the Tel-Aviv Stock Exchange until their full payment in November 2005.

7.3.2 On February 17th, 2008, Kardan Real-Estate submitted to a Tel-Aviv district court an application for the approval of the distribution of all GTC RE shares it holds, as a dividend in kind to Kardan Israel, under section 303 of the Companies Law. The application has been submitted to the court since Kardan Real-Estate does not pass the

¹³ Except for 26 shares out of approximately 39,185,829 million shares, held by a third party, which realized its right to convert the Kardan Real-Estate bonds (series A) before their payment.

profit test, as this term is defined in the Companies Law. Kardan Real-Estate received the agreement of the guaranteed and significant creditors to the distribution. The creditors had a 30 day period, from the day the application was submitted to the court, to file with the court objections to the GTC share distribution as dividend in kind, as aforesaid. By the end of the 30 day period, no objections have been filed against the application for the distribution of shares as dividend in kind. The distribution is stipulated on receiving the approval income tax authorities to its performance, under section 104C of the Income Tax Order [New Version], 1921 – 1961. In light of the lack of objections, as aforesaid, Kardan Real-Estate shall file an application with the court for giving a final order regarding the distribution of shares as dividend in kind, this within 10 business days of receiving the approval of the tax authority, as aforesaid. For further details, see section 8.6.5 of the report.

In January 2008, after the balance date, the Kardan Israel Board of Directors approved the purchase of GTC RE shares, during stock market exchange, for a total sum of up to 50 million NIS, for a price which shall not exceed 5% of the share market price, as it may be from time to time, at the discretion of the Kardan Israel Management. Starting with the date of the said decision, and until the 31st of March, 2008, close to the report date, Kardan Israel purchased 750,518 GTC RE shares, in installments, during stock market commerce, and as of the date of the report, Kardan Israel directly holds approximately 0.88% of GTC RE capital.

- 7.3.3 On March 24, 2008, Kardan Israel and Kardan Real-Estate engaged in a deal in which Kardan Real-Estate shall purchase all Delek Real-Estate Ltd. ("Delek Real-Estate") shares in Dankner Investments Ltd. ("Dankner Investments") (100%), against the allocation of Kardan Real-Estate Shares, which constitute 40% of the issued capital of Kardan Real-Estate, to Delek Real-Estate. The deal was conditioned on a number of different suspending terms, including receiving the approval of the Antitrust Commissioner, the approval of the Tax Authority, performing the distribution of dividends in kind, as detailed in section 7.3.2 of the report, and receiving the approval of different factors (such as banks, creditors and third parties). The completion of the deal shall be performed within six months of signing (the completion date can be extended by 90 more days). At the same time, a shareholder agreement has been signed between Kardan Israel and Delek Real-Estate, regulating the relationship between the parties, as shareholders in Kardan Real-Estate, after the completion of the purchase of the shares of Dankner Investments, as aforesaid. Upon completion of the deal, Kardan Israel shall hold 60% of Kardan Real-Estate shares, and Delek Real-Estate shall hold 40% of Kardan Real-Estate shares. In addition, Kardan Real-Estate shall hold all the issued and paid share capital of Dankner Investments. Dankner Investments deals with the entrepreneurship, planning, development and construction of residential projects in Israel. For details regarding the deal and regarding Dankner Investments see the Kardan Israel immediate report dated March 25th, 2008 (reference number 082980-01-2008).

7.4 Investments in Capital and Deals in Kardan Israel Shares Performed During 2006, 2007 and 2008 (up to the date of the report)

7.4.1 According to the Kardan Israel Forecast, Kardan Israel has issued to the public, in addition to the issue of shares, 160,000,000 NIS in nominal value of bonds (series 3) registered by name, convertible to ordinary Kardan Israel shares, so that each 11.9 nominal value of bonds (series 3) shall be convertible to one ordinary share (subject to adjustments as detailed in the Kardan Israel Forecast) and 2,000,000 warrants (series 4), registered by name, which may be realizable as ordinary Kardan Israel shares, starting with their day of registration for commerce, until May 31st, 2009, inclusive (excluding periods as aforesaid in the Kardan Israel forecast), so that each warrant (series 4) may be realizable as one ordinary share in exchange for a payment of 11.9 NIS, linked to the consumer price index and subject to adjustments, as detailed in the Kardan Israel forecast.

In 2006 and 2007, 3,559,278 and 11,710,943 bonds (series 3) were converted to 299,099 and 984,113 Kardan Israel shares, respectively, and 68,726 warrants (series 4) were realized 68,726 Kardan Israel shares. In addition, up to March 20th, 2008, 52,657 more bonds (series 3) were converted to 4,425 Kardan Israel shares, and no warrants (series 4) were realized. The total future return Kardan Israel may receive from the realization of all warrants (series 4) is 23,117 NIS.

7.4.2 In July 2006, Kardan Israel purchased 151,000 Kardan Israel ordinary shares, in exchange for a sum of approximately 2 million NIS (13.27 NIS per share). As a result of the purchase, the shares which were purchased became latent shares. The said latent shares were purchased according to Kardan Israel's undertakings as part of the Kardan Israel forecast, according to which it shall purchase from the Kardan Real-Estate shareholders who are interested, and who agreed to the purchase offer published in the Kardan Israel forecast, and for whose agreement to the purchase offer received a tax deduction at source – an amount of Kardan Israel shares reflecting the tax value deducted for them. These shares have been added to 2,552 latent shares held since July 2005 by Kardan Israel. After the purchase, Kardan Israel holds 153,552 regular Kardan Israel shares, which are latent shares.

7.4.3 In 2005, Kardan Israel allocated 460,000 warrants, which may be realized as normal Kardan Israel shares, to 5 Kardan Israel employees, including a director in Kardan Israel, for no return. The basic realization price of the options was set at a total of 9.18 NIS per share, linked to the consumer price index and subject to adjustments, as detailed in the Kardan Israel forecast. In July 2006, 460,000 warrants were realized, as phantom options, as 186,650 Kardan Israel shares. The shares allocated as a result of the realization of the option constituted at the time of their issue approximately 0.6% of Kardan Israel's issued capital. For further details regarding the allocated warrants, see section 7.9 of the report.

7.4.4 In December 2006, Kardan Israel allocated, in a private allocation to investors who are among the investors stated in the first amendment of the Securities Law, as well as

Harel Insurance Investments Ltd., an interested party in Kardan Israel at the time of issue, as defined in the Securities Law, 2,076,125 ordinary shares, which constituted 2.66% of the issued and paid share capital of Kardan Israel, and the voting rights in it (2.23% in full dilution), in return for a total sum of approximately 30 million NIS (14.45 NIS per share). A profit of 3 million euro, before taxation, has been generated for Kardan NV as a result of the issue, and its holdings in Kardan Israel were diluted from 80.12% to 77.98%.

- 7.4.5 In April of 2007, Kardan NV sold 2,987,000 ordinary Kardan Israel shares, in a transaction which was part of stock market commerce, whose terms were defined outside the stock market, for a price of 16.75 NIS per share, and for total proceeds of about 50 million NIS. Kardan NV received a profit of about 5.5 million euros before taxes as a result of the aforementioned sale. Following this transaction, Kardan NV's holdings of Kardan Israel's issued capital dropped to approximately 74.1%.
- 7.4.6 In May of 2007 Kardan Israel performed a private allocation for investors who are subscribers of the first amendment to the Securities Law, allocating 2,000,000 ordinary shares, which composed 2.5% of Kardan Israel's issued and paid-in share capital and of its voting rights (2.1% in full dilution), for a total of about 33.5 million NIS (16.75 NIS per share). Kardan NV received a profit of approximately 2.7 million euros before taxes. Following the private allocation Kardan Israel's holdings were diluted from 74.1% to 72.25%.

7.5 Dividend Distribution

Kardan Israel did not distribute dividends during the years 2006 and 2007.

For the purchase of 151,000 ordinary Kardan Israel shares by Kardan Israel, see section 7.4.2 of this report.

Dividend Distribution Limitations

Due to a long term loan it has received, Kardan Israel undertook that the equity rate of Kardan Israel out of the balance total (company) will be no lower than 25%. As an obligation toward holders of the bond issued by Kardan Israel for institutional investors, Kardan Israel undertook: (1) not to distribute to its share holders a dividend for an amount surpassing 50% of the profit in its united financial reports in each of the years 2005 to 2009; (2) that the proportion of equity to the balance total (company) will be no lower than the rates defined between 28% and 30%; (3) to maintain a minimal equity in an amount no lower than approximately 231 million NIS. For details see the table in section 7.10.4 of this report.

7.6 The following are data from Kardan Israel's financial reports from December 31st, 2007 (amounts in thousands of NIS):¹⁴

Revenues in 2007	Net Profit in 2007	Equity on December 31 st , 2007	Total Assets on December 31 st , 2007	Accounting Presentation
412,615	77,312	647,418	1,541,998	Consolidated Company

7.7 General Environment and Outside Factors' Effects on Kardan Israel

The general environment in which Kardan Israel is active and the outside factors affecting it are essentially similar to the general environment and the factors affecting Kardan NV's activity in its activity in Israel and real estate activity abroad (due to Kardan Israel's holding of approximately 12.11% of GTC RE's share capital), described in section 6 of this report.

7.8 Kardan Israel's Fields of Activity

The following is a general description of the Kardan Israel Group's four activity fields (Kardan Israel, together with her subsidiaries and related companies, hereinafter: "**Kardan Israel Group**").

7.8.1 Real Estate Entrepreneurship

The companies held by Kardan Israel in the real estate entrepreneurship field, which are essential to Kardan Israel are Kardan Real Estate, GTC RE and Amad. For details on the activity of said companies, see section 2.1 of this report. At the time of this report, Kardan Israel holds the whole of Kardan Real Estate's issued capital (except for single shares reflecting a negligible rate), and Kardan Real Estate holds approximately 12.11% of GTC RE's issued capital. Also, Kardan Israel holds directly 0.88% of GTC RE's issued capital; 30% of issued capital the issued capital of Ocif Amad Assets, which holds 50% of Amad's capital. In addition, Kardan Israel holds 40% of Mekdan Management and Maintenance, which engages in management and maintenance of buildings in Israel and in central-Eastern Europe (an activity which is not essential for Kardan Israel). Among the companies engaging in this field, GTC RE and Kardan Real Estate are essential for Kardan NV.

7.8.2 Construction Field

The only company held by Kardan Israel in the construction field is El-Har, held by Kardan Real Estate in a rate of 50%¹⁵. El-Har engages in performing operating contracting services in projects for high density construction of apartment buildings,

¹⁴ The equity and net profit (loss) data attributed to share holders in the company (without minority interest).

¹⁵ One of the minority share holders in El-Har has a Put option to obligate the other share holders to purchase his shares. Should the minority share holder realize his right, Kardan Real Estate's holdings in El-Har are expected to rise to a rate of 66.67%.

one-floor houses, hospitals, office buildings, public, industrial and commercial buildings, and in performing infrastructure and development work in the projects. El-Har is not essential for Kardan NV.

7.8.3 **Vehicle and Consumer Goods Field**

The companies held by Kardan Israel in the vehicle and consumer goods field, which are essential for Kardan Israel are UMI and Dan Rechev. For details on the activity of said companies see section 2.6 of this report. At the time of this report Kardan Israel holds, through companies under its control, 40.5% of UMI's issued capital. Also, Kardan Israel indirectly holds 15% of Amad's issued capital, as detailed in section 7.8.1 of this report. Amad holds, among other things, about 54% of Dan Rechev's issued capital. Also, Kardan Israel directly holds 5.78% of Dan Rechev. In addition, Kardan Israel indirectly holds the whole issued capital of SFDI, whose business is described in section 2.6 of this report. SFDI is not an essential held company of Kardan Israel. Among the companies engaging in this field, only UMI is essential for Kardan NV.

7.8.4 **Communications and Technologies Field**

The companies included in the communications and technologies field are Kardan Communications and Kardan Technologies, which are holdings companies, which hold RRsat, BFTV and the partners, which are essential corporations for Kardan Israel. For details about the activity of each of said companies and partners see section 2.7 of this report. At the time of this report Kardan Israel holds, through Kardan Communications (a company under the full ownership of Kardan Israel), about 24.5% of RRsat's issued capital. Also, Kardan Israel indirectly holds, through Kardan Communications, about 30.22% of BFTV's issued capital. Kardan Communications also holds other companies which are not essential for Kardan Israel, in the media field; in multi-channel TV broadcasting (YES); in software development and assimilation for TV networks; in development and supply of innovative access products and network solutions for communication operators; in service supply for call centers in central-Eastern Europe; in providing data and added value services for cellular phones; and in a venture capital fund specializing in technology.

As of the date of this report, Kardan Israel holds about 61% of Kardan Technologies' issued capital. Kardan Technologies' essential holding is rights in the partnership, which holds the portfolio for four technology companies.

There is not company in the communications and technologies field which is in itself essential for Kardan NV, as of the date of this report.

7.8.5 In addition, Kardan Israel's financial reports include another sector (others), which includes held companies whose activity is negligible for Kardan Israel or which are not active, except for Kardan Israel's holding through a subsidiary of Kol Hai Radio, a company holding a franchise from the Second Authority for Television and Radio for radio broadcasting for the religious public in the Center and the Jerusalem area.

This company is not essential for Kardan Israel and Kardan NV and does not belong to the activity fields described above.

7.9 Human Capital

Kardan Israel's activity is run by headquarters located in Tel-Aviv and responsible for running Kardan Israel's ongoing activity. As of the date of this report, the headquarters employs 26 employees, among them: active chairman of the board, CEO, financial department, legal department, a secretariat and administration workers. Some of Kardan Israel's employees are paid to provide services for Kardan NV companies. On December 31st, 2006, the Kardan Israel headquarters consisted of 23 employees.

In July of 2005, 260,000 options were allocated for the purchase of up to 260,000 Kardan Israel shares of a nominal value of 1 NIS each to four Kardan Israel employees, and 200,000 for the purchase of up to 200,000 Kardan Israel shares of a nominal value of 1 NIS each to Kardan Israel's director and consultant, Mr. Amnon Lipkin Shahak (Hereinafter in this section: "**The Offerees**"). The options were allocated without proceeds, according to section 102 of the Income Tax Order in the capital gain course, for an exercise price of 9.18 NIS per share linked to the consumer price index for April 2005, subject to adjustments. Alternatively, instead of the whole of the shares resulting from the amount of options they are entitled to realize, the offerees could choose to be allocated shares reflecting the bonus factor embodied in the realized options, as calculated at the time of realization, in exchange for their nominal value. In July 2006, the offerees realized all 460,000 options in their possession. The offerees chose to be allocated shares reflecting the bonus factor embodied in the options they realized, in exchange for paying their nominal value only, and in accordance, with realization they were allocated 186,650 ordinary shares, which composed 0.6% of Kardan Israel's share capital and voting rights and 0.5% in full dilution. After realization, the offerees possess no more options.

In July 2007 Kardan Israel provided the director a loan of 8.5 million NIS for a period of three years, against securities. Also, Kardan Israel provided position holders with one-time grants of non-essential amounts.

The active companies in Kardan Israel are run by independent headquarters. For details about human capital in the companies essential for Kardan NV, see description as part of the activity field description.

7.10 Funding

7.10.1 Kardan Israel funds its activity, among other things, through an outside debt including bonds and banking credit.

The following are details regarding Kardan Israel's credit composition for December 31st, 2007:

		Amounts in Thousands of NIS for December 31st, 2007	Weighted Interest Rate for December 31st, 2007
Long term loans and bonds (including ongoing maturities) from non-banking sources	Index Linked	357,201	6%

In March 2007, Kardan NV paid-in all the remains of its debt to Kardan Israel, a total of 170,000 thousand NIS, in an early maturity, according to its right, according to the agreement between the companies, for early maturity without fine or early maturity commission.

7.10.2 The following are details regarding Kardan Israel's credit composition for December 31st, 2006:

		Amounts in Thousands of NIS for December 31st, 2006	Weighted Interest Rate for December 31st, 2006
Long term loans and bonds (including ongoing maturities) from banking sources	Index Linked	358,230	6%

7.10.3 As of the time of this report, Kardan Israel has no banking credit line, in light of the fact that Kardan Israel has cash balances and deposits in a sufficient extent for its activity in the near future¹⁶. Nevertheless, Kardan Israel is taking action in the intent to achieve banking lines, by mortgaging some of its assets which are held by subsidiaries, and contacting several banks on this matter.

¹⁶ On December 31st, 2007 Kardan Israel had bank loans, which were fully paid-in on February 22nd, 2008.

7.10.4 The following are details regarding Kardan Israel’s bonds as on March 20th, 2008:

Security Name	Bond Fund Balance (Nominal Value)	Rate Interest	Fund Maturity Date	Interest Maturity Date
2003 Kardan Israel Bond (course 1) ⁽¹⁾	86,300,000 NIS	Index linked – fund and interest with an annual interest of 6.15%	One payment on November 27 th , 2008	Every year in four quarterly payments on: 2/3, 2/6, 2/9 and 2/12 of every year
2003 Kardan Israel Bond (course 2) ⁽²⁾	13,700,000 NIS	Index linked – fund and interest with an annual interest of 6.25%	One payment on November 27 th , 2008	Every year in four quarterly payments on: 2/3, 2/6, 2/9 and 2/12 of every year
Negotiable bonds, convertible (series 3) to Kardan Israel shares ⁽²⁾	144,677,121 NIS	Index linked – fund and interest with an annual interest of 6%	One payment on May 31 st , 2010	Five annual payments on May 31 st of the years 2006 to 2010
Institutional Investors’ Bonds ⁽³⁾	100,000,000 NIS	Index linked – fund and interest with an annual interest of 6.4% for half of the loaned amount, and 5.5% for the rest of the loan	One payment on March 17 th , 2009	Four annual payments on March 16 th of the years 2006 to 2009

(1) To ensure Kardan Israel’s obligation to the bond holders (course 1), Kardan Motors Ltd (“**Kardan Motors**”) mortgaged for a first degree fixed charge 40% of Taldan Motors Ltd (“**Taldan**”)’s shares, which are owned by Kardan Motors. Also, Kardan Israel undertook that Taldan will not take any action that will cause a reduction of its equity from a total of 90,000,000 NIS. In addition, Kardan Israel undertook in May 2006, that should Kardan Israel’s (accounting) equity be reduced from 231,321,000 NIS or should the proportion of equity to the balance total (company) of Kardan Israel according to audited or reviewed reports be reduced from a rate of 30%, each bond holder (course 1) will be authorized to demand from Kardan Israel to immediately pay-in of the bond fund (course 1) in his possession.

To ensure the bond holders (course 2) a security for the value of 125% of the bond fund balance was given. This security is composed of a lien of about 5% of Taldan’s share capital, held by Kardan Motors and from a liquid banking deposit, whose balance as of March 20th, 2008 is 4,205,617 NIS. This security was provided to bond holders (course 2) in exchange for waiver of the negative lien given to them in the past. Also, in May 2006, Kardan Israel undertook that should Kardan Israel’s (accounting) equity be reduced from 231,321,000 NIS or should the proportion of equity to the balance total (company) of Kardan Israel according to audited or reviewed reports be reduced from a rate of 30%, each bond holder (course 2) will be authorized to demand from Kardan Israel to immediately pay-in of the bond fund (course 2) in his possession.

Along with bond issuance (course 1) and bonds (course 2) issued by Kardan NV for holders of said bonds, 8,333,000 option warrants (course 1) registered in name and non-negotiable, when for each

100,000 NIS nominal value of bonds (course 1) or bonds (course 2), 8,333 option warrants (course 1) were issued, realizable for 8,333 ordinary Kardan NV shares of a nominal value of 0.2 euro, for an exercise price of 12 NIS per share, linked to the October 2003 index, subject to adjustments. In July 2005 the option warrants (series 1) were amended so that holders who've realized the option warrants (series 1) will not be allocated the whole amount of Kardan NV shares resulting from the amount of option warrants in their possession, but shares reflecting the bonus factor only (with the addition of the embodiment of the allocated shares' nominal value) against a payment for their nominal value only. It was defined that the bonus factor be calculated as follows: the difference between the closing price of the Kardan NV share in the stock market on the realization day and between the original exercise price, which is 12 NIS per share, linked to the October 2003 index, when this difference is multiplied by the amount of option warrants realized (the exercise price was adjusted following the dividend distribution in July 2007 and is now set at a total of 11.7618 NIS, linked to the consumer price index of May 2007. It was further decided, that the option warrants (course 1) will be realizable until the day of maturity of the bonds (course 1) and the bonds (course 2), meaning until November 27th, 2008. The option warrants (series 1) balance as of March 20th, 2008 is 1,919,923.

- (2) As part of the June 2005 issuance, Kardan Israel bonds (series 3) of a nominal value of 160,000,000 NIS were publicly issued. The bonds (series 3) are convertible into registered ordinary Kardan Israel bonds of a nominal value of 1 NIS each, in every commerce day starting from the day of their registration for commerce and until May 15th, 2010 (inclusive), so that every 11.9 nominal value of bonds (series 3) will be convertible into one Kardan Israel ordinary share of a nominal value of 1 NIS (subject to adjustments). Until December 31st, 2007, 15,270,222 nominal value of bonds (series 3) were converted into 1,283,212 Kardan Israel shares. After the balance date and until March 20th, 2008, an additional 52,657 nominal value bonds were converted into 4.425 ordinary Kardan Israel shares. The bonds (series 3) are traded in the Tel-Aviv stock market. No security was given to ensure the bond holders' rights.
- (3) In July 2005 Kardan NV allocated its institutional investors 781,250 phantom options, of an exercise price of 16 NIS linked to the consumer price index for each option, from the day of option allocation. It was determined that, in action Kardan NV shares will be allocated for the value of the bonus factor only (with the embodiment of the allocated shares' nominal value), against payment of the shares' nominal value. The said allocation was a condition which must be met so that half of the loan taken by Kardan Israel from the institutional investors, will bear an annual interest of 5.5%. Until the allocation day, in July 2005, the whole loan amount bore an annual interest of 6.4%. In June 2006 options were realized for 495,743 Kardan NV shares. To ensure Kardan Israel's obligations to institutional investors' bond holders, Kardan Motors has mortgaged, for the benefit of the trustee, in a first degree fixed charge 45% of Kardan shares which have been owned by Kardan Motors. Also, Kardan Israel has undertaken that Kardan Israel's equity (company) will be not less than 28% of the balance for a period of 3 consecutive months, and that during the years 2005-2009, Kardan Israel will not distribute dividends in an amount surpassing 50% of its profits each year. In addition, Kardan Israel undertook to set the loan for immediate maturity in different cases in which Kardan Israel does not comply with the terms of the agreement, including sale of UMI shares and losing a franchise in UMI. In addition, Kardan Israel undertook that Kardan will not perform a distribution which will cause a reduction of its equity from a

total of 90,000,000 NIS. Kardan NV guarantees all Kardan Israel obligations according to this agreement.

7.10.5 Ranking of Kardan Israel's negotiable Bonds

In December 2005, Maalot published an A ranking of the bonds (series 3) traded by Kardan Israel and of Kardan Israel's private bonds in turnover, which is based on Kardan Israel's business and financial policy. As part of following the ranking performed by Maalot, the ranking was validated in February 2007 and was defined as A Positive, and as a positive ranking forecast. The ranking was based, among other things, on the following stipulations: [A] Kardan NV will pay-in its 38 million dollars (approximately 32 million euros) debt to Kardan Israel, in the time and amounts determined (two payments in November 2008 and in January 2011). On March 2007 Kardan NV paid-in all of its debt to Kardan Israel in an early maturity, as detailed in section 7.10.1 of this report; [B] Kardan Israel will maintain an adjusted market ratio value (market value of the public companies, in addition to the market value of private held companies, according to value estimations as they are presented to Maalot) in a cash addition to the debt, no less than 2.75; [C] Kardan Israel will maintain a balance ratio of its holdings, with the loan given to Kardan NV (which was paid-in as aforementioned) and with a cash addition to the debt, no less than 1.5; [D] the proceeds in case of realization of GTC RE and/or UMI will be intended for financial debt return and maintaining a ratio of at least 3.5; [E] Kardan Israel will maintain a liquid file and shares of held companies which were defined as free of lien in an extent of no less than 125% from the maximal maturity amount in the two consecutive years according to Kardan Israel's amortization board. As of the date of this report Kardan Israel complies with all said stipulations.

7.10.6 Liens

No ongoing or negative lien applies to Kardan Israel profits. For details regarding specific liens applying to Kardan Israel assets, see comments for the table 7.10.4 of this report. In addition, specific liens are registered for Kardan Israel's assets and rights, to ensure credit lines from banks and other credit distributors, whose balance as of December 31st 2007 totals in 215 million NIS.

7.10.7 Financial Obligations

Kardan Israel undertook to its creditors to comply with certain financial obligations, including the obligation to maintain a minimal equity, and for equity to balance proportion. For details see section 7.5 of this report and comments to the table in section 7.10.4 of this report.

7.10.8 Guarantees

Kardan NV guarantees to Kardan Israel for loans whose balance as of the date of this report totals at 112,449,000 NIS. See also section 15.4 of this report. The guarantee balance set by the Kardan Israel Group for ensuring the loans provided to the Kardan Israel Group companies is totaled at 123 million NIS as of December 31st, 2007.

7.11 Taxation

For details regarding taxation see description 31 of the financial reports.

7.11.1 For taxation of GTC Group companies see table in section 16.3 of this report.

7.11.2 For taxation of Israeli resident Kardan Israel Group companies see section 16.4 of this report.

7.11.3 Tax rates of Kardan Group companies differ from the statutory tax rate. This difference results mainly from profits which are exempt or subject to a reduced tax rate, from losses and other temporary differences due to which a tax attribute was not registered, as well as for differences between the measuring base for tax needs and between the measuring base in financial reports.

7.11.4 Kardan Israel and some of its consolidated companies have transferred losses for tax needs which are transferred to the following years and total at approximately 407 million NIS as of December 31st, 2007 (out of which capital losses for transfer total at 102 million NIS).

7.11.5 Kardan Israel was issued final tax assessments until the tax year 2003 (inclusive).

7.11.6 In April 2003 Kardan Israel reached a special taxation settlement with the IRS and Real Estate Taxation Governorship (“The **Governorship**”), according to which Kardan Israel will pay tax in a rate of 5% of the accumulated profits realized and of the profits yet to be realized by December 31st, 2002 of activity of companies held by it abroad. According to the settlement Kardan Israel paid a tax total of 12.2 million NIS, out of which a total of 800,000 NIS composes 5% of Kardan Israel’s part in banking surpluses which can be distributed, and a total of 11.4 million NIS composes 5% of the value rise profits originating in companies abroad which Kardan Israel directly and indirectly holds, and which hold assets in foreign countries. At the time of signing the settlement with the governorship, Kardan Real Estate signed a settlement based on the same principles included in the settlement on which Kardan Israel signed, and according to which Kardan Real Estate paid a total tax amount of 18.4 million NIS.

7.12 Substantial Agreements

7.12.1 Kardan Israel 2003 bonds (track 1) and 2003 bonds (series 2) – See table in section 7.10.4 of this report.

7.12.2 Kardan Israel bonds (series 3) – see table in section 7.10.4 of this report.

7.12.3 Kardan Israel bonds for institutional investors – see table in section 7.10.4 of this report.

7.13 Legal Proceedings

In November 2007, Kardan Trade Ltd ("**Kardan Trade**"),¹⁷ was submitted 3 complaints against it, and to each one was attached a request to be approved as a class action suit. These suits regard the surplus amounts that are claimed to have been collected illegally from product buyers for services provided for the products. The damages to the Group are estimated by the claimants to be 54 million NIS. Checks that Kardan Trade has begun to conduct but has not yet completed suggest that the Group's estimate is totally unfounded and Kardan Trade claims to have a good defense against the claimants' claims. In addition, the person responsible for collecting the amounts listed in the statement of claim is a subcontractor that provides guarantee services on the product and not Kardan Trade itself. Based on the legal expert opinion Kardan Trade has commissioned the expected damage to Kardan NV for the aforesaid claims are not expected to be substantial.

7.14 Business Objectives and Strategy

7.14.1 Kardan Israel's strategy is to create a value for the medium-long-term, whereby its operations are based on the following principles:

- [A] A narrow managerial channel with extensive business experience that provides the capacity to make decisions quickly.
- [B] Autonomous management of fields of operation by a professional, experienced team that is subject to the Kardan Israel Headquarters supervision.
- [C] The betterment and unlocking of values of the four fields of Kardan Israel operations – real estate entrepreneurship, construction work, cars and consumer and communication and technology products, according to the following itemization:¹⁸ [1] In the field of real estate entrepreneurship, Kardan Israel will work on the development of construction rights of land owned by real estate companies under the Kardan Israel Group, alongside the entering additional projects in the real estate sector, through concentration on residential projects. Kardan Israel is examining from time to time the option to purchase real estate companies in order to continue developing itself in this field. As part of its strategy, on March 24, 2008 Kardan Israel and Kardan Real Estate entered into an agreement to purchase the total used capital of

¹⁷ Kardan NV indirectly holds 71.35% of SFDI's issued capital, which holds 70% of Kardan Trade's shares. For details about Kardan Trade's operations, see section 2.5 of this report.

¹⁸ **The information presented in this section is forward-looking information as defined in the Securities Law, based on Kardan Israel Group Management's estimates. These estimates, in part or in full, may not be realized, or realized in a different manner, including in a significantly different manner as a result of market conditions, exposure to currency and the dependency of companies held in market competition, in business opportunities and/or the realization of all or part of the risk factors detailed in section 24 of this report.**

Dankner Investments Ltd. which deals in entrepreneurship, planning, development and construction of residential projects in Israel (see section 7.3.3. of this report); [2] In terms of the execution of construction, the objectives are to expand the public construction operation and the construction of residential projects, with an emphasis on luxury, high-rise residential buildings with industrial finishing; The development of operations in Romania (primarily Bucharest) and examining the option to enter additional markets abroad; and purchasing companies with innovative technologies in the field; [3] In terms of the car sector, the objective is to increase UMI's and Dan Cars market share, as well as improve profitability. In the field of electrical appliances for the home, the objective is to increase the market share (through internal growth and adding on brands) as well as improving profitability; [4] In the field of communication and technology – Kardan Communications intends to continue nurturing its existing holdings in companies it holds and take advantage of its business opportunities. Kardan Technologies will examine the option of realizing its investments in partnership and in a venture capital fund I. In addition, these companies plan to examine additional investments.

7.14.2 Kardan Israel will examine the option of additional investments in Israel, whereby the primary criteria for conducting the investments will be:

- [A] Investments with significant potential for growth
- [B] Kardan Israel Group will be in control or partner in control.
- [C] The level of measured risk examined after an in-depth suitability check.

7.15 Information Regarding Events Following the Balance Sheet Date

- [A] For details about Kardan Israel and Kardan Real Estate's engagement in a transaction in which Kardan Real Estate will purchase all shares of Delek Real Estate in Dankner Investments against the allocation of Kardan Real Estate shares, see section 7.3.3 of this report.
- [B] In January 2008, following the balance sheet date, Kardan Israel's Board of Director's approved the purchase of GTC RE shares as detailed in section 7.3.2 of this report.

For details regarding information on events following the balance sheet date in companies held (directly or indirectly) by Kardan Israel and which are substantial to Kardan NV, see the information presented within the context of the description of the fields of operations.

- [C] In March 2008, Kardan Israel signed an agreement with Clal Finances Security Management and Investments Ltd. which will serve as a Kardan Israel shares market operator as of April 2008, upon the termination of the engagement period with the previous market operator who is expected to stop his operations in the field of market operations.

7.16 Discussion of Risk Factors

The general risk factors that apply to Kardan Israel as a holdings company are fundamentally similar to those that apply to Kardan NV. See section 24 of this report. Some of the risk factors that apply to Kardan NV in the international operations environment in which Kardan NV operates also apply to Kardan Israel, which is active abroad. For risk factors that apply to Kardan Israel, see section 24.1, 24.5-24.14 and 24.16-24.18 if this report.

Chapter C: Description of Kardan NV's Fields of Operations

8. Description of the Real-Estate Field

8.1 The Kardan NV Group has operations in the real-estate field abroad and in Israel.

The Real-Estate Operations Abroad

Kardan NV's operations in the real-estate field abroad is carried out through the GTC Group which deals in locating, initiating, development, rental, selling and management of real-estate projects in international markets, mainly in Central-Eastern Europe. In 2005 the GTC Group started operations of real-estate in China and investing in yielding assets in Western Europe. In 2006 the GTC Group continued to expand its businesses in China and decided not to expand its investments in yielding assets in Western Europe and it is examining the option of reducing them. In November 2007 the GTC Group signed a first memorandum of understanding for the establishment of a joint venture in India of a residential and commercial project establishment.

Kardan NV holds, directly and indirectly, about 64.90% of the issued capital of GTC RE, a company traded in the Tel-Aviv Stock Exchange, as follows:

[A] Kardan NV holds, directly about 55.64% of GTC RE's issued capital.

[B] Kardan Israel holds all the shares of Kardan Real-Estate,¹ which holds about 12.11% of GTC RE's issued capital² and holds directly about 0.88% of GTC RE's issued capital.

On February 12th, 2008, Kardan Real-Estate filed an application to the courts for an authorization to distribute the GTC RE shares held by it as a dividend in kind to Kardan Israel. Should a final distribution order be given by the court, Kardan Real-Estate will cease being a shareholder in GTC RE and the GTC RE held by Kardan Real-Estate will be held directly by Kardan Israel. For details regarding the said application, see section 8.6.5 to this report.

GTC RE holds, around the date of the report, about 46.1% of issued capital of GTC Poland, which is traded in the Warsaw Stock Exchange in Poland and holds the shares of the rest of the GTC Group companies operating in Central-Eastern Europe. Also, GTC RE holds all the shares of GTC China, holding 50% of the Shenyang RE Company, operating in the residential field in China.

¹ Except for 26 shares out of 39,185,829 (about 0.000067%) held by a third party.

² Kardan NV has obligated towards Kardan Real-Estate to employ its power in the general assembly of GTC RE and cause one of the five GTC RE supervising board of director members to be appointed by Kardan Real-Estate. If the GTC RE shares are distributed as a dividend in kind to Kardan Israel as said in section 8.1 below, the said right given by Kardan NV to Kardan Real-Estate will be appointed to Kardan Israel.

Additionally, GTC RE holds 46.25% of the shares of GTC Investments, which operates in the yielding assets investments in Western Europe.

Kardan NV consolidates the financial statements of GTC RE and GTC Poland. For details on the operations of the GTC Group, see section 8.5 in this report.

The Real-Estate Operations in Israel

Most of Kardan NV's operations in the real-estate fielding Israel is carried out through Kardan Real-Estate, which is under full ownership of Kardan Israel. Kardan Real-Estate deals in initiating, development and sales of residential real-estate, and location, initiating, development, sales, rental and management of office buildings, commercial parks and parking lots in Israel. As of July 2007, Kardan Real-Estate holds 50% of the issued capital of El-Har, a company dealing in construction work execution and an executing contractor in real-estate projects, mainly in Israel.

On March 24 2008 Kardan Israel and Kardan Real-Estate engaged in a transaction under which Kardan Real-Estate will acquire all of Delek Real-Estate shares in Dankner Investments (100%) against the allocation of Kardan Real-Estate shares, constituting 40% of Kardan Real-Estate's issued capital, to Delek Real-Estate. Dankner Investments deals in initiating, planning, development and construction of residential projects in Israel. The deal is conditioned by various suspending conditions, including receiving the authorizing of the Antitrust Commissioner, the Tax Authority authorization, executing the dividend in kind distribution as specified in section 7.3.2 of this report and receiving the agreement of various entities (such as banks, creditors and third parties). For details see section 7.3.3 of the report.

Kardan NV consolidates Kardan Real-Estate's financial statements.

For details regarding Kardan Real-Estate see section 8.6 of the report.

Also in June 2006, Kardan Israel acquired together with others, through Ossif Emmed Assets 50% of Emmed's issued capital. Following the acquisition Kardan Israel holds indirectly 15% of Emmed's issued capital. Emmer has been operating for many years in the Israel real-estate field.

8.2 Following are details regarding the holdings of the material held companies in the real-estate field:

Held Company	Kardan NV's Chain-linked Holding Rate (as of the date of the report)	The Investment sum in Kardan NV's books as of December 31st 2007 (Thousands NIS)	The Rate of the Investment Sum in the Held Company out of Kardan NV's Equity as of December 31st 2007	Market Worth of the Investment in the Held Company as of December 31st 2007 (thousands Euros)	Contribution to the net profit of Kardan NV in 2007 (Thousands Euros)
GTC RE	64.90%	273,251	79%	572,430	24,459
Kardan Real-Estate	71.35%	48,313	14%	-	1,056

8.3 Following are details from the financial statements of the material held companies in the real-estate field:⁴

Material Company Name	Income in 2007	Net Profit in 2007	Equity as of December 31st 2007	Total Assets as of December 31st 2007	Accountancy Presentation
GTC RE (thousands Euros)	86,442	20,328	351,916	2,249,490	Consolidated
Kardan Real-Estate (thousands NIS)	110,286	78,120	324,609	703,441	Consolidated

8.4 For a description of the material transactions in the real-estate field made by Kardan NV and/or its subsidiaries and related companies during 2007, see note 3 and 1 to the financial statements.

8.5 GTC RE

Description of and details relating to GTC RE, which a material company of Kardan NV, are detailed as follows:

8.5.1 The following terms will be construed in this section according to the adjacent meaning:

- GTC Hungary** – GTC Hungary Real Estate Development Private Company RT., a company incorporated in Hungary.
- GTC Serbia** – GTC Real Estate Investments Serbia B.V., a company incorporated in the Netherlands.
- GTC Romania** – GTC Real Estate Investments Romania B.V., a company incorporated in the Netherlands.
- GTC Croatia** – GTC Real Estate Investments Croatia B.V., a company incorporated in the Netherlands.
- GTC Bulgaria** – GTC Real Estate Investments Bulgaria B.V., a company incorporated in the Netherlands.
- GTC Slovakia** – GTC Real Estate Investments Slovakia B.V., a company incorporated in the Netherlands.
- GTC Ukraine** – GTC Real Estate Investments Ukraine B.V., a company incorporated in the Netherlands.
- Lighthouse** – Lighthouse Holdings Limited S.A., a company incorporated in Luxembourg.
- Holesovice** – Holesovice Residential Holdings S.A., a company incorporated in Luxembourg.
- Vokovice** – Vokovice BCP Holding S.A., a company incorporated in Luxembourg.
- CID** – CID Holdings S.A., a company incorporated in

³ Equity ascribed to the company shareholders (without minority rights).

⁴ The equity data and net profit (loss) are ascribed to the company shareholders (without minority rights).

- GTC Investments** – Luxemburg.
- Blitz** – GTC Investments B.V., a company incorporated in the Netherlands.
- Blitz Assets** – Blitz Portfolio GmbH, a company incorporated in Germany.
- GTC Asia** – Mainz 1 Blitz Portfolio GMBH, Mainz 2 Blitz Portfolio GMBH, Mainz 3 Blitz Portfolio GMBH, Hamburg Blitz Portfolio GMBH, Essen Blitz Portfolio GMBH, Bonn Blitz Portfolio GMBH, Munchen Blitz Portfolio GMBH , companies incorporated in Germany .
- GTC China** – GTC Real Estate Asia Limited, a company incorporated in Hong Kong
- The Joint Venture** – GTC Real Estate China Limited, a company incorporated in Hong Kong
- Durango** – Joint venture of GTC RE and Assets & Construction Company Ltd., operating through GTC Investments.
- Galeria Mokotow Company** – Durango Switzerland B.V., a company incorporated in the Netherlands.
- GTC Group** – Rodamco CH1 Sp. z o.o, a company holding full rights in the commercial center, located in Warsaw, Poland, called Galeria Mokotow (see section 8.5.8.[A] [2] [d] of the statement), held in equal shares by GTC Poland and Rodamco Polska B.V.
- GTC Poland Group** – GTC RE and companies held by it. GTC RE consolidates the financial statements of GTC Poland in its financial statements. GTC Poland consolidates in its financial statements, inter alia, financial statements of GTC Hungary, GTC Romania, GTC Serbia, GTC Croatia, GTC Bulgaria, GTC Slovakia and GTC Ukraine; and consolidated in relative consolidation financial statements of Galeria Mokotow and GTC Galeria Kazimierz Sp. Zo.o. GTC RE consolidates the financial statements of GTC China in its financial statements. In addition, GTC RE consolidates in relative consolidation, financial statements of GTC Investments.
- Kardan Group** – GTC RE and companies it holds, including Lighthouse, Holesovice, Vokovice and CID, are presented in its financial statements at book value.
- Kardan Group** – The group of companies controlled by the controlling persons of Kardan N.V.

8.5.2 Scope:

GTC RE incorporated according to the Netherland laws as a private company (B.V.), in August 1999. On September, 2000, the name of the company was changed from Kardan International Developers B.V., to Nobdanco Belegging en Vastgoed B.V. and was changed to its current name in August, 2004. GTC RE shares were registered for trading at the Tel Aviv Stock exchange Ltd., in September 2004, and securities were issued to the public.

GTC RE deals in location, initiation, development, leasing, sale and management of real estate projects in international markets, through subsidiaries and related companies.

On January 1, 2007, GTC RE changed its operation currency from U.S.\$ to Euro,

pursuant to the sale of a primary asset at the end of 2006, which yielded the major share of the revenues in U.S.\$. Pursuant to the sale of the said asset, the majority of GTC RE's operations (income and expenses) are based on the Euro. Consequently, data of GTC RE in this statement are presented in Euro.

As at January 1, 2007, GTC RE started to record financial statements published in Israel in accordance with International Financial Reporting Standards (IFRS).

Operation in Central - Eastern Europe

The operations of GTC RE in central-eastern Europe are conducted through GTC Poland. As at the date of this statement, GTC RE holds about 46.1% of the issued capital of GTC Poland, a company incorporated in Poland, dealing since 1994 in location, initiation, development, leasing, sale and management of office buildings, shopping centers and residential housing in central-eastern Europe, through its subsidiaries and related companies. As at the statement date, GTC Poland runs operations in the following countries in central-eastern Europe: Poland, Hungary, Romania, Czech Republic, Serbia, Croatia, Slovakia, Bulgaria and Ukraine. GTC RE consolidated the financial statements of GTC Poland in its financial statements, due to maintaining effective control over the operations of GTC Poland.

GTC RE holds shares of GTC Poland directly pursuant to completing a merger process of GTC Int'l, which was a **subsidiary** of GTC RE, that **held shares of** GTC Poland, with GTC RE on April 2006, effective as of January 1, 2006. For details on GTC Int'l share purchase transactions and merger with GTC RE, see sections 8.5.3[A] and [C], 8.5.5[B], 8.5.14[A] [1], 8.5.14[A] [6]-[8], and 8.5.18[A] [3] herein.

GTC Poland shares are traded in the Warsaw, Poland stock exchange since May 2004, according to a prospectus, published by GTC Poland in April, 2004. Issue price reflected a GTC Poland value of some €353M (post issue). GTC Poland issued additional shares to institutional investors in March, 2006. Price in this issue reflected a GTC Poland value of some €1,564M (post issue). GTC Poland shares were split in August 2006, splitting each share to ten shares. GTC Poland share price on the Warsaw stock exchange on December 31, 2007 was 44.5 Zloty (about €12.4), reflecting a GTC Poland value of some €2,725M. GTC Poland share price on the Warsaw stock exchange on March 13, 2008 was 34 Zloty (about €9.6) and reflected a GTC Poland market value of some €2,104M. Financial statements of GTC Poland are consolidated in the financial statements of GTC RE.

Operations in China

In 2005, after the Group acquired vast experience and gained in-depth acquaintance with markets in central-eastern Europe and established solid operations in this region, GTC RE decided to expand its operations to another geographical region, China. In 2006 and 2007, GTC Group continued expanding its operations in China. GTC RE operates in China through GTC China, a company incorporated in Hong Kong, fully held by GTC RE. Financial statements of GTC China are consolidated in the financial statements of GTC RE.

Operations in Western Europe

GTC RE operates in Western Europe through GTC Investments, a Dutch company, established in November 2005 by GTC RE and Assets and Construction Co. Ltd., (“**Assets and Construction**”) of I.D.B., Holding Company Ltd. As at the statement date, GTC RE holds 46.25% of the issued capital of GTC Investments, and Assets and Construction holds 50% of the issued capital of GTC Investments at that date. GTC RE decided to refrain from expanding its investments in yielding assets in Western Europe and is considering possible decrease of such investments. Therefore, operations in Western Europe are not described as GTC RE’s field of operation and are presented as a considerable investment in GTC Investments (see section 8.5.10[B] herein). Pursuant to adopting International Financial Reporting Standards (IFRS), GTC RE consolidates the financial statements of GTC Investments at a proportional consolidation, starting from Q1, 2007.

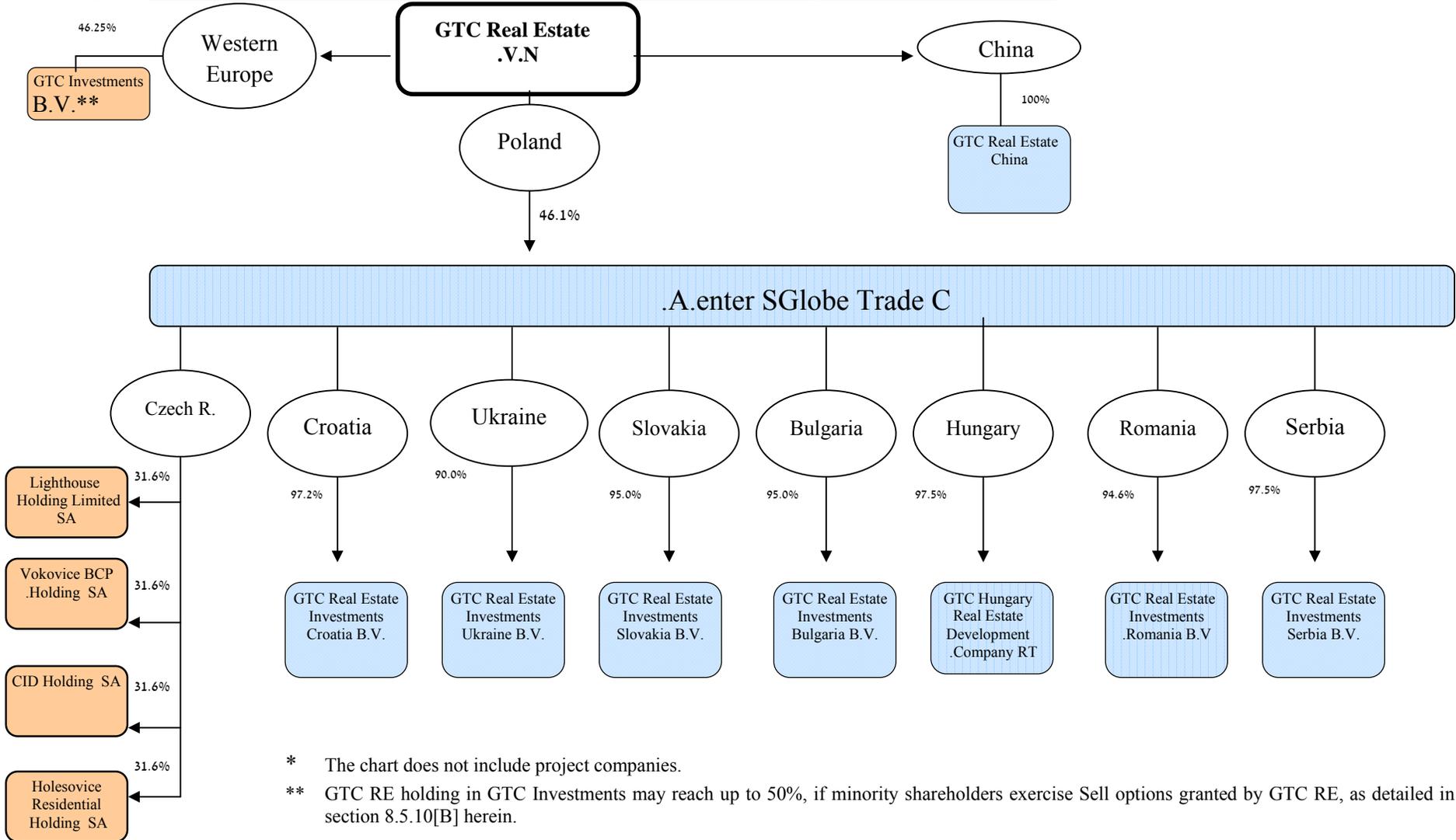
Initial Operations in India

GTC Group expanded location, initiation and development of real estate projects to India as well in 2007. GTC RE entered in November 2007, a first memorandum of understanding to establish a joint venture in India, for the construction of a commerce and residential housing project (see section 8.5.18[A] [9] herein). Since this operation is immaterial at the date of this report, it is not described as GTC RE’s field of operation.

Kardan Real Estate is committed through an agreement to provide services to GTC Poland, to refrain from competing with business operations of GTC Poland, its subsidiaries and related companies. Moreover, under the said merger of GTC Int’l into GTC RE, GTC RE assumed the commitment formerly made by GTC Int’l towards GTC Poland, to ensure that all GTC RE operations in real estate, including initiation, development, construction, management, etc., in the Czech Republic, Hungary, Romania, Serbia, and Poland will be conducted only through GTC Poland. GTC RE is also committed to act as best as it can to prevent GTC RE shareholders from competing with GTC Poland in the aforementioned countries. Nevertheless, holders of the controlling interest in GTC RE are not committed to refrain from operating in the real estate field in regions where GTC RE operates. As at the statement date, holders of controlling interest in GTC RE have no operations in the real estate field in GTC RE’s regions of operation.¹³

¹³ Except passive holding by Mr. Eithan Rechter in real estate in Western Europe (including countries in which GTC RE is active through GTC Investments).

[A] Flow Chart of the Main Holding of GTC RE in Subsidiaries and Related Companies at the Statement Date



8.5.3 Nature and Results of Every Material Structural Change, Merger, Acquisition or Sale

[A] In June 2005, GTC RE entered an agreement with Kardan N.V., its holder of controlling interest, which concluded that Kardan N.V., will transfer all its holding in GTC Int'l, which comprised about 10.29% of GTC Int'l issued shares capital. In return for the said GTC Int'l shares, GTC RE allocated 9,390,377 shares of GTC RE to Kardan N.V., comprising immediately after allocation about 15.3% of GTC RE issued shares capital, and 28,582,453 bonds (Series A), convertible to GTC RE shares, issued under a prospectus published by GTC RE in Israel, in August 2004. The transaction was closed in July, 2005 and upon closing, holding of GTC RE in GTC Int'l increased from about 57% to about 67.3%. Kardan NV holding in GTC RE increased from about 49.7% to about 57.4% of GTC RE issued capital.

[B] In July 2005, GTC RE purchased all the shares of GTC Asia, which held on that date all the shares of GTC China, companies, which were inactive at that time, with the intention of expanding its operations to East Asia and mainly to China. GTC China commenced operation in China in 2005, upon entering an agreement to build the first project in China. For details of its operations, see section 8.5.9 herein.

In March 2007, GTC RE transferred all its holding in the issued capital of GTC Asia to Kardan N.V. At the same time, GTC Asia, transferred all its holding in issued capital of GTC China to GTC RE. The only activity in GTC Asia was its holding of GTC China.

[C] In August and October 2005, GTC RE entered a series of agreements to purchase additional shares of GTC Int'l and upon completion of these transactions in December 2005 and January 2006, GTC RE became sole shareholder of GTC Int'l and held all its shares. According to the first agreement, entered on August 2005, GTC RE purchased, jointly with ADRI International B.V. ("**ADRI**") a fully held subsidiary of AZORIM Investment Company in Development and Construction Ltd., which at that time also held shares of GTC Int'l, pro-rata to their holding, all holdings of FIC Globe B.V. ("**FIC**")¹⁴ in GTC Int'l. Under this transaction, GTC RE acquired about 3% of GTC Int'l shares capital, in return to an amount of some \$8.97M (about €7.35M). Under the second agreement, also entered on August 2005, GTC RE purchased about 5.17% of GTC Int'l shares from two minority shareholders in GTC Int'l, at similar terms to the first acquisition agreement described above, in return for an amount of some \$15.4M (about €12.6M). According to the third agreement, entered on October, 2005, GTC RE acquired, jointly with GTC Int'l, all ADRI holdings in GTC Int'l (about 24.5%) in return for a total amount of some \$91.6M (about €76.1M).

Upon completion of all the aforementioned transactions GTC RE holds all shares of GTC Int'l. The merger of GTC Int'l with GTC RE was completed on April 27, 2006, effective from January 1, 2006. Results of this merger were: (1) all assets and liabilities of GTC Int'l were transferred to GTC RE; (2) GTC Int'l was closed down; and (3) GTC RE holds shares of GTC Poland, directly.

[D] Concurrently with entering the agreement detailed in subsection [C] above, GTC Poland

¹⁴ To the best knowledge of GTC RE, FIC was controlled by Deutsche Bank AG.

entered a series of agreements to acquire additional shares in its subsidiaries, which operate in other countries of Central-Eastern Europe: GTC Serbia, GTC Romania, GTC Hungary and GTC Croatia. Under agreements entered on October 2005 and closed on December 2005, GTC Poland acquired about 21.9% of GTC Hungary shares, about 20.8% of GTC Romania shares, about 14.7% GTC Croatia shares and about 21.9% GTC Serbia shares in return to a total amount of some \$19.4M (about €16.3M). Pursuant to completing the aforementioned agreements, GTC Poland holds about 97.5% of GTC Hungary and GTC Serbia shares, about 94.5% of GTC Romania shares and about 97.2% of GTC Croatia shares. For additional details on the said agreements, see section 8.5.18[A] [4] herein.

- [E] In November 2005, GTC RE entered an agreement with Assets and Construction to build a joint enterprise, to be operated through GTC Investments, with the intention of expanding operations of GTC RE to Western Europe. At the establishment date of the joint venture, GTC RE and Assets and Construction held about 49% each of the issued capital of GTC Investments. As at the statement date, GTC RE holds 46.25% of the issued capital of GTC Investments and Assets and Properties held 50% of the issued capital of GTC Investments at that date. The balance of GTC Investments shares are held by two minority shareholders. As mentioned in section 8.5.2 herein, GTC RE decided to refrain from expanding its investments in yielding assets in Western Europe and is considering possible decrease of such investments.
- [F] On March 2006, GTC Poland issued 17,120,000 shares to institutional investors, in return for a total amount of \$148M (about €122M) (net after paying commissions). Price in this issue reflected a GTC Poland value of some \$1,895M (about €1,561M) (post issue). As a result of the said issue, GTC RE recorded a profit amounting to some \$53M (about €44M) and Kardan NV recorded a profit of some \$26M, after the minority share (some €21M). Following the issue, indirect holding of Kardan NV in GTC Poland were diluted from about 32% to 30%.
- [G] On December 2006, GTC Poland completed the sale of the Mokotow Business Park Offices compound in Warsaw, in return for some €213M. The financial statements prepared according to IFRS standards do not show any profit to GTC RE out of the said sale, due to assets revaluation. For additional details, see table in section 8.5.8[A] [2] [i] herein.
- [H] In a transaction concluded in September 2007, GTC Poland sold all its indirect holdings (100%) of Complexul Multifunctional Victoria SRL S.C. (“**CMV**”), a company that holds an offices building known as America House Building, in Bucharest, Romania, in return for an amount of €120M, that includes payoff of owners loan. The transaction reflected an asset value of €120M, and a return rate of 5.55%. GTC RE gained a profit of some €11.5M from this transaction and Kardan NV gained a profit of some €7M. For additional details about America House Building see sections 8.5.8 [A] [2] [d] and (e), and 8.5.8 [A] [2] [j] herein.
- [I] A transaction was concluded on October 2007, to sell full rights (about 87.5%) of Lighthouse in Lighthouse Vltava Waterfront Towers S.R.O., a company holding a yielding

commerce and offices project known by the name of Lighthouse Towers in Prague. For details, see section 8.5.10[A] [1] herein.

8.5.4 GTC RE Fields of Operation

GTC RE operates in tow main geographical regions:

- Operation in Central - Eastern Europe region.
- Operation in China region.

Companies in GTC Group deal in two fields of operation in these geographical regions:

[A] **Offices and Commerce** - location, initiation, development, leasing and management of offices buildings and commerce centers (“**The Yielding Real Estate Field**”).

[B] **Residential Housing** - location, initiation, and development of residential housing and sales of housing units (“**Residential Real Estate Field**”).

Companies in the GTC Group operate in central- eastern Europe in both fields of operation, while in China, operation at this stage is mainly in residential real estate, although the company purchased the first land site to build a commercial center in 2007.

Financial information about fields of operation divided into the main geographical regions in which GTC RE operates (in thousands of Euro) ¹⁵ is detailed below

¹⁵ Some operations of member companies in GTC RE Group are conducted in local currency. Conversion of data included in the report to Euro employed the method of converting balance sheet data in other currencies to Euro according to the Euro exchange rate on the date of the financial statements which included such data and results data were translated to Euro at the average exchange rate for the period of the financial statement that included such results, unless indicated otherwise.

	Central-Eastern Europe		China		Other ¹⁶		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenues								
Yielding Real Estate	52,300	65,020	-	-	6,724	5,925	59,024	70,945
Residential Real Estate	21,308	15,863	6,110	6,352	-	-	27,418	22,212
Total Revenues	73,608	80,883	6,110	6,352	6,724	5,925	86,442	93,160
Attributed Expenses								
Yielding Real Estate	11,153	19,318	-	-	1,269	923	12,422	20,241
Residential Real Estate	12,508	13,149	4,340	5,161	-	-	16,848	18,310
Total Expenses	23,661	32,467	4,340	5,161	1,269	923	29,269	38,551
Gross Profit								
Yielding Real Estate	41,147	45,702	-	-	5,455	5,002	46,602	50,704
Residential Real Estate	8,800	2,714	1,770	1,191	-	-	10,570	3,905
Total Gross Profit	49,947	48,416	1,770	1,191	5,455	5,002	57,172	54,609
Assets attributed to a Field								
Yielding Real Estate	1,066,512	640,313	14,588	-	85,581	90,359	1,166,681	730,672
Residential Real Estate	388,193	242,839	44,873	17,621	-	-	433,066	260,460
Total Yielding and Residential Real Estate	1,454,705	883,152	59,461	17,621	85,581	90,359	1,599,747	991,132
Investments in Included companies	24,240	24,855	-	-	-	-	24,240	24,855
Assets not attributed to fields	411,168	306,596	43,574	14,323	3,192	-	457,934	333,552
Total Assets	1,890,113	1,214,515	103,035	31,945	88,773	90,359	2,081,921	1,349,539

For explanations on GTC RE operation results and assets, see section A4 in the Directorate Report.

8.5.5 Investments in GTC RE Capital and Transactions in its Shares

[A] On August 9, 2004, GTC RE published a prospectus in Israel (“**Prospectus 2004**”) and subsequently issued to the public:

[1] ILS120,000,000 face value, GTC RE registered bonds (Series A), convertible into GTC RE shares, where every bonds face value of ILS16.4 (Series A) may be converted into one GTC RE ordinary share of €0.20 (subject to adjustments detailed in prospectus 2004).¹⁷

For details on conversions of GTC RE bonds (Series A) into GTC RE shares, see section 8.5.5[D] herein.

[2] 7,200,000 option warrants (Series 3), of which 3,403,403 option warrants (Series 3) were exercised into 3,403,403 GTC RE shares during 2005 and 2005, yielding a total return of

¹⁶ These data refer to GTC RE operations in Western Europe.

¹⁷ Conversion price was adjusted pursuant to dividend division in February 2005 and as at the statement date it amounts for some ILS1.61.

ILS37,920K (about €6,786K).¹⁸ 3,796,597 non-exercised option warrants (Series 3) expired on September 6, 2006.

- [3] 720,000 registered option warrants (Series 4), of which 719,992 option warrants (Series 4) were exercised into GTC RE bonds (Series A) at face value of ILS71,999,200, yielding a total return of ILS70,161K (about €12,557K).¹⁹ Non-exercised option warrants (Series 4) expired on September 6, 2005.

Under the prospectus 2004, GTC RE also issued, in the form of rights to GTC RE shareholders:

- (a) 2,944,509 option warrants (Series 1), of which 2,909,245 option warrants (Series 1) were exercised into 2,909,245 GTC RE shares in return to a total of ILS18,194K (about €3,267K). 35,264 non-exercised option warrants (Series 1) expired on October 10, 2004.
- (b) 1,472,255 option warrants (Series 2), of which 1,472,079 option warrants (Series 2) were exercised into 1,472,079 GTC RE shares yielding a total return of ILS16,524K (about €2,960K).²⁰ 176 non-exercised option warrants (Series 2) expired on September 6, 2006.

Total immediate return received by GTC RE from issue of securities under the said prospectus 2004 amounted to ILS124,800K (about €22,410K).

- [B] As mentioned in section 8.5.3[A] herein, GTC RE entered an agreement with Kardan N.V., its holder of controlling interest, in June 2005, under which GTC RE allocated 9,390,377 GTC RE shares to Kardan N.V., comprising, immediately upon allocation, about 15.3% of the issued shares capital of GTC RE and 28,582,453 convertible bonds (Series A), in return to about 10.29% of the issued shares capital of GTC Int'l. The proceeds of the transaction, determined through negotiations between GTC RE and Kardan N.V., defined the quantity of the allocated shares in a manner that allowed Kardan N.V. to hold the same rate of GTC Int'l issued shares capital it held directly and indirectly before and upon completion of the transaction, only indirectly after closing the transaction, through holding GTC RE shares.
- [C] In September 2005, under a private float to institutional investors, GTC RE issued by way of series expansions, bonds (Series A) in face value of ILS101,462,000, convertible into shares in return to an amount of some ILS110,086K (about €19,916K).
- [D] A total of GTC RE bonds (Series A) at face value of ILS104,001,598 were converted in 2006 into 6,462,677 GTC RE shares. In 2007, GTC RE bonds (Series A) at face value of ILS183,763.691.67 were converted into 11,419,106 GTC RE shares (of which 143,183,170 GTC RE bonds (Series A) were converted by Kardan N.V., into 8,897,426 GTC RE shares). After the balance sheet date and up to March 13, 2008, 9,658,213 GTC RE bonds (Series A) were converted into 600,163 GTC RE ordinary shares.

¹⁸ Exercise price was adjusted pursuant to dividend division in February 2005. On September 6, 2006, prior to expiry of the option warrants, the price was ILS10.814, linked to CPI of July 2004.

¹⁹ Pursuant to these said exercises, the amount of bonds (Series A) in the turnover increased to ILS191,999,200, bonds (Series A) at face value.

²⁰ Exercise price was adjusted pursuant to dividend division in February 2005. On September 6, 2006, prior to expiry of the option warrants, the price was ILS10.814, linked to CPI of July 2004

As a result of the transactions described in sections 8.5.5[A] [1], 8.5.5 [B] to [D] herein, the amount of bonds (Series A), as at March 13, 2008 is bonds (Series A) at face value of some ILS24,620,151.6.

[E] In October 2005, GTC RE issued in a private float 280,000 options which may be exercised into up to 280,000 GTC RE ordinary shares, to eight employees of Kardan Group and in July 2006, GTC RE allocated 40,000 options which may be exercised into 40,000 GTC RE ordinary shares to Mr. B. Bremer, Director in GTC RE's Supervisory Board of Directors. Basic exercise price of options allocated to employees and to the director was set at ILS8.8 plus linkage differentials to the consumers price index, where the base index for calculation is the known index at the options allocation date and subject to adjustments, detailed in the options plan.²¹ 25,000 options were exercised during 2006 into 14,704 GTC RE ordinary shares. 75,000 options were exercised during 2007 into 61,029 GTC RE ordinary shares and 180,000 options were exercised after the balance sheet date and up to March 13, 2008 into 180,000 GTC RE ordinary shares. Since part of the options were phantom type options, a part of the options expires and may not be exercised. 40,000 options which may be exercised into 40,000 GTC RE ordinary shares remained, as at March 13, 2008. Maximum number of shares resulting from exercising the remaining options, comprise, as at the statement date, about 0.05% of the issued shares capital and of voting rights in GTC RE and about 0.05% of GTC RE fully diluted issued shares capital and voting rights.

[F] The Supervisory Board of Kardan N.V., approved in July 2007, the purchase of negotiable GTC RE shares and bonds in a total amount of up to €20M, at share market price and at the discretion of Kardan N.V. Management board. Pursuant to the aforementioned decision, Kardan N.V. purchased in July 2007, 1,231,814 GTC RE shares in return to an amount of some €13.9M and 4,222,679 GTC RE bonds (Series A) in return to some €3.25M.

In October 2007, the supervisory board of Kardan N.V., approved an identical decision. Pursuant to the aforementioned decision, Kardan N.V., purchased in October 2007, 290,799 GTC RE shares in return to an amount of some €3.56M and 16,342,889 GTC RE bonds (Series A) in return to some €12.75M.

In addition, Kardan N.V., purchased after the balance sheet date and to up March 13, 2008, 256,334 GTC RE shares through stock exchange transactions, in return to a total amount of some €2.58M.

[G] In November 2007, Kardan N.V., converted the majority of GTC RE bonds (Series A), held at that time by Kardan N.V., (namely, 143,183,170 bonds Series A) into 8,897,426 GTC RE ordinary shares.

[H] In January 2008, after the balance sheet date, Kardan Israel Directorate approved the purchase of GTC RE as detailed in section 7.3.2 herein.

²¹ Pursuant to dividend division by GTC RE in January 2005, nominal exercise price decreased to ILS8.63 per share.

After completing the aforementioned transactions in GTC RE securities and as at the statement date, Kardan N.V., holds directly and indirectly (through its holding in Kardan Israel, which holds Kardan Real Estate) about 64.90% of GTC RE shares (about 63.77%²² in full dilution and 26.4 par value debentures (series A) of GTC RE).

8.5.6 Dividends Division

[A] GTC RE

GTC RE did not divide dividends since January 1, 2006.

For limitations on dividends division by GTC RE, see sections 8.5.14[A] [3]-[6] herein.

GTC RE Articles of Association (“**Articles**”) state that the Management board of GTC RE, decides once a year, subject to the approval of GTC RE Supervisory Board, which share of the profits is allocated to specific reserves (including retained earning). The general meeting of GTC RE shareholders is entitled to decide on handling mode of profits remaining after the said allocation. Divisions must not exceed an amount higher than the dividable capital, namely, the share of company capital that exceeds the aggregate sum of the issued and paid off capital share and the reserves which must be maintained according to instructions of the law or the Articles. As at December 31, 2007, GTC RE has dividable capital reserves amounting to some €5M. GTC RE will not breach its financial commitments by dividing this amount.

In September 2007, the general meeting of GTC RE authorized the Management Board for a period of 18 months, to buy GTC RE shares through normal trade in the stock exchange or outside the stock exchange, subject to the instructions of the law and GTC RE Articles and subject to the approval of the Supervisory Board, at a price ranging between the face value of the shares and the opening price at the stock exchange on the purchase day, plus 10%. As at the date of this statement, GTC RE did not buy such shares.

[B] GTC Poland

GTC Poland did not divide dividends since January 1, 2006.

As at December 31, 2007, GTC Poland has dividable surplus amounting to some €377,602K. GTC Poland will not breach its financial commitments by dividing this amount.

[C] GTC Group initiates and builds projects through dedicated projects companies. Bank project financing terms in some of these companies require the company that wishes to divide dividend to obtain approval of the loaning bank. GTC RE and GTC Poland are not restricted by the aforesaid agreements.

[D] GTC Investments

The agreement on establishing the joint venture, detailed in section 8.5.10[B] herein,

²²

Kardan NV holds directly about 55.6% of the issued capital of GTC RE (about 54.66% in full dilution).

stipulates instructions on the policy of the joint venture on dividend division as well.

8.5.6 General Environment and Impact of External Factors on GTC RE Operations

Data presented in this section are based on external market surveys. In addition, information presented in this section, including reference to macro economical data and trends and real estate market data is anticipated future information, as defined by the Securities Act, which may or may not materialize or materialize in full or part thereof, or materialize in a different manner, including a material difference from the expected a market factors, economical and other policies of countries, European Union Policy and state of world economics. Kardan NV is not responsible for the nature or correctness of data presented in this section.

[A] Macro Economical Environment - Central Eastern Europe

Central Eastern Europe region experienced significant economical growth over the last fifteen years, following the down fall of the communist regimens. Nevertheless, gaps between eastern and western Europe are still wide and expected to decrease in the next few years.

GTC RE is active in the real estate field in central-eastern Europe through GTC Poland in nine countries: Poland, Hungary, Czech Republic, Romania, Serbia, Croatia, Bulgaria, Slovakia, and Ukraine. Poland, Hungary, the Czech Republic and Slovakia joined the European Union in the first half of 2004 and are ranked among the advanced countries in central-eastern Europe, from aspects of economical parameters and the real estate market. Romania and Bulgaria joined the European Union in early 2007, while other countries in which GTC Poland is active, namely, Serbia, Croatia and Ukraine, are not members of the European Union. Countries in which GTC Poland is active enjoyed a fast economical growth rate in recent years.

[B] Macro Economical Environment - China²³

China is considered to be the largest growing economy in the world, due to the fact that its population of over 1.3 billion people and a total work force of over 800 million people. The economy in China is gradually moving during the last 25 years from an economy controlled by the central government to a market economy, open to international markets.

After years of increase in the GNP, GNP increased in China in 2006 by 11.1% and estimated GNP growth in 2007 is 11.4%, where GNP per capita is about \$5,300. According to official data, unemployment in cities reached 4% at the end of 2007, while unemployment rate in rural regions is significantly higher.

[C] Scope

The Sub Prime mortgages crisis in the U.S.A., and in Europe may affect the global credit

²³ Data included in this section are quoted from CIA publications, the Chinese Bureau of Statistics and the Economist Magazine.

market, by causing financial institutions which finance real estate transaction and/or institutions involved in real estate transactions in general and houses and units purchase in particular, to apply a stricter policy of extending credit lines and mortgages, increase the interest rate on credit and also increase the interest rate on secured credit in mortgages extended to buyers of units and houses. If these implications materialize, real estate projects in which GTC Group participates and all financing types may be affected by these developments, including reduction of financing sources, increased financing costs and reduced demand from customers.

For details on a draft circular, requiring rating companies to publish an exchange scale between the local rating scale and the international rating scale, see section 6 herein.

[D] Success Factors of GTC Group

The following factors contribute to a great extent to the success of GTC RE Group's operation. A qualified management team with vast experience in real estate, and constant presence of that team in countries where GTC Group operates; distribution of the real estate portfolio among various countries and towns and among several real estate fields (offices, commerce and residential housing); an intelligent selection of sites for construction of GTC Group projects and suitability of the project type to the specific location; focused selection of large scale projects, constructed in stages, according to the demand; strict attention to conducting a due diligence test prior to entering every project and adherence to predetermined projects completion dates.

The following factors contribute to the success of the operations in central eastern Europe: Comprehensive acquaintance with and vast experience in the real estate market of central-eastern Europe; close work relations with international financing organizations; engaging international marketers, with proven skills and successful work experience record with GTC Poland group; proven ability to enter agreements with a wide range of international or local tenants, for medium and long term periods; the size of GTC Group and its distribution throughout central-eastern Europe.

The following factors contribute to successful operation in China: The decision to operate in large regional cities and not in the mega-cities of China, aiming to benefit from operation in regions with a considerable gap between real estate supply and demand, combined with relatively low competition level. GTC RE prefers to operate in regional cities to which China's central government grants relief from its policy of limitations on foreign investments in real estate; the decision to act jointly with local parties, which combines the global experience and resources of GTC Group with the comprehensive experience of the partners with the local market.

GTC RE Business Description according to operation zones

8.5.8 Activity in Central-Eastern Europe

GTC RE operates in Central-Eastern Europe through its direct holding of about 46.1% of the shares of GTC Poland, which operates independently and through held companies in Poland, Hungary, Romania, Czech Republic, Croatia, Serbia, Bulgaria, Slovakia and the

Ukraine in the fields of income properties (offices and shopping malls) and residential properties.

GTC Poland Group engages in real estate properties development in two main areas – income properties (offices and shopping malls) and residential properties.

[A] Income properties

[1] Business Environment

Following is a description of trends, events and developments which have, or are expected to have material effect on RTC Poland Group's activity in the field of income properties:

Offices Market in Central-Eastern Europe

Modern office spaces have begun to develop in Central-Eastern Europe only during the last 10-15 years, and therefore even today the ratio between the total area of modern office spaces in central cities to the number of residents is significantly lower than in Western European cities.

Pursuant to the accelerated construction activity in Eastern Europe in recent years created a wide supply of cheap, inferior quality contracting services, which caused a price increase of quality contracting services. This change caused an increase of construction costs and consequently, reduced projects profitability.

It should be mentioned that in developing states which did not join the European Union the real estate market for offices is making its first steps and these markets are expected to develop significantly during the next few years.

GTC Group has a considerable scope of office space in Central-Eastern Europe, and the Group foresees an increase in its office spaces during the next few years.²⁴ The results of GTC Group will be affected by the real estate market condition for office spaces in Central-Eastern Europe during the next few years, and therefore a slowdown in the real estate market for office spaces will affect the Group's activity and results.

Shopping mall market in Central-Eastern Europe

During the last 10 - 15 years, the retail market in Central-Eastern Europe has developed to almost western standards. In the more developed cities, such as Warsaw, Budapest and Prague there are shopping mall at the same standard as shopping malls found in Western European capitals. Nevertheless, the scope of commercial spaces in central cities in Central-Eastern Europe is considerably smaller than in central cities in Western Europe. Furthermore, the quality of some of the shopping malls in Central-Eastern Europe does

²⁴ The aforementioned constitutes forward looking information as defined in the Securities Act, based on several projects under construction in the yielding real estate field, GTC Group's strategy, cash surplus of GTC Group, that enables the group to purchase additional projects and/or land, availability of land suitable for constructing offices and demand for offices. This information may not materialize in full or part thereof, or materialize in a materially different manner than expected, due to the failure of rezoning procedures of GTC Group's land reserves as specified herein on one hand, and the incompleteness of transactions for the purchase of land properties or companies holding land properties (as specified in sections 8.5.8[A] [3] and 8.5.9[D] herein) due to any reason whatsoever, on the other hand, and/or the materialization of all or part of the risk factors detailed in section 8.5.21 herein

not meet western standards, and there are considerable demands for high-quality commercial spaces from international retail chains, mainly in the central cities in the less developed countries of Central-Eastern Europe.

[2] Concentration of figures on the projects in the field of activity

Following is a concentration of figures of GTC Group projects in the field of income properties distributed according to incomer properties at the date of this statement, realized properties, properties under development and land reserves of GTC Group:

(a) Following is a concentration of information on leased projects according to states:

As of December 31st 2007

State	No. of properties	Area (thousands of sq. m.)	Incomes from rents in 2007 (€000)	Occupancy	Original cost (€000)	Project Value in Financial Reports (€000)	NOI ²⁵ (€000)
Poland	9	171,230	21,280	96%	150,434	445,712	21,872
Romania ²⁶	-	-	4,771	-	25,774	-	4,514
Hungary	3	25,357	7,198	90%	56,900	128,800	6,968
Serbia	2	29,965	3,075	62%-100%%	44,571	94,050	3,003
Croatia	1	33,331	3,682	90%	74,500	190,170	3,682
Total	15	259,883	40,006		352,179	858,732	40,039
Companies included							
Czech Republic ²⁷	1	23,000	1,700	91%	8,000	10,182	1,390

²⁵ The net operating incomes from renting buildings. The NOI figure is one of the most important parameters in the valuation of income properties. The result of dividing this figure by the common capitalization rate in the geographic region in which the property is located (Cap Rate) serves as one of the indications for determining the property's value (beside other indications such as: market value of similar properties in the same region, sale prices per sq. m. and more). Additionally, this figure is used for computing the cash available for covering the financial debt undertaken for financing the purchase of the property, while from the total NOI are offset the investments in renovation and preservation of the property (Capex). It is hereby stressed that the NOI: (1) Does not present cash flows from current activity according to the accepted accounting principles; (2) Does not reflect the cash available for financing all the cash flows of GTC RE, including its capacity for money distribution; (3) is not supposed to serve as a substitute for net profit for the evaluation of the results of GTC RE's activity.

²⁶ America House office building was sold on September 2007.

²⁷ Lighthouse Towers offices building was sold on October 2007.

As of December 31st 2006

State	No. of properties	Area (thousands of sq. m.)	Incomes from rents in 2006 (€000)	Occupancy	Original cost (€000)	Project Value in Financial Reports (€000)	NOI (€000)
Poland	5	132,680	19,589	100%-98%	95,409	288,918	19,571
Romania	1	26,000	4,202	97%	29,772	101,249	3,149
Hungary	2	41,760	4,730	95%-94%	43,724	109,489	4,353
Serbia	1	13,500	2,624	100%	18,404	35,482	2,514
Total	9	213,940	31,145	-	187,309	535,137	29,587
Companies							
Czech Republic	2	50,000	4,287	93%-75%	36,217	38,624	3,730

As of December 31st 2005

State	No. of properties	Area (thousands of sq. m.)	Incomes from rents in 2005 (€000)	Occupancy	Original cost (€000)	Project Value in Financial Reports (€000)	NOI (€000)
Poland	4	121,600	17,714	100%-70%	126,442	285,782	17,646
Romania	1	17,760	2,665	90%	18,933	45,128	2,452
Hungary	1	13,500	820	60%	18,564	30,607	820
Serbia	6	152,860	21,189	-	163,939	361,518	20,919
Total							
Companies included	2	50,000	3,208	90%-46%	35,487	42,991	2,231

(b) Following are some more details on income property projects according to states

State	Average income per sq. m. (in EUR)			Original cost (EUR thousands)	Material investments (EUR thousands)			Loan balance as of December 31 st 2007 (EUR thousands)	Effective interest rate for loans
	2005	2006	2007		2005	2006	2007		
Poland	19.0	19.7	18.7	150,434	-	1,900	-	127,697	5.90%
Romania	-	20.0	22	25,774	-	-	-	-	-
Hungary	13.5	13.6	13.9	56,900	-	-	-	69,000	6.30%
Serbia	19.9	20.0	18.7	44,571	-	-	-	20,800	8.40%
Croatia	-	-	28.9	74,500	-	-	-	57,200	7.10%
Total	-	-	-	352,179	-	1,900	-	274,697	-

(c) Following are financial figures on income property projects according to states (in thousands of Euro)

		Poland			Romania			Hungary			Serbia			Croatia		
		2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007	2005	2006	2007
Revenue	Incomes from rent	35,558	35,038	21,280	-	4,201	4,771	2,703	4,730	7,198	820	2,624	3,075	-	-	3,682
	Incomes from management fees	15,129	16,208	7,341	-	601	1,385	582	1,046	1,825	197	572	480	-	-	1,263
	Total incomes	50,687	51,246	28,621	-	4,802	6,156	3,285	5,776	9,023	1,017	3,196	3,555	-	-	4,945
Expenses	Administration, maintenance and operation expenses	13,059	15,175	6,047	-	1,654	1,642	833	1,423	2,055	197	683	552	-	-	786
	Total expenses	13,059	15,175	6,748	-	1,654	1,642	833	1,423	2,055	197	683	552	-	-	786
Profit from renting and operating the properties		37,628	36,071	21,873	-	3,149	4,514	2,452	4,353	6,968	820	2,514		-	-	4,159
NOI		37,628	36,071	21,873	-	3,149	4,514	2,452	4,353	6,968	820	2,514		-	-	4,159

(d) Following is a concentration of figures on rented projects as of December 31st 2007

Country	City	Property Name	GTC Poland group share	Property Use	Title Type	Net Sq./M for Rent	Gross Sq./M for Rent	Original Construction Cost (€000)	Rent Years ²⁸	Renters No.	End of Rent Period	Average Occupancy in %			Project Value in Financial statements (€000)		Incomes from rent ²⁹ (€000)		NOI ³⁰ (€000)	
												2006	2007	Date of report	2006	2007	2006	2007	2006	2007
Poland	Krakow	Galeria Kazimierz ³¹	50%	Shopping center	leasehold	36,400	56,000	27,448	10-5	151	2009-2017	90%	95%	100%	73,263	84,500	5,791	4,814	5,941	5,240
Poland	Krakow	Galileo	100%	Offices	leasehold	10,300	14,800	7,719	5	11	2007-2012	97%	100%	100%	18,352	20,638	1,324	1,361	1,360	1,461
Poland	Poznan	Globis Poznan	100%	Offices	leasehold	13,000	20,000	11,523	5	22	2008-2016	85%	100%	100%	22,914	34,100	1,551	2,015	1,863	2,250
Poland	Warsaw	Topaz	100%	Offices	leasehold	11,080	15,800	11,284	5	10	2011-2015	100%	100%	100%	33,803	36,150	1,033	2,022	992	2,088
Poland	Warsaw	Galeria Mokotow ³²	50%	Shopping center	leasehold	62,100	80,000	35,906	10-5	244	2008-2017	100%	100%	100%	140,585	158,505	9,890	10,352	9,415	10,064
Poland	Krakow	Newton	100%	Offices	leasehold	10,300	10,300	12,621	5	6	2011-2012	-	Completed March 2007	100%	-	23,208	-	716	-	769
Poland	Krakow	Edison	100%	Offices	leasehold	10,300	15,900	10,115	5	6	2013-2016	-	Completed December 2007	91%	-	28,172	-	-	-	-
Poland	Warsaw	Notus	100%	Offices	leasehold	8,850	11,000	16,024	5	7	2013	-	Completed end December 2007	25%	-	27,422	-	-	-	-

²⁸ Excluding optional extension of renting agreements.

²⁹ The sums in this column are the total project incomes. Project incomes from rents are fixed incomes, except for Galeria Kazimierz in which variable incomes were obtained representing about 0.25%, 0.1% and 3.5% in the years 2005, 2006 and 2007 respectively, of the total project incomes, and in Galeria Mokotow in which variable incomes were obtained which represent about 4.41%, 5.65% and 11.5% in the years 2005, 2006 and 2007 respectively and in Avenue Mall + Avenue Center, in which variable incomes obtained in 2007 represent about 10%, of the total project incomes.

³⁰ Net operating incomes from renting buildings.

³¹ Data represent 50% of the project which is consolidated on a pro-rata basis in GTC Poland's statements.

³² Data represent 50% of the project which is consolidated on a pro-rata basis in GTC Poland's statements.

Country	City	Property Name	GTC Poland group share	Property Use	Title Type	Net Sq./M for Rent	Gross Sq./M for Rent	Original Construction Cost (€000)	Rent Years ²⁸	Renters No.	End of Rent Period	Average Occupancy in %			Project Value in Financial statements (€000)		Incomes from rent ²⁹ (€000)		NOI ³⁰ (€000)	
												2006	2007	Date of report	2006	2007	2006	2007	2006	2007
Poland	Warsaw	Platinum I	100%	Offices	Leasehold	8,900	11,000	17,794	5	12	2013	-	Completed end December 2007	100%	-	33,017	-	-	-	-
Romania	Bucharest	America House ³³	94.6%	Offices	leasehold	26,000	30,350	25,774	-	49	2010-2015	97%	97%	-	101.3	-	4,202	4,771	3,149	4,514
Hungary	Budapest	Center Point I	97.5%	Offices	Ownership	17,525	21,000	23,000	5-8	9	2008-2013	85%	100%	100%	50,100	54,000	3,227	3,636	3,029	3,489
Hungary	Budapest	Center Point II	97.5%	Offices	Ownership	1,902	25,500	26,400	5-7	9	2010-2013	95%	96%	96%	59,400	64,300	1,503	3,450	1,324	3,424
Hungary	Budapest	Riverloft office ³⁴	97.5%	Offices	Ownership	5,930	7,500	7,500	3-6	4	2010-2013	-	22%	36%	--	10,500	-	112	-	55
													-				-			
Serbia	Belgrade	GTC House	97.5%	Offices	leasehold	12,471	15,000	18,500	5-10	15	2010-2015	100%	100%	100%	35,500	40,050	2,624	3,075	2,514	3,003
Serbia	Belgrade	Avenue 19	97.5%	Offices	leasehold	17,494	19,094	26,071	5-10	10	2013-2018	-	62%	62%	-	54,000	-	-	-	-
Croatia	Zagreb	Avenue Mall	68.1%	Offices + shopping center	Ownership	33,331	44,421	74,500	5-25	132	2013-2038	-	90%	92%	-	190,170	-	3,682	-	3,682
Total						285,883	397,665	352,179		697					434,018	858,732	31,145	40,006	29,587	40,039
<u>Included Companies</u>																				
Czech Republic	Prague	Lighthouse ³⁵	27.7%	Offices	leasehold	27,000	33,000	31,510	5-1	35	2008-2011	73%	92%	91%	31,510	-	2,402	2,570	2,279	2,646
Czech Republic	Prague	Sarka Business Park	29.7%	Offices	Ownership	23,000	27,660	8,000	5-1	55	2008-2011	91%	91%	91%	10,182	10,182	1,622	1,700	1,412	1,390
Total						50,000	60,660	39,510		90					41,692	10,182	4,024	4,270	3,691	4,036

³³ The property was sold on September 2007. The figures in this table are correct until September 28th 2007

³⁴ The property is rented since September 2007.

³⁵ The property was sold on October 2007. The figures in this table are correct as of September 30, 2007. For more details see section 8.5.10[A] [1] of this statement.

[E] Valuation of rental properties

Property name	Valuation method	Valuator	Value (in thousands of Euro unless stated otherwise)			Average rent per sq. m. (in Euro unless stated otherwise)			Capitalization rate (in percents)			Sources for change in value	Date of last valuation
			31/12/05	31/12/06	31/12/07	31/12/05	31/12/06	31/12/07	31/12/05	31/12/06	31/12/07		
Galeria Mokotow	DCF	Jones Lang Lasalle	\$269,700K (some €183,290K)	\$,370K (some €251,660K)	\$466,300K (some €316,890K)	\$30.0 (some €20.4)	\$30.2 (some €20.5)	\$33.8 (some €25.7)	7%	6%	5.25%	Decrease in capitalization rates and increase in incomes	30/9/07
Galeria Kazimierz	DCF	Jones Lang Lasalle	142,200	147,600	169,000	21.0	22.0	22.0	6.25%	6%	5.60%	Decrease in capitalization rates and increase in incomes	30/9/07
Globis Poznan	DCF	CBRE	17,510	23,000	34,100	118.7	12.2	12.6	9.40%	8.20%	5.90%	Decrease in capitalization rates and increase in incomes	30/9/07
Galileo	DCF	CBRE	\$18,590K (some €12,630K)	\$24,170K (some €16,430K)	\$30,460K (some €20,700K)	\$14.0 (some €9.5)	\$14.3 (some €9.7)	\$15.7 (some €10.7)	9.10%	7.40%	6.10%	Decrease in capitalization rates and increase in incomes	30/9/07
Topaz	DCF	2006 – Knight Frank 2007 – CBRE	-	33,820	36,150	-	14.8	15.2	-	5.90%	5.60%	Decrease in capitalization rates and increase in incomes	30/9/07
Newton	DCF	CBRE	-	-	\$34,140K (some €23,200K)	-	-	\$16.4 (some €11.1)	-	-	6.0%	First valuation	30/9/07
Edison	DCF	King Sturge	-	-	33,000	-	-	16.7	-	-	6.10%	First valuation	31/12/07
Notus	DCF	Knight Frank	-	-	28,900	-	-	17.1	-	-	6.20%	First valuation	31/12/07
Platinum I	DCF	Knight Frank	-	-	35,660	-	-	19.7	-	-	6.10%	First valuation	31/12/07
Center Point 1	DCF	Jones Lang Lasalle	45,100	50,100	54,000	14.2	14.3	14.3	7.32%	6.59%	5.65%	Decrease in capitalization rates and increase in incomes	30/9/07
Center Point 2	DCF	Jones Lang Lasalle	-	59,400	64,300	-	12.4	13.0	-	6.59%	5.65%	Decrease in capitalization rates and increase in incomes	30/9/07
Riverloft Office	DCF	Jones Lang Lasalle	-	-	10,500	-	-	12.0	-	-	7%	First valuation	30/9/07
GTC House	DCF	King Struge	30,600	35,500	40,050	20.0	20.0	21.3	10.7%	9%	8.1%	Decrease in capitalization rates and increase in incomes	30/9/07
Avenue 19	DCF	King Struge	-	-	54,000	-	-	19	-	-	7.40%	First valuation	31/12/07

Property name	Valuation method	Valuator	Value (in thousands of Euro unless stated otherwise)			Average rent per sq. m. (in Euro unless stated otherwise)			Capitalization rate (in percents)			Sources for change in value	Date of last valuation
			31/12/05	31/12/06	31/12/07	31/12/05	31/12/06	31/12/07	31/12/05	31/12/06	31/12/07		
Avenue Mall	DCF	2006 – Jones Lang Lasalle 2007 – sale price	-	-	190,170	-	-	31.8	-	-	6.25% commercial 7% offices	First valuation	30/9/07
America house ³⁶	DCF	Jones Lang Lasalle	-	101,300	120,000	-	20.0	21.0	-	6.2%	5.55%	Sale of property	28/9/07
Sarka Business Park	DCF	CBRE	13,384	17,090	18,970	6.6	6.6	6.6	12.4%	10.5%	9.5%	High returns on similar properties in the region	30/9/07
Lighthouse Towers ³⁷	DCF	sale price	39,570	53,740	65,015	13.8	13.8	13.8	12.5%	10.5%	5.65%	Sale of property	30/9/07

³⁶ The property was sold on September 2007.

³⁷ The property was sold on October 2007.

[F] Following is a concentration of average rents in rented projects

State	City	Property name	Property use	Average rent per sq. m. (in Euro unless stated otherwise)		
				2005	2006	2007
Poland	Krakow	Galeria Kazimierz ³⁸	Shopping mall	21.0	22.0	21.4
Poland	Krakow	Galileo	Offices	14.0 USD	14.3 USD	15.7 USD
Poland	Poznan	Globis Poznan	Offices	11.8	12.2	12.6
Poland	Warsaw	Topaz	Offices	-	14.8	14.8
Poland	Warsaw	Galeria Mokotow ³⁹	Shopping mall	30.0 USD	30.2 USD	30.2 USD
Poland	Krakow	Newton	Offices	-	-	16.4 USD
Romania	Bucharest	America House ⁴⁰	Offices	-	20.0	21.0
Croatia	Zagreb	Avenue Mall	Offices and shopping mall	-	-	28.9
Hungary	Budapest	Center Point I	Offices	14.2	14.3	15.2
Hungary	Budapest	Center Point II	Offices	-	12.4	13.0
Hungary	Budapest	Riverloft office	Offices	-	-	13.1
Serbia	Belgrade	GTC House	Offices	18.3	18.5	18.7
Companies included						
Czech Republic	Prague	Lighthouse Towers ⁴¹	Offices	13.8	13.8	13.8
Czech Republic	Prague	Sarka Business Park	Offices	6.6	6.6	6.6

³⁸ The figures represent 50% of the project which is consolidated on a pro-rata basis in GTC Poland's statements.

³⁹ The figures represent 50% of the project which is consolidated on a pro-rata basis in GTC Poland's statements.

⁴⁰ The property was sold on September 2007. The figures in this table are correct as of September 28th 2007. For further details see section 8.5.3 [H] of this statement.

⁴¹ The property was sold on October 2007. The figures in this table are correct as of September 30th 2007. For further details see section 8.5.10 [A] [1] of this statement.

[G] Following are figures about vacant spaces in income property projects as of December 31 2007

Project name	Rate of vacant spaces	Total vacant spaces (sq. m.)	Vacant spaces Value (thousands of Euro)	Vacancy period	Total costs of vacant space maintenance (thousands of Euro)
Edison	9%	936	2,970	As of operation date, December 2007	(*)
Notus	75%	6,855	26,745	As of operation date, December 2007	(*)
Avenue Mall	10%	3,246	18,520	As of operation date November 2007	23
Avenue 19	37%	7,150	19,863	As of operation date December 2007	(*)
riverloft	64%	3,779	6,691	As of operation date (September 2007). In Q1/08 additional spaces were rented.	45

* The project was first populated on December 2007, therefore, maintenance costs of vacant spaces were negligible.

[H] Following are further details on material projects⁴² of income properties as of December 31st 2007

Project name	Average income per sq. m. (in Euro, unless stated otherwise)			Original cost (in thousands of Euro)	Material investments (in thousands of Euro)			Loan balance as of December 31 st 2007 (in thousands of Euro)	Effective interest rate on loans
	2005	2006	2007		2005	2006	2007		
Galeria Kazimierz	21	22	21.4	27,448	-	-	-	34,394	5.90%
Galeria Mokotow	30 USD	30.2USD	30.2USD	35,906	-	1,900	-	34,963	7.20%
Avenue Mall	-	-	28.90	74,500	-	-	-	57,200	7.10%

[I] Following are profit and NOI figures on material projects of income properties as of December 31st 2007 (thousands of Euro)

		Galeria Kazimierz			Galeria Mokotow			Avenue Mall		
		2005	2006	2007	2005	2006	2007	2005	2006	2007
Incomes	Incomes from rents	6,381	7,267	4,814	9,236	9,890	10,352	-	-	3,682
	Incomes from management fees	3,018	2,394	1,710	2,046	2,823	2,522	-	-	1,035
	Total incomes	9,399	9,661	6,524	11,282	12,713	12,874	-	-	4,717
Expenses	Administration, maintenance and operation costs	2,667	2,244	1,284	2,708	3,298	2,810	-	-	786
	Total expenses	2,667	2,244	1,284	2,708	3,298	2,810	-	-	786
Profit from renting and operating properties		6,732	7,417	5,240	8,574	9,415	10,064	-	-	3,931
NOI		6,732	7,417	5,240	8,574	9,415	10,064	-	-	3,931

⁴² A material project is a project whose total incomes are more than 10% of GTC RE consolidated incomes and/or whose profit is more than 10% of TCE RE's profits and/or whose book value is more than 10% of the total consolidated properties of GTC RE.

[J] Following is a concentration of figures on realized projects

State	City	Property name	Date of purchase/completion of property construction	Date of property sale	Share of GTC RE Group	Use of property	Net sq. m. for rent	Proceeds from property sale (€000)	Profit from property sale (€000)	Investment in the Project (€000) ⁴³			Incomes from rent and management fees (€000) ⁴⁴			Gross profit (loss) (€000)		
										2005	2006	2007	2005	2006	2007	2005	2006	2007
Poland	Warsaw	Alliance	1998	2005	100%	Offices	12,128	20,455	-	20,455	-	-	209	-	-	176	-	-
Poland	Warsaw	Mokotow Business Park	1994	2006	100%	Offices	106,300	224,267	-	-	224,267	-	17,848	15,182	-	18,950	15,954	-
Poland	Warsaw	Vega	1994	2006	100%	Land zoned for offices	-	3,985	2,239	1,673	1,698	-	-	-	-	-	-	-
Poland	Krakow	Galeria kazimierz ⁴⁵	2001	2006	50%	Commercial center	36,500	38,773	-	123,944	76,891	-	6,381	5,791	-	6,732	5,941	-
Romania	Bucharest	America House	2006	2007	94.6%	Offices	26,000	120,000	11,500	4,904	31,651	-	-	4,802	6,156	-	3,149	4,514
Total								407,480	13,739	150,976	334,507	-	24,438	25,775	6,156	25,858	25,044	4,514
Companies included																		
Czech Republic	Prague	Bess Building	2005	2006	29.72%	Offices	7,500	some 17,500	some 4,800	11,375	11,603	-	209	1,275	-	126	697	-
Czech Republic	Prague	Lighthouse	2004	2007	27.67%	Offices	27,000	65,015	Some 1,500	31,510	31,510	31,510	1,584	2,630	3,416	810	2,279	2,466

⁴³ This data expresses the books cost, namely, with added original differences.

⁴⁴ The sums in this column are the total incomes from the project.

⁴⁵ The Sale of 50% of the company holding the commercial center.

[K] Following is a concentration of figures on income property projects in phases of planning and development⁴⁶

State	City	Project name	Share of GTC Poland Group	Date of purchase	Original cost of land (€000)	Type of title	Term of lease (years/final year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Planned date of completion	Investment sum as of December 31 st 2007 (in thousands of Euro) ⁴⁷	Cost estimate of project completion (in thousands of Euro)	Estimated total financial scope (in thousands of Euro)
									Size of land (in sq. m.)	Net area for rent (in sq. m.)	Designation and further details ⁴⁸					
Offices																
Poland	Wroclaw	Globis Wroclaw	100%	2004	1,047	Leasehold	99 2089	17,500	3,200	14,700	Offices	Q4-2006	Q2-2008	17,737	7,763	25,500
Poland	Warsaw	Nefryt	100%	1998	1,330	Leasehold	99 2089	19,600	5,000	15,300	Offices	Q4-2006	Q2-2008	19,576	13,824	33,400
Poland	Lodz	University BP (Lodz)	100%	2007	2,281	Leasehold	99 2089	46,000	12,000	36,800	Offices	Q1-2008	Q4-2009	4,159	67,841	72,000
Poland	Wroclaw	Karkonowska-1 Wrechw	100%	2006	2,292	Ownership	-	19,000	5,072	17,000	Offices	Q2-2008	Q4-2009	2,679	35,822	38,500
Poland	Wroclaw	Karkonowska Wrechw 2-3	100%	2006	2,292	Ownership	-	21,000	5,728	19,200	Offices	Q2-2008	Q4-2009	2,679	41,222	43,900
Poland	Katowice	Francuska-Katowice	100%	2006	731	Leasehold	99 2089	26,250	7,200	21,000	Offices	Q2-2008	Q3-2009	3,138	48,762	51,900
Poland	Katowice	Mikolowska 1-Katowice	100%	2006	2,474	Leasehold	99 2089	33,750	8,667	27,000	Offices	Q3-2008	Q2-2010	3,228	63,472	66,700
Poland	Krakow	Kazimierz office	100%	2003	1,092	Leasehold	99 2089	29,000	10,000	15,300	Offices	Q1-2008	Q2-2009	2,244	28,556	30,800
Poland	Krakow	Pascal	100%	2000	578	Leasehold	99 2089	8,500	2,000	5,300	Offices	Q3-2008	Q3-2009	748	9,252	10,000
Poland	Warsaw	Aeropark 2 Zephius	100%	1999	838	Leasehold	99 2089	11,000	33,000	8,850	Offices	Q3-2007	Q3-2008	6,000	14,900	20,900

⁴⁶ No income was recognized yet in projects under development described in this section. The figures in this table relate to the planned date of completion, cost estimate of project completion and estimated total financial scope which are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction, construction input costs as at the estimate date, including sub-contractor prices and specific data of every project. These estimates may not materialize, completely or in part, or materialize differently, including considerably different from the expected, due to changes in factors which served as the basis of these estimates and/or materialization of all or part of the risk factors detailed in section 8.5.21 herein.

⁴⁷ With original differences attributed to the project.

⁴⁸ The designation as of the date of this statement and subject to changes as will be decided by GTC Group.

State	City	Project name	Share of GTC Poland Group	Date of purchase	Original cost of land (€000)	Type of title	Term of lease (years/final year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Planned date of completion	Investment sum as of December 31 st 2007 (in thousands of Euro) ⁴⁷	Cost estimate of project completion (in thousands of Euro)	Estimated total financial scope (in thousands of Euro)
									Size of land (in sq. m.)	Net area for rent (in sq. m.)	Designation and further details ⁴⁸					
Poland	Konstancja	Konstancja comm.	100%	1998	10,048	Ownership	-	42,000	120,000	35,200	Offices and shopping mall	2010	2011	5,506	50,427	60,975
Poland	Warsaw	Platinum 2	100%	2004	1,036	Leasehold	99 2089	11,000	5,500	9,300	Offices	Q3-2007	Q4-2008	5,200	15,700	20,900
Poland	Warsaw	Platinum 3-5	100%	2004	2,514	Leasehold	99 2089	60,000	22,000	48,000	Offices	2008	2009-2010	5,003	106,997	112,000
Poland	Warsaw	Aeropark Okęcie 3-5	100%	1999	3,108	Leasehold	99 2089	46,000	19,800	36,800	Offices	2008	2009-2010	3,608	85,992	89,600
Hungary	Budapest	Spiral 1+2	97.5%	2005	4,808	Ownership	-	38,678	9,553	31,069	Offices	Q1-2007	Q2-2008	17,797	22,903	41,700
Hungary	Budapest	Spiral 2	97.5%	2005	9,357	Ownership	-	24,725	6,533	21,253	Offices	Q3-2007	Q4-2009	4,339	26,161	30,500
Hungary	Budapest	Metro Site	97.5%	2006	3,670	Ownership	-	18,350	4,078	15,800	Offices	Q4-2007	Q4-2008	7,062	16,938	24,000
Hungary	Budapest	Gateway Dist-11 ⁴⁹	97.5%	2007	7,802	Ownership	-	148,168	22,801	76,707	Offices	Q2-2008	2009-2011	9,247	96,653	105,900
Hungary	Budapest	Renaissance Plaza	97.5%	2007	8,458	Ownership	-	26,750	5,997	24,043	Offices	Q2-2008	Q3-2009	9,924	27,476	37,400
Hungary	Budapest	Vassas Shopping Center	97.5%	2008	15,100	Leasehold	99	83,940	36,568	47,000	Offices + shopping center	Q4-2008	Q2-2010	15,179	75,821	91,000
Hungary	Budapest	Sezeremi Gate	97.5%	2006	5,860	Ownership	-	60,000	17,300	53,300	Offices	Q1-2009	Q2-2011	-	72,400	72,400
Hungary	Budapest	SASAD Office	97.5%	2007	4,700	Ownership	-	26,100	21,724	22,700	Offices	Q2-2008	Q4-2008	2,525	33,975	36,500
Romania	Bucharest	Aurora b.park	94.6%	2006	1,560	Ownership	-	Urban planning scheme not received yet	12,000	28,900	Offices	Q3-2008	Q4-2009	3,883	25,117	29,000

State	City	Project name	Share of GTC Poland Group	Date of purchase	Original cost of land (€000)	Type of title	Term of lease (years/final year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Planned date of completion	Investment sum as of December 31 st 2007 (in thousands of Euro) ⁴⁷	Cost estimate of project completion (in thousands of Euro)	Estimated total financial scope (in thousands of Euro)
									Size of land (in sq. m.)	Net area for rent (in sq. m.)	Designation and further details ⁴⁸					
Romania	Bucharest	City Gate (puarta)	47.3%	2007	1,500	Leasehold	99 years	51,296	14,467	44,280	Offices	Q4-2007	Q4-2009	16,688	84,012	100,700
Serbia	Belgrade	GTC Square 1	97.5%	2006	10,288	Leasehold	99 years	26,400	19,500	23,000	Offices	Q1-2007	Q2-2008	25,318	7,982	33,300
Serbia ⁵⁰	Belgrade	GTC Square 2	24%	2007	3,500	Leasehold	99 years	20,000	15,000	18,709	Offices	Q1-2008	Q4-2008	3,514	26,386	29,900
Croatia	Pola	Istria Golf	77.8%	-	-	-	-	25,000	3,000	25,000	Offices + hotel	Q4-2008	Q2-2010	-	41,800	41,800
Croatia	Zagreb	Center Point	97.2%	2007	7,500	Ownership	-	43,000	12,000	36,700	Offices	Q2-2008	Q3-2010	7,640	57,960	65,600
								983,007	459,688	778,211				204,621	1,207,114	1,416,775
Companies included																
Czech Republic	Prague	Prague Marina Phase 1	29.49%	2001	Combination deal 15% of incomes will be paid	Leasehold	5 periods of 49 years each	15,000	3,200	13,202	Offices	Q3-2008	Q4-2009	500	16,800	17,300
Czech Republic	Prague	Prague Marina other phases	29.49%	2001	Combination deal 15% of incomes will be paid	Leasehold	5 periods of 49 years each	73,000	16,800	55,598	Offices	Q2-2009	Q4-2010	-	71,500	71,500
Czech Republic	Prague	Sazka office A	29.49%	2006	5,269	Ownership	-	17,543	46,000 ⁵¹	15,438	Offices	Q2-2008	Q2-2010	5,269	21,202	26,471
Czech Republic	Prague	Sazka office B	29.49%	2006	1,726	Ownership	-	27,760	30,000	24,429	Offices	Q2-2008	Q1-2010	1,726	25,190	26,916
Czech Republic	Prague	Sazka office C	29.49%	2006	1,816	Ownership	-	29,200	30,000	25,696	Offices	Q1-2010	Q1-2011	1,816	26,342	28,157
Czech Republic	Prague	Sazka office D	29.49%	2006	1,816	Ownership	-	29,200	30,000	25,696	Offices	Q1-2011	Q1-2012	1,816	26,342	28,157
Total								191,703	156,000	160,059				11,127	187,376	198,501

⁵⁰ Data represent 66.67% of the consolidated project, consolidated pro rate in GTC Poland Statements.
⁵¹ Land area includes both a shopping mall (Sazka Retail) and an offices building.

State	City	Project name	Share of GTC Poland Group	Date of purchase	Original cost of land (€000)	Type of title	Term of lease (years/final year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Planned date of completion	Investment sum as of December 31 st 2007 (in thousands of Euro) ⁴⁷	Cost estimate of project completion (in thousands of Euro)	Estimated total financial scope (in thousands of Euro)
									Size of land (in sq. m.)	Net area for rent (in sq. m.)	Designation and further details ⁴⁸					
Shopping malls																
Poland	Czestochowa	Galeria Czeszochowa	100%	2006	5,913	Leasehold	99 2089		90,000	48,500	Shopping mall	First quarter 2008	Third quarter 2009	9,721	128,279	138,000
Romania	Bucharest	Galeria Bucharest	94.6%	2006	10,920	Ownership	-	75,000	84,000	57,000	Shopping mall	Q2-2008	Q4-2009	13,591	90,409	104,000
Romania	Buzau ⁵²	Galeria Buzau	47.35%	2006	513	Ownership	-	13,500	21,633	10,970	Shopping mall	Q1-2007	Q1-2008	4,848	3,552	8,400
Romania	Piatra Seamt ⁵³	Galeria Piatra	47.3%	2006	1,450	Ownership	-	15,500	18,658	12,300	Shopping mall	Q2-2007	Q3-2008	4,147	5,403	9,550
Romania	Scueava ⁵⁴	Galeria Scueava	47.3%	2006	955	Ownership	-	13,500	15,489	9,900	Shopping mall	Q2-2007	Q3-2008	3,550	5,250	8,800
Romania	Arad ⁵⁵	Galeria Arad	71.3%	2007	4,643	Ownership	-	35,000	34,000	25,500	Shopping mall	Q3-2007	Q2-2009	7,112	40,063	47,175
Romania	Bistrica ⁵⁶	Galeria Bistrica	63.1%	2007	5,667	Ownership	-	29,000	28,000	21,300	Shopping mall	Q2-2008	Q3-2009	6,363	20,367	26,730
Romania	Jalati ⁵⁷	Galeria Jalati	60.3%	2007	6,800	Ownership	-	Urban planning scheme not received yet	32,000	28,500	Shopping mall	Q3-2008	Q1-2010	-	65,900	65,900
Croatia	Zagreb	Center Point Zagreb	97.2%	2007	7,500	Ownership	-	35,000	16,700	26,000	Shopping mall + offices	Q2-2008	Q2-2010	6,700	58,900	65,600
Hungary	Budapest	Vassas	97.48%	2007	15,100	Leasehold	99	60,000	47,000	36,568	Shopping mall	Q4-2008	Q2-2010	15,179	75,821	91,000

⁵² The figures represent 50% of the project which is consolidated on a pro-rata basis in GTC Poland's statements.

⁵³ The figures represent 50% of the project which is consolidated on a pro-rata basis in GTC Poland's statements.

⁵⁴ The figures represent 50% of the project which is consolidated on a pro-rata basis in GTC Poland's statements

⁵⁵ Data represent 75% of the consolidated project, consolidated pro rata

⁵⁶ The figures represent 66.67% of the project which is consolidated on a pro-rata basis in GTC Poland's statements

⁵⁷ Transaction closed on February 2008, after balance sheet date.

State	City	Project name	Share of GTC Poland Group	Date of purchase	Original cost of land (€000)	Type of title	Term of lease (years/final year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Planned date of completion	Investment sum as of December 31 st 2007 (in thousands of Euro) ⁴⁷	Cost estimate of project completion (in thousands of Euro)	Estimated total financial scope (in thousands of Euro)
									Size of land (in sq. m.)	Net area for rent (in sq. m.)	Designation and further details ⁴⁸					
Bulgaria	Varna	Galeria Varna	61.75%	May 2007	8,384	Ownership	-	51,500	33,500	37,000	Shopping mall	Q1-2008	Q2-2009	10,121	73,879	84,000
Bulgaria	Burgas	Galeria Burgas	63.7%	September 2007	5,252	Ownership	-	50,000	42,000	36,000	Shopping mall	Q1-2008	Q3-2009	5,558	72,442	78,000
Bulgaria	Stara Zagora	Galeria Stara Zagora	63.7%	July 2007	6,097	Ownership	-	40,000	12,500	23,500	Shopping mall	Q1-2008	Q3-2009	6,197	43,803	50,000
Total								508,000	499,176	373,038				87,837	677,418	765,255
Companies included																
Czech Republic	Prague	Sazka Retail	29.49%	2006	18,302	Ownership		60,934	46,000	41,969	Shopping mall	Q2-2008	Q2-2010	24,628	86,418	111,046

[L] Following are the rental contracts signed on the income property projects under development and in planning and construction phases as of December 31st 2007

State	City	Project name	Area with signed rental contracts (sq. m.)	Average price for sq. m. (in Euro)
Romania	Bucharest	City Gate	14,194	17.92
Romania	Buzau	Galeria Buzau	3,034	21.92
Romania	Piatra	Galeria Piatra Neam	2,856	21.55
Romania	Suceava	Galeria Suceava	2,770	21.35
Poland	Wroclaw	Globis Wroclaw	11,786	16
Poland	Warsaw	Nefryt	14,726	18
Poland	Warsaw	Aeropark2 Zephirus	1,760	13
Poland	Krakow	Galeria Kazimierz	2,084	16.4

[3] Transactions not yet completed

Following are details on transactions for the purchase of real property rights contracted by companies of GTC Group on which GTC Group intends to build income property projects.⁵⁸ These transactions have not been finalized yet, and therefore are not classified as projects under planning and construction phases.

State	Property description			Share of GTC Poland	Investment sum as of December 31 st 2007 (in thousands of Euro)
	Land size (in sq. m.)	Net area planned for construction (in sq. m.)	Designation		
Bulgaria	40,000	36,000	Offices	95.5%	-
Serbia	17,500	35,250	Offices + Shopping mall	97.5%	1,536
Romania	24,000	24,000	Shopping mall	70.90%	-

⁵⁸ The designation of these projects and the area designated for construction as of the date of this statement are subject to changes as will be decided by GTC Group.

[4] Segmentation of incomes and profitability

Following are details on the income distribution of GTC Group in Central-Eastern Europe from rents divided by offices and commercial centers.

	For 2005		For 2006		For 2007	
	In thousands of Euro	% of total incomes of GTC Group	In thousands of Euro	% of total incomes of GTC Group	In thousands of Euro	% of total incomes of GTC Group
Offices	34,878	46.63%	44,285	49.77%	28,186	38.29%
Commercial centers	20,111	26.82%	20,735	23.30%	24,114	32.76%
Total	54,989	73.45%	65,020	73.07%	52,300	71.05%

Total gross profit from operating income properties in 2007 amounted to €46,602K constituting about 81.54% of the gross profit of GTC Group. During 2005 and 2006 the gross profit from operating income properties amounted to €41,006K and €50,704K respectively, constituting about 89.93% and about 92.85 % of the gross profit of GTC Group, respectively.

[5] Customers

GTC Group has hundreds of customers renting its rental properties, so it does not dependence on a certain customer.

[6] Rental contracts

Following is a concentration of figures on the number and scope of GTC Group's rental contracts signed with various renters on real estate properties of the GTC Group, which will expire on each year until 2027 and which were signed until December 31st 2007 (assuming that options for contract extension and renting larger spaces will not be exercised)

Year	No. of rental contracts about to expire	Rented space (in sq. m.)	Annual rents in thousands of Euro
2008	46	8,851	1,403
2009	50	20,237	3,724
2010	201	43,890	9,609
2011	56	24,922	4,258
2012	115	37,180	8,037
2013	55	43,404	8,220
2014	15	12,776	2,786
2015	57	22,265	4,917
2016	8	10,640	2,100
2017	129	30,415	10,621
2018	3	4,869	1,088
2027	1	3,766	602
Total	736	263,215	57,365

[7] **Competition**

GTC Group is exposed to competition from a number of commercial property and office building developers, real estate companies and owners of other properties in regions where GTC Group properties are located, such as IMMOEAST and TriGranit which are active in the real estate market in Central-Eastern Europe. The competition is mainly over the search for properties for initiation, development, construction and rental.

Some of GTC Group's office buildings are located in developing areas which include some other office buildings. The increase of office and commercial spaces in regions where GTC Group properties are located can have a material adverse effect on GTC Group's ability to rent vacant spaces and maintain the level of rent collected for its office buildings and commercial spaces.

The construction of shopping malls with a similar retail mix in areas adjacent to where GTC Group operates or intends to operate its own shopping malls, may lead to a decline in incomes from rents in the shopping malls operated by GTC Group and to a decline in occupancy as well.

Beyond the factors of success of GTC Group, as specified in section 8.5.7[D] herein, GTC Group copes with the competition by strict observance of high standards of construction, meeting the deadlines of the projects it undertakes and offering high quality of service after project completion. International corporations which contracted in the past with GTC Group in a certain state, sometimes continue to contract with the Group in other states because of the advantages GTC Group offers. Additionally, the reputation gained by GTC Group helps the company expand to other states, and market its projects to larger renters and anchor tenants.

[8] **Material agreements**

- (a) For further details on the sale of 50% of the shares of Orbis S.A. by GTC Poland, see section 8.5.18 [B] [3] herein.
- (b) For further details on the sale of 50% of the capital of FTC Galeria Kazimierz Sp.Zo.o, see table in section 8.5.8 [A] [2] [i] herein.
- (c) For further details on the sale of the office complex Mokotow Business Park, see table in section 8.5.8 [A] [2] [i] herein.
- (d) For further details on the sale of America House Building, see table in section 8.5.8 [A] [2] [i] herein.
- (e) For further details on the sale of Lighthouse Voltava Waterfront Towers S.R.O, see section 8.5.10 [A] [1] herein.
- (f) GTC Romania and Aura Investments Ltd. signed on January 2006 a declaration of principles for the establishment of a joint company that will be held and managed in equal shares and develop 20-30 commercial centers in various cities in Romania, at an estimated total investment of about 20 to 60 million Euro per project. On August

2006 the agreement was amended so that in some of the projects the share of GTC Romania will be more than 50%. As of the date of this statement six (6) projects are been developed (Galeria Buzau, Galeria Piatra, Galeria Scueava, Galeria Arad, Galeria Bistria and Galeria Jalati), for further details see table in section 8.5.8 [A] [2] [k] herein.

[B] Residential construction

[1] General information on the residential construction market in Central and Eastern Europe

GTC Group engages in the location, initiation, development and sale of residential homes and buildings in Central-Eastern Europe. The residential construction of GTC Group in Central and Eastern Europe is mainly of residential projects for middle and upper-middle class population, in central cities in states in which GTC Group operates.

In large projects construction is carried out in phases, so that the pace of construction and completion of each project phase depend, among other things, on the market condition and pace of sale of the project.

The modern residential real estate market in some Central-Eastern European states enjoys a considerable growth. The ratio of modern apartments to the number of residents in this region is lower than in Western Europe.

Furthermore, most of the existing apartments are very outdated, and therefore the demands are high. Nevertheless, in some states the mortgage market is just making its first steps and until it grows there will be no major breakthrough in the residential real estate market.

Pursuant to accelerated construction activity in Eastern Europe in recent years created a wide supply of cheap, inferior quality contracting services, which caused a price increase of quality contracting services. This change caused an increase of construction costs and consequently, reduced projects profitability.

[2] Following is a concentration of figures on GTC Group residential projects

(a) Following is a concentration of information on residential projects according to states:⁵⁹

State	No. of projects	Date of beginning of project marketing	Foreseen date of completion of sales	Foreseen date of completion of project	Total planned housing units	No. of housing units in stock as of December 31 st 2007	No. of housing units sold as of December 31 st 2007	No. of housing units sold as of December 31 st 2006	No. of housing units sold as of December 31 st 2005	No. of housing units sold after the balance sheet date and up to this statement date
Poland	4	2006 -2010	2008 -2010	2008-2009	745	714	51	83	70	1
Romania	5	2006-2008	In phases since2008	In phases since2008 - 2011	4,251	-	755	301	-	72
Bulgaria	1	2008-2010	In phases since2008	In phases from 2009 - 2010	700-600	-	-	-	-	-
Hungary	3	2005-2008	In phases since200 8	In phases since200 8	2,003	85	363	293	110	7
Slovakia	2	2007-2008	In phases since2007	In phases since2008	1,023	79	95		-	10
Total	10				8,622-8,722	878	1,268	677	680	90

⁵⁹ The figures in this table relate to the foreseen date of the completion of the project and sales and are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction and specific data of every project. These estimates may not materialize, completely or in part, or materialize differently, including considerably different from the expected, due to unexpected delays in projects construction, market status and/or materialization of all or part of the risk factors detailed in section 8.5.21 herein

[B] Following is a concentration of foreseen figures⁶⁰ on residential construction projects according to states as of December 31st 2007 (in thousands of Euro):

State	Foreseen incomes			Foreseen costs	Foreseen gross profit	Foreseen gross profit rate ⁶¹
	Foreseen incomes from signed contracts	Foreseen incomes from stock	Total			
Poland	16,585	343,986	360,571	296,488	63,708	18%
Romania	97,768	680,132	777,900	594,900	183,000	24%
Hungary	43,869	189,431	233,300	203,933	29,367	13%
Slovakia	15,748	155,452	171,200	143,700	27,500	16%
Serbia	28,156	1,244	29,400	24,100	5,300	18%
Bulgaria	-	73,000	73,000	61,959	11,041	15%
Croatia	-	118,000	118,000	79,800	38,200	32%
Total	202,125	1,561,246	1,763,371	1,404,880	358,116	-

⁶⁰ The figures in this table are forward looking information as defined in the Securities Act, based on sold unit prices, market condition, construction costs and different agreements entered in relation to these units. These estimates may not materialize, completely or in part, or materialize differently, including considerably different from the expected, due to unexpected delays in projects construction, market status and/or materialization of all or part of the risk factors detailed in section 8.5.21 herein

⁶¹ Projects in which the gross profit rate is higher than average are projects signed several years ago when the competition in this market was less fierce.

[C] Following is a concentration of information on residential construction projects (foreseen surplus/deficit in the projects) according to states as of December 31st 2007 (in thousands of Euro)⁶²

State	Actual incomes	Debtors for sold apartments	Stock in sale prices	Total incomes	Costs actually paid/accrued	Remaining costs to be paid until project completion	Total costs	Foreseen gross profit
Poland	39,617	832	360,571	401,020	50,308	272,617	322,925	78,095
Romania	21,132	76,636	680,132	777,900	93,725	501,175	594,900	183,000
Hungary	21,289	22,580	189,431	233,300	62,608	141,325	203,933	29,367
Slovakia	2,045	13,703	155,452	171,200	26,763	117,027	143,700	27,500
Serbia	26,886	1,270	1,244	29,400	15,781	8,319	24,100	5,300
Bulgaria	-	-	73,000	73,000	7,000	54,959	61,959	11,041
Croatia	-	-	118,000	118,000	5,157	74,643	79,800	38,200
Total	110,969	115,021	1,577,830	1,803,820	261,342	1,170,065	1,431,317	372,503

⁶² Balance of costs to be paid up to project completion and anticipated gross profit are anticipated future information as defined in the Securities Act, based on sold unit prices and construction costs. These estimates may not materialize, completely or in part, or materialize differently, including considerably different from the expected, due to changes in unit prices in a certain region or the entire market, delays in projects completion and/or materialization of all or part of the risk factors detailed in section 8.5.21 herein.

[D] Residential construction projects (construction and sale of housing units).⁶³

State/city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Percentage of completion	Start date	Planned date of completion	Housing units sold as of December 31 st 2007	Estimated total financial scope (in thousands of Euro)	Stock balance as of December 31 st 2007 (in thousands of Euro)	Estimated cost of project completion (in thousands of Euro)	Project incomes (in thousands of Euro)			Profit credited in financial statements or sum of provision for loss (in thousands of Euro)		
													For 2005	For 2006	For 2007	For 2005	For 2006	For 2007
Poland																		
Warsaw	Konstancin housing project	100%	Area of 310 dunam. 85,000 sq./m. planned for housing units construction. Project build in 5 phases	Phases A & B completed (178 housing units). Phase C almost completed (36 housing units). Phase D under construction and phase E in planning.	Phase B - 216, phase C - 232, phase D 296, phase E - 200	Phases A & B 100%. Phase C 95%. Phase D 30% and phase E 85%	Phases C from Q2/2006. Phase D from Q4/2007.	Phases A & B completed. Phase C almost completed and phase D completion expected on Q4/2008.	Phases A completed sold. Phase B completed sold (72 units). Phase C 33 housing units and phase D 18 housing units	55,900 Phases C - E	11,063 Phases B - E	36,000	17,490	2,247	17,265	4,490	537	7,250
Krakow	Ogrody Galileo	100%	Area of 30 dunam. 28,000 sq./m. planned for construction of about 300 housing units	Project in planning phases	90	5%	Third quarter 2008	Second quarter 2010	-	58,500	7,381	51,119	-	-	-	-	-	-
Lodz	Ortal	100%	Area of about 47 dunam. 75,000 sq./m. planned for construction of about 1000 housing units	Project in planning phases	75	5%	Third quarter 2008	Second quarter 2010	-	127,000	364	126,636	-	-	-	-	-	-
Katowice	Mikolowska	100%	Area of about 9 dunam. 26,000 sq./m. planned for construction of about 370 housing units	Project in planning phases	70	5%	Third quarter 2008	Third quarter 2010	-	41,500	3,228	38,272	-	-	-	-	-	-
Poznan	Park	100%	An area of about 8 dunam. 14,000 sq. m. planned for construction of about 300 housing units	Project in planning phases	42	5%	Third quarter 2008	Fourth quarter 2009	-	26,000	5,410	20,590	-	-	-	-	-	-
Hungary																		
Budapest	Riverloft Apartment	97.5 %	An area of about 9.8 dunam. 13,300 sq. m.	Project completed	70	100%	March 2005	Completed	161	19,500	2,464	-	-	12,401	3,948	-	2,169	947

⁶³ The figures in this table relate to the planned date of completion, total estimated financial scope and estimated cost of project completion are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction, costs of construction inputs at the estimate issue date, including sub-contractor prices and specific data of every project. These estimates may not materialize, completely or in part, or materialize differently, including considerably different from the expected, due to changes in the factors on which the estimates are based and/or materialization of all or some of the risk factors detailed in section 8.5.21 herein.

State/city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Percentage of completion	Start date	Planned date of completion	Housing units sold as of December 31 st 2007	Estimated total financial scope (in thousands of Euro)	Stock balance as of December 31 st 2007 (in thousands of Euro)	Estimated cost of project completion (in thousands of Euro)	Project incomes (in thousands of Euro)			Profit credited in financial statements or sum of provision for loss (in thousands of Euro)		
													For 2005	For 2006	For 2007	For 2005	For 2006	For 2007
			designated for construction. The project includes 175 housing units, offices (5,700 sq. m.) commercial, storage and parking spaces in two buildings															
Budapest	Paskal	97.5 %	An area of about 61 dunam. About 57,000 sq. m. designated for construction. 775 housing units planned in this project	The project will be constructed in five phases. All phases currently in planning	75	0%	In planning	In phases from 2009 to 2011	-	75,800	17,784	58,016	-	-		-	-	
Budapest	Sasad Resort	48.7 %	An area of about 118 dunam. About 71,000 sq. m. designated for construction. About 1,050 housing units planned in this project	The project will be constructed in five phases. Currently in phase A	67	-	Phase A and B during 2007	In phases from 2008 to 2010	202	108,700	28,274	80,845	-	-		-	-	
Romania																		
Bucharest	Green Dream	94.6 %	An area of about 10.5 dunam. 24,400 sq. m. designated for construction. About 225 housing units planned in this project	Planning an permits	110	-	Third quarter 2008	Fourth quarter 2009	96	36,564	13,816	22,748	-	-		-	-	
Bucharest	Jasmin	94.6 %	An area of about 24 dunam. 30 thousand sq. m. designated for construction. About 250 housing units planned in this project	Planning an permits	100	-	Third quarter 2008	Second quarter 2009	-	27,000	3,883	23,117	-	-		-	-	
Bucharest	Rose Garden	47.35 %	An area of about 27 dunam. About 80,000 sq. m. designated for construction. About 936 housing units planned in this project.	Under construction	85	20%	Phase A in the first quarter of 2007	In phases from 2008 to 2009	571	83,100	25,846	57,254	-	-		-	-	

State/city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Percentage of completion	Start date	Planned date of completion	Housing units sold as of December 31 st 2007	Estimated total financial scope (in thousands of Euro)	Stock balance as of December 31 st 2007 (in thousands of Euro)	Estimated cost of project completion (in thousands of Euro)	Project incomes (in thousands of Euro)			Profit credited in financial statements or sum of provision for loss (in thousands of Euro)		
													For 2005	For 2006	For 2007	For 2005	For 2006	For 2007
Bucharest	Felicity	47.3 %	An area of about 105 dunam. About 159,000 sq. m. designated for construction. About 700 housing units planned in this project	Under construction	120	5%	Phase A in the first quarter of 2007	In phases from 2008 to 2009	88	188,000	22,216	165,784	-	-		-	-	
Bucharest	Garden of Eden	63.07 %	An area of about 105 dunam about 195,000 sq. m. designated for construction. 1,800 housing units are planned in this project.	Planning and permits	120	-	Third quarter 2008	In phases from 2010 to 2011	-	260,200	28,847	231,353	-	-		-	-	
Bulgaria																		
Burgas	Burgas Residence	63.34 %	An area of about 74 dunam. About 61 thousand sq. m. designated for construction. About 720 housing units in five phases are planned in this project	Planning an permits	120	-	Third quarter 2008	In phases from 2009 to 2010	-	61,959	7,000	54,959	-	-		-	-	
Slovakia																		
Bratislava	Vinyard	66.5 %	An area of about 93 dunam. About 62,000 sq. m. designated for construction. About 853 housing units in five phases are planned in this project	Planning an permits	60	-	Second quarter 2008	In phases from 2009 to 2010	95	120,900	24,055	96,785	-	-		-	-	
Bratislava	Park Bratislava	66.5 %	An area of about 5 dunam. About 15,000 sq. m. designated for construction. About 170 housing units planned in this project.	Planning an permits	70	-	Second quarter 2008	2009	-	22,800	2,648	20,152	-	-		-	-	
Serbia																		
Belgrade	Park apartment (Block 19 A)	97.5 %	An area of about 6.4 dunam, 16,600 sq. m. designated for residential construction of a total of 189 housing units	Under construction	60	90%	November 2005	2008	181	24,100	15,963	8,319	-	-	-	-	-	

State/city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Percentage of completion	Start date	Planned date of completion	Housing units sold as of December 31 st 2007	Estimated total financial scope (in thousands of Euro)	Stock balance as of December 31 st 2007 (in thousands of Euro)	Estimated cost of project completion (in thousands of Euro)	Project incomes (in thousands of Euro)			Profit credited in financial statements or sum of provision for loss (in thousands of Euro)		
													For 2005	For 2006	For 2007	For 2005	For 2006	For 2007
Croatia																		
Pola	Istria Golf Resort ⁶⁴	72.9 %	An area of about 1,300 dunam, about 24 dunam planned for residential construction. The project will include 114 housing units	Obtained initial but not final construction permit	207	-	Third quarter 2008	2010	-	79,800	5,160	74,643	-	-	-	-	-	-
Total									1,517	1,417,323	225,402	1,166,592	17,490	14,648	21,213	4,490	2,706	8,197
Companies included																		
Czech Republic																		
Prague	Prague Marina	29.49 %	An area of about 10 dunam, 40,000 sq. m. planned for residential construction. The project will include 3 buildings and a total of about 340 housing units.	Construction will start in the fourth quarter of 2006	94	37%	Fourth quarter 2006	Third quarter 2008	227	64,700	24,249	40,451	-	-	-	-	-	-
Prague	Prague Marina (phases 2-3)	29.75 %	An area of about 30 dunam. About 85,000 sq. m. planned for the construction of about 655 housing units	planning	94	-	Phase 2 – first quarter of 2008. Phase 3 – third quarter of 2009.	Phase 2 – second quarter of 2008. Phase 3 – fourth quarter of 2009.	-	148,000	-	148,000	-	-	-	-	-	-
Prague	Zelene Mesto (green city)	29.49 %	An area of about 32 dunam, 20,000 sq. m. planned for residential construction. The project will include 8 buildings and a total of about 240 housing units	Construction started at the third quarter of 2007	90	20%	2007	Second - fourth quarter 2008	124	60,755	12,319	48,436	-	-	-	-	-	-
Prague	Zelene Mesto phases 2-5	29.49 %	An area of about 113 dunam. 67 thousand sq. m. planned for	Planning	90	8%	2009-2010	2010-2011	-	82,556	6,952	75,603	-	-	-	-	-	-

⁶⁴ The project will include in addition to housing units a hotel on a net constructed area of 21 thousand sq. m., two golf courses with 9 and 18 holes, a golf club and restaurant. The total area of the project is 1.3 million sq. m. on March 2007 was signed an agreement for the purchase of the company (100%) holding about 25,700 sq. m. of the total aforesaid area, which is not designated for residential housing.

State/city	Project name	Share of GTC Poland	Project description	Project phase	Average area per housing unit (in sq. m.)	Percentage of completion	Start date	Planned date of completion	Housing units sold as of December 31 st 2007	Estimated total financial scope (in thousands of Euro)	Stock balance as of December 31 st 2007 (in thousands of Euro)	Estimated cost of project completion (in thousands of Euro)	Project incomes (in thousands of Euro)			Profit credited in financial statements or sum of provision for loss (in thousands of Euro)			
													For 2005	For 2006	For 2007	For 2005	For 2006	For 2007	
			residential construction. The project will include about 860 housing units																
Total									351	356,011	43,520	312,490	-	-	-	-	-		

[E] Material projects⁶⁵ of residential construction (additional general figures about the projects) (in thousands of Euro).⁶⁶

Project name	Date of start of project marketing	Foreseen date of completion of sales	Foreseen date of project completion	Accompanying financial body	Rate of costs for which there is a binding agreement (including purchase of land)	No. of housing units in stock as of December 31 st 2007	No. of housing units sold as of December 31 st 2005	No. of housing units sold as of December 31 st 2006	No. of housing units sold as of December 31 st 2007	No. of housing units sold at the date of balance and until the date near the publication of this statement
Riverloft Apartment	2005	2007	2007	HVB	100%	16	110	154	161	2
Konstancin housing project	Phase B - 2005 Phase C - 2006 Phase D - 2007 Phase E - 2008	Phases B & C 2008 Phase D - 2009 and phase E 2010	Phase C - Q2/2008 Phase D Q4/2008 Phase E Q1/2009	-	Phases B - D 100% Phase E - 0%	Phase C - 3 Phase D - 10 Phase E - 81	Phase B - 68 Phase C - 2	Phase B - 70 Phase C - 13	Phase B - 72 Phase C - 33 Phase D - 18	3

⁶⁵ A material project is a project whose total incomes are more than 10% of GTC RE consolidated incomes and/or whose profit is more than 10% of TCE RE's profits and/or whose book value is more than 10% of the total consolidated properties of GTC RE

⁶⁶ The figures in this table relating to the foreseen dates of completion of the project and sales are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction and specific data of every project. These estimates may not materialize or materialize differently, including considerably different from the expected due to unexpected delays in project construction, market condition and/or the materialization of all or some of the risk factors specified in section 8.5.21 herein.

[F] Material projects of residential construction (result figures in projects for which profit of loss was recognized) (in thousands of Euro)

Project name	Accrued costs as of 31.12.2007				Accrued incomes as of December 31 st 2007	Rate of accrued gross profit as of December 31 st 2007	Recognized incomes and gross profit					
	Land and development	Construction costs	Additional costs	Total			As of 31.12.2007		As of 31.12.2006		As of 31.12.2005	
							Annual incomes	Accrued gross profit	Annual incomes	Accrued gross profit	Annual incomes	Accrued gross profit
Riverloft Apartment	3,500	12,400	3,600	19,500	16,349	19%	3,948	947	12,401	2,169	-	-
Konstancin housing project Phase B (for phases C and D no income has been recognized yet)	5,600	22,410	4,567	32,577	40,721	20%	17,265	7,250	2,247	537	17,490	4,490

[G] Material projects of residential construction (foreseen figures⁶⁷ on the projects) (in thousands of Euro)

Project name	Foreseen incomes			Foreseen costs	Foreseen gross profit	Foreseen gross profit rate
	Foreseen incomes from signed contracts	Foreseen incomes from stock	total			
Konstancin housing project Phase B	Phase C - 1,900	Phase B - 300 Phase C - 2,784 Phase D - 19,894 Phase E - 40,721	65,598	48,363	17,235	26%
Riverloft Apartment	19,391	3,609	23,000	19,433	3,567	16%

⁶⁷ The figures included in this table are forward looking information as defined in the Securities Act based on the prices of apartments already sold, market conditions and construction costs and the various agreements signed on them. These estimates may not materialize in full or partially, or materialize differently, including materially different from the expected, due to changes in apartment prices in a certain region or the entire market, or materialization of all or some of the risk factors specified in section 8.5.21 herein.

[H] Material projects of residential construction (foreseen surplus/deficit in projects) as of December 31st 2007 (in thousands of Euro):⁶⁸

Project name	Actual incomes received	Debtors for apartments sold	Stock in sale prices	Total incomes	Costs actually paid/accrued	Remaining costs until project completion	Total costs	Foreseen gross profit
Konstancin housing project Phase B	Phase B - 18,700 Phase C - 15,040	Phase C - 832	Phase B - 4,684 Phase C - 19,894 Phase D - 40,721	99,870	Phase B - 4,684 Phase C - 10,250 Phase D - 6,450 Phase E - 3,200	Phase B - 650 Phase C - 8,550 Phase D - 26,800	69,925	30%
Riverloft Apartment	18,591	800	3,609	23,000	16,969	2,464	19,433	16%

⁶⁸ The remaining costs to be paid until the project completion and foreseen gross profit are forward looking information as defined in the Securities Act based, on the prices of apartments already sold and construction costs. These estimates may not materialize fully or partially or materialize differently, including materially different from the expected, due to changes of apartment prices in a certain area or the entire market, delays in project completion and/or materialization of all or some of the risk factors specified in section 8.5.21 herein.

[3] **Customers**

GTC Group has hundreds of customers with whom it contracts for the sale of its apartments and houses so that it does not depend on one certain customer.

[4] **Competition**

Like in the rental market, in residential construction too GTC Group is exposed to competition from a number of real estate developers, real estate companies and other real estate property owners in regions where GTC Group properties are located. The competition focuses on search of real properties for initiation, development and construction and the marketing and selling of housing units.

[5] **Material agreements**

On November 2006 three cooperation agreements were signed between companies of GTC Poland Group and RREEF Opportunity Funds, which is to the best knowledge of GTC RE a fund affiliated to the Deutsche Bank Group. According to this agreement the fund will join as a partner three residential construction projects with GTC Poland: two in Bucharest, Romania (Felicity and Rose Garden) and one in Budapest, Hungary (Resort Sasad). The share of the GTC Group companies which are party to the cooperation agreement in these projects is 50.1%, but their share in the profits can gradually grow to up to 75%, according to the increase rate of the project internal return. It should be mentioned that in one of the projects in Romania there is another partner with about a 20% share. Furthermore, the companies of the GTC Poland Group will manage the projects for the partners. For further details on the projects see table in section 8.5.8 [B] [2] [d] herein.

8.5.9 Activity in China

[A] General

GTC Group started operating in China in 2005, through GTC China. Like in Central-Eastern Europe, in China too GTC RE studied the business environment, recruited a local and international initiation and management team and opened offices in China. During the last three years GTC China signed through its subsidiaries several agreements for the purchase of real properties for development, mainly for residential construction, in large district cities in various regions in China, in partnership with Lucky Hope Group, which engages in initiation and marketing of real estate properties in China and owned by a local businessman. Total construction rights purchased up to the date of this statement are over about 2.6 million sq. m., and the share of GTC China in these projects ranges from 45%-75% (in most projects – 50%).

The figures presented in this section are based on external market surveys. Furthermore, the information presented in this section, including reference to macro figures and trends in China and its real estate market and effects of regulation amendments in China is forward looking information as defined in the Securities Act, which may or may not materialize in full or part thereof, or materialize differently, including materially different than expected, as a result of market factors, economic

and other policy of China and the world's economy, the extensive involvement of the Chinese government in real estate transactions, through regulation of additional laws and/or materialization of all or some of the risk factors detailed in section 8.5.21 herein. Kardan NV is not liable for the quality or veracity of the figures presented in this section.

In recent years China became a major source of attraction for the world's real estate investors for a number of reasons:⁶⁹

- (a) China's real estate market represents a large share of China's economy. In 2007 the total investment in real estate in China increased by 30.2% and amounted to a total sum of 350 billion USD, as estimated by ING . The Chinese real estate market is expected to develop and capture the second place in the world by 2020.
- (b) The reform of China's economy which led to its gradual integration into the world's economy included joining the World Trade Organization (WTO) which helped its economic growth and turned it into a major player in the world's economy.
- (c) The rise in the standard of living of the Chinese population can be seen in the 17.2% growth in the per capita disposable income in the cities and a rise of more than 15% in the wage level in the cities and border zones.
- (d) The Chinese government encourages immigration from rural areas to the large cities in order to fight poverty and thus hundreds of millions of new residents are expected to move to the cities during the next decade.
- (e) Hosting the 2008 Olympic Games in Beijing.

During 2006 the Chinese government enacted new regulations in order to moderate the high price increase of real estate properties. The regulations also impose limitations on the purchase of real estate properties by foreign residents and on real estate companies established by foreign residents (mainly the need for obtaining an advance approval). New instructions also limit the construction of apartments of more than 90 sq. m. For projects currently under development, GTC China and the companies executing the projects obtained all the necessary approvals specified in the aforesaid regulations and in future projects all the necessary applications will be filed. GTC RE estimates that the regulations limiting the purchase of real estate properties by foreign residents will have no material effect on the activity of GTC China.

In 2007 the Chinese central government increased its supervision over the enforcement of the aforesaid regulations by Chinese local governments in order to moderate the China's high growth rate and the rise of inflation. Furthermore, foreign currency control in China was tightened and the enforcement of foreign currency regulations intensified as well by selective granting of permits for investment in real estate projects in foreign currency in

⁶⁹ The figures in this section are based on a Deloitte survey published at the end of 2006, on the figures of China's state bureau of statistics and on a survey conducted by ING, one of the world largest financial services groups and published on January 2008.

China. During 2007 new regulations were enacted limiting the ability of real estate developers to raise loans in foreign currency. Furthermore, the enforcement of tax payments caused by increased value of land purchased from the government intensified. In view of the aforementioned policy of the Central Government of China to restrict foreign investments in real estate, GTC RE prefers to operate at regional cities, allowed some relief on the implementation of this policy by the Chinese Central Government. On the other hand, the tax imposed on foreign companies operating in China was reduced from 33% to 25% (the tax imposed on local companies). GTC RE estimates that the said changes will not have a material effect on the operations of GTC China.

Recently the competition in the real estate market in China intensified, which makes it more difficult to win tenders of the Chinese government for the purchase of real properties. GTC China copes with this competition by expanding into new regions, examining the purchase of local companies holding real property rights in China for several years and exploring possible expansions of its partners base.

The increase in land prices and intensified supervision over foreign investors, affect both the activity in the field of commercial centers, and on residential housing construction, as indicated in section 8.5.9[A] herein. Yet, the supply of modern, high level commercial centers of the type developed by GTC China, is still low in second and third tier cities⁷⁰, where the retail market is mostly comprised of supermarkets and malls with a relatively low management and maintenance level. A report, published by Jones Lang LaSalle, in December 2007⁷¹, indicates that about 51% of retail companies active in China plan to increase the number of their stores throughout the country and about 28% plan to increase the average store area. About 77% of the retail companies operating in the larger China area (China, Hong Kong and Taiwan) also expect increased transaction volumes and 47% expect increased profits in 2008. In addition, according to the said publication, about 57% of the retail companies operating in Asia, including China, noted the shortage of quality space as one of the factors that delays their expansion. The rapid growth of the retail market is derived from the rapid improvement in life quality and increased personal disposable income⁷². Retail sales volume increased in 2007 by 20% and the increase in the personal disposable income exceeded the GNP growth rate (over 10%)⁷³

⁷⁰ The first tier includes the most developed cities in China (from aspects of GNP per capita, infrastructure, education etc.), e.g., Shanghai and Beijing. The second tier includes less developed cities from aspects of the said characteristics, such as regional cities and other large cities in China, e.g., Shenyang, Xian and Chengdu Changzhou, where GTC China operates. The third tier includes cities that are less developed than the second tier in the said characteristics, including Xianyang, where GTC China operates.

⁷¹ Jones Lang LaSalle is a famous real estate consultants firm.

⁷² Data are based on official data of the Chinese government, as of January 2008.

⁷³ Data are based on World Bank data and data from Capital Economics, one of the leading economical research firms.

[B] GTC China operates, as of the date of this statement, in four cities across China:

Shenyang

Shenyang is a large city in north-eastern China and is the cultural, economic and commercial center of the Liaoning district. The city has about 7.2 million residents and it is the transportation center of north-eastern China (including the largest airport in the region). During 2007 the GDP growth rate in Shenyang was about 17.3% (after a growth rate of 16.5% and 10% in 2006 and 2005 respectively), and it is one of the 10 cities with the highest GDP rate in China. The investments in fixed assets in the city grew considerably in recent years at an average growth rate of about 40% (between 200-2007). The scope of real estate investments grew during 2007 by over 30%, and 30.2% and 20.1% in 2005 and 2006 respectively. The per capita disposable income grew at a rate of 15.4% in 2006, after a rise of nearly 13% in each of the previous three years.⁷⁴

Xianyang

Xianyang is a city in north-central China of about five million residents. It is located near the Xian, capital of Shanxi district, with a population of about 7.5 million residents (after a population growth of about 2.5% in 2005) and is considered to be one of China's most important secondary cities.

Xian is one of China's three main tourist attractions since one of China's most important archaeological sites – the terracotta soldiers – is located within its jurisdiction.

Xian's economy grew at a rapid pace in recent years. GDP grew by 14.6% in 2007, after it grew by more than 13% in each of the previous two years. The scope of real estate investments in Xian grew by about 35% in 2007 compared to 2006. Average residential projects (gross) completed each year from 2003 to 2006 in Shanxi district, is about 600,000,000 sq. m., while housing prices grew by about 20% each year in 2005 and 2006⁷⁵. Total retail sales increased by about 18.7% in 2007 and by an average of more than 15% in each of the three previous years.⁷⁶ The project constructed by GTC China is at the municipal jurisdiction of Xianyang, near the municipal border of Xian.

Chengdu

Chengdu is one of the central cities in western China and the capital of the district of Szechuan, with about 11.3 million residents. Chengdu is one of the most important centers of economy and transportation in China. Many international corporations such as Intel, IBM and Microsoft have development centers and offices in Chengdu. Chengdu is also known for its large military industry, mainly of fighter planes. Chengdu also became one of the largest centers of traditional Chinese medicine. The Chinese government granted

⁷⁴ Figures based on the CB Richard Ellis report. Data for 2007 are correct as at the end of Q3/2007. No fresher updated data were found.

⁷⁵ Changes in residential housing prices from 2006 to 2007 could not be located

⁷⁶ Figures based on the CB Richard Ellis report.

Chengdu the status of a National Economic Zone, which enables the city to implement a flexible economic policy based, among other things, on export and offering tax incentives for foreign investments. Furthermore, Chengdu displays stable economic indicators and enjoys a rise in the demand for commercial and residential real estate properties, and therefore there is a considerable growth trend of real estate prices in Chengdu. According to the figures from the last quarter of 2007, the GDP grew during 2007 by over 15% and real estate investments grew by 47.7% compared to 2006. The per capita disposable income increased by about 12.6% in 2006, after an average growth of nearly 8% in previous years.⁷⁷ The commercial project, which GTC China intends to build in Chengdu, is located at the city's new government and technology center.

Changzhou

Changzhou is a city located at the center of one of China's richest provinces, Jaingsu, about 160 kilometers north-west of Shanghai and about 100 kilometers south of Nanjing, with a population of about 3.5 million residents. The city's GDP increased by 20.4% in 2006 and at an average of nearly 20% in the years 2002 and 2004. Investments in real estate properties grew by an average rate of 45% between the years 2002-2006. Changzhou is one of the 16 cities located at the estuary of the Yangtze River, which is one of China's richest regions enjoying a significantly higher growth rate than the national average.⁷⁸

⁷⁷ Figures based on the CB Richard Ellis report. Data for 2007 are correct as at the end of Q3/2007. No fresher updated data were found.

⁷⁸ Figures based on Jones Lang LaSale report. Failed to find more recently updated data than the aforementioned data.

[C] Following is a concentration of figures on GTC Group's residential real estate projects in China:

[1] Following is a concentration of figures on residential real estate projects in China:⁷⁹

No. of projects	Date of starting project marketing	Foreseen date of completion of sales	Foreseen date of project completion	Total planned housing units	No. of housing units in stock as of December 31st 2007	No. of housing units sold as of December 31st 2007	No. of housing units in stock as of December 31st 2006	No. of housing units sold as of December 31st 2006	No. of housing units sold after the balance date and until the date of this statement
3	2005-2009	In phases starting from 2007	In phases starting from 2008	12,682	26	4,061	322	196	118

⁷⁹ Figures in this table relating to foreseen dates of completion of the project and sales are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction and specific data of every project. These estimates may not materialize, fully or partially, or materialize differently, and even materially different than expected, due to unexpected delays in project construction, market condition and/or the materialization of all or some of the risk factors specified in section 8.5.21 herein.

[2] Following is a residential construction project in China (result figures of a project for which profit and loss were recognized) as of December 31st 2007 (in thousands of Euro)

Project name	Accrued costs as of December 31 st 2007				Accrued incomes as of December 31 st 2007	Accrued gross profit rate as of December 31 st 2007	Recognized incomes and gross profit					
	Land and development	Construction costs	Additional costs	Total			As of December 31 st 2007		As of December 2006		As of December 2005	
							Annual incomes	Accrued gross profit	Annual incomes	Accrued gross profit	Annual incomes	Accrued gross profit
Qil iXiandi	5,226	9,827	9,614	24,666	26,125	24%	12,221	6,204	12,704	2,664	1,324	282

[3] Following is a concentration of foreseen figures⁸⁰ on residential construction projects in China as at December 31, 2007 (in €'000):

Foreseen incomes			Foreseen costs	Foreseen gross profit	Foreseen gross profit rate
Foreseen incomes from signed contracts	Foreseen incomes from stock	Total			
133,981	354,943	488,924	399,715	89,209	15%-23%

⁸⁰ The figures included in this table are forward looking information as defined in the Securities Act based on prices of apartments already sold, market condition, construction costs and the agreements signed on them. These estimates may not materialize, fully or partially, or materialize differently, including materially different than expected, due to, changes in apartment prices in a certain region or the entire market or delays in project completion and/or materialization of all or some of the risk factors specified in section 8.5.21 herein

[4] Following is a concentration of information on residential construction projects in China (foreseen surplus/deficit in the projects) as of December 31st 2007 (in thousands of Euro).⁸¹

Actual incomes received	Debtors for apartments sold	Stock in sale prices	Total incomes	Actual incomes paid/accrued	Remaining costs until project competition	Total costs	Foreseen gross profit
118,110	15,872	354,944	488,926	94,927	304,788	399,715	89,211

⁸¹ The remaining costs to be paid until the project's completion and the foreseen gross profit are forward looking information as defined in the Securities Act based on the prices of apartments already sold, construction costs and the agreements signed on them. These estimates may not materialize fully or partially, or materialize differently, including materially different than expected, due to, changes in apartment prices in a certain region or the entire market, delays in project completion and/or due to the materialization of all or some of the risk factors specified in section 8.5.21 herein

[5] Following is a concentration of information on residential construction projects in China (foreseen surplus/deficit in projects):⁸²

City	Project name	Share of GTC RE	Project description	Project phase	Average area of a housing unit	Percent of execution	Start date	Planned date of completion	Housing units sold to 31 Dec 2007	Estimated total financial scope (in thousands of Euro)	Stock balance as of December 31 st 2007 (in thousands of Euro)	Estimated cost of project completion (in thousands of Euro)	Project incomes (in thousands of Euro)			Profit credited in financial statements or sum of provision for loss (in thousands of Euro)		
													For 2005	For 2006	For 2007	For 2005	For 2006	For 2007
Shenyang	Qili xiandi	50%	An area of about 130 dunam. 181 thousand sq. m. planned for residential construction. The project is developed in four phases of 1,923 housing units.	Phase A-C including 1,117 housing units were completed. Phase D currently constructed.	91	100% phase A - phase C phase D 40%	Third quarter .2005	Fourth quarter.2008	1,754	38,852	4,745	14,186	1,324	12,704	12,221	282	2,342	3,580
Shenyang	Palm Garden	50%	An area of 442 dunam. 402 thousand sq. m. planned for residential construction. The project is developed in five phases of 2,900 housing units.	Phase A-B under construction - 669 units. Phases C-E not started yet.	128	Phase A - 60%, phase B - 30% Phase C-E - not started yet.	Fourth quarter 2006	Fourth quarter 2011	442	115,569	27,214	88,255	-	-	-	-	-	-

⁸² Figures in this table relating to the foreseen date of completion, estimated total financial scope and estimated cost of project completion are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction and specific data of every project.. These estimates may not materialize fully or partially, or materialize differently, including materially different than expected, due to changes in factors on which the estimates are based and/or the materialization of all or some of the risk factors specified in section 8.5.21 herein

City	Project name	Share of GTC RE	Project description	Project phase	Average area of a housing unit	Percent of execution	Start date	Planned date of completion	Housing units sold to 31 Dec 2007	Estimated total financial scope (in thousands of Euro)	Stock balance as of December 31 st 2007 (in thousands of Euro)	Estimated cost of project completion (in thousands of Euro)	Project incomes (in thousands of Euro)			Profit credited in financial statements or sum of provision for loss (in thousands of Euro)		
													For 2005	For2006	For2007	For 2005	For 2006	For2007
Xi'an	Olympic Garden	50%	An area of about 386 dunam. 818 thousand sq. m. planned for residential construction, commercial center and hotel. The project is developed in six stages of 6,879 housing units	Phase A-C under Construction, 2,252 units. Phases D-F not started yet	119	Phase A - 95%, phase B - 70%, phase C - 10%, phases D-F not started yet	Fourth quarter 2006	Fourth quarter 2012	1,878	245,394	43,047	202,347	-	-	-	-	-	-
Total									4,074	399,815	75,006	304,787	1,324	12,704	12,221	282	2,342	3,580

[D] Transactions not yet completed

On February 2007 Shenyang Taiying Real Estate Development Limited, a project company established according to the provisions of the agreement described in section 8.5.9[H] hereun ("**Shnyang RE**") signed a memorandum of understanding with the Shenyang Puhe New City Authority (the "**Authority**") granting it the right to lease from the authority a real estate property of a total area of about 460 dunam under the conditions specified below. The property consists of agricultural land which the local government intends to gradually rezone for residential construction during the next two years. After rezoning the entire real estate property, the construction rights will be for about 920 thousand sq. m. of residential construction. According to the memorandum of understanding, each part of the rezoned property will be leased to Shenyang RE. The total consideration to be paid for the entire real estate property is estimated at about 55 million Euro. The total project cost is estimated at about 190 million Euros. At the initial phase it was agreed that an area of about 105 dunam will be rezoned and leased to Shenyang RE and a sum of about 5 million Euros was deposited to secure the payment for the first part of the property to be leased. No timetable for the rezoning and leasing of the balance of the property was determined yet. . At each phase the lease will be subject to obtaining all the necessary approvals from the Authority and government, according to the common procedure in China and the signing of an agreement on each part to be leased. Since until the date of this statement the property was not rezoned yet, GTC China estimates that the property rezoning is doubtful as well as the lease by Shenyang RE for the development of a residential construction project. If the transaction is completed, GTC China intends to exercise the full residential construction rights.

GTC China's estimates on the low chances for rezoning the property in Shenyang, for which an agreement was entered in February 2007, the total consideration and project cost are forward looking information as defined in the Securities Act are based on changes in market conditions which occurred since the execution of the original agreement on February 2007, changes in policy since the said date and the fact that the designation of 105 dunams, for which the deposit was deposited was not changed to this day. These estimates may not materialize, in whole or in part, or materialize differently, including materially different than expected, due to change of construction rights on the property and unexpected delays and/or the materialization of all or some of the risk factors as described in section 8.5.21 herein.

[E] Events after the date of the balance

[1] During January-February 2008, after the date of the balance, GTC China purchased two adjacent plots in Changzhou, at a total area of 104,000 sq. m. (including construction rights over about 290,000 sq. m.) and at a total area of 90,035 sq. m. (including construction rights over about 252,098 sq. m.) for a sum of some €18.4M and some €16M respectively. GTC China intends to develop on the two adjacent plots a residential construction project which will include commercial spaces. The real estate properties were purchased together with Lucky Hope Group (for further details on Lucky Hope Group see section 8.5.9[H])

herein) and another partner from Hong Kong. The share of GTC China and Lucky Hope Group in the project will be 45% each and the share of the other partner will be 10%. GTC China estimates that the cost of the entire project will amount to some €185M. Project construction will start on the second half of 2008 and will continue for about five years.

- [2] On February 2008, after the date of the balance, GTC China purchased land in Shenyang of a total area of 260,454 sq. m., with construction rights for over about 650,000 sq. m. in return to a sum of 35 million Euro. GTC China intends to develop on the land a project that will include mainly residential construction and at least 50,000 sq. m. for commercial uses. The shares of GTC China and Lucky Hope in the project will be equal. GTC China estimates that the cost of the entire project will amount to some €150M. Project construction will start on the second half of 2008 and will continue for about four years.

GTC China's estimates of project costs, projects construction start and completion dates are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction in China, costs of construction inputs at the estimate issue date, including prices of sub-contractors and specific data of every project. These estimates may not materialize, in whole or in part, or materialize differently, including materially different than expected, due to change of construction rights on the property, changes in construction inputs cost and unexpected delays and/or the materialization of all or some of the risk factors as described in section 8.5.21 herein.

- [F] Competition

The real estate market in China is a decentralized market, in which hundreds of large real estate companies, where top local mega companies specialize in construction of residential housing (e.g. Vanke and Forte), followed by companies from Hong Kong and Singapore (e.g., CapitalLand, CR Land and Swire), which operate in fields of commercial real estate and prestigious residential housing in cities of the first and second tier. In addition, numerous local companies operate mainly in the provinces of China, some of which also expand to central cities. Pursuant to the accelerated development of the commercial real estate market in cities of the first tier, many companies expand operations to additional cities from the second and third tier, resulting in land for commerce and housing price increase in these regions. Various regulations regulated recently by the Chinese government limit operation of small real estate companies, thus creating opportunities to purchase land from these companies. GTC China develops projects in cities of the second tier since 2005 and established an organizational infrastructure and connections with service suppliers and government entities, which help the company to expand its operations in cities where it already operates. GTC China intends to expand its operations to additional cities and regions at which local government promotes foreign investment, to avoid high land prices. GTC RE cannot estimate the share of GTC China in the Chinese real estate market.

[G] Following is a concentration of figures on income property projects under development and in phases of planning and construction in China:⁸³

City	Project name	Share of GTC Group	Date of purchase	Original cost of land (in thousands of Euro)	Title	Term of lease (years/end year)	Construction rights according to urban planning scheme (gross sq. m.)	Project description			Date of start of construction	Panned date of completion	Investment sum as of December 31 st 2007 (in thousands of Euro) ⁸⁴
								Land area (in sq. m.)	Net area for lease (in sq. m.)	Designation and further details ⁸⁵			
Chengdu	Galeria Chengdu	75%	2007	25,770	leasehold	40	83,470	20,896	49,000	Commercial center	2008	2010	15,399

⁸³ No income has been recognized yet in projects under development described in this section. Figures in the table relating to the planned date of completion, estimated cost of project completion and estimated total financial scope, are forward looking information as defined in the Securities Act, based on agreements entered with sub-contractors, Management experience in projects construction, const of construction inputs at the estimate issue date and specific data of every project. These estimates may not materialize fully or partially, or materialize differently, including materially different than expected, due to changes in factors on which these estimates are based and/or the materialization of all or some of the risk factors specified in section 8.5.21 herein.

⁸⁴ With original differences attributed to the project.

⁸⁵ The designation is as of the date of this statement, and can be changed as will be decided by GTC Group.

[H] Material agreements

- [1] On December 2005 GTC China contracted a purchase agreement, a joint venture agreement, a shareholder agreement and a loan agreement with companies of the Lucky Hope Group ("Lucky Group"). According to the aforesaid agreements, the parties are partners to a joint venture for the construction and development of a residential and commercial real estate project at the suburbs or the city of Shenyang. During 2006 and 2007 and after the date of the balance, GTC China contracted a similar set of agreements with Lucky Hope for all the other projects it develops across China and for all the real properties it purchased for the development of additional projects. At the agreements signed between the shareholders for each of the project ventures, it was also agreed that the board of directors of each project company will appoint six directors, half of whom would be appointed by GTC China and half by Lucky Hope. In each of the project companies a chairman of the board of directors will be appointed by GTC China, who would serve as the project company's official representative and seal holder, and the CEO of the project company will be appointed by Lucky Hope. The CEO of each of the project companies would be bound by the decisions of the board of directors. Until the date of this statement six joint ventures were established, managing six real estate projects at various phases in four cities in China. Most of the project companies are held by the parties in equal shares (50% each).⁹⁸
- [2] On July 2007 GTC China signed a contract for the purchase of real properties in Chengdu for the construction of a commercial center, in partnership with Lucky Hope Group. For further details see table in section 8.5.9[G] herein.
- [3] For further details on projects in China developed as part of the joined ventures of GTC China and Lucky Hope see tables in sections 8.5.9 [C] and [G] and 8.5.9[E] herein .

⁹⁸ For projects held in different shares see sections 8.5.9 [E][1] and 8.5.9[G] of this statement.

8.5.10. Material Investments

GTC Poland's activities in the Czech Republic are performed through four companies associated in Luxembourg, in each of which, GTC Poland holds shares granting approximately 31.62% of the capital and control rights.⁹⁹ GTC Poland's investment in each of the said companies is presented in its financial statements on the basis of balance value.

The activity characteristics of the four said companies are similar to GTC Poland's activity characteristics, in both the yielding real-estate field, as well as the residential real-estate field, including the matter of clients, marketing and distribution, suppliers, environment, competition, risk factors and so forth (see sections 8.5.8 [A] and [B] and 8.5.21 herein).

The companies are:

[1] Lighthouse Holdings Limited S.A ("**Lighthouse**")

Up to October 2007, Lighthouse held approximately 87.5% of the rights in a yielding office and commerce project under the name Lighthouse Towers in Prague. In October 2007, a deal was completed for selling full rights (approximately 87.5%) of Lighthouse in Lighthouse Vltava Waterfront Towers S.R.O, a company holding the said project, in return for a sum of 76.5 million Euro (of which, 11.5 million Euro were paid to the land owners). The deal reflected a value of 76.5 million Euro for the property, reflecting a return of 5.65%. The completion of the deal yielded a profit of approximately 1.9 million Euro and for Kardan NV a profit of some EUR 1 million. For further details about Lighthouse Towers, see the leased projects table, section 8.5.8 [A] [2] [d] herein.

Under the agreement with the Czech Ports Authority¹⁰⁰, Lighthouse has the option of leasing 24 hectares of real-estate (out of which, 1 hectare was realized as part of the Lighthouse Towers project, sold as aforesaid in section 8.5.10 [A] [1]), in return for a payment to the Czech Ports Authority of 15% of the lease fees received for areas rented in the project built on the leased land, but no less than a certain fixed amount per square meter, or alternately, 15% of the sums received from selling land in the project build on the leased property, but no less than a certain fixed amount per square meter. Lighthouse intends to realize the option of selling the real-estate or part thereof, and constructing residential and office projects on them, according to demand and subject to changes. In 2007, Lighthouse assigned part of the lease option to subsidiaries of Holesovice (as defined in section 8.5.10 [A] [2] herein) who exercised the option for an area of 30 hectares and who will pay the Czech Ports Authority in the aforementioned manner. For details

⁹⁹ After the balance date, an additional company has been associated in Luxembourg under the name ND Holdings S.A. ("**ND**"). GTC Poland holds ND shares granting it approximately 31.62% of capital and control rights in ND.

¹⁰⁰ The Czech Ports Authority is a private company owning the land on the banks of the Vltava River.

regarding the office project that Holesovice intends to construct on part of the areas leased according to the option it has under the said agreement (project name Prague Marina – Other Phases), see the table of yielding real-estate projects in construction and in planning and construction phases, section 8.5.8 [A] [2] [k] herein.

[2] Holesovice Residential Holding S.A. ("Holesovice")

As of the date of the report, Holesovice holds 93.25% of the rights in the residential project in construction, named Prague Marina – Phase 1. The remaining rights in the projects are owned by a private company controlled by the CEO of the holding companies in the projects in the Czech Republic – Lighthouse, Holesovice, Vokovice, CID and ND (in this section – **"the CEO's company"**). In December 2007, Holesovice sold 0.75% of its holdings in the project company to the CEO's company in return for the shares' nominal value (the sum is not crucial), this under the agreement between the parties. For the details of this project, see the residential project table in section 8.5.8 [B] [2] (d) herein.

[3] Vokovice BCP Holding S.A. ("Vokovice")

Vokovich owns 93.25% of the rights in a yielding office project named Sarka Business Park. The remaining rights in the project are owned by the CEO's company. For the details of this project, see the leased project table (section 8.5.8 [B] [2] (d) herein). In addition, Vokovice is constructing on areas it owns a residential project named Zelena Mesto (Green City). For the details of this project, see the residential project table (section 8.5.8 [B] [2] (d) herein). In December 2007, Vokovice sold 0.75% of its holdings in the project company to the CEO's company, in return for the shares' nominal value (the sum is not crucial), this under the agreement between the parties.

[4] CID Holding S.A. ("CID")

CID sold in October 2006 its rights (94%) in a yielding office project. For the details of this project see the sold project table (section 8.5.8 [A] [2] (j) herein).

In addition, CID intends to construct on the areas it owns (93.25%), which are in planning phases, a combined office and commercial center (mall) project named Sazka. The remaining rights in the project are owned by the CEO's company. In December 2007, CID sold 0.75% of its holdings in the project companies to the CEO's company, in return for the shares' nominal value (the sum is not crucial), this according to the agreement between the parties, so that it holds, after the sale, 93.25% of the project companies which are constructing the project discussed in this section 8.5.10 [A] [4]. For the details of this project, see the construction phase yielding real-estate project table (section 8.5.8 [A] [2] (k) herein).

[B]. GTC Investments

[1] GTC RE started operating in Western Europe in November 2005 through a project it shared with Property and Building. The shared project operates through GTC Investments, held by GTC RE and Property and Building. At the time the shared project was constructed, GTC RE and Property and Building held approximately 49%, each, of the issued capital of GTC Investments. In February 2007, the owner of the minority shares transferred 1.25% of GTC Investment's share capital to Property and Building and after the transfer, as at the date of this statement, this holder holds 1.25% of GTC Investments' shares capital¹⁰¹. In May 2006, GTC RE transferred 2.5% of the GTC Investments share capital to another shareholder.¹⁰² As of the time of the report, GTC RE's share in GTC Investments is approximately 46.25%, Property and Building's share is 50%, and the remainder of the GTC Investment share capital is held by two minority shareholders.¹⁰³ GTC RE granted Put options to these two minority shareholders, which entitle the minority shareholders to oblige GTC RE to buy from them their holding in GTC Investments. The Put options may be exercised during a period of 12 months, starting on the latest between five (5) years from November 2005, or from termination of their The shared project operates mainly in the field of investment in yielding projects in Germany and Switzerland. As aforesaid in section 8.5.2 herein, in 2006 GTC RE decided not to expand its investment in yielding properties in Western Europe, and has even examined the possibility of minimizing them. Following the adoption in the International Financial Reporting Standards (IFRS), GTC RE consolidates the financial statements of GTC Investments in its financial statements , in proportional consolidation.

[C] Summary of Western European Project Data

In November 2005, GTC Investments has bought approximately 85% of the shares of the Blitz Company, which holds about 94% of a portfolio of seven German real-estate companies, which hold seven yielding office buildings located in central German Cities (Bonn, Hamburg, Munich, Mainz and Essen), over an overall area of approximately 55,000sm, this in return for approximately 108 million Euros. Most of the property is leased to banks and governmental companies, and produces an annual investment from the lease fees of approximately 10.3 million EURO for GTC Investments.

In April 2006 a deal was completed, in which GTC Investments bought about 80% of the issued shares capital of Durango Switzerland B.V., which holds a portfolio of nine office buildings in central cities in Switzerland (such as Bern, Zurich and

¹⁰¹ The minority shareholder is Mr. Alan Itzkovich, who holds 1,25% of GTC Investments' issued shares capital.

¹⁰² The other shareholder is Mr. Eli Elroi, a key member of the GTC Group ("Elroi").

¹⁰³ The minority shareholder is Mr. Alan Itzkovitch, who holds 1.25% of GTC Investment's issued capital.

Fribourg), over an overall area of approximately 50,500sm, in return for approximately 61.4 million Euros. Most of the property is leased under long-term agreements to one of Switzerland's leading telecom companies, and they produce an annual income from lease fees of approximately 4.1 million Euros for GTC Investments.

GTC registered in 2006 and 2007 profits for GTC Investment's activities at the sum of €2.9M and €2.1M , respectively. Approximately 2.4 million of the profits GTC RE has registered, as aforesaid, in 2006, are derived from GTC RE's part in the revaluation of GTC Investment's assets.

The share of Kardan NV in profits generated by operations of GTC Investments in 2006 and 2007 amounted to EUR 1.7 million and to EUR 12 million, respectively.

8.5.11 Human Capital

GTC RE

GTC RE receives management and consultation services from Kardan NV, and from other related parties, and as of the time of the report, three employees work for GTC RE (two of which maintain the GTC RE headquarters in India, as detailed in section 8.5.11).

The GTC Poland Group

The companies coordinating the activities of the GTC group in Poland, Romania, Hungary, the Czech Republic, Serbia, Croatia, Slovakia, Bulgaria and Ukraine are managed, each, by a local headquarter, coordinating activities for that country. Sometimes, the management of one of the headquarters manages the headquarters of a number of countries through the provision of management services. The local headquarters in each of the countries deal with the initiation and the development of new projects, as well as the marketing and management of existing property.

As at March 13, 2008 and as at December 31, 2007, GTC Poland employed 175 employees. As at December 31, 2006, GTC Poland employed 137 employees.

GTC China

The GTC China headquarters, located in Beijing, have been expanded in 2006 with the addition of a CEO, a COO and a chief engineer, and have also been expanded in 2007, with the addition of finance managers, project managers, a legal counsel and a marketing manager, who deal with the management of GTC RE investments in China, as well as the finding and initialization of new projects.

The companies running the projects in the GTC China group employ, as of the date of this report, and as at December 31, 2007, 146 employees. This companies employed 100 employees, as at December 31, 2006.

India

As of the date of the report, GTC RE employees two employees (out of the employees mentioned in this section 8.5.110 above) who are setting up the GTC RE headquarters in India. Upon establishing a company to run GTC RE operations in India, these two employees will be employed by the newly incorporated company.

Allocating GTC RE Share Options

GTC RE allocated options to employees of the Kardan Group which may be exercised in lots over different periods..

8.5.12 Marketing and Distribution

[A] The GTC Poland Group - The marketing policy of the lease and residential projects executed by the GTC Poland group is based, as much as possible, on the beginning of the lease or sale of the properties built as part of the different projects, as soon as the early construction phases, and on the division of each project to a number of phases, in order to adjust the development rate according to market demand.

In Central-Eastern Europe, project marketing is performed through the GTC Poland Group marketing personnel, as well as through engagements with international companies or local companies which deal with the marketing of the projects. The GTC Poland is independent of all the said entities. Under agreements with the said entities, they are paid the commission which is customary in the market.

[B] GTC China - In activities in China, the GTC Group is aided by marketing companies in marketing the projects. Marketing is based on branding the project, creating sale sites and designing marketing packages, segmentation of the target audience, direct marketing to potential buyers, billboards in the project area, and in the public transportation leading to it, production of launching events for each phase in the project, etc. It should be stated that marketing in the first three projects in China is performed through companies connected to GTC China's partner – Lucky Hope. Marketing through the local partner has been chosen only out of professional considerations, and the GTC Group is not obligated to perform marketing solely through Lucky Hope. The project companies are independent of the marketer. GTC China runs the marketing and leasing process in the commercial project directly, while using international and local service providers.

The GTC Group sale and marketing expenses were, in 2007, 2006 and 2006, a sum of 6,956, 3,771 and 3,391 thousand Euros, respectively.

8.5.13 Suppliers

- [A] The GTC Poland Group - GTC Poland group companies in different countries serve as the principle entrepreneur of each of the projects they are involved in, and usually engage independent subcontractors for the actual execution of each project, including the planning, development, construction and marketing of the projects.

For the purpose of constructing the buildings, the companies usually engage leading local construction contractors. Construction in Central-Eastern Europe is usually performed in the turn-key method, through a principle contractor, who works with the relevant GTC Group company for the purpose of building the project.

- [B] GTC China - GTC China operates as a real-estate entrepreneur, and performs development processes through local principle contractors and subcontractors in the field of planning, execution and marketing (see section 8.5.9 herein). GTC China selects the suppliers and contractors, for each project phase, on the basis of price quotes it receives from a number of experienced companies in each field, with engineers employed as GTC China workers running the project and supervising over the work performed by the contractor companies.

8.5.14 Funding

- [A] GTC RE Funding

GTC RE funds its activities through loans and bonds as follows:

- [1] Debt to Kardan Real-Estate – On August 3rd, 2004, a capital note amendment was signed ("**amended capital note**"), issued by GTC RE to Kardan real-estate for the acquisition of holdings in approximately 42.63% of the GTC Int'l capital from Kradan Real-Estate and a previous capital note, issued in January 2003 by GTC RE to Kardan Real-Estate for the funding of an earlier acquisition of GTC Int'l shares, in such a manner that a total of 292,500 thousand NIS of the capital note was capitalized to 48,984,150 GTC RE shares, allocated to Kardan Real-Estate, and it has been determined that the capital note balances, a total 145,049 thousand NIS, will be placed at GTC RE's disposal as a loan, linked to the Dollar with a LIBOR rate annual income, plus 2.25%. In February 2007, GTC RE realized its right under the loan agreement, and repaid the loan balance, which was at that time a total 11,340 thousand Euros, in early repayment. For details of the loan agreement between GTC RE and Kardan Real-Estate, see section 8.5.18 [A] [2] herein.
- [2] As of March, 13, 2008, bonds (series A) in a nominal value of NIS24,620,151.6 convertible to GTC RE, are in circulation. The bonds (series A) entail an annual interest of 6%, are linked (fund and interest) to the consumer price index published in July 2004, and are about to be repaid in one installment in August 31st, 2009.

On January 7th, 2008, the bonds (series A) trustee, U-Bank Trust Company Ltd., has given its resignation as the trustee for the bond (series A) holders. The reason for the resignation, as given by the trustee, is the possible risk that the trustee will find itself in a conflict of interests, as defined in the Security Authority's Guidelines, as a result of actions which are out of its control. As of the time of the report, the court's approval of the said resignation has not been received yet, and a new trustee has not been appointed for the bond holders (series A).

- [3] In January 2006, GTC RE signed an agreement with Israel Discount Bank ("**Discount Bank**"), under which GTC RE received from Discount Bank a loan in a scope of 24.8 million Euros ("**first Discount loan**"), bearing a Euribor interest plus 2.4%, for a period of 8 years. As collateral for repayment of the first Discount loan, GTC RE has mortgaged GTC Poland shares. In addition, GTC RE has undertaken, towards Discount Bank, financial covenants and additional obligations, including maintaining a concrete equity ratio at a rate of 28%, and maintaining a minimal concrete equity, at a sum of 40 million dollars (approximately 27 million Euros). In addition it has been determined that changing the current control structure in GTC RE, so that the ownership and control of the Kardan Group in GTC RE and GTC Poland shall be decreased from 40%, shall constitute ground for putting the first Discount loan up for immediate repayment. As of the date of the report, GTC RE fulfills the financial obligations towards Discount Bank.
- [4] In December 2006, GTC RE signed an agreement with Discount Bank ("**The Second Discount Loan**"), under which Discount Bank has agreed to place at GTC RE's disposal, in installments, over a period of 3 years from the signing of the agreement, loans the total amount of which shall be a sum of up to 100 million Euros, including the first Discount loan, this against the mortgage of GTC Poland shares. The second Discount loan shall entail a Euribor + 1.8% annual interest, and is given for a period of 14 years. It was agreed, that the terms of the first Discount loan shall remain applicable until the end of 2007, and that later on, all the second Discount loan terms shall be applied to it. As part of the loan agreement, GTC RE has undertaken, towards the Bank, different covenants, including the undertaking to maintain a concrete equity to balance ratio of 28%, and a ratio of 2.2 between the asset value and the outside debt, as well as to maintain a minimal equity of 87 million dollars (approximately 59 million Euros). As of December 31st, 2007, and the date of the report, GTC RE has used a total of 70 million Euros of the framework arranged in the agreement (including the first Discount loan to which all terms of the second Discount loan apply).
- [5] In February 2007, GTC RE raised a total of 550 million NIS, as part of a private issuance of non-negotiable bonds (series B) for institution investors, which were given an AA- rating by Maalot the Israel Securities Rating Company Ltd. ("**Maalot**"). According to the rating report published by Maalot, GTC RE has undertaken covenants, and violation thereof may cause the lowering of the bond (series B) rating. The bonds (series B) are linked to CPI, and entail a fixed annual

interest at a rate of about 4.9%. Up to the trading registration, GTC RE paid bond (series B) holders an additional interest at an annual rate of 0.5%. On May 28th, 2007, GTC RE published a forecast, as part of which, the bonds (series B) were registered for trading in the stock market, on June 2007. In February 2007, following the raising of the bonds (series B), and for the purpose of matching the GTC RE undertaking payments to the GTC RE cash flow resources, stated in Euro, GTC RE engaged an Israeli bank in a deal under which, starting on the day the deal is entered, the bank shall pay to GTC RE the linked NIS cash flow required for repaying the bonds (series B), and on the other hand, GTC RE shall pay the bank a corresponding cash flow in Euros, with a fixed annual interest of 5.94%. Subject to the details of the deed of trust regarding the bonds (series B), the bonds (series B) trustee shall be allowed to put up for immediate repayment the unpaid balance of the bonds (series B). In November 2007, GTC RE expanded the bond series (series B) by 783,967,977 NIS in nominal value, in a private allocation for institution investors, in return for a sum of 805,919 thousand NIS (approximately 143 million Euros). The terms of the said issued bonds (series B) are equal to the bond (series B) terms which were registered for trading according to the forecast mentioned above in this section, published by GTC RE in May 2007. The rate of uniform weighted discount for the bonds (series B) of GTC RE is 1.9%. In December 2007, and in January 2008, after the balance date, following the raising of the bonds (series B), and for the purpose of matching the payments of GTC RE undertakings to the GTC RE cash flow resources, which are stated in Euros, GTC RE engaged Discount Bank in two deals, under which, starting on the date each deal is entered, the bank shall pay GTC RE the linked NIS cash flow required for repaying the bonds (series B), and on the other hand, GTC RE shall pay the bank a corresponding cash flow in Euros, with a fixed annual interest of 6.44%, for 194,568,989 NIS in bond (series B) nominal value, and an annual rate of 6.21% for 193,430,049 NIS in bond (series B) nominal value. Proceeds received from the bonds (series B) for which no securing transactions were made, were deposited in NIS deposits. As collateral for securing transactions detailed in this section 8.5.9 {A} [5], GTC RE mortgaged a deposit, amounting to some EUR 1,500 thousand as at December 31, 2007.

- [6] For the purpose of funding GTC Int'l shares from ADRI by GTC RE (see section 8.5.18 [A] [3] [D] herein), ADRI has given GTC Int'l a loan of 50 million dollars (approximately 38.6 million Euros). In January 2007, GTC RE has repaid ADRI the remainder of the loan, in an early repayment. As a result of the early repayment, GTC RE registered a profit of approximately 1.328 million Euros (before tax) and Kardan NV recorded a profit of some EUR 0.8 million.
- [7] In addition, for the purpose of funding the purchase of GTC Int'l shares from ADRI, GTC RE has given GTC Int'l, in December 2005, a loan of approximately 10 million dollars (approximately 8.5 million Euros). In 2006, GTC International was merged into GTC RE and therefore the balance of the said loan was cancelled.

[8] In the month of December 2005, GTC RE signed along with GTC International on a bond with the Israeli Phoenix Insurance Company Ltd. and Hadar Insurance Company Ltd. (together: "**the Phoenix**"), according to which GTC International received a loan from the Phoenix in a scale of about 17 million Euro. As a result of the completion of the merger between GTC International and GTC RE this loan was assigned to GTC RE. In order to ensure the payment of the loan GTC RE mortgaged GTC Poland shares held by her and obligated towards the Phoenix in various undertakings, financial and others. GTC International used the loan funds to finance its share acquisition from ADRI, according to a deal signed in October 2005. In the month of July 2007 the loan was paid according to its conditions.

[B] Financing the Operations of GTC Poland and Its Subsidiaries

[1] The remainder of the short-term loans and credit (mostly current maturities of long-term loans) received by GTC Poland and its subsidiaries, amounted on the day of December 31st, of the years 2006 and 2007 to about €3,030K and about €1,537K, respectively.

The remainder of the long-term loans and credit received by GTC Poland and its subsidiaries amounted on the day of December 31st of 2006 and 2007 to about €306,559K and about €608,892K, respectively.

[2] The companies of the GTC Poland group have loans which carry a variable interest linked to the changes in the Libor, Euribor or Babor interest rates.

[3] Normally, in its financing agreements with banks the GTC Poland group undertakes to meet certain financial standards set in those agreements, of which the chief ones are: keeping a certain balance in bank accounts; meeting a certain ratio between the loan and the project value; meeting a certain ratio between the net income from renting the financed project and the sums of various expenses, such as interest and commission; meeting certain ratios between the net renting of the financed project and the fund and interest the borrowing company must pay for a period of a quarter. As of the day of the report, the GTC Poland group members meet their undertakings in relation to the financial ratios.

[4] The bank credit which the GTC Poland group received for starting projects which it initiates is ensured in most cases by mortgages to the loaning bank of the project, its expected income, and the insurance rights. In some of the cases shares of the company running the project are mortgaged to the financing bank

As of December 31st, 2007, the balance of mortgaged undertakings by the GTC Poland group as said amount to some EUR 330 million.

[5] In March 2006 GTC Poland issued shares for institutional investors. For details see section 8.5.3 [F] herein.

[6] On April 25th, GTC Poland announced the completion of its bond raising at a scale of 800 million Zloty (about 211 million Euro). The bonds are not convertible

(straight) and are not ensured with any securities. The bonds were issued to leading institutional investors in Poland, in two series: one series, accounting for approximately 90% of all bonds issued, due for repayment after 7 years, and the remaining bonds in a second series, due for repayment 5 years from the date of issue. The bonds were raised in local currency (Zloty) and carry local variable interest to be paid in semi-annual payments. The sum raised shall serve GTC Poland for procuring additional lands and constructing additional projects in Central-Eastern Europe.

After raising the bond capital as mentioned, GTC Poland engaged in an interest-change transaction, whereby GTC Poland would pay a fixed interest at an annual rate of 5.745%. Additionally, in that transaction, GTC Poland exchanged the cash flows expected from the bonds from Zloty to Euro.

[C] Financing for GTC China

Banking accompaniment for residential real estate projects is not common in China, and therefore all China projects are funded through loans from GTC RE, shareholder equity, supplier credit, advance payments from buyers of apartments and lien of property against receipt of financing from the banks. In addition, payment for the land was carried out, in certain cases, in installments, so that it is sometimes possible to finance some of these payments through sales revenue. The shareholder equity and loans invested and provided by GTC China for the China projects amounted, as of December 31, 2007 to approximately 53 million Euro, and as of the date of this report to approximately 88.5 million Euro.

[D] Financing for GTC Investments

[1] In order to finance the procurement of Blitz assets, Blitz and Blitz Property Companies entered a finance agreement with a bank on December 2005, whereby Blitz was provided with a non-recourse bank loan, to the amount of approximately 96.5 million Euro, against lien of Blitz's assets and rent. The loan carries an annual interest of Euribor plus 1.65%, and is repaid in quarterly installments of about 465 thousand Euro, starting January, 2006. The remainder of the loan to the amount of approximately 84 million Euro shall be repaid in January 2013.

[2] In order to finance the procurement of the real estate assets in Switzerland, Durango signed in April of 2006 a finance agreement with a bank, whereby it was provided with a non-recourse bank loan to an amount of 80 million Swiss Franc (approximately 50 million Euro), against lien of the real estate assets and rent. The loan carries an annual interest to the amount of Swiss Franc Libor plus 1.3%, and is repaid in quarterly installments starting July, 2006.

[E] Liens and Securities

- [1] GTC RE mortgaged GTC Poland shares to the Israel Discount Bank at a rate of about 250% of the loan balance, as detailed under sections 8.5.14 [A] [3] and [4] herein. As of the date of this report, 23,460,550 of GTC Poland's shares held by GTC RE, and constituting 10.69% of GTC Poland's share capital, are mortgaged.
- [2] GTC RE mortgaged to the Phoenix GTC Poland shares constituting approximately 0.4% of GTC Poland's share capital. The loan for which the shares were mortgaged as security was repaid in July of 2007 and the lien was removed in March 2008, after the balance sheet date.
- [3] GTC Poland serves as a guarantor to a third party for the Lighthouse company's obligation to pay said third party, which sold to Lighthouse shares in Lighthouse Vltava Waterfront Towers S.R.O. ("**Waterfront**") shares to Lighthouse¹⁰⁴, such proportionate share (proportional to GTC Poland's holdings in Lighthouse) of the "additional consideration", as defined under section 8.5.18 [B] [2] herein. For additional details, see diction 8.5.18 [B] [2] herein. GTC Poland also serves as a guarantor to Lighthouse's obligation to a third party for Ayrad Investments Ltd.'s ("**Ayrad**")¹⁰⁵ share in Lighthouse.
- [4] As of the date of this report, GTC Poland has provided various securities to a total amount of approximately €43M to third parties, which provided loans for companies of the GTC Poland group.

8.5.15 Taxation

GTC RE is a company located in Holland, and therefore is subject to taxation as per Dutch law.

- [[A] According to the provisions of the Income Tax Ordinance [New Version], 5721-1961, and as per the provisions of the treaty signed between Israel and Holland for the prevention of double taxation and fiscal evasion, GTC RE is required to pay taxes in Israel only for revenue gained or made in Israel, and for capital gains from realization of real estate assets in Israel or rights through a real estate association in Israel or goods serving as part of part of the assets of the company's permanent institution in Israel. As of the date of this report GTC RE does not hold any assets in Israel and does not make any revenue in Israel.
- [B] GTC RE received final income tax assessments in the Netherlands up to 2000, inclusive.
For details of taxation in the Netherlands, see section 16.1 herein.

¹⁰⁴ A Czech company that holds the yielding offices and commerce project (Lighthouse Towers) in Prague, was sold by Lighthouse on October 2007. For details, see section 8.5.8 [A] [2] [j] and 8.5.10 herein.

¹⁰⁵ Ayrad Investments Ltd is a privately owned company owned by Elroi.

[C] Taxation of Companies Holding Real Estate

The GTC Group is required to pay taxes for taxable income for each company, according to the local tax laws in each particular country in which the GTC Group companies are incorporated. The taxability of the foreign companies holding real estate, among other things, is due to income gained from selling assets or alternatively for rent fees received, net of expenses made in direct relation to the assets, including interest expenses incurred through loans for procurement of the assets, maintenance and management expenses for the assets, and deductible depreciation for part of the cost of the assets (at a varying rate on an asset-by-asset basis), and all as per the provisions of the local tax laws in the country in which the company holding the real estate is incorporated. The rates of taxation on income vary from country to country and range from 10% - 33%, for 2007. In some of the countries, it is possible that there also be VAT implications for transactions of GTC Group.

For details of taxation information in countries where GTC Group operates, see section 16.3 herein.

[D] The effective tax rates of GTC RE are different than the statutory tax. This difference stems mainly from the fact that most of GTC RE income come from its part in the profits of subsidiaries and included companies, which are tax free because of the exemption of participating in the Dutch tax regulations.

8.5.16 Environmental Issues

The GTC group is surveying the lands which it acquires using environmental specialists in the various countries. The examination is conducted according to the European Union standards of the environment. These examinations are usually carried out during the due diligence examination which accompanies the land acquisition in order to make a final decision to acquire the land.

8.5.17 Limitations and Supervision over GTC RE Operations

The GTC group operations are subject to laws and regulations in the various regions of its operation. The laws and limitations are in the fields of planning and construction regulations, land regulations, municipal supervision, and environmental regulations.

In December 2004 the law regarding the amendment of book 2 of the Dutch Civilian Code was validated, in regards to the corporate governance structure adjustment of the Best Practice of Corporate Governance which the Tabaksblat committee presented in December 2003 (“**Tabaksblat Code**”) which applies to companies incorporated in Holland, traded in a known stock market in Holland and/or outside of Holland. For additional details, see section 17.2 herein.

8.5.18 Significant Agreements

Below is a concise description of the significant agreements chief principles, which are not within normal business, in which the GTC group companies are a party or that for the best knowledge of the GTC group members they are entitled of, including agreements which were valid for the three years before the publication of the report or which influenced the activity of GTC in the same period:

[A] GTC RE¹²

[1] In the month of November 2003, GTC RE acquired of Kardan Real-Estate about 42.63% of GTC International's issued capital for a capital note. For more details about this agreement and the payment of the loan balance see section 8.5.14 [A] [1] herein.

[2] In the month of August 2004, GTC RE became attached in a loan agreement with Kardan Real-Estate, in which GTC RE will grant Kardan Real-Estate five loans in a total sum of up to 26,000 thousands dollars (about 21,500 thousand Euro). In the month of November 2004, GTC RE granted Kardan Real-Estate a loan of 10,000 thousand dollars (about 7,500 thousands Euro). In the agreement it was determined that four additional loans of 4,000 thousands dollars each (about 3,000 thousands Euro) would be granted on the day of November 1st in each of the years 2005 to 2008. In the agreement it was agreed that the loans will yield an annual interest in the Libor interest rate plus 2.25%. The loans will be fully paid by Kardan Real-Estate on the day of April 30th in each one of the years 2005 to 2009 in such a way that each loan will be paid on the day of April 30th following the day of the loan granting. Kardan Real-Estate could pay the loans by way of offset of all or any of GTC RE debts to Kardan Real-Estate and also Kardan Real-Estate could pay any one of those loans, all of them or some of them, before the payment dates as mentioned or postponed the payment with the parties' agreement. In action, according to a choice made by Kardan Real-Estate in the years 2005, 2006 and 2007 Kardan Real-Estate was not granted the loans which GTC RE should have granted it and the loan granted in 2004 was fully paid.

[3] In relation to GTC International the following agreements were signed:

(a) In the year 2000, GTC International, its shareholders and FIC were attached in a sale/acquisition agreement, which had given FIC the right to exercise, under certain conditions, a mechanism which will make GTC International and its other shareholders buy the GTC International shares held by FIC or alternately agree to the sale of all GTC International shares in the hands of the shareholders to a third party in a price no less than 9% of the price set by the external assessors. In the months of April 2005, FIC declared its intention to activate the mechanism. In the months of August 2005 and agreement was signed according to which GTC RE

¹² Including significant agreements which GTC International signed and were assigned to GTC RE after the completion of their merger.

and ADRI acquired FIC's holdings of GTC International which were about 4.03% of the GTC International shares pro rata to their holdings in GTC International ("**the FIC deal**") and this for a total of about 12 million dollar (about 9.8 million Euro). The part of GTC RE in the said acquisition was about 3% of the GTC International share capital for a sum of 8.97 million dollar (About 7.4 million Euro) which was paid in cash at the date of the transaction completion in December 2005.

- (b) In the months of June 2005 GTC RE engaged in an agreement with Kardan NV, under which it was agreed that Kardan NV will pass to GTC RE its full holdings in GTC International which were about 10.29% of the issued shares capital of GTC International. For further detail see section 8.5.3 [B] [1] herein.
- (c) In the months of August 2005 two agreements were signed, under which it was agreed that at the time of the completion of the FIC deal, GTC RE will acquire from two minority shareholders of GTC International their holdings, in conditions similar to the FIC deal as follows: GTC RE and ADRI will acquire from Tarata Investments NV ("**Tarata**")¹³ her holdings of GTC International pro rata for their holdings. Accordingly, GTC RE acquired from Tarata about 2.26% of the GTC International shares for a sum of 6.74 million dollar (about 5.5 million Euro). Concurrently, GTC RE acquired all of Ayrad's holdings of GTC International which were about 2.91% of the GTC International shares for a sum of 8.66 million dollar (about 7.1 million Euro). The deal with Tarata was completed in the month of December 2005 and the deal with Ayrad was completed in the months of January 2006.
- (d) In the months of October 2005 an agreement was signed with ADRI according to which GTC RE and/or GTC International acquired all of ADRI's holdings in GTC International which were, after the completion of the deals specified in sections 8.5.18 [A] [3] (a) and (c) herein,

About 24.5% of the GTC International shares for a total sum of 91.6 million dollar (about 76.1 million Euro). The deal was completed in the month of December 2005. Concurrently GTC International signed a loan agreement with ADRI according to which ADRI granted it a 50 million dollar (about 42 million Euro) loan. For details about the payment of the loan see section 7.5.14 [A] [6] herein.

After the completion of the deals described in section 8.5.18 [3] herein GTC RE held all the shares of GTC International and the shareholder agreement between the GTC International shareholders expired. In the year 2006 GTC International was merged into GTC RE.

- [4] In relation to the shares of the GTC Poland subsidiaries the following agreements

¹³ A private company owned by Mr. Alan Itzkovitch, who serves as a member of the managing board of directors of Kardan NV and as a member of the managing board of GTC RE.

were signed:

- (a) In the months of August 2005 agreements were signed ("**the subsidiaries agreements**") according to which it was agreed that GTC Poland and the additional shareholders of their specified subsidiaries will acquire the holdings of FIC in GTC Serbia, GTC Romania and GTC Hungary. The shares were acquired pro rata to the holdings of the shareholders in the aforementioned companies. According to the said agreements GTC Poland acquired about 9.92% of the GTC Hungary shares for a sum of about 3.46 million dollars (about 2.85 million Euro), about 11.6% of the GTC Romania shares for a sum of about 2.65 million Euro and about 9.92% of the GTC Serbia shares for a sum of 0.77 million Euro. In addition it was agreed that the shareholders will grant the subsidiaries owners loans, pro rata to their holdings, for the payment of the owner loans which were granted to the subsidiaries by FIC. The part of GTC Poland in the said owner loans was about 3.97 million dollar (about 3.26 million Euro). The price agreed in the subsidiaries agreements was set, among other things, based on the value estimations in relation to the subsidiaries assets, appraised by two external assessors. Subsidiaries agreements were completed in September 2005.
- (b) In the month of October 2005 an agreement was made between ADRI, GTC Poland, and Ayrad according to which GTC Poland and Ayrad acquired ADRI's holdings in GTC Serbia, GTC Romania, GTC Croatia, and GTC Hungary pro rata of the holdings of GTC Poland and Ayrad in the said companies. According to the said agreement, GTC Poland acquired about 21.9% of the GTC Hungary shares, 20.8% of the GTC Romania shares, about 14.7% of the GTC Croatia shares, and about 21.9% of the GTC Serbia shares for a total sum of about 19.4 million dollars (about 16.4 million Euro). In addition GTC Poland granted the said companies an owners' loan for the payment of the owner loans granted to the said companies by ADRI. The sum of the owners loan as said is about EUR 1.8 million. The transaction was completed in December 2005.

After the completion of the transactions described in section 8.5.18[4] of the report GTC Poland holds about 97.5% of the GTC Hungary and GTC Serbia shares, about 94.6% of the GTC Romania shares, and about 97.2% of the GTC Croatia shares. The remaining shares in the said companies are held by the Chairman of GTC Poland Directorate ("**The Chairman**") and/or by a company he holds.

- [5] On the day of November 29th, 2005 GTC RE signed an agreement on a joint venture with Properties and Buildings Corp (PBC) which will operate through GTC Investments. GTC RE holds at the time of the report about 46.25% of the issued capital of GTC Investments and PBC holds as of this date 50% of the GTC Investments issued capital ("**main shareholders**"). The remainder of the GTC

Investment shares are held by two minority shareholders¹⁴. In the agreement it was decided that GTC Investments will deal with the location, development and management of real-estate assets in western Europe. The parties of the agreement undertook to give priority and offer GTC Investments any investment in a business opportunity related to real-estate projects in western Europe. In March 2007, the main shareholders signed a document, according to which each side releases the other side of its obligation to give priority and to offer any business opportunity to GTC Investments. However, the parties agreed to continue and cooperate on an ad hoc basis.

- [6] In the months of January and December 2006, GTC RE signed agreements to receive loans in a sum of up to 100 million Euro from the Discount Bank, as specified in section 8.5.14 [A] [3] and [4] herein.
- [7] In the month of January 2007, GTC RE signed a trust note in relation with the issuing of bonds (Series b) for institutional investors in a scale of 550 million NIS. The trust note applies also to about 784 million NIS worth bonds (Series b) issued within the expansion of the series in the month of November 2007. For further details see section 8.5.14 [A] [5] herein.
- [8] In the month of October 2005, GTC International signed an agreement with ADRI to receive a loan of up to 50 million dollar (about 42 million Euro). In the month of February 2007, GTC RE paid this debt to ADRI before the payment date according to the said agreement. For further details about this agreement see section 8.5.14 [A] [6] herein.
- [9] In November 2007, GTC RE signed an agreement memo with D.S. Kulkarni Developers Ltd. (“**DSK**”), a registered public company in India whose stocks are traded in the Bombay stock market, with regards to the initiation and development of a residential and commercial project in the Indian city of Puna. In accordance with the agreement memo, the parties will establish a joint venture to be strengthened by GTC RE and DSK in equal amounts. DSK will transfer the property bloc that it owns, which has an area of approximately 1 million square meters and is located in the Indian city of Puna, to the joint venture. The building rights that are linked to the property bloc enable construction of approximately 1.5 and up to 2 million square meters and the parties intend to gradually build a commercial project (on approximately two thirds of the property bloc) and a residential project (on approximately one third of the property bloc). In return for its rights in the joint venture, GTC RE shall transfer a sum equivalent to 64 million Euros in Rupees to the joint venture. Approximately 37 million Euros shall be paid upon the fulfillment of dependent conditions, as detailed in the agreement memo, including the receipt of necessary construction permits. The

¹⁴ One of the minority shareholders is Mr. Alan Itskovitz, serving as a member of the managing board of directors of Kardan NV and as a member of the managing board of GTC RE. The other shareholder is Mr. Elroi..

remainder of the payment shall be paid in two equal sums which are dependent upon achieving certain goals to which the parties have agreed. The completion of the transaction according to the agreement memo is conditional upon the fulfillment of various dependent conditions, including the receipt of approval of the board of directors of both parties to the transaction, the preparation of a suitability assessment, and the signing of a detailed agreement. Moreover, the completion of the transaction is conditional upon the receipt of approval of the property bloc as a Special Economic Zone, which provides tax benefits. Transaction closing is uncertain.

[B] GTC Poland and Its Subsidiaries

- [1] For details regarding the agreement that entitles Lighthouse to an option to lease the property in the Czech Republic, see section 8.5.10 [A] [1] herein.
- [2] According to the agreement by which GTC Poland purchased its holdings in Lighthouse in, Lighthouse made an obligation to pay the seller 20% of the yield (IRR),¹⁰⁶ above a yield at a rate of 20%, to be received by the Lighthouse shareholders and companies linked to the shareholders, until the current Lighthouse shareholders sell all of their shares, whether directly or indirectly, in Lighthouse (“**the additional compensation**”). The yield rate shall be calculated during each period as an accumulation from the date of transaction execution (December 2001) and up until the date of calculation. The Lighthouse shareholders guaranteed, each according to his/her portion¹⁰⁷ of the share rights and without a mutual guarantee between them, to pay the seller their relative portion for Additional Compensation if Lighthouse does not meet its obligations.
- [3] In December 2005, GTC Poland signed an agreement to sell its assets at a rate of 5% in the traded Polish company, Orbis S.A., for a sum of 19.5 million Euro. The sale was completed in December 2005. The completion of the transaction generated a 1.2 million Euro profit, before tax, for GTC RE and a profit of some EUR 0.7 million before tax to Kardan NV..
- [4] In December 2005, GTC Poland signed an agreement to sell 50% of its holdings in its subsidiary which owns the Galeria Kazimierz commercial center in Krakow, Poland, for 48.7 million Euro. In the financial statements prepared according to IFRS regulations, due to the revaluation of the assets the aforementioned sale generated no profit. For additional details regarding this transaction see the table in section 85.8 [A] [2] (d) herein.

¹⁰⁶ Value of the capital of funds received by the shareholders and which are derived from their investments in Lighthouse, including funds received due to the transferral of Lighthouse shares or of a company linked to Lighthouse, cash dividend payments, interest payments for share capital and loans, redemption of shares, management fees, development fees, consultation fees, success fees etc., excluding payments received as a result of transferring stocks between Lighthouse shareholders and shareholders of companies linked to Lighthouse, with the deduction of investments of shareholders whether in capital or ownership loans.

¹⁰⁷ GTC Poland guaranteed the obligations as well for the obligation of Irad. See clause 8.5.14[E] of the report.

- [5] In December 2006, GTC Poland completed the sale of the Mokotow Business Park office complex in Warsaw. For additional details see section 8.5.3 [G] herein and the table in section 8.5.8 [A] [2] (i) herein.
- [6] In March 2006, GTC Poland signed an agreement with the Chairman, which was amended in November 2006, regarding the Chairman's share holdings in the subsidiaries of GTC Poland and companies related to GTC Poland ("**subsidiaries agreement**"), whose main points are detailed as follows. This agreement replaced a previous agreement from March 2004.
- (a) The agreements related to the period beginning on January 1, 2006 and ending on December 31, 2009 ("**agreement period**").
- (b) The Subsidiaries Agreement determines a formula to entitle the Chairman to 5% of the portion of GTC Poland in the companies owned by it, through which GTC Poland executes investments in the real estate field outside of Poland ("**the held new companies**"), which shall be established after the signature of the agreement and which the Chairman shall be involved in managing.
- (c) The Chairman shall execute any investment in existing and new Held Companies, in which the chairman was a shareholder at the Subsidiaries Agreement entering date (hereinafter together: "**The Held Companies**"), pro-rata to GTC Poland.
- (d) GTC Poland committed to grant the Chairman loans and guarantees as follows: (A) Loans in the sum of 2,006,187 Euro on the date of signing the Subsidiaries Agreement, for the purpose of financing loans that the Chairman took in the past for the Owned Companies for shares in those companies. These loans shall bear interest at a rate identical to the interest born by the loans that the Chairman took through them for the Owned Companies; (B) Loans in the sum of the funding required by the Chairman to invest in the share capital of the existing held Companies or new held companies that may be established by GTC Poland. The aforementioned loans shall bear interest at the Eurobar rate plus an additional 2%; (C) Loans in the sum of the loans required by the Chairman to provide to existing or new held Companies established by GTC Poland. The aforementioned loans shall bear interest at a rate identical to the interest born by the loans that the Chairman shall provide through them to the Owned Companies; (D) Guarantees to the Owned Companies, instead of the guarantees that the Chairman must provide to these companies for shares. The sum of the loans and the guarantees that the Chairman receives and will receive for the purpose of investing in the capital or providing loans and/or guarantees for the portion of shares in the Owned Companies, which were defined in the Subsidiaries Agreement, has been limited to a total of 4 million Euro.
- (e) The obligation of GTC Poland to provide the loans and guarantees detailed in section (d) as aforementioned is for the duration of the Agreement Period. In order to ensure the loans the Chairman mortgaged all of his shares in the Owned

Companies to GTC Poland in a Non Recourse manner to the assets of the Chairman, excluding the shares that were mortgaged as aforementioned. The Chairman must defray the loans at the various dates determined by the Subsidiaries Agreement at by April 30, 2013 at the latest.

- (f) The Chairman was granted a sales option (Put) to require GTC Poland to purchase his shares in the Owned Companies from him, as long as the date of actualizing the share option as aforementioned is not negotiable, and this shall be for a period of 24 months beginning from the date of termination of the Agreement Period or the termination of the Chairman's employment, whichever is first. The cost of the actualization shall be the fair trade value of the shares via a sale from a willing seller to a willing buyer, on the date of notification of the option actualization, which shall be determined by an evaluator appointed by the parties, with a deduction of the remainder of the Chairman's loans at that time. GTC Poland is simultaneously granted a purchase option (Call) to require the Chairman to sell his shares in the Owned Companies to it, under the conditions determined in the agreement. For details on the disagreement between The Chairman and GTC Poland on the value of the liability see Note 25 (3) (a) to the financial statements.
- (g) The Chairman has been granted the right to Tag Along and GTC Poland has the right to Bring Along under the conditions determined in the agreement, in the event of the sale of GTC Poland's shares in the Owned Companies and the right of initial refusal.
- (h) The Chairman is entitled to receive an annual bonus at a rate of 2% of the GTC Poland profits before tax, with without revaluation profits and capital profits, and the annual bonus at a rate of 1.2% of the profit resulting from the sale of assets, subject to certain adjustments, as described in the Subsidiaries Agreement. The Chairman shall be entitled to receive payment at a rate of 75% of the bonus during the course of the four first quarters after termination of the relationship with him and 50% of the bonus during the following four quarters.
- [7] In September 2007, GTC Poland completed a transaction to sell all of its holdings in CMV. For details see section 8.5.3. [H] herein and the table in section 8.5.8 [A] [2] (j) herein.
- [8] The sale of the Lighthouse Towers building was completed on October, 2007. For details, see section 8.5.10 [A] [1] herein.

8.5.19. Objectives and Business Strategy

The GTC Group's business and administrative strategy is based upon principles whose main characteristics are as follows:

- [A] Activity in upcoming markets.
- [B] Gradual spread to new markets.

- [C] The GTC Group acts in each country via the establishment of a local company.
- [D] Focus on mainly large projects in central areas (Prime Locations) in important cities and projects construction in stages.
- [E] Partnerships – mainly with property sellers, with local real estate partners, with international funding entities, and strategic entities.
- [F] An assessment of the business opportunities and risks in the countries in which the GTC Group is active.
- [G] Establishment and development of senior executives at the GTC Group.

8.5.20 Prediction for development in the upcoming year

- [A] On operations in Central-Eastern Europe - GTC Poland shall continue to develop projects in 2008 which are in various stages of development in central-eastern Europe. GTC Group intends to continue purchasing construction rights in the various countries in which it is active in central-eastern Europe. GTC Poland shall assess opportunities to enter additional countries in central-eastern Europe. GTC Poland and its subsidiaries shall continue to examine opportunities to actualize fruitful projects which are in markets that are ready, and in which the market conditions for execution are attractive.
- [B] On operations in China - GTC Group has purchased a significant scope of construction rights over recent years and considers the development and promotion of these projects over the next year to be a central objective. The continued purchasing of construction rights for residential buildings in cities of the second tier. GTC China is investigating the possibility of integrating commercial projects in existing residential housing projects.
- [C] On operations in Western Europe - Since the GTC RE management considers the company's main business strategy and its main objectives to be a real estate developer in developing areas, GTC RE does not intend to devote significant resources to other areas in the near future, including investment in fruitful assets in Western Europe, unless attractive business opportunities are created.
- [D] On operations in India - GTC Group considers India to be a large developing market with the ability to be significantly valuable in the long term. Excess demand for residential housing and commercial real estate in India in recent years caused an accelerated growth and price increase in the said real estate. GTC Group hopes to complete the transaction that it began in 2007 to purchase a large property bloc in the city of Puna and begin to develop the project. The Group is simultaneously establishing an activity headquarters in India which will act, among other things, to locate and purchase additional projects to be initiated in areas of demand in India.

The aforementioned is forward looking information as defined in the Securities Act, based on macro economical data relevant to each geographical region in which GTC group is active. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including a material difference from the expected, due to absence of success in changing the designation of property considered to be reserves of GTC Group as described in the report, both in the field of yielding assets and in the residential construction, failure to close transactions to purchase land or to purchase companies that own land (as described in 8.5.8 [A] [3] and 8.5.9[D] herein) for any reason, regulation amendments and economical developments in accelerated growth markets, changes in global markets and/or the materialization of all or some of the risk factors detailed in section 8.5.21 herein may affect the materialization of the aforementioned information.

8.5.21 Discussion of Risk Factors

The following factors may influence the business results of the GTC Group:

Macro Risks

- The GTC Group is active in awakening real estate markets both in central-eastern Europe and in China, and recently also began its activity in India and is therefore exposed to risks stemming from activity in developing countries (including national risks, political and military risks, and local economy risks). It should be noted that some of the aforementioned countries are not part of the European Union.¹⁰⁸ The political and security instability in the countries in which the GTC Group is active (including the nationalization of assets by authorities) may influence the markets in those countries and as a result negatively influence the activity of the GTC Group and the results of its activity. GTC RE continues to direct management and financial resources for investment in central-eastern Europe in light of the economical growth that this region has experienced over recent years and out of an expectation that this trend will continue to reduce the general and economical gaps between eastern Europe and western Europe, and investments in China which has experienced accelerated growth in recent years; and it intends to direct such resources to investments in India, which is a large developing market capable of generating significant long term value.. Changes in these trends in central-eastern Europe, in China and in India may negatively effect the activity of the GTC Group.

Sector Risks

- The GTC Group is exposed to fluctuation and changes in the supplies and demands in real estate in the countries in which it is active, which may

¹⁰⁸ Among the eastern European countries with which the GTC Group is involved as of the date of the report, Serbia, Croatia, and Ukraine do not belong to the European Union.

negatively influence the occupation rates of the assets, the rental fee rates, and the possibility of actualizing the assets, and the level of demand and prices for residential apartments. Similarly, the demand for office and commercial space may decrease as a result of the increase in availability of spaces and as a result of heightened competition for “quality” renters (international commercial companies and chain with financial stability).

- The mortgage market for residences is not sufficiently developed in the markets in which the GTC Group is active. The difficulty in receiving loans with convenient conditions for purchasing apartments may effect the demand for residential units in the projects that the GTC Group is establishing.
- The entrance of additional investors and real estate companies into the fields of activity in which the GTC Group is active may influence real estate competition in these areas and, as a result, influence the results of the GTC Group.
- The activity of the GTC Group is subject to regulations, limitations, and conditions related to the environment in the various countries in which it is active. The GTC Group assesses the property that it acquires in terms of environmental quality as well, however this assessment does not ensure the location of all the potential risks in the fields such as in events of change in policy and laws that apply (especially in light of potential entrance of central-eastern European countries into the European Union). The GTC Group may be responsible for unpredicted debts as a result of these risks, such as limitations on or loss of ability to develop part of its assets.
- The Sub Prime crisis in the U.S.A. and in Europe may affect the global credit market, as detailed in section 8.5.7 herein. In the event that the said effects materialize, real estate projects in which GTC Group participates, and all financing types may be affected, including by way of reduced financing sources, increased financing expenses and reduced customers demand. GTC Group cannot assess the aforementioned implications and effects thereof on its operations. Yet, GTC Group intends to constantly monitor the developments in the credit market in general and the sub-prime crisis in particular. Initial examination of real estate projects in which GTC Group participates, which may be considered as material to GTC Group, indicates that GTC Group has no direct material exposure to the sub-prime crisis.
- Accelerated construction activity in Eastern Europe in recent years created a wide supply of cheap, inferior quality contracting services, which caused a price increase of quality contracting services. This change caused an increase of construction costs and consequently, reduced projects profitability. Persistence of this trend may have an adverse effect of the results of GTC Group.

Special Risks

- The ability of GTC RE and the companies owned by it to defray the loans that were taken out and to take out additional loans in order to develop their business depends on the state of the market and on the ability of the subsidiaries to generate cash flow, both in their ability to actualize assets or to re cycle loans in a scope that enables them to return debts and in the changes in equality for the companies and assets owned by them.
- In order to maximize the yield from the capital, the GTC Group currently relies on and intends to continue to rely on external funding in the future for the purpose of initiating and establishing the projects that it is establishing. In accordance with the loan agreements that it is linked to, the GTC Group is required to continue to defray its loans during periods in which there is a decrease in income from rentals, and as a result the GTC Group is dependent upon the financial situation of the countries in which it is active and the state of the real estate market. Similarly, the high rate of leverage exposes the GTC Group to growth in funding expenses in a state of delayed completion and/or population of new projects, especially in light of the fact that in some of the funding agreements the GTC Group is obligated to make additional payments to the funding bank in the event of a delay in completion of the projects. In the event that the GTC Group is unable to meet the interest payments and/or the principle payments for its loans, the lenders may actualize the real estate that was put up as a security to the lenders for the return of the loans. In addition, some of the funding agreements of the GTC Group include meeting certain financial limitations that limit the possibility of continuously managing the company, and their violation may deem the loans payable immediately. Similarly, with regards to ranking the bonds (series B), GTC RE committed to meet financial obligations whose violation may reduce the ranking of the bonds (series B) (see section 8.5.14 [A] [5] herein). As of the date of the report, the GTC Group is not violating any of its obligations towards the banks or violating any of the regular obligations in the bond rankings (series B).
- Some of the business of the GTC Group is executed via the companies it owns, and for which a third party owns a significant percentage of holdings. Similarly, other shareholders in companies that the GTC Group invests in often own contractual rights that entitle them to rights to approve a list of managerial decisions in these companies. Accordingly, the GTC Group may be dependent upon the consent of these shareholders in order to implement its business strategy.
- The calculation of tax obligations of the GTC Group is dependent upon the interpretation and implementation of various tax laws and agreements. The GTC Group executes transactions in different countries, mainly via local

companies in which it invests. Accordingly, the activity of the GTC Group is subject to the taxation laws in the various companies and the calculation of the GTC Group's tax obligations involves the interpretation and implementation of the tax laws and agreements of different countries. The GTC Group calculated its tax obligation based upon its understanding of the laws and agreements. Nonetheless, the tax authorities may interpret or implement relevant laws and agreements in a manner that deems the GTC Group responsible for additional tax obligations.

- Changes in the exchange rate for the various currencies in which the business of the GTC Group is executed may influence the financial situation of the GTC Group. The business of the GTC Group is executed in a range of currencies. In certain instances the GTC Group executes controlled transactions in order to reduce the effects of the changes in exchange rates on its results. Nonetheless, changes in exchange rates for the various currencies in which the business of the GTC Group is executed may influence the financial situation of the GTC Group and the results of its activity, as well as the market value of GTC Poland.
- Changes in the local interest and inflation rates may effect the results of the GTC Group. Since the GTC Group has significant loans with varying interest rates and/or loans that are linked to the inflation rate or other indices, future changes in these rates may negatively influence the results of the GTC Group.
- A decrease in the market value of GTC Poland as a result of a decline in the capital market in Poland which may cause the reduction of the value of securities granted to accompanying banks.
- The activity of the GTC Group is managed by a limited number of administrative staff that is skilled and trained in the markets in which the GTC Group is active. Accordingly, the GTC Group is dependent upon services that grant it a limited number of directors and advisors. Despite the fact that the GTC Group has adopted a policy of compensation based upon incentives that is intended to reduce the departures of management staff, the resignation of management staff may negatively influence the GTC Group and the results of its activity. In addition, in central-eastern European countries and in general, there is a shortage of experienced directors. It may therefore be difficult for the GTC Group to recruit appropriate directors, both in order to expand its activity and in order to replace management that may resign.
- In its activity in China, the GTC Group is exposed to a market in which the government is greatly active in the economy in general, and particularly in real estate. The exposure includes, among other things, the risks of legislative change and change in the regulations that regulate the activity in

the real estate sector, including risks resulting from amendments already made in regulations. Additionally, the activity necessitates great bureaucratic occupation and it is necessary to receive many permits over the course of the business activity.

- The ability to receive credit in China for construction is limited.
- As mentioned above, excess demand for residential housing and commercial real estate in India in recent years caused an accelerated growth and sharp price increases. A change in this trend may affect the financial results of GTC Group. Moreover, Business activities in India requires numerous approvals and certificates and GTC Group is assisted by local partners to obtain these approvals. Absence of such assistance in future or difficulties in obtaining the said approvals may affect GTC Group. The Group is also exposed to amendments of the law and regulations regulating activity in the real estate sector in India.

The following are the aforementioned detailed risk factors presented in a table that rates the level of influence of the risk factors on the business of the GTC Group according to division into types of risk:

	Level of Influence of the Risk Factor on the Activity of the GTC Group		
	Large Influence	Medium Influence	Small Influence
<u>Macro Risks</u>			
Risks stemming from activity in developing countries	√		
Political and security instability	√		
<u>Sectorial Risks</u>			
Exposure to fluctuations in the supply and demand of the real estate market	√		
The mortgage market for residences in central-eastern Europe is undeveloped			√
Increase of competition in the real estate market		√	
The environment			√
Global sub-prime crisis		√	
Increased construction costs in eastern Europe		√	

<u>Special Risks to the GTC Group</u>			
The influence of the economic state of the countries in which the GTC Group is active and the state of the real estate market that influences the leverage of the GTC Group		√	
Dependence upon the state of subsidiaries		√	
Decline in market value of GTC Poland		√	
Changes in exchange rate for the various currencies in which the business of the GTC Group is executed	√		
Fluctuations in the interest and inflation rates		√	
Dependence upon key figures		√	
Dependence upon interpretation and implementation of tax laws		√	
Dependence upon third party shareholders			√
Great governmental involvement in China	√		
Limited ability to receive credit in China for construction	√		
Operation in real estate market in India		√	

8.5.22 Additional details regarding Holding of GTC Group companies

[A] GTC Poland

According to the articles of association of GTC Poland, the members of the supervising board of directors of GTC Poland shall be appointed by shareholders in a shareholder assembly for a period of three years. The number of supervising board of directors members shall be between 5-20 members and they shall be appointed by the shareholders in accordance with the key which was determined and derived from the rate of the holdings of the shareholders in GTC Poland and its shares, as follows: [1] Any shareholder directly holding over 5% of the capital share of the GTC Poland shall be permitted to appoint one member on his behalf; [2] A shareholder owning 5% of the share capital of GTC Poland over the possession noted in sub-section [1] as aforementioned shall be permitted to appoint one additional member for each 5% owned by him; [3] Shareholders communally owning no less than 5% of the share capital of GTC Poland shall be permitted to communally appoint one member. The shares not taken into account for the purpose of calculated rates of possession of GTC Poland shares for the purpose of appointing members of the supervising board of directors according to sub-sections [1] and [2] as aforementioned, may be taken into account for the

purpose of calculating rate of possession for appointing a member according to sub-section [3], as aforementioned. In addition to the aforementioned members of the supervising board of directors, one additional member shall be appointed (to be considered an independent director) whose appointment shall be subject to the position of the supervising board of directors member under conditions determined in the Articles by the general assembly of GTC Poland. In the event of an equal number of votes in the supervising board of directors, the Chairman of the Supervising Directorate shall have the decisive vote. At the time of the report, Elroi was serving as the Chairman of the Supervising Directorate. As of the time of the report, there are nine directors serving on the supervising board of directors of GTC Poland, eight of which were appointed by GTC RE.

[B] Significant transactions with shares of the GTC Poland Group's companies for a period of three years preceding the date of the report

- [1] In March 2006, GTC Poland issued shares to institutional investors. The price during the aforementioned issuing reflected a value of GTC Poland at 1,560 million Euro (after issue).
- [2] In January 2006 a transaction was completed through the framework of which Firestorm Services LLC sold¹⁰⁹ GTC Int'l, ADRI, FIC and Ayrad (**"The Buyers"**) its full holdings in GTC Romani for a total compensation of 1,200 thousand dollars (approximately 990 thousand Euro), which was paid by The Buyers pro rata, in accordance with the rate of ownership that each one of them purchased.
- [3] For details regarding the transactions signed in August 2005 and October 2005 for the purchase of shares owned by FIC and ADRI in the subsidiaries of GTC Poland, see section 8.5.18 [A] [4] herein.
- [4] For details regarding the sale of 5% of the shares of Orbis S.A. by GTC Poland, see section 8.5.18 [B] [3] herein.
- [5] For details regarding the sale of 50% of the capital of Galeria Kazimierz see the table in section 8.5.8 [A] [2] (i) herein.
- [6] For details regarding the sale of CMV shares, see the table in section 8.5.8 [A] [2] (j) herein.

¹⁰⁹ A private company that owned 10.49% of the capital of GTC Romania.

8.6 Kardan Real Estate

Description and details of Kardan Real Estate, a substantial company of Kardan NV:

8.6.1 General

Kardan Real Estate was associated in Israel in 1988. In November 1999 Kardan Real Estate offered securities to the public in framework of a forecast.

In June 2005, following the acquisition proposal described in section 7.3.1[a] of the report, Kardan Real Estate became a private company and its shares were stricken from trade on the stock exchange.

At the time of the report, Kardan Israel holds the entire share capital of Kardan Real Estate (except 26 share held by a third party). Kardan Real Estate is merged into the financial reports of Kardan Israel and Kardan NV.

8.6.2 Substantial structural changes and Substantial Acquisition Transactions

- [a] On 31 May, 2005, Kardan Israel issued a forecast that included an offer of securities to the public and exchange purchase according to the Securities Regulations (Purchase Offer) 2000 (hereinafter: "purchase offer") made to Kardan Real Estate shareholders. For details of the purchase offer – see section 7.3.1[a] of the report.
- [b] On 17 February 2008, Kardan Real Estate filed a plea for approval of distribution of GTC RE shares as dividend on behalf of Kardan Israel. Should the court award a final distribution order, Kardan Real Estate shall cease to own GTC RE shares, and GTC RE shares which were held by it will be held by Kardan Israel. For additional details on the plea, see sections 7.3.2 and 8.6.5 of the report.
- [c] On July 2007 Kardan Real Estate acquired, by way of acquisition, 50% of El-Har's issued capital – a company which provides operational contracting services for construction projects of apartment buildings, public buildings, and industry and trade buildings, for a total of 18,000,000 NIS. The transaction reflected El-Har's value at a total of 36,000,000 NIS (after receiving payment).
- [d] On March 24th 2008 Kardan Israel and Kardan Real Estate have entered into a transaction, in which Kardan Real Estate will acquire from Delek Real Estate Ltd the whole issued capital of Dankner Investments Ltd ("**Dankner Investments**") against an allocation of shares composing 40% of Kardan Real Estate's issued capital, to Delek Real Estate Ltd. The transaction is stipulated in the fulfillment of different suspension conditions. Simultaneously, a share holders agreement was signed between Kardan Israel and Delek Real Estate, settling the relationship between the parties, as share holders in Kardan Real Estate, after completing the acquisition of the aforementioned Dankner Investments shares. Upon completing the transaction Kardan Israel will hold

60% of Kardan Real Estate shares and Delek Real Estate Ltd will hold 40% of Kardan Real Estate shares. In addition, Kardan Real Estate will hold Dankner Investments' entire issued and paid-in share capital. For further details see section 7.3.3 of this report.

8.6.3 Fields of action

Kardan Real Estate, directly, through holdings in other companies and its joint projects in Israel ("Kardan Real Estate Group") deals in three major lines of business:

Housing – location, initiation and development of housing in Israel designated for sale ("housing construction" and/or "housing").

Offices, trade and parking garages – location, initiation, development, sale, leasing and management of office buildings, commercial spaces and parking garages in Israel ("rental" and/or "property rental").

Construction – providing operational contracting services for construction project of apartment buildings, public buildings, industry and trade buildings ("**Construction Field**"). This field is executed by El-Har.

8.6.4 Investments in Kardan Real Estate capital and transactions in its shares

In 2006 and 2007, no investments were made in Kardan Real Estate capital and/or transactions for the sale of its shares.

8.6.5 Dividend distribution

In 2006 and 2007 Kardan Real Estate did not distributed any dividend to its shareholders.

On 17 February 2008, Kardan Real Estate filed a plea with the Tel Aviv District Court to approve distribution of GTC RE shares held by the company in the form of dividend to Kardan Israel. The distribution was approved by the board of directors and general assembly of Kardan Real Estate. Some of the shares Kardan Real Estate wishes to distribute served as guarantee for holders of bonds issued by Kardan Real Estate to institutional investors in 2003. Kardan Real Estate reached an agreement with the bond trustee to subjugate a cash deposit totaling NIS 69,000 thousand instead of the subjugated shares thereby receiving the bond trustee's agreement to distribute dividends. Furthermore, Kardan Real Estate received consent from guaranteed substantial creditors for the above distribution.

The creditors had a 30-day period from the date the plea was filed with the court to submit objections for distribution of GTC RE shares as dividend. By the end of the 30 days, no objections were submitted regarding the request for distribution of shares as dividend. Distribution is subject to receiving approval from Income Tax authorities, according to article 104C of the Income Tax Order (amended version) – 1961. In view of the lack of objections, Kardan

Real Estate shall file a request to provide a final court order regarding distribution of said shares as dividend within 10 business days from receiving said approval from Income Tax Authorities.

Should GTC RE shares be distributed as dividend to Kardan Israel, the right given by Kardan NV to Kardan Real Estate to apply its power at GTC RE general assembly, causing one of the five members of the board governing GTC RE to be appointed by Kardan Real Estate shall be assigned to Kardan Israel.

8.6.6 Financial information on Kardan Real Estate lines of business (NIS thousands)¹¹²

Total		Adjustment to report ¹¹³		Construction work ¹¹⁰	Housing		Rental		
2006	2007	2006	2007	2007	2006	2007	2006	2007	
30,000	110,286	1,787	2,123	65,631	21,656	33,989	6,557	8,543	Total revenue
34,617	120,205	12,336	24,052	62,492	20,044	31,485	2,237	2,176	Related expenses
(4,617)	(9,919)	(10,549)	(18,359)	(431)	1,612	2,504	4,320	6,367	Operational profit (loss)
525,885	703,441	5,040	31,869	43,818	209,243	252,797	311,602	374,957	Total assets on 31 Dec.

For explanation of results of Kardan Real Estate's results see section A4 of the board of directors' report.

8.6.7 General environment and influence of external parties

As a company dealing in various aspects of the Israeli real estate business, Kardan Real Estate is subject to changes in the general market conditions in general and real estate industry in particular.

Several factors in the macro-economic environment that influence of may influence Kardan Real Estate's operations:

Economic and security situation: demand in real estate is influenced, among other things, by Israeli macro-economic developments and trends, changes in the Middle East and security events that may cause the economy to slow down

¹¹² Investment in GTC RE is presented in Kardan Real Estate financial reports on the base of its value in the balance. Since the major line of business of GTC RE is in property for rent, the investment was included in the rental property column. From 2006, reports are merged and include a relative merger of Nofey HaShemesh Beit Shemesh Ltd. Co. (company holding the Beit Shemesh housing project).

¹¹³ Income and outlay Kardan Real Estate does not relate to lines of business.

in general, and the real estate business in particular. After many years of a slow down in the real estate business, over the past four years, due to the economic recovery, evaluations were published regarding the real estate industry's inclusion in this upward trend. 2006 and 2007 were characterized by selective rise in prices in the Tel Aviv housing and office market and luxury apartments in Jerusalem. However, the rest of the country, particularly in view of the weakening dollar, does not feel any recovery. Furthermore, following the second Lebanon war, the housing business suffered a freeze throughout the summer of 2006 but returned to normal in October 2006.

Regulatory entities – activities in the industry are influenced by and subject to regulatory procedures and legal requirements regarding planning and construction and modification thereof. Modified demands may have a negative influence over Kardan Real Estate due to unexpected expenses. Furthermore, in light of the lengthy time required for project planning and approval procedures, from the initiation stage until actual construction, substantial capital is required for real estate development in Israel. This places a constraint on company operation in the industry.

Manpower Availability – during the year 2007 the Israeli government continued to apply the "closed skies" policy in the foreign manpower field and to work for the deportation of foreign workers living in the country without the appropriate visa. At the same time, application of the reform which began in 2006 continued, focusing mainly on a structural change in all matters relating to the employing of foreign workers for construction through designated manpower corporations. As a result, an ongoing shortage of manpower was created in the construction industry due to its development of over-dependence in foreign workers. A shortage and unavailability of skilled manpower could have an effect on the ability to meet schedules and on the cost of work. Also, in recent years, due to the activity expansion of Israeli companies engaging in real estate to other countries, a phenomenon has developed of professional manpower, mostly engineers, transferring to work abroad.

Raw Materials – the real estate industry is affected by the availability of raw materials and changes in their prices. Raw material shortage, due to worsening of the security status and/or due to events connected to their import into Israel, such as work quarrels in sea ports and demands which surpass the supply, including a global situation, might affect the activity in the field, by creating supply delays and by raising prices.

Government Policy – Kardan Real Estate's activity is affected by the government's policy, including in relation to the availability of mortgages, taxation on apartment sales or their rent, the extent of benefits for apartment buyers, availability of foreign workers and professionals, the prices of construction input (from the aspect of levies and taxes which fall on raw

material and equipment importation) and policy regarding the distribution of licenses for activity in field.

Financial factors

Fluctuations in the consumer price index and interest rate - Kardan Real Estate finances a large part of its commercial operation by loans annexed to the consumer price index and non-annexed credit in Shekels. Its revenue from rent is annexed to the consumer price index. Therefore, fluctuations in the consumer price index and interest rate influence Kardan Real Estate's cash flow and financing expenses.

Fluctuations in interest and rate of foreign currency – at the date of the report, Kardan Real Estate does not have credit in dollars and does not owe for dollar loans. In certain areas of Israel in which the major part of the home buying target population is comprised of foreign citizens, housing prices and demand levels may be influenced by fluctuations in the rate of the dollar and Euro.

Also, part of El-Har's expenses in the construction field, such as raw materials, equipment and employment of foreign work force are stated in foreign currency. Fluctuations in the exchange rates of the foreign currency (especially dollar and euro) might affect El-Har's expenses and the demand for real estate projects.

Fluctuations in the construction input index - Kardan Real Estate agreements with major contractors for project execution and construction is in NIS annexed to the construction input index.

The major part of Kardan Real Estate revenue is derived from sale of apartments annexed to the construction input index (and the remainder annexed to the consumer price index). Changes in the construction input index directly influence the cost of housing project construction and revenue from sale of apartments thereby influencing cash flow and operational results. In the construction field, rising in the price of construction input affects the costs of raw materials, the costs of manpower and the engagements with subcontractors.

The Mortgage Crisis - the sub-prime mortgage crisis in the USA and Europe that began in the second half of July 2007 may have implications on the global credit market, e.g. stricter credit and mortgage allocation policy by financial entities that finance real estate transactions and/or parties involved in real estate transactions in general and purchase of apartments and homes in particular, rise in the interest rate paid of credit as well as rise in the interest on credit guaranteed by mortgage for home buyers. According to Bank of Israel estimates¹¹⁵, one possible implication of the sub-prime crisis on the Israeli

¹¹⁵ See inflation report for second half of 2007 on Bank of Israeli website – www.bankisrael.gov.il

economy could be damage to demand for Israeli export, infringing on the economic growth rate.

Furthermore, demand for real estate may be hurt due to decrease in activity of international entities operating in Israel, e.g. high-tech companies and financial institutions, as well as foreign citizens who may reduce demand due to the crisis.

8.6.8 **Housing**

[A] General

Kardan Real Estate locates, initiates and develops housing buildings for sale. Kardan Real Estate manages these projects on its own or through joint transactions with other real estate companies. Large projects in which construction may be divided into stages are carried out in a manner adapting construction rate, among other things, to market conditions and rate of sale of apartments in the project. Kardan Real Estate usually hands over work to large execution companies on a turnkey basis. Projects are currently in various stages, some have been completed and are being populated, while others are in various construction, initiation and planning stages.

[B] General information about the line of business

Description of trends, events and developments in the business influencing and with future influence on Kardan Real Estate operation in the housing industry beyond factors influencing overall real estate operations in Israel (specified above:

Israeli housing construction is characterized by stiff competition. A large number of companies deal in initiation, construction and sale of housing projects.

Housing construction is subject to legal instructions including planning and construction laws, Israel Land Administration decisions and procedures, various zoning plans, legal requirements regarding the environment etc. Operation in this industry requires diverse planning and/or legal procedures for licensing, building permits, zoning plan modification, permission fees, improvement levies etc.

Demand for housing is influenced mainly by the growth rate of households, interest, fluctuations in the dollar exchange rate, bank mortgage terms, expectations for changes in housing prices and expected return on housing prices.

Additional factors influencing the industry include government and Israeli Land Administration policies on marketing land and availability of land in popular areas.

The time between purchasing rights to land and approval of zoning plans and construction permits may have substantial influence over project profitability, availability and cost of financing sources.

Major entry and exit barriers

Entry barriers – availability of land at the appropriate location and price, financial viability and expected return rat, need for financing and banking accompaniment and equity required.

Exit barriers – (1) Long term contracts with land owners and/or other real estate companies that Kardan Real Estate has contracted to execute various projects, restricting dissolution of partnership among the parties; (2) Commitment to Kardan Real Estate guarantee, expressed in Housing Sale Law (ensuring home buyers' investment) 1974 guarantees provided to project buyers.

[C] Concentrated information regarding housing projects^{116, 117}

[1] Concentrated information about all housing construction projects

Project	Location	Description	Kardan RE share in project	Project stage	Average area per apt.	Execution percentage 31 Dec. 2007	Onset date	Projected completion date	Housing units sold by 31.12.07	Total estimated financial value (NIS thousand)	Inventory remaining on 31 12.07 (NIS thousand)	Estimated cost of completing 100% of project (NIS thou)	Project revenue (NIS thousands)			Gross profit or money set aside for loss in financial reports (NIS thousands)		
													2005	2006	2006	2005	2006	2007
Ahuzot Hanasie	Rehovot	Housing development on private land including 897 units and 3,000m ² commercial space	42.18% ¹¹⁸	503 units completed, 4 stages with 201 units are under construction and 2 stages with 193 units pre construction	64-68 floor buildings 105m ² units, tower 120m ² , park building 140m ²	503 units – 100%, 4 stages with 201 units – 56%	Stages under construction: Stage with 68 units began in Q2 2005, stage with 39 units began in Q2 2006, stage with 68 units began Q2 2007, stage with 26 units began Q3 2007	Stage with 68 units and state with 39 units – Q2 2008, stage with 68 units Q3 2009, stage with 26 units Q1 2009	583	419,235	68,441	215,000	13,241	21,653	33,989	1,040	1,610	2,503
Sun Hills	Ramat Beit Shemesh	Kardan Re won Israel Land Authority and Housing Ministry tender to buy land for 69 units	100%	Project includes 6 buildings. On report date framing is being done on all buildings	124m ²	16%	Q2 2007	Q1 009	23	62,016	25,604	27,773	-	-	-	-	-	-
Nofey	Beit	Housing	50% ¹¹⁹	Stage A	Cottages	Stage A –	Q1 2005	Stage A –	3	305,188	60,347 ¹²⁰	180,000						

¹¹⁶ Data in the table relating to planned completion date, total estimated financial cost and estimated project completion cost constitute future looking information based on Kardan Real Estate management estimates based on agreements with sub-contractors, management’s experience in construction projects, construction input costs on the date of the estimate, including sub-contractors’ price, and project-specific data. These estimates, all or part, may not be realized or may be realized in a different manner, including substantially, due to various actors including delay by executing contractor, deviation from schedule, deviation from budget and/or realization of any of the risk factors specified in section 8.6.21 of the report.

¹¹⁷ Remaining inventory, project revenue and gross profit mentioned in financial reports (or any sum allocated to losses) reflect Kardan Real Estate’s share.

¹¹⁸ Kardan Real Estate and its partner (50%) (“the entrepreneurs”) purchased 30% of the project and serve as executing contractor for the land owners of the remaining 70%, in return for 72.67% of the returns from the sale of apartments. Therefore, the entrepreneurs are entitled to some 84.36% (Kardan Real Estate’s share – 42.18%).

HaShemesh	Shemesh	project on Administration land for 188 units with garden, 192 units in condos and 700m ² commercial space		includes 36 units with garden, other stages to be determined	under construction 162m ² + 50m ² basement	90%		Q4 2008										
Holyland Park	Jerusalem	Housing project on private land including 1,000 units and 50% of adjacent lot for building 16,200m ² hotels ¹²¹	30%	337 units completed, 2 buildings with 78 units each and tower with 143 units (total 299 units) are under construction. Stages with 360 units are yet to begin. Program for hotel not ready	In 78 unit buildings 130m ² , in tower 134m ²	Digging work began in three buildings in late 2006	Buildings with 156 units completed in July 2009, completion of tower with 143 units expected for December 2009	443	407,850	175,743 ¹²²	550,000 for housing. Hotel program to be determined therefore cannot be estimated	45,585	11,997	32,961	3,369	1,714	1,001	
Noten	Herzlia	Land for 80-96 unit condos	50%	Stage A design completed	115m ² for 80 units	0	Q2 2008	Mid 2010	-	114,380	4,993	93,000	-	-	-	-	-	-

¹¹⁹ Data includes inventory of apartments completed at stage A (NIS 94,382 thousand) and remaining land for consequent stages presented in land for construction item (NIS 81,361 thousand)

¹²⁰ In July 2006 Kardan RE purchased 50% of Nofey HaShemesh Co. that holds the land. The shareholders' agreement determined various rules regarding project management, powers of the board of directors, financing for the project and mechanisms to transfer/sell shares. The additional shareholder of Nofey HaShemsh holds primary shares entitling him to 50% of all profits beyond NIS 66.6 million, annexed to the consumer price index, i.e. up to this sum profits will be divided among shareholders according to their relative holdings during division while profits in excess of this sum will be divided by first giving the primary shareholder 50% of the excess and dividing the remainder among other shareholders.

¹²¹ Investment in Holyland on Kardan RE books is displayed according to balance value. Sums in table represent Kardan RE's share in Holyland (30%)

¹²² Holyland Park may request modification of existing zoning plan for hotels and its implications

[2]Substantial housing projects¹²³ (general information about projects) (NIS thousands)¹²⁴:

Project	Project marketing began	Projected end of marketing	Accompanying financial entity	Cost with binding contract (including land)	No. units in stock on 31.12.07	No. sold units by 31 Dec.			No. units sold after balance date before report publication
						2005	2006	2007	
Ahuzat Hanasie	2000	2011	Bank Poalim	36,427	121	360	446	583	38

[3]Substantial housing projects (resultant data for projects with proven profit and loss) (NIS thousands)

Project	Accumulated cost by 31 Dec. 2007				Accumulated revenue by 31.12.07	Accumulated gross profit by 31.12.07
	Land & development	Building costs	Additional costs	Total		
Ahuzat Hanasie	10,917	53,169	15,985	80,071	87,766	8.77%

[4]Substantial housing projects (projected data¹²⁵ about projects) (NIS thousands)

Project	Projected revenue			Projected expenses	Projected gross profit	Projected gross profit rate
	Projected revenue from signed contracts	Projected revenue from inventory	Total			
Ahuzat Hanasie	42,926	42,011	84,937	78,544	6,393	7.53%

¹²³ Substantial project is one whose total revenue exceed 10% of Kardan RE unified revenue and/or profits exceeds 10% of Kardan RE profit and/or value on the book exceeds 10% of total Kardan RE unified assets.

¹²⁴ Data in table relating to projected completion date of sale is forward looking information as defined in the Securities Law based on Kardan RE management assessments. These assessments may not be realized, in part or altogether, or may be realized in a different manner than expected, including substantially due to unexpected delay in project construction, market situation and/or realization of part or all of the risk factors specified in section 8.6.21 of the report.

¹²⁵ Data is forward looking information as defined in the Securities Law based on Kardan RE management assessments. These assessments may not be realized, in part or altogether, or may be realized in a different manner than expected, including substantially due to unexpected delay in project construction, market situation and/or realization of part or all of the risk factors specified in section 8.6.21 of the report.

[5] Projected substantial housing projects (projected excess/deficit from projects) by 31 December 2007 (NIS thousands)¹²⁶

Project	Actual revenue	Debtors for sold units	Stock at sales price	Total revenue	Cost paid/accumulated	Cost remaining until project finish	Total costs	Projected gross profit
Ahuzat Hanasie	229,060	32,200	84,022	345,383	234,864	51,923	236,787	58,495

[6] Substantial housing projects (with accompaniment):

Project	Equity determined in accompaniment agreement (NIS thousands)	Subjugated assets	Major operational terms in accompaniment agreement	Actual operational stage	Accompaniment agreement breaches (if any)	Credit used by 31 Dec. 2007 (NIS thou)	Remaining credit (NIS thou)
Ahuzat Hanasie	19,825	Mortgage on property and land. Bank accounts subjugated. Sales and supplier contracts subjugated	15% sales and equity investment confirmation from bank supervisor	26 units in two terrace houses 16% 26 units in 2 terrace houses 90% 13 units in terrace building 55% 163 units in 2 buildings 100% 68 units in 1 building 92% 68 units in 1 building 21%	-	54,325	34,676

¹²⁶ Costs to be remitted by end of project and projected gross profit are forward looking information as defined in the Securities Law based on Kardan RE management assessments. These assessments may not be realized, in part or altogether, or may be realized in a different manner than expected, including substantially due to unexpected delay in project construction, market situation and/or realization of part or all of the risk factors specified in section 8.6.21 of the report.

[D] Incomplete transactions

Beer Yakov – on 2 January 2007, Kardan RE signed a letter of principles with Recido PB Ltd. Co. (“Recido”) whereby Kardan RE would purchase half of Recido’s rights to a construction project in Beer Yakov (for purposes herein: “the project”).

Recido has signed various contracts with land owners in Beer Yakov by which it obtained rights to plots of land totaling some 40,000m². Most transactions were by way of combinations while others were in cash. Kardan RE and Recido intend to construct 1,200 housing units on the purchased land.

In return, Kardan RE shall pay Recido on different dates a total of NIS 30 million (partially for rights to land, some as down payment for development costs and part subject to project profit margins). Approximately NIS 12,000 thousand of the above remuneration were paid to Recido against appropriate securities. Another NIS 12,000 thousand will be remitted upon signing the detailed agreement and up to NIS 6,000 thousand will be remitted according to project profitability. Project management, including marketing and sales, will be carried out by Kardan RE. The transaction depends on certain stipulations, including signature of a detailed agreement between the parties. On the date of the report the detailed agreement has yet to be signed.

[E] Customers

Housing units in various projects are sold to random private customers thereby precluding dependency on any single customer. The target audience for the Eeit Shemesh projects is mainly foreign citizens of the national-religious and orthodox sector. The Holiland project (see section 8.6.8[c][1] of the report) is marketed in Israel and overseas.

[F] Marketing and distribution

Sale of housing units in various projects is carried out by sales personnel including advertising on different media (press, billboards, Internet, promotion and sales activities to target population) as well as participation in housing shows in Israel and overseas. Marketing activities are executed by Kardan RE staff and external marketers and are carried out mainly from sales offices at different sites.

[G] Competition

Israeli real estate projects are characterized by great diversity. The number of large construction companies, including Africa-Israel, Shikun Ovdim, Delek Real Estate, Nidar, Neveh Gad and Azorim is limited, but in areas where Kardan RE operates there are mainly medium sized companies, many contractors and entrepreneurs. Despite the stiff competition, Kardan RE enjoys a reputation based on financial stability and accumulated experience. Competition in the housing industry also exists in the stage of locating appropriate land for projects

and during project marketing, when the entrepreneur is exposed to competition from the large companies as well as medium and small entrepreneurs in geographical proximity. Furthermore, in certain cases there is competition from the used housing on offer.

[H] Suppliers

Kardan RE's major supplies are execution contractors. Kardan RE mainly makes turnkey agreements with contractors, in which the contractor undertakes to build the project at a pre-determined price and hand it in its entirety according to given plans and specifications (turnkey contractors). Remuneration is remitted according to progress of construction work and at credit terms accepted in the business. The contractors provide Kardan RE with execution guarantee and inspection guarantee according to the contract. Currently, Kardan RE executes all projects in which it is involved through execution companies with "unlimited" classification, suitable for large work volumes, some of the largest in the business. In general, Kardan RE does not depend on a single supplier and estimates its suppliers may be replaced by others of similar quality and price.

[I] Financing

Kardan RE has banking accompaniment agreements with different banks whereby the banks provide a line of credit and guarantees for buyers of apartments in different projects.

On 31 December 2005, 2006 and 2007, Kardan RE provided apartment buyers with Sales Law guarantees totaling NIS 13,000 thousand, NIS 21 thousand and NIS 65,000 thousand accordingly.

[J] Business objectives and strategy

Kardan RE intends to expand its operations in the industry and continues to locate potential land for real estate housing developments, alone and with partners, as well as opportunities to buy companies holding land. All this is carried out in addition to continued development of existing property for which Kardan RE has entrepreneurship agreements. Project construction pace is expected in stages to decrease the inventory level of housing units yet to be sold at any given time. Also see section 8.6.18 of the report.

8.6.9 Rental property

[A] General

Regarding rental property, Kardan RE locates, initiates and develops office buildings and commercial spaces it subsequently sells or leases.

[B] General information about the line of business

Some properties, trends and developments in the business that influence and may influence Kardan RE's operation in rental property are brought below:

Line of business structure and changes – Israeli property rental business is characterized by stiff competition. The rental property market has known a decline, stiff competition and excess rental space. In light of these facts, rent on commercial and office space has significantly declined in latter years. In 2006, due to substantial decrease in the offer of new offices and increase in demand, the trend in the office market in the Dan area in general and Tel Aviv in particular has changed and rent and buying prices have risen. In areas outside the Dan area rent and purchase prices have stabilized and risen slightly. This trend of increased demand and rising rent prices has grown in 2007.

Critical success causes – property location and access, property positioning, changes in character of the surrounding in which the property is located, additional costs incurred by lessees (e.g. municipal taxes, building management fees etc.), lessees' financial ability, stable and continuous customer relationships.

[C] Description of rental projects

[1] Concentrated data regarding Kardan RE rental projects

Property	General description of property	Rental space in m ² (Kardan RE's share)	Type of right	Rental years	Number of lessees	End of rental	Mean occupation in 2007 (%)	Mean occupation on date of report (%)	Original construction cost (NIS thousands)	Project investment sum (NIS thousands)	Revenue from rent (NIS thousands)	NOI ¹²⁷ (NIS thousands)
Kardan Building ¹³⁰ (Tel Aviv)	5 floors of office and commercial space (7,086 m ²) and basement used for parking (10,500m ²) ^{128 129}	Offices and trade – 2,700m ² Parking – 280 spaces	Lease	4-11	10	2008-2010	100%	100% 1,369m ² used as Kardan Israel Group offices and remaining 1,331m ² fully rented	35,462	37,000	2,197	2,177
M-1 project (Rishon Lezion industrial zone)	Central garage (10,000m ²), commercial floor (10,000m ²), 12 office floors (23,000m ²) and parking (950 spaces)	Kardan RE's share – 4,785m ² ¹³¹ and 300 parking spaces mostly given to lessees by contract	Lease	1-11	21	2008-2012	98%	100%	32,560	31,439	2,427	2,277
Kefar Sava (industrial zone) ¹³²	Offices, halls, warehouses, auxiliary structures	Approximately 6,607m ²	Lease	1-11	10	2008-2011	98%	98%	20,194	12,248	982	956

¹²⁷ Net operational revenue from building rental minus depreciation and deductions.

¹²⁸ Kardan RE sold some of the space in the building. 2,700m² remain. Third party has right to lease 1,563m² and 10 parking spaces.

¹²⁹ According to zoning plan there are additional construction rights to the land. Details on Kardan Building stage B see section 8.6.9[E][3] of the report.

¹³⁰ On February 5th 2008 Kardan Real Estate sold half of its rights to the Kardan House to Migdal Insurance Ltd and to New Makefet Pension and Proceed Fund Management Ltd. For details about right sales, see section 8.6.19[B] of the report.

¹³¹ Rights to the land were purchased by combination with UMI, among others. Kardan RE's share in the project was 13,130m² designated for sale. To date, 9,173m² have been sold.

¹³² According to city plans the land is designated for industry. 4-story building totaling 17,403m² may be constructed on the land in addition to two underground parking basements. For purposes of construction of said building, structures presently on the land must be demolished. On the date of the report, plans for construction of said building have yet to be finalized.

Lev HaEer (Herzlia)	Mall parking	9,010m ² (259 parking spaces) ¹³³³	Ownership	-	-	-	-	-	6,641	4,623	421	392
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Proximate value of all Kardan RE fruitful assets on 31 December 2007 is NIS 92,000 thousand.

¹³³ Kardan RE owns 83% of the land (remaining rights to the parking garage owned by Herzlia municipality). Kardan RE manages the garage according to agreement with Herzlia municipality whereby Kardan Re is entitled to all revenue minus operation costs against allocation of spaces to the municipality and residents. The agreement with the municipality ended in November 2007 and the parties continue to act according to it. At the date of the report, negotiations are being held to sell the parking garage to a third party.

[2] Mean rent prices in rental projects:

Property	Utilization	Mean rent per m ² (NIS) in 2007
Kardan Building (Tel Aviv)	Offices, commerce and parking	895
M-1 Project (Rishon Lezion industrial zone)	Offices, commerce and parking	686
Kefar Sava (industrial zone)	Offices, halls, warehouses, auxiliary buildings	160
Lev HaEer (Herzlia)	Parking	56
Hillel Building (Tel Aviv) ¹³⁴	Offices and commerce	672

[3] Information on available spaces in rental projects on 31 December 2007:

Project	Ratio available space	Total available space (m ²)	Deducted cost of available space (NIS thousands)	Period in which space is available	Total maintenance cost of available space (NIS thousands)
M-1 Project	7.8%	468	2,452	6.5 months	64
Kefar Sava	2%	46	249	4.5 years 3	

[D] Revenue and profit division

Division of revenue on rental property divided into projects (NIS thousands):

	2007	2006	2005
M-1 Project	2,427	2,016	2,271
Kardan Building	2,197	2,239	1,877
Herzlia parking (Lev HaEer) ¹³⁵	421	94	21
Hillel Building	266 ¹³⁶	-	-
Total	6,293	5,116	5,068

¹³⁴ Project sold by El-Har in February 2008

¹³⁵ In 2004 parking garages were transferred to management company and therefore revenue is minus maintenance costs

¹³⁶ Revenue from this project are for part of 2007 when Kardan RE purchase of El-Har was completed (see section 8.6.10[A] of report).

Project M-1 sale	2,250	1,441	1,960
Total revenue from leasing and sale	8,543	6,557	7,028
Ratio of total revenue in Kardan RE	7.7%	21.9%	32%
Total gross profit in business	6,366	4,547	4,389

[E] Projects under design and incomplete transactions

Projects under design

[1] **Land rights in site beside the Beit Dagan meteorological station** – in 2006, Kardan RE and two other companies purchased (in equal shares) from different land owners land totaling 135,000m² in a site near the Beit Dagan meteorological station. Overall cost of purchase was \$5,800 thousand (Kardan RE's part is one-third of the above). The companies also signed a cooperation agreement with an additional company that owns a similar plot on the site. The cooperation agreement states, among other things, that the parties shall take joint action to improve, design, develop and initiate the land. The companies are taking action to promote a zoning plan for the site according to uses permitted in the national zoning plan, including offices, commerce and roadside services. In March 2008, the local zoning commission held a meeting and recommended the plan to the district commission.

[2] Concentrated data regarding fruitful real estate under construction and design¹³⁷

Project	Kardan RE's share	Date of purchase	Original cost of land (NIS thou)	Type of rights	Lease term (years/final year)	Construction rights according to zoning plan (gross m ²)
Kardan Building stage B ¹³⁸	100%	Under construction	16,914	Conversion	Until 2057	18,898

Project description			Construction beginning date	Planned completion date	Sum invested by 31.12.07 (NIS thou)	Projected completion cost (NIS thousands)	Overall estimated cost (NIS thousands)
Land area (m ²)	Net area for leasing (m ²) ¹³⁹	Designation and other details ¹⁴⁰					
3,612	11,906	Offices and commerce	March 2008	March 2010	22,247	164,233	186,480

¹³⁷ Revenue in the project under construction described in this section has not been acknowledged yet. Data in the able relate to the scheduled completion date, projected project completion cost and overall financial volume constitute forward looking information as defined in the Securities Law based on Kardan RE management assessments. These assessments may not be realized, in part or altogether, or may be realized in a different manner than expected, including substantially due to unexpected delay in project construction, market situation and/or realization of part or all of the risk factors specified in section 8.6.21 of the report.

¹³⁸ Designation true for report date and subject to modification.

¹³⁹ Net area in deduction of areas entitled to a third party, which owned rights in the area. At the time of this report Kardan Real Estate is negotiating with this entity regarding the manner of ensuring its rights.

¹⁴⁰ For details regarding sale of half of Kardan RE's rights in the Kardan Building project to Migdal Insurance Co. Ltd. and Makefet Hachadasha Pension and Compensation Fund Management Ltd., see section 8.6.19[B] of the report.

[3] Unfinished transaction

Lot adjacent to Kardan Building – on 1 February 2007, Kardan RE signed an agreement with a third party (for purposes herein: “the seller”) to buy its rights to the lot on 150 and 152 Menahem Begin St., Tel Aviv (for purposes herein; “the lot”). The lot is located close to Kardan Building on which Kardan RE has significant additional construction rights. The purchased lot is 5,000m². The lot includes property rights according to development agreement with the Israel Land Administration and agreements with Tel Aviv municipality and Netivey Ayalon. The lot also includes four underground parking levels built on the land. In return for purchase of the above rights, Kardan RE shall pay the seller a total of NIS 83,200 thousands (for purposes herein: “the remuneration”), NIS 31,300 of which shall be remitted upon signature of the transaction. The remaining remuneration shall be remitted on the date Israel Land Administration approval to extend said development agreement period and permission to transfer rights to Kardan RE are submitted.

The zoning plan (for purposes herein: “new zoning plan”) that applies to the lot enables gross construction totaling 40,000m² for offices, commerce and housing. In order to realize all rights according to the new zoning plan, Kardan RE would have to pay additional costs required, among other things, for contracts with Israel Land Administration and Tel Aviv municipality and signature on different development and/or purchase agreements. The agreement determines a mechanism for adapting remuneration, whereby should all the above mentioned additional costs borne by Kardan RE total less than NIS 69,000 thousands, the difference shall be added to the remuneration paid to the seller. Should total expenses exceed NIS 69,000 thousands, 30% shall be deducted from the remuneration for any sum exceeding the above. Completion of the transaction is subject to Israel Land Administration approval to extend said development agreement period and permission to transfer rights to Kardan RE. According to the agreement, the seller must act to obtain said permission by 1 April 2008 and after this date handling of these permits shall be transferred to Kardan RE for a term of ten (10) months or less.

[F] Customers

Kardan RE customers are enterprises and businessmen that have medium and long term lease agreements with Kardan RE for commercial, office and shop spaces. Customers sometimes get an option to buy the property. Kardan RE believes it does not depend on any particular customer.

[G] Marketing and distribution

Kardan RE markets rental space by both real estate agencies and Kardan RE employees. Kardan RE does not have any dependency or exclusivity agreements with any marketing entity.

[H] Competition

Kardan RE is exposed to competition from a large number of companies dealing in fruitful real estate entrepreneurship. Competition is focused mainly on locating land for initiation, development, construction, leasing and/or sales purposes. In certain regions competition exists in finding lessees for property. Plentiful office and commercial spaces in regions where Kardan RE has fruitful property may have material negative impact on Kardan RE's ability to rent available space and retain prices of rent it collects. At the date of the report, Kardan RE cannot evaluate its market share.

[I] Suppliers

See section 8.6.8[H] of the report.

[J] Commercial objectives and strategy

Kardan RE intends to continue locating land for construction of property for sale/leasing, along with continued appreciation and management of property currently held by Kardan RE. Kardan RE policy does not mandate holding only rental property and Kardan RE sells property according to opportunity and demand levels. Also see section 8.6.18 of the report.

[K] BOT¹⁴¹ activities

- [1] In 2006, Kardan RE took part in two groups that submitted bids for the BOT tenders (light train and fast lane in Tel Aviv]. The groups did not win said tenders.
- [2] In 2007, Kardan RE participated with Kardan Israel in the tender that examined threshold conditions for participation in the tender to construct and operate the new Tel Aviv court building. In January 2008, Kardan RE and Kardan Israel received notice they had fulfilled the threshold conditions and may submit their bids to the main project construction tender, The main tender has yet to be published to date.

8.6.10 Construction Project Execution Sector

[A] General

Kardan Real Estate's operations in the construction project execution sector are conducted through El-Har, half of whose issued capital was purchased by Kardan Real Estate in July 2007.

Since its establishment, El-Har has been providing contractor services, both directly with and through holding companies, for the construction of high-density residential projects, ground-floor residential structures and non-

¹⁴¹ A BOT project (Build, Operate, Transfer) is commissioned by a public authority (state, municipality, government authority) from an entrepreneur that constructs the project at its account and operates it for an agreed period and then returns the facility to said public authority that agrees to purchase the facility. Entrepreneur's revenue from BOT projects come from the commissioning body or users of the facility.

residential buildings such as hospitals, office spaces, public buildings, hotels, industrial and commercial buildings and infrastructure and development work on the projects it is executing. El-Har primarily specializes in the building of hospitals and the construction of high-rise buildings. As of this report, El-Har is working on eight projects throughout Israel. Most of the projects built in recent years by El-Har are not residential and El-Har is now considering expanding its work abroad. This is why it created a subsidiary company in Romania in 2007, which has already begun working on a residential project in Bucharest.

[B] General Information on Construction Project Execution Sector

A rise in the scope of non-residential construction investments took place in 2005 and the first half of 2006. In addition, construction services became more expensive as a result of the need to suit them to the input price increases in the field.

In the last few years, due to the trend of accelerated construction in the world and the increasing demand for apartment units on an international level in general, and in Eastern Europe and Asia in particular, the raw materials and salaries have doubled in price, as have the construction services, by over 50%. The salary price increase in Israel occurred as a result of foreign workers leaving Israel and traveling to countries in which the demand for jobs and salaries are higher.

In recent years, there has been a broader combining of industrial construction elements,¹³utilizing of technologies that decrease the demand for manpower on a whole and skilled workers in particular, which save the time it takes to execute a project.

Operations in the field of construction are subject to various legislative guidelines and relevant construction regulations.

Entry Barriers – The main formal entry barrier pertaining to construction in Israel is licensing. All construction companies are obligated to attain a contractor license and register themselves in the contractor registrar. Some of the tenders publicized by the government ministries demand a “recognized contractor” authorization as a prerequisite for participation in the tender. The terms of tenders can also have other conditions, such as providing certain guarantee amount, equity or a level of prior operation and experience in executing projects. Similar informal barriers also exist in private sector tenders.

¹³ Industrial construction is a type of construction based on a wide variety of methods, technologies and means which demands intensive employment of equipment and expertise that contribute to the decrease in human input that shorten the time it takes to execute a project and improve the quality of the product.

Primary exit barriers in the field are the long project time spans, commitment to employees and service providers, obligations to clients, and mainly to the residents with all that is related to the upkeep and guarantee period both due to law and reputation.

The construction sector in Israel is saturated with competition. There are thousands of companies in Israel operating as executive contractors, of which El-Har estimates, some are executing large-scale projects.

[C] The main operation in the field of construction work is the providing of construction services for residential and non-residential projects in accordance with the plans, specifications and additional demands by various clients, institutional and private. El-Har executes projects through the “turn key” method, in which El-Har undertakes to build the foundation, systems, development and finishing until being passed over to the resident or entrepreneur. In addition, El-Har conducts projects in which it provides partial construction services such as working on just the foundation, exterior or finishing (interior).

[D] Description of Current Projects

[1] Below is a concentration of data regarding primary current projects:¹⁴

¹⁴ The data presented in the table that relate to planned completion date, total income assessment and estimate of total project cost constitute forward-looking information, as defined in the Securities Law, based on agreements with clients and on El-Har management's estimations. These assessments may not actualize, in full or in part, or they may actualize in a different way, even in an entirely different way, due to delays in the timetable in which the projects must be carried out, originating in the flexibility granted to clients to change the project's timetable, El Har's lack of control over the pace of the project's development, which is dependent on sub-contractors and/or the entrepreneur and/or the actualization of part or all of the risk factors detailed in section 8.6.21 of this report.

Project Name	Location	Project Description	Work Status Percentage as of December 31, 2007	Starting Date	Planned Completion Date	Total Income Estimate	Project Income (in NIS thousands)			Gross Profit Credited in Financial Reports or Total Loss Provision (in NIS thousands)			Project Completion Estimate (in NIS thousands)
							2005	2006	2007	2005	2006	2007	
Project A	Ben Gurion Airport	Construction of concrete foundation for warehouses	82%	September 2006	April 2008	17,500	--	2,148	12,503	--	215	1,717	2,700
Project B	Tel Aviv	41-unit residential project	87%	November 2005	May 2008	26,000	--	12,783	9,988	(312)	1,574	146	3,300
Project C	Tel Aviv	Construction of foundation for residential tower	44%	October 2006	September 2008	56,000	--	312	24,133	--	31	1,221	30,007
Project D	Givatayim	53-unit residential project	13%	May 2007	December 2009	55,000	--	--	7,291	--	--	556	44,070
Project E	Ben Gurion Airport	Exterior construction for hangars.	65%	May 2007	May 2008	24,521	--	--	15,717	--	--	393	8,586
Project F	Tel Aviv	Finishing work on hotel	92%	November 2006	May 2008	18,900	---	567	16,845	--	57	1,562	1,406
Project G	Jerusalem	Frontal support and preservation work	39%	March 2007	October 2008	17,800	--	--	6,945	--	--	819	9,574
Project H	Bucharest, Romania ¹⁵	Finishing work on residential building	---	March 2008	January 2009	48,695	--	--	--	--	--	--	43,477
Kardan House ¹⁶	Tel Aviv	24-floor extension structure for various use	8.61%	March 2008	December 2008	30,000	--	--	2,583	--	--	258	24,675

¹⁵ For more details see section 8.6.10[D][5] of the report.

¹⁶ A project currently being executed for Kardan Real Estate and Migdal, as detailed in section 8.6.19[B] of report.

- [2] Following is the distribution of salaries in the construction project work sector according to project scope (in NIS thousands):

Project Scope	2007		2006		2005	
	No. of Projects	Income	No. of Projects	Income	No. of Projects	Income
Projects of up to 40,000 NIS	10	102,163	14	117,468	11	52,009
Projects over 40,000 NIS	2	31,424	2	3,145	2	10,788
Total	12	133,587	16	120,613	13	62,797

- [3] El-Har's subsidiary company has half the rights (50%) to land spanning 4 dunam in Givat Shaul in Jerusalem, designated (according to city building and planning) for the construction of a light industry structure. The lot's development contract signed with the Israel Lands Administration has terminated, and El-Har (through its subsidiary) is working to extend it. As of the report, El-Har cannot estimate whether the development period will be able to be extended. El-Har has partially decreased its investments in land, as evident in the financial reports.
- [4] In February 1999, an El-Har subsidiary company entered a management agreement with a landowner in the Etz Efraim settlement in the Samaria region to construct 190 ground-floor apartment units spanning 80 dunam. The agreement includes planning, development, construction and marketing of the project by El-Har. According to the agreement, the payment to be paid to the landowners is equivalent to the receipts on the sale of apartments, deducted by the price of land. El-Har provided the landowner with a loan for 500,000 dollars (about 2,000,000 NIS). The loan bears a 5% interest rate and its repayment will be done at the expense of the project's first apartment sales. To guarantee the loan is paid off, the land has been mortgaged to the subsidiary's benefit. Due to the national security situation, there is no demand for apartments in the Samaria region and apartment prices are low. El-Har has not yet begun development of the project due to considerations of profitability. The agreement with the landowner is not restricted in time. From time to time, El-Har examines offers to sell its rights in the management agreement, however if the area experiences a recovery, El-Har plans on developing the project.
- [5] In September 2007, El-Har entered a agreement with a client, through its Romanian subsidiary company, to manage the execution of a residential project in Bucharest that includes 197 apartment units spanning a total area of 23,000 square meters in high-density building. According to the contract, the subsidiary company oversaw the contractor's performance, who was appointed by the client. The management work includes, among other things, budgeting of the project execution, setting a timetable, in exchange for covering El-Har's expenses. After completing the management work in March 2008, an agreement was signed between the subsidiary company and the client, stating that El-Har would execute the finishing work on the project (through its subsidiary) as the head contractor.

[E] Segmentation of Income and Profitability of Products and Services

Following are details regarding the distribution of income from products in the construction project execution sector (in NIS thousands):

	2007		2006		2005	
	Income	Percentage of Total Income	Income	Percentage of Total Income	Income	Percentage of Total Income
Residential Construction	42,000	31.3%	27,000	21.1%	19,321	29%
Non-Residential Construction	91,587	68.3%	93,613	73.06%	43,476	65.26%
Others ¹⁷	498	0.4%	7,482	5.84%	3,824	5.74%

[F] Clients

The primary client in the construction project execution sector are companies, business, institutional and private bodies that deal in the promotion and development of land or in the field of income property. There is no dependency on the single client or in the small number of clients in that field of operations.

In order to implement projects as an executing contractor, El-Har enters a project agreement with the person requesting the work which determines the way in which the project will be carried out (“**Execution Agreements**”). The Execution Agreements determine, among other things, the following topics: The payment and the way it should be paid, the depositing of performance bonds and inspection bonds, lien rate fees to guarantee the completion of the supervisor’s work, authority and positions on behalf of the requesting party, execution through contractors, manners of operation and timetables, contractor’s responsibility in the event of body or property damage, insurance the contractor must purchase, the supply of manpower and work terms, equipment, apparatuses, materials and their financing, agreed upon compensation for lateness and contractor responsibility for inspection and repairs. In addition, the performance agreement determines the contractor’s responsibility regarding development work that must be done according to terms of work permits and or development agreements with the local authority and/or with the Israel Lands Administration, as relevant.

There are several primary payment methods in terms of construction work from project requestors: fixed price contract (customary with turn key agreements), where the payment is decided in advance; the quantitative measurement method in which payment is determined according to the measuring of amounts of work actually carried out; the “Reggie” work methods (+ COST) in which the contractor’s expenses are paid plus a certain rate; and the method of payment for changes and additions, in which the

¹⁷ Income resulting from the sale of assets.

apartment purchasers are entitled to perform changes in their apartment and they pay the contractor directly.

[G] Financing

Operations in the construction project execution sector are financed through equity, receipts from project requestors and short-term and long-term bank credit. As of December 31, 2007, El-Har's loan balances summed up to a total of 5,089,000 NIS (as at the current date, loans balance is comprised of long term loans only).

El-Har pledged all its assets under a floating charge, not limited by an amount, to guarantee its liabilities to the banks. El-Har also pledged to the banks, deposits amounting to some NIS200K, as at the report date. Moreover, El-Har pledges from time to time, under a specific lien, execution agreements with customers, for the purpose of receiving financial accompaniment. Some of the interim bills charged by El-Har for jobs execution are detained by the customer as lien funds, providing the customer with an additional guarantee, until El-Har completes execution of all its jobs. As at December 31, 2007 and as at the report date, lien funds detained by customers of execution works amount to some NIS9,300K and about NIS9,400K, respectively.

In return to pledging execution agreements, floating charge or depositing a deposit, the banks issue execution guarantees, quality guarantees, and bids guarantees for El-Har, from time to time. As at December 31, 2007, El-Har provided bank guarantees to customers amounting to some NIS19K, for projects and work execution, of which some NIS14,800K were issued as execution guarantees and sale law guarantees and some NIS 42,00K for examination guarantees and bids guarantees.

El-Har shareholders, including Kardna Reail Estate, provided guarantees to El-Har pro-rata to their holding share, to guarantee El-Har's liabilities to the banks which provided El-Har with credit lines amounting to some NIS40,250. As at December 31, 2007, the share of Kardan Real Estate in the guarantees amounted to some NIS20,125K.

8.6.11 Human resources

As of 31 December 2007, Kardan RE has fifteen (15) employees, including seven (7) senior executives. Commitment with Kardan RE employees is based on personal employment contracts that regulate their wages and employment terms. As of December 31st 2007 El-Har includes approximately 40 employees.

In September 2006, Mr. Eitan Soroka was appointment chairman of Kardan RE board of directors (for purposes herein: "the chairman"). In framework of the agreement with the chairman he was given an option to purchase 6% of Kardan RE share capital or of another company that would concentrate Kardan Group's real estate operations in Israel (for purposes herein: "Kardan RE Israel"), at remuneration equaling 90% of the book value of Kardan RE Israel upon its establishment. The option was cancelled and in its stead the chairman signed in March 2008 a waiver of the options in return for NIS 4.2 million to be remitted by Kardan RE. At the same date Kardan RE, Kardan

Israel and the chairman signed an agreement whereby the chairman is entitled to options totaling 4% of Kardan RE's issued and paid share capital after allocation against payment of NIS 2.837 realization price per option, annexed to the consumer price index. Half of the options may be realized on 13 September 2008 and until the end of one year from the end of the employer-employee relations between the chairman and Kardan RE ("realization period end") and the other half may be realized from 13 September 2009 until the end of the realization period. The chairman will receive the options 60 days from the signature date of the agreement according to conditions of Article 102 of the Income Tax Law, in the capital channel. On the realization date, the chairman may decide to receive shares that reflect the bonus component alone in addition to the face value of the allocated shares, against payment of their face value only (substitute for realization price). In framework of the agreement, Kardan Israel gave the chairman a PUT option that obliges Kardan Israel to purchase Kardan RE shares allocated to him (as long as Kardan RE shares have not been issued to the public) at their market price. Kardan Israel may pay for Kardan RE shares bought from the chairman in cash or in Kardan Israel shares.

8.6.12 Financing

[A] Kardan RE finances its operation from equity, returns from apartment buyers and lessees and banking credit as well as ex-banking credit. Furthermore, Kardan RE has an agreement dated 7 November 2006 with Kardan Israel, whereby a subsidiary of Kardan Israel extended a line of credit totaling no more than NIS 90,000 thousands to Kardan RE.

[B] Credit composition and interest rates for 31 December 2007:

		Long term loans		Short term loans and ongoing cost of long term loans	
		Total (NIS thousands)	Mean interest rate 31.12.07 (%)	Total (NIS thousands)	Mean interest rate 31.12.07 (%)
	Index annexed financing	17,659	4.98%	18,112	5.3%
Banking sources	NIS financing fixed interest	326	7.5%	17,481	6.72%
	NIS financing variable interest	10,299	5.85%	75,353	5.91%
Ex-banking sources	Annexed bonds	-	-	63,431	6.5%
	Related party loans	58,589	6.28%	-	-
Total		86,873	5.97%	174,377	6.14%

A total of NIS 83,674 thousands, on 31 December 2007, is the identified credit that financed purchase and construction of housing projects and rental buildings.

[C] In addition to project accompaniment agreements, Kardan RE has lines of credit with different Israeli banks (not including guarantees) totaling approximately NIS 1,265 thousands, of which it has exploited, as of March 20th 2008, a total of 1,000,000 NIS. As of March 20th 2008, Kardan RE has a cash remainder of NIS 13,079 thousand.

[D] Credit composition and interest rates for 31 December 2006:

		Long term loans		Short term loans and ongoing cost of long term loans	
		Total (NIS thousands)	Mean interest rate 31.12.07 (%)	Total (NIS thousands)	Mean interest rate 31.12.07 (%)
	Index annexed financing	15,742	5.3%	23,027	5.2%
Banking sources	NIS financing fixed interest	9,957	7.8%	14,393	6.7%
	NIS financing variable interest	54,695	6.1%	27,220	5.9%
	Dollar financing	-	-	19,135	6.63%
Ex-banking sources	Annexed bonds	60,533	6.5%	-	-
	Related party loans	-	-	11,253	6.28%
Total		140,927	6.3%	95,028	5.7%

Of the above credit remainders, a total of NIS 145,034 thousand on 31 December 2006, constituted the identified credit that financed purchase and construction of housing projects and rental buildings.

[E] Guarantees

Kardan RE provided guarantees to various banks for purposes of lines of credit for El-Har operations, according to its relative part in El-Har holdings. On 31 December 2007, Kardan RE's share in the guarantees provided for El-Har's lines of credit totals in approximately NIS 20,125 thousands (see section 8.6.10[F] of the report).

Furthermore, Kardan RE provided guarantees for apartment buyers according to the Sales Law totaling NIS 65,000 thousands.

[F] Liens

Kardan RE undertook towards institutional investors that bought Kardan RE bonds in December 2003 to subjugate CTC RE shares as security for the bonds. In framework of said undertaking, 3,658,922 GET RE shares each with face value of Euro 0.20, at the time constituting 5% of GTC RE issued capital. Should an order be issued to divide GTC RE shares as substitute dividend, subjugated GET RE shares shall be released in return for subjugation of a cash deposit totaling NIS 69,000 thousand on behalf of the trustee. For details regarding the request for division of shares as substitute dividends see section 7.4.5 of the report. Furthermore, Kardan RE has subjugated its real estate and revenue and rights from projects and rent in favor of banks that accompany various projects.

8.6.13 Taxation

[A] Israeli tax laws apply to Kardan RE. Kardan RE has final tax returns until the 2003 tax year, inclusive. Kardan RE transferred losses for tax purposes totaling NIS 70,000 thousands. Deferred taxes were not recorded for said losses since their exploitation is uncertain.

In the matter of the tax arrangement obtained by Kardan RE see section 7.11.6 of the report.

[B] The Israeli tax laws apply to El-Har. El-Har has final tax returns until the 2002 tax year, inclusive. El-Har has tax returns under discussion for the years 2003-2005. El-Har is obligated to pay tax for tax purposes profits of its subsidiary in Romania according to the local tax laws. For the general taxation principles applying in Romania see section 16.3 of the report.

Construction Expenses Allocation – section 18[D] of the income tax ordinance defines an apparatus for calculating the date of inclusion of interest expenses and general administration expenses, for a tax-paying company working in construction, in a way that expenses attributed to a work unit or area, whose date of revenue reporting has not yet arrived, will not be included in the deduction, but in the tax year in which revenues were reported.

Section 8[A] of the income tax ordinance defines an income recognition apparatus for a tax-paying company which performed long term work, when for an operating contractor the income recognition date is set according to the work's progress and after completing 25% of the work total (in case of loss – 50%).

8.6.14 Environment

Kardan RE is required in framework of project construction permissions to fulfill various environmental conditions relating to ecology including noise, pollution, damage to the soil and others usually regulated by zoning plans and/or construction permits. Most costs involved in application of these demands are not substantial for Kardan RE and it fulfills these demands.

8.6.15 Enterprise operation restrictions and regulation

As a company dealing mainly in real estate development, sale and rental, Kardan RE is subject to planning and construction laws, among other things in its operation to change designation and obtain building permits. Furthermore, Kardan RE operations are subject to decisions and procedures of Israel Land Administration regarding designation modification and exploitation of land rights as well as instructions of agreements with the Administration. Moreover, Kardan RE may be required to pay leasing fees, capitalization fees, permission fees etc.

In regard with housing construction, Kardan RE is subject to instructions of the (apartment) sales law (ensuring apartment buyer's investment) 1974 and regarding rental property Kardan RE is subject to instructions of the Rental and Loan Law 1971.

8.6.16 Significant agreements

- [A] For details regarding GTC Int. share sale transaction by Kardan RE to GTC RE, see section 7.5.3[A] of the report.

As mentioned, the transaction was carried out in return for a capital note totaling NIS 354,895 thousands (approximately \$78,865 thousand), issued by GTC RE to Kardan RE. On 3 August 2004, an annex to said capital note and a previous capital note was signed whereby GTC RE would receive the remaining capital notes, totaling NIS 145,148 thousand, in the form of a loan.

For details of the terms and payment of the loan see section 7.5.13.1 of the report.

- [B] The loan agreement dated 3 August 2004 between Kardan RE and GTC RE. For details see section 7.5.17.1 of the report.

- [C] Kardan NV had undertaken to use its power in the GTC RE general assembly to ensure one of the five members of the GTC RE board of directors to be appointed by Kardan RE. Should GTC RE shares be divided as substitute dividend to Kardan Israel according to section 7.4.5 of the report, the right provided by Kardan NV shall be transferred from Kardan RE to Kardan Israel.

- [D] On March 24th 2008 Kardan Israel and Kardan Real Estate engaged in a transaction, in which Kardan Real Estate will purchase all of Delek Real Estate's shares in Dankner Investments Ltd (100%) against an allocation of Kardan Real Estate shares, composing 40% of Kardan Real Estate's issued capital, to Delek Real Estate Ltd. The transaction is stipulated in the fulfillment of different suspension conditions. For further details see section 7.3.3 of this report.

8.6.17 Legal proceedings

- [A] In January 2006 a lawsuit was submitted against Kardan Real Estate and three other respondents by a share holder ("The Plaintiff") in Ganey Hanasi Rishon Ltd ("Ganey Hanasi"), a company which holds real estate in Rehovot, and has sold part of the land (30%) to one of the respondents ("Respondent 1") in 1999. In 2000 Kardan Real Estate acquired half the rights (15%) of respondent 1, including half of the rights and debts in relation to the land sale to respondent 1 by Ganey Hanasi, according to a sale agreement signed between them in 1999 ("Sale Agreement"). The plaintiff claims that the price paid to Ganey Hanasi according to the sale agreement was significantly lower than the market value of the land, since respondent 1 and other respondents (not including Kardan Real Estate) have deceived Ganey Hanasi. The plaintiff is trying to base causes of fraud, misleading, false representation, dishonesty and breach of legal obligations against Kardan Real Estate, especially due to its adoption of the sale agreement. The plaintiff is claiming a total of 1.85 million dollars of all respondents, together and separately, and a remedy of declaration that the sale agreement from 1999 and the acquisition agreement of half the rights by Kardan Real Estate from 2000, are null. Kardan Real Estate's legal consultants believe that Kardan Real Estate has good defense claims, and so the case of this lawsuit was not included in its financial reports.
- [B] Kardan RE and an additional business entity (for purposes herein: "the entrepreneurs") held negotiations with tenants of Neveh Sharet quarter in Tel Aviv, through the apartment owners' attorney, for an "evacuate and construct" project. At a certain stage, the tenants announced their intention to sign an agreement with another party and therefore the entrepreneurs filed a plea for an injunction in this regard, The claim and request for an injunction against the apartment owners and additional third parties was rejected. However, a temporary injunction was issued as requested against the apartment owners' attorney. The injunction was cancelled in November 2007 by mutual agreement and the parties waived their mutual claims.
- C] In September 2005, El-Har filed a claim against one of its clients due to a failure to make a final payment and damages incurred to El-Har regarding the project for a total of 28,500,000 NIS. The respondent's counter claim is that El-Har must pay it 14,000,000 NIS for surplus payments it made to El-Har for an agreed-upon compensation due to a delay in handing over the project. In December 2007, an arbitrator was appointed with the consent of both parties. As of the date of this report, El-Har's legal advisors cannot estimate the claim's prospects.
- [D] In September 2003, El-Har submitted a claim against Bonei Arei Dan Ltd (Dan City Builders) of the Minrav Group for a total of 5,000,000 NIS, for payments that El-Har claims it is entitled to and for damages it incurred regarding the residential construction project El-Har executed in Tel Aviv. In March 2004 the respondent filed a counter claim for 2,500,000 NIS against El-Har for damages it claims it incurred regarding the aforesaid project. The court of law instructed an appointment of a specialist on its behalf to settle the conflict between the parties. As of the date of this report, the expert's opinion was not submitted.

8.6.18 Strategy

Kardan RE operation in latter years has been adapted to market conditions and demand levels in real estate. In view of expected improvement in the market situation, Kardan RE decided to expand its operations in Israel, focusing on the center of the country and areas in demand.

In this framework, Kardan RE shall continue to purchase land for housing and offices in different levels of availability, shall continue participating in Administration land purchase tenders, and shall examine the possibility of acquiring real estate companies with emphasis on companies with land for construction. From this strategic position, Kardan Israel and Kardan RE entered an agreement on March 24, 2008 to the purchase all the issued capital of Dankner Investments Ltd., which initiates, develops, constructs and markets housing projects in Israel. (see section 7.3.3 herein).

Furthermore, Kardan RE intends to take part in groups competing for construction and operation of BOT type infrastructure projects, should it identify added value for its entrepreneurship abilities in them. For details regarding Kardan RE past and current participation in this type of projects, see section 8.6.9[K] of the report.

Kardan RE intends to develop real estate operations overseas after locating target countries and creating dedicated strategy according to opportunities identified by Kardan RE. Currently, Kardan RE is focused mainly on Spain as a target market for its international operations and therefore reached an agreement with a Spanish consultation company to examine real estate opportunities there.

El-Har's main purposes and strategy is expanding the construction activity in Israel; expanding housing construction activity in Israel with an emphasis on luxury housing in sky scrapers with an industrial finish; developing construction activity in Romania (mainly in Bucharest) and examining the possibility of entering additional markets abroad; and acquiring companies which have innovative technologies in the engineering performance field in order to expand the activity scope.

8.6.19 Events after the balance date

- [A] On 3 January 2008, Kardan RE contracted a third party to purchase half the third party's rights to land for housing, commerce and parking at Andromeda Hill, Jaffa. Simultaneously, the third party submitted a request to modify the zoning plan and increase construction rights in the land. In return for said rights, Kardan RE shall pay NIS 50,122 thousand. On the signature date of the agreement Kardan RE deposited half the remuneration in trust. A second payment totaling NIS 14,285 thousand will be remitted on 31 March 2008. The remaining remuneration totaling NIS 11,278 thousand shall be remitted on the earlier of the following: (1) 30 months from the signature date of said agreement; or (2) from the confirmation date of the new zoning plan; or (3) within 6 [6] months after the new zoning plan is denied; or (4) should Kardan RE decide to pay before a decision is made regarding the zoning plan. Should

the new zoning plan be approved, the remuneration shall be updated according to the change in construction rights. Simultaneously, the parties signed a partnership agreement for joint design and construction of a housing project with joint and public spaces, jointly owned by the parties. According to this agreement, both parties shall bear all expenses and obligations jointly, in a manner that each party shall be responsible for half the expenses and obligations. The parties are also entitled to different rates of project management fees.

- [B] On 5 February 2008, Kardan RE signed a contract with Migdal Insurance Co. Ltd. Makefet Hachadasha Pension and Compensation Fund Management Ltd. (hereinafter together: "Migdal") for a transaction to sell half its rights to all constructed space and spaces to be constructed in Kardan Building on Menachem Begin St., Tel Aviv, in return for NIS 119,208 thousands. On the date of signature, Migdal paid Kardan RE NIS 17,900 thousand, deposited in trust until fulfillment of the precluding conditions in the agreement. Migdal shall remit the remainder at the end of construction of stage B and after constructed spaces are leased. Kardan RE has undertaken to conclude construction within 24 months of receiving building permission. The agreement determined that should 3 years from the completion date of construction, the return received from the sold property should deviate from the range of 6.62% to 8%, the remuneration shall be increased or decreased accordingly. Construction is due to begin in the first quarter of 2008 and end by the first quarter of 2010. For additional details on the Kardan Building project, see section 7.4.9[C][1] of the report.

The above regarding beginning and end of Kardan Project stage B is forward looking information as defined in the Securities Law based on Kardan RE management assessments. These assessments may not be realized, in part or altogether, or may be realized in a different manner than expected, including substantially due to unexpected delay in project construction, market situation and/or realization of part or all of the risk factors specified in section 7.4.20 of the report.

8.6.20 Significant investments

[A] Holyland

Kardan RE holds 30% of the issued capital of Holyland Park Ltd. ("Holyland"). For details of the Holyland housing project see table in section 7.4.8[C][1] of the report.

Holyland is presented in Kardan RE's financial reports on the basis of its balance value. Holyland financial reports are attached to Kardan Israel's financial reports.

[B] GTC RE

As mentioned, Kardan RE holds 12.11% of GTC RE's issued capital. For description of GTC RE operations, see section 8.5 of the report.

8.6.21 Discussion of risk factors

Kardan RE's operation is characterized by the following risk factors:

Macro risks

- * **Changes and/or deterioration in economic and security situation** in Israel may cause decline in real estate operations in Israel.
- * **Material changes in construction costs and construction input index** – material changes in construction costs and construction input index may influence the cost of constructing housing projects and revenue from sale of apartments, thereby influencing Kardan RE's revenue.
- * **Fluctuations in interest and foreign exchange rates** – Kardan RE finances its operations, among other things, through loans, some of which are annexed to the consumer price index and others in foreign currency. Therefore, substantial changes in the consumer price index,, bank interest rates and foreign currency rates may impact Kardan RE's revenue and financial obligations.
- * **Changes in demand-** changes in demand due to decline in household growth rate, changes in interest rates, in the dollar exchange rate, in banking mortgage rates, expected changes in housing prices and expected returns from housing sales, impact Kardan RE's operations regarding housing construction.
- * **The sub-prime mortgage crisis** in the USA and Europe may have implications for the Israeli and global credit market, specified in section 7.4.7 of the report. Should said implications be realized, real estate projects that Kardan RE is part to and different types of financing may be impacted, including by way of decreased financing sources, rise in financing costs and decrease in customer demand. Kardan RE cannot evaluate said impact and its implications on its operation. However, it intends to follow developments on the credit market in general and the sub-prime crisis in particular. Following initial examination of real estate in which Kardan RE participate and that may be considered material to Kardan RE, it seems Kardan RE is not immediately and directly exposed to the sub-prime mortgage crisis.

Operations in Romania – As of this report, initial operations has commenced in Romania in the field of construction projects. Political changes in the country may influence the economic conditions in Romania in general and the real estate market in particular, and as a result damage the construction project operations. In addition, the absence of experience and expertise, including on legal issues such as employment laws, taxation and bureaucracy, may burden the operations abroad.

Industry risks

- * **Regulatory changes in housing construction and rental property** – may expose Kardan RE to unexpected expenses and perhaps cause extension of project conclusion dates.
- * **Availability and cost of financing sources** – exposure to influence derived from decrease or restriction of banking credit extended to the real estate business and stiffer financing conditions expressed in the total equity, amount of securities required for entry into new projects and financing costs.
- * **Land availability** – Kardan RE's entry into new project depends on locating potential land and government and Administration policy.
- * **Lessees' financial robustness** – as a company partly depending for its income on housing buyers and/or lessees, Kardan RE is exposed to risk due to worsening in the financial robustness of buyers and lessees, a thing that may have averse influence over Kardan RE's revenue.
- * **Maintenance cost of rental property** – regarding rental property, Kardan RE may bear maintenance costs for property it cannot rent out.
- * **Governmental policies regarding construction** - Governmental policies regarding construction, foreign workers, marketing of land owned by the ILA and the pace at which the planning and licensing procedures for projects affect the timetable to complete projects, all of which influence Kardan Real Estate's business.
- * **Personnel availability** – A shortage of personnel affected by governmental allocation policy in terms of foreign workers and which is influenced by the security situation in Israel, specifically with regard to Palestinians, may cause a price increase in salaries and prolong the time it takes to execute projects. These aforesaid results may damage operations. In addition, there are difficulties in getting skilled workers in construction, especially in light of the recent trend in which engineers are leaving the country to work abroad.
- * **Availability of raw materials and sharp changes in the cost of raw materials** – A shortage of raw materials due to the worsening of the security situation and/or the eruption of labor disputes in work places such as the seaports, demands that exceed supply, as well as sharp increases in the price of raw materials, are all liable to harm operations in the construction sector.
- * **Changes in work conditions** – Regulatory changes in salary conditions and/or collective agreements in the construction sector may damage business outcomes.

Extraordinary Risks

- **Cancellation of planned projects** – The cancellation of construction projects already planned due to administrative conflicts, legal proceedings or political issues may harm El-Har’s financial outcome
- **Legal proceedings** – If the court of law decides against El-Har in substantial legal proceedings or accept the counter claim of the respondents, El-Har’s incomes will be damaged.
- **Construction defects** – If any substantial construction defects are discovered, this may damage El-Har’s profitability and its reputation.

The following table presents detailed risk factors and their level of influence on Kardan Real Estate business, classified according to risk factor:

Risk Factors	Risk Factor Level of Influence on Kardan Real Estate		
	Strong Influence	Medium Influence	Minor Influence
Marco Risks			
Changes and/or worsening of security and economic conditions	X		
Changes in the cost of construction and the construction input index		X	
Changes in interest rate and foreign currency	X	X	
Changes in demand			
Sub-Prime mortgage crisis		X	
Operations in Romania		X	
Sector Risks			
Regulatory changes		X	
Financial resources and their costs		X	
Land availability		X	
Financial strength of buyers and renters			X
Rental property maintenance costs			X
Government policies regarding construction		X	
Personnel availability	X		
Availability of raw materials and sharp changes in the costs of raw materials		X	
Changes in work conditions			X
Extraordinary Risks			
Cancellation of planned projects	X		
Legal proceedings	X		
Construction defects	X		

9. **A Description of the Financial Services Fields – The Retail Banking and Credit Field and the Insurance and Pension Field**

9.1 Kardan NV's financial activity is performed and coordinated under the KFS Group and divided into two activity fields, each one carried out through a different company, as follows:⁹⁵

- Financial Services Field – Retail Banking and Credit, including leasing, mortgages and asset management (Hereafter: "**Retail Banking and Credit Field**") activity carried out by the TBIF group.
- Financial Services Field – Insurance and Pension, (Hereafter: "**Insurance and Pension Field**") carried out by the TBIH group.⁹⁶

KFS is a private company incorporated in Holland, which supplies financial services in the Central-Eastern European countries, in former Soviet Union countries, and in Turkey, through subsidiaries and related companies. Kardan NV holds about 80% of the issued capital of KFS. At the time of the report, KFS holds about 90.38% of TBIF issued capital, which is active in the retail banking and credit field and in 40% of the issued capital of TBIH, which is active in the field of pension and insurance.

TBIH is a holding company active in the insurance and pension field in mid-eastern European countries, in former Soviet Union countries, and in Turkey. TBIH was established in 1998 in order to seize opportunities created through pension reforms and low penetration rate of insurance products and other financial products in the region of mid-eastern Europe. TBIH has since fortified its status as a leading supplier of financial services in most of the countries in which it operates, through establishing companies, and through acquisition and mergers.

Until 2001, TBIH dealt exclusively with pension and insurance. At the end of 2001, TBIF was established as a subsidiary fully owned by TBIH, in order to expand with the established infrastructure into activity in adjacent financial fields such as loans, asset management, and later banking.

In April 2007, the re-organization transaction was completed, under which TBIH passed its holdings of TBIF to KFS. The business logic behind the re-

⁹⁵ Following the re-organization transaction, described in section 9.5.1 (c) of the report (hereinafter "**the Re-organization Transaction**" or "**the Re-organization**"), beginning of the second quarter of 2007, the field of financial services was divided into two activity fields: financial services — retail banking and credit, and financial services -insurance and pension.

⁹⁶ Excluding KFS's holding which is not through TBIH in a Russian insurance company active in the field of elementary insurance, within the transaction of acquiring the Russian Insurance Company, TBIH was given a Call option for acquiring the holdings of KFS in the Russian Insurance Company..

organization transaction stemmed from KFS management's estimation according to which the value-creation potential in the retail banking and credit field is superior to that in the insurance and pension business. After the completion of the said transaction, TBIH deals in insurance and pension only. The other financial services are concentrated under TBIF, which is a holding company operating in the retail banking and credit field in mid-eastern Europe and in former Soviet Union countries.

Starting in the second quarter of 2007, Kardan NV fully consolidates the financial statements of KFS and KFS fully consolidates the financial statements of TBIF and relatively consolidates the financial statements of TBIH, and accordingly, the activity fields of TBIF have relatively turned more material for KFS.⁹⁷

9.2 Following are the details of the KFS holdings:

	Holding Rate as of Date of Report	Investment Sum in Kardan NV Books as of December 31st, 2007 (in Millions of Euros)	The rate of the investment sum in KFS out of the sum of Kardan NV's equity as of December 31st, 2007²⁴⁴	Contribution to the net profit of Kardan NV in 2007 (in Millions of Euros)
	80% ²⁴⁵	186	54%	35

9.3 Following are details out of the financial statements of KFS, TBIF, and TBIF as of December 31st, 2007 (the sums in Millions of Euros).²⁴⁶

Held Company	Income in 2007	Net Profit in 2007	Equity on December 31st, 2007	Total Assets on December 31st, 2007	Accountancy Presentation
KFS	261	39	176	1,056	Full Consolidation
TBIF	90	11	128	1,072	Full Consolidation
TBIH ²⁴⁷	262	72	127	795	Relative Consolidation

⁹⁷ Until the second quarter of 2006, Kardan NV has fully consolidated KFS's financial statements. As of that date and until (including) the first quarter of 2007, in light of certain rights granted to Wiener Stadtische Versicherung AG in KFS, Kardan NV used the relative consolidation method to consolidate KFS financial statements. Also, before the completion of the Re-Organization Transaction, KFS fully consolidated TBIH's financial statements and KFS had no direct holdings in TBIF.

²⁴⁴ The equity attributed to the company shareholders (without minority rights).

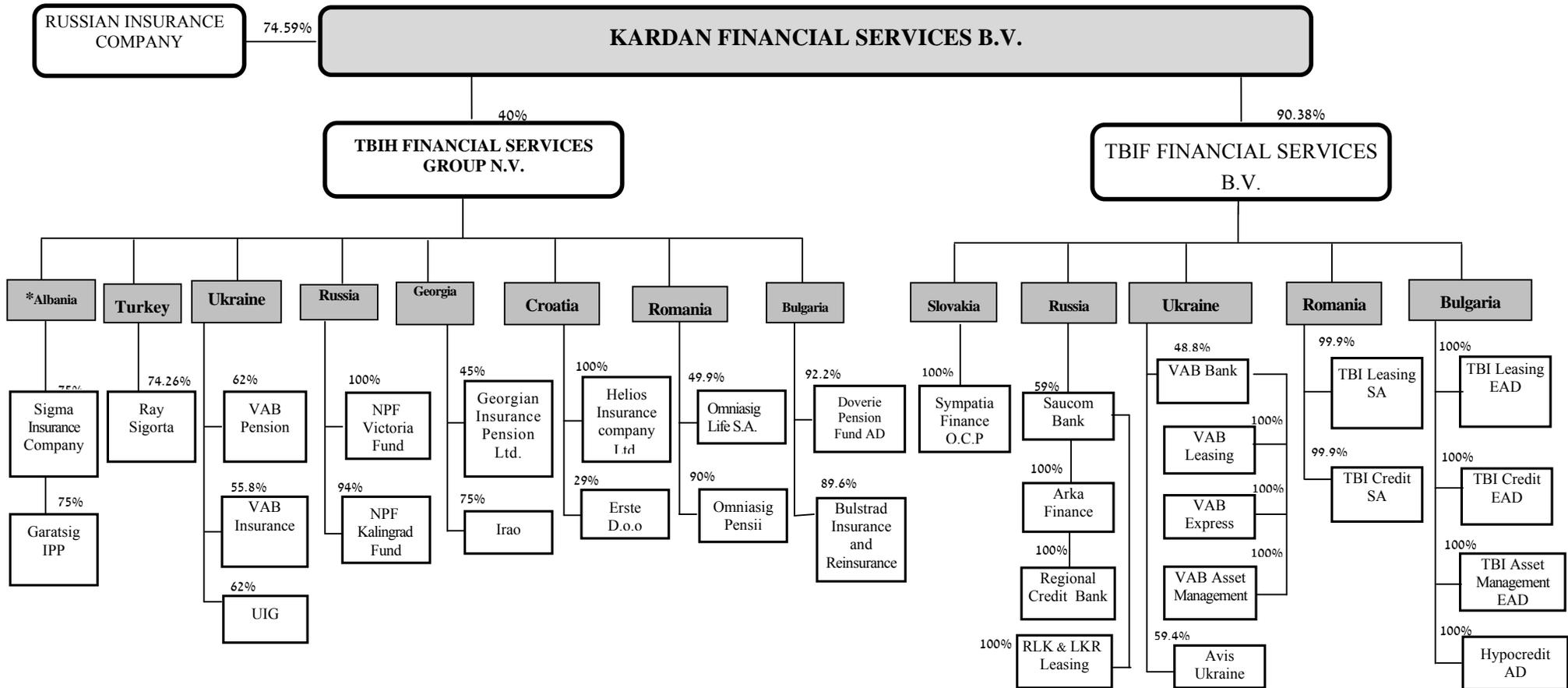
²⁴⁵ Until December 31st, 2007, Kardan NV held 89.8% of KFS's issued capital. Kardan NV's dilution in its holdings derived from the allocation of shares to Bank Discount as detailed in Section 9.5.1 (d) of the report.

²⁴⁶ The equity and net profit data attributed to the company shareholders (without minority rights).

²⁴⁷ The data reflect 100% of TBIH held at a rate of 40% by KGFS and consolidated in relative consolidation.

- 9.4 For the description of material transactions made by Kardan NV and/or subsidiaries and related companies in the field of Retail Banking and Credit and in the field of insurance and pension in 2007, see notes 3a, 3b, 3e and 3f (2) to the financial statements.

Following is the structure of KFS's main holdings in subsidiaries and related companies as of the date of the report:²⁴⁸



²⁴⁸ The diagram does not include holding companies, companies which are inactive, and immaterial companies. All companies appearing in the diagram are subsidiaries and related companies of KFS, TBIH, and TBIF.

* The company is also active in Macedonia and Kosovo.

9.5 Structural Changes and Share Transactions of KFS, TBIF, and TBIH

9.5.1 KFS

[a] The acquisition of KFS shares from KFS minority shareholders

In November 2005, an agreement was signed between Kardan NV and the minority shareholders of KFS: Genesis Investments B.V (hereinafter "**Genesis**") and Ariel Holding Investment Ltd. (hereinafter "**Ariel**"),²⁶⁰ according to which Kardan NV acquired of Genesis about 3.4% of KFS shares for a sum of about 3.1 million Euros, and also Kardan NV acquired of Ariel about 1.19% of the KFS shares for the sum of 1.1 millions Euros. Some of the rewards for Ariel and Genesis were paid in the method of a partial offset of the loan granted to them by Kardan NV. In total, Kardan NV acquired about 4.59% of the KFS shares in return to a total sum of 4.2 million Euros. Also, in the acquisition agreement it was determined that in case KFS signs an agreement with a strategic investor until March 31st 2006, the sellers will be entitled to receive an additional payment of 50% of the difference between the acquisition price and the acquired shares value in the strategic investment. Following the agreement with Wiener Stadische Versicherung AG ("WS") on November 2005 (described in section 9.5.1.[b] of the report), Genesis and Ariel received a sum of 1.2 million Euros and about 418 thousands Euros, respectively. After the completion of the transaction, in November 2005, Kardan NV was in holding of about 88% of the KFS shares. The transaction granted KFS the value of 176 million Euros (following the transaction).

[b] KFS Share Allocation – Strategic Partnership Agreement with the Austrian Insurance Company WS

In November 2005, Kardan NV signed an agreement with WS according to which WAS would acquire, in a method of allocation and acquisition from KFS minority shareholders 40% of KFS shares. The transaction was completed in April 2006. According to the agreement, WS invested in KFS share capital a sum of about 106 million Euros, in return to share allocation as well as acquiring of the KFS minority shareholders, through Kardan NV, 4% of the KFS shares for a sum of additional 7 million Euros, in such way that after the allocation and acquisition of the acquired shares, WS was in holding of about 40% of the issued capital of KFS and Kardan NV was in holding of about 55% of KFS issued capital. The transaction granted KFS the value of 176 million Euros (following the transaction). In addition, WS received

²⁶⁰ Which are companies owned by KFS executives

options to acquire additional KFS shares, by allocation and acquisition from KFS minority shareholders, through Kardan NV, so that WS will hold 50% of KFS issued capital. Also it was agreed that Kardan NV will receive the options of selling to WS shares of KFS in a quantity equal to the holdings of Genesis and Ariel and concurrently, WS was given an option to acquire from Kardan NV KFS shares in the aforementioned amount. With the completion of the re-organization transaction, all the options described above have expired.

WS is a leading Austrian insurance company, operating in about 20 countries, while focusing on Central and Eastern Europe. WS is traded in the Vienna Stock Exchange at a market value of about 5.1 billion Euros as of March 27th 2008.

The agreement also determines that about 25.8 million Dollars (about 21.8 million Euro) in addition to interest since June 2005 out of the sum WS invested in KFS, will be used to pay back loans given to KFS (in total about 3.7 million Euros), to Kardan NV, and about 5.6 million Dollars (about 4.7 million Euros) to TBIH and TBIF. It was determined that an additional sum of about 41.4 million Dollars (about 35 million Euros) at least will be used to increase KFS's holdings of TBIH. The profit Kardan NV recorded for this transaction was set-off with a cost surplus for the transaction described in section 9.5.1[a] of the report.

[c] The Re-Organization of KFS's Holdings

In August 2006, an agreement was signed between Kardan NV and WS according to which Kardan NV will acquire all of WS's holdings in KFS issued capital (about 40%). Also it was determined that TBIH will concurrently transfer all of its current holdings in TBIF's issued capital to KFS (about 89.4%). Also it was determined that WS will concurrently acquire of KFS 60% of TBIH issued capital, so that after the transaction is complete, KFS will be in possession of the remaining 40% of TBHI issued capital.

After the re-organization transaction, Kardan NV held about 89.5% of the issued capital of KFS and the remainder was held by executives and employees of KFS and its subsidiaries (including Ariel and Genesis). KFS was granted, under the agreement, joint control together with WS of TBIH until 2010 or until two years after acquisitions of additional businesses by TBIH for a total sum of 226 million Euros through self-financing or financing supplied or organized by WS, the sooner of the two. The transaction described above granted the value of 210 million Euros to KFS after the

investment, about 267 million Euros to TBIH (after the transaction without TBIGF activity) and the value of 175 million Euros to TBIF (after the transaction).

Within the transaction, Kardan NV paid 9 million Euros to WS as a part of the rewards for its shares in KFS. Furthermore, KFS paid executives and employees in TBIH a sum of 7.3 million Euros for canceling the options in TBIH and those executives and employees acquired new shares in KFS for the sum of 5.1 million Euros (including 667 thousands Euros received in non-recourse loans from Kardan NV). (For details see section 9.12.3 of the report).

The agreement stated that in the event that on December 31st 2010, the value of TBIH businesses in Russia, Ukraine, and Georgia, existing before the transaction and also all of TBIH businesses in Turkey, will be greater than their agreed value for the purpose of the transaction with the addition of the TBIH investments in those businesses after the transaction, then WS will invest as a premium on the TBIH share capital (without reducing KFS' holdings) a sum equaling the difference between the values multiplied by the rate of the WS holdings in TBIH multiplied by 40%.

As part of this transaction, Kardan NV granted the KFS minority shareholders Put options to demand of Kardan NV to acquire their holdings of KFS, in case KFS shares are not listed for trade, as follows:

Concerning shares which at the time of the transaction constituted about 7.9%²⁶¹ of the KFS capital, an option was granted which can be realized in four packets, beginning on June 30th 2006 and until December 31st 2009 (with the option to put forward the realization in the event that the option holders or related bodies will stop giving services to the KFS Group) at an agreed price, or, if a price is not agreed upon – a price which will be set by an external appraiser, but no less than a value of about 151 million Euros with the addition of the Euribor interest rate plus 3.5% from April 5th 2006 to April 16th 2007, and adding any capital increments as much as they occur, and also the capital increment made by the minority shareholders under the Re-Organization.

Concerning shares which at the time of the transaction constituted about 1.7%²⁶² of the KFS capital, an option was granted which can be realized in four packets, beginning on June 30th 2006 and until December 31st 2009 (with the option to put forward the realization in the event that the option holders or

²⁶¹ As of the date of the report, the share ratio is 7%.

²⁶² As of the date of the report, the share ratio is 1.5 %.

related bodies will stop giving services to the KFS Group) at an agreed price, or, if a price is not agreed upon – a price which will be set by an external appraiser. Kardan NV has the right to pay for these shares in cash and/or with Kardan NV shares, provided that if a year after the option realization, the market value of the Kardan NV shares received by the option holders is lower than the realization price, Kardan NV will pay the difference in cash.

Concerning shares which at the time of the transaction constituted about 0.7% of the KFS capital, an option was granted which can be realized in four packets, beginning on June 30th 2007 and until December 31st 2010 (with the option to put forward the realization in the event that the option holders or related bodies will stop giving services to the KFS Group) at an agreed price, or, if a price is not agreed upon – a price which will be set by an external appraiser. Relating to these shares, the minority shareholders have given a call option to Kardan NV to acquire the shares in the same conditions (providing that for some of the said shares the call price is not less than the KS value in the re-organization transaction plus interest), for a period of 60 days after the expiration of the Put option. Kardan NV decided upon the Re-Organization move described in this section since it believes the activity concentrated under TBIF has a greater growth and value-creation potential than the insurance field activity. However, WS expertise and main field of activity is the insurance field.

In the month of 2007, the transaction was completed. Owing to this transaction, Kardan NV recorded in the second quarter of 2007 a profit of about 20 million Euros.

[d] Allocating KFS Shares to Israel Discount Bank Ltd.

In the month of November 2007, KFS allocated to a subsidiary in full ownership of Israel Discount Bank Ltd. (Israel Discount Bank Ltd. and the subsidiary - hereinafter "**Bank Discount**"), 11% of the KFS share capital in return to a sum of 55.6 million Euro. The said allocation grants KFS the value of 505.6 million Euros (after the investment). The investment agreement signed between KFS and Bank Discount includes, among other things, provisions granting Bank Discount accepted minority rights.²⁶³ Following the completion of the transaction as said, the holdings of Kardan NV were reduced from 89.8% to 80% of the issued and paid capital of KFS. Kardan

²⁶³ Including the right to appoint up to 20% of the Directorate members supervising KFS, rights to veto certain decisions, the right to acquire KFS shares at a rate of Bank Discount's relative part at each allocation of KFS shares and up until the first public issue (anti-dilution mechanism), tag-along rights to a share transfer transaction in the event of change of control at KFS and initial rights in selling shares in a sales offer to the public.

NV recorded in the last quarter of 2007 a profit of 30 million Euros for the completion of the transaction. Concomitantly, KFS shareholders invested a total of 20 million Euros, out of which 19 million Euros were invested by Kardan NV by converting an owner's loan into KFS shares (see section 9.13.1 [d] of the report).

Concurrently, a loan agreement was signed with the Bank Discount, according to which the Bank Discount will grant KFS a line of credit of up to 175 million Euros, for periods of between 6 and 11 years, against various securities as follows: Attachment of KFS holdings to TBIH; attachment of 49% of KFS's holdings to TBIF; attachment of rights to repay the owner loans that KFS granted to TBIF; attachment of KFS's right according to the Put option it was granted in the shareholders agreement with TBIH (as detailed in section 9.15.1 [b] in the report) and Kardan NV's guarantee in the sum of 50 million Euros which may only be realized in the event that the said Put option ("**the collateral**") can not be implemented. In addition, Kardan NV undertook to Bank Discount to remain within the financial conditions as described in section 15.4.6 of the report. As of the date of the report, Bank Discount granted KFS credit in the scope of 145 million Euros against collateral. In addition, in the loan agreement it was determined that Bank Discount will grant KFS an additional line of credit of up to 50 million Euros for a period of 11 years and this for a Kardan NV guarantee for a sum of 50 million Euros, which in the loan agreement certain conditions were determined that would allow its revocation. At the time of the report an additional line of credit has not yet been granted. For further details, see section 15.4.6 of the report. KFS intends to make use of the allocation funds and the said credit to develop and expand its businesses, mainly in the field of Retail Banking and Credit. Some of the funds will be used for recycling existing loans.

- [e] Allocation of shares for KFS executives and consultants – for details see sections 9.12.3 and 9.12.4 of the report.

9.5.2 TBIF

- [a] For details concerning the re-organization transaction, under which TBIH transferred its holdings in TBIF to KFS, see section 9.5.1 [c] of this report.
- [b] In November 2007, KFS signed an agreement with a management company in the full ownership of the TBIF CEO in TBIF ("**the CEO's Company**"), according to which in December 2007 the CEO's Company sold KFS its shares of TBIF which it held at a rate of 1% of TBIF's issued capital. It was determined that the acquisition will be carried out by offsetting outstanding

loans which KFS granted to the CEO's Company for a sum of about 1.2 million Euros and a cash payment of about 2.75 million Euros. Following the said acquisition KFS's holdings of TBIF have risen to 90.38%. ²⁶⁴ The transaction granted TBIF the value of 395 million Euros (before the investment).

- [c] In March 2008, following the date of the balance, KFS converted a total of 36 million Euros from the balance of the owner's loan it granted to TBIF (as detailed in section 9.13.2 [e] of the report) into TBIF shares. Concurrently, KFS endorsed the right to repay loans that it granted to TBIF in the amount of 4 million Euros, to the CEO Company. The CEO Company converted this amount against an allocation of TBIF shares. TBIF allocated to KFS and the CEO Company shares at a ratio relative to their holdings which is transferred to the said investments, in such a way that following the allocation of shares to KFS and the CEO Company, TBIF's holdings remained at identical rates, in other words, without any change. The allocation of shares granted TBIF a sum of 440 million Euros (after the transaction). Concurrently and in accordance with KFS's agreement with the CEO Company, KFS granted a loan of 4 million Euros to the CEO Company with the same terms as the Non-Recourse loan that TBIH granted to the CEO Company (for further details see section 9.12.5 of the report).

9.5.3 TBIH

- [a] Englefield Capital (hereinafter “**Englefield**”) Investment Agreements ²⁶⁵

In January 2005, TBIH allocated to a company controlled by Englefield, shares which constituted about 17.16% of TBIH's issued capital, in return to a sum of 30.3 million Euros. This transaction granted TBIH the value of about 208 million Euros (after the investment). Concurrently, the financial consultants of the transaction were given options of buying TBIH shares for a total sum of 1.3 million Euros. In 2006, the options were acquired by TBIH and were cancelled immediately following their acquisition.

- [b] Acquisition of The Entirety of TBIH Shares by KFS – together with the joining of WS as a strategic partner in KFS (as described in section 9.5.1 [b] of this report), it was decided that KFS will act towards the acquisition of TBIH shares which were held by TBIH minority shareholders. Prior to the transaction, MidOcean Partners (hereinafter “**MidOcean**”) and Englefield

²⁶⁴ At the time of the report KFS's holdings in TBIF are as detailed in section 9.1 of the report.

²⁶⁵ A private English investment fund.

(together: “**Minority Shareholders**”) had about 42% of the issued capital of TBIH. The acquisition of the shares from the minority shareholders was carried out in two stages through transactions signed in January 2006 and July 2006 and were completed in April 2006 and February 2007, respectively. In the first stage, (hereinafter “**the First Stage of the Transaction**”) KFS acquired about 13.94% of the holdings (before the KFS capital investment) in return to a payment of a total of 47.4 million Euros. As part of the first stage of the transaction, Call and Put options of acquiring the remaining minority shares of TBIH were given. After the completion of the first stage of the transaction and after the allocation of 9.57% of TBIH issued capital to KFS in return to 36 million Euros, KFS held about 75% of TBIH’s issued capital and the minority shareholders held the balance (about 25%) of TBIH’s issued capital. The transaction granted a total of 340 million Euros to TBIH (after the transaction).

In February 2007, KFS acquired about 25% of the issued capital of TBIH from the minority shareholders in return to a sum of 99 million Euros. After the completion of the transaction, KFS was in possession of 100% of TBIH’s issued capital. The transaction was carried out according to the value set for the transaction described in section 9.5.1 [b] of the report and it granted a value of 340 million Euros to TBIH (after the transaction).

As of the date of the report, following the re-organization transaction, KFS holds about 40% of TBIH’s issued capital.

[c] For details on the re-organization transaction, under which TBIH transferred its holdings in TBIF to KFS, see section 9.5.1 [c] in this report.

9.6 Acquisition, Selling, or Transfers of Assets of a Material Scale outside the Ordinary Course of Business²⁶⁶

9.6.1 TBIF

[a] Acquisition of a Retail Credit Company in Russia (Arka Finance) - In November 2005, TBIH acquired through a subsidiary under full ownership – TBIH RUS LLC – 50% of the retail credit company Arka Finance (hereinafter “**Arka**”) in return to 3.2 million Euros, which granted Arka the value of 7.4 million Euros (after the investment). In addition, it was agreed that the subsidiary will grant Arka loans in a scale of 25 million Dollars (about 19 million Euros), used to grant loans to Arka's clients. In the fourth quarter of 2006 and during 2007, TBIH acquired through the subsidiary an

²⁶⁶ The additional parties in all transactions described in section 9.6 are not related to Kardan NV

additional 50% of Arka's issued capital in return to 7 million Euros (which granted Arka the value of 14 million Euros (before the investment)), resulting in the subsidiary holding the entirety of Arka's capital. After the re-organization transaction was completed, holdings in Arka were transferred to TBIF at a cost price. With the completion of the retail banking and credit operations combined operation in Russia (see section 9.6.1 [c] of this report), Arka became an fully owned subsidiary of Sovcom Bank. At the time of the report, TBIF holds 59% of the capital of Sovcom Bank (see section 9.6.1 [c] of the report).

[b] Acquisition of Banking Operations in Russia - In the second quarter of 2006, TBIF acquired 56.82% of the shares capital of a Russian bank, Credit Regional Bank ("**Credit Regional**") which operates in the field of retail credit, in a way of allocation, in return to a sum of about 4.1 million Euros, which granted Credit Regional the value of 7.2 million Euros (before the investment). The Credit Regional Bank was previously held by Arka Insurance, a subsidiary of Arka. As part of the investment, TBIF and Arka Insurance granted options to the other shareholders in Arka so that in case TBIF sells Credit Regional shares, the said shareholders will be entitled to buy the bank's shares from TBIF and Arka Insurance (in an amount relative to the rate of shares of TBIF and Arka Insurance (up to 42.64% from Arka and 6.82% from TBIF) and sell together with TBIF the shares of Credit Regional under the same conditions. Following the completion of the combined transaction of retail banking and credit in Russia, (see section 9.6.1 [c] of this report) Credit Regional has turned into an (indirectly) fully owned subsidiary of Sovcom Bank and the options were cancelled.

[c] Acquiring Additional Banking Operations in Russia - In September 2007, TBIF acquired 50% of the share capital of Sovcom Bank, a regional bank in Russia (hereinafter in this section: "**the Bank**") for a total amount of about 40 of which about 14 million Euro in cash and about 26 million Euro in a check of TBIF rights for payment of loans (Receivables) from its activity in Russia and transfer of TBIF's entire holdings (100%) in ARKA to the bank. In the framework of this acquisition transaction TBIF activity in the filed of Retail Banking and Credit in Russia was combined in the Bank activity. The transaction granted the bank an amount equal to 52 million Euros and around 104 million Euros after the investment (including holding in ARKA). The bank operates mainly in Western Russia (including Moscow) while TBIF is mainly active in Eastern Russia. In addition, the bank activity focuses on granting loans to small and medium sized enterprises (SME) and depositing trusts of these enterprises, as opposed to TBIF's activity in the field of loans

which is focused on the retail sector. Therefore, the activity of TBIF and the activity of the bank are complement one another, both on a geographical level and on the material level, and the synergy between the parties reveals a clear advantage to combining their activities. Furthermore, TBIF and the Bank undertook to invest additional sums in the bank relative to their holdings, up to a total sum of 40 million Dollars (about 27 million Euros), as much as it is required in order to allow the bank to meet regulatory requirements. In agreement between the parties it was determined that in the event of disagreements between the parties regarding the bank's budget approval or appointment of senior executives in the bank two years after the completion of the transaction, or in case of disagreements regarding the allocation of the bank shares to a third party, selling the bank, or issuing it after 4.5 years of the date of the transaction completion, each party would be entitled to facilitate a BMBY mechanism.¹⁰³ In case of a change in control over TBIF (where joint control is not considered a change in control), should the change in control occur before three years have passed since the date of the transaction completion, the other party may acquire the TBIF shares in the bank for a fair price, and should the change of control occur later than three years from the date of the transaction completion, the other party will be entitled to facilitate a BMBY mechanism. In March 2008, following the date of the balance, TBIF completed a transaction with the rest of the shareholders in the bank, according to which TBIF invested about 29 million Euros (including conversion of an owner's loans in the amount of around 4 million Euro into shares), in exchange for allocation of shares, which resulted, after investment and as of the date of this report, in TBIF holding 59% of the bank's share capital.

- [d] Acquisition of a Bank in Ukraine (VAB) - In November 2005, TBIF signed a series of agreements with a Ukrainian bank named Vseukrainsky Aksionerny Bank (hereinafter "**VAB**") and with companies related to the bank controlling persons to acquire shares and invest in VAB, which is a commercial bank operating in Ukraine since 1992 and dealing in retail and commercial banking and financing services. The said acquisition was performed in several stages which ended in TBIF holding 48.65% of VAB's share capital. The investment in the bank shares, in a method of capital allocation, was for a total sum of about 62.1 million Euros, which granted VAB the value of about 128 million Euros (after the investments). The goodwill created by the acquisition

¹⁰³ The BMBY (Buy Me Buy You) mechanism is a mechanism for breaking a partnership, according to which the first party offers to acquire the second party's share for a sum of funds specified in the offer. The second party may accept the offer and sell its share or alternately refuse the offer and acquire the first party's share for the same sum specified in the offer.

amounts to 22.5 million Euros. TBIF has agreements with the other VAB shareholders which regulate the joint control.

- [e] Acquisition of Leasing Operations in Ukraine - In November 2007, TBIF together with Dan Rechev, signed agreements for the acquisition of 90% of the share capital of VIP Enterprise Rent Foreign, ("**VIP**") a holding company holding a Ukrainian company which provides leasing services in Ukraine under the brand name AVIS, for 10 million Euros, which grants VIP the value of 11 million Euros (after the transaction). In February 2008, subsequent to the date of the balance sheets, the transaction was completed in such a way that TBIF and Dan Rechev hold, after the completion of the transaction and as of the date of this report, 90% of VIP's issued capital; TBIF with 66% and Dan Rechev with 34%. The seller was given the option to sell his remaining holdings and TBIF and Dan Rechev were given the option to acquire the remaining holdings, for the period between July 2010 and June 2011, for 1.5 million Euros. According to the franchise conditions of the Ukrainian company held by VIP regarding the AVIS brand name, given to it by Avis Europe Holdings Limited, TBIF is not entitled to be involved in the operational leasing of vehicles which is not through AVIS, except in Bulgaria, Romania, Russia and Turkey. Furthermore, TBIF and Dan Rechev have undertaken to offer VIP to participate in any business opportunity related to operational leasing activity and short-term vehicle rental in Eastern Europe and they also undertook to not compete with existing and future businesses of the VIP in markets where it operated at the time the agreement was signed and in markets in which it will operate in the future.
- [f] Acquisition of the Bulgarian Partner's Holdings in the Bulgaria Operations - In December 2006, TBIH acquired the minority holdings (about 43.17%) in its subsidiary in Bulgaria – TBI Bulgaria AD (hereinafter "**the Bulgarian Company**"), for a sum of 56 million Euros and the Bulgarian Company has turned into a fully owned subsidiary of TBIH. The Bulgarian Company held at that time the entire operations of the financial services sector in Bulgaria, including 97% of the Bulgarian insurance company Bulstrad Insurance and Reinsurance PLC ("**Bulstrad**"), about 92% of the management company of the pension fund Doverie and a number of other subsidiaries in full ownership dealing in retail credit, leasing, mortgages, and asset management. As part of the re-organization transaction, the retail credit, leasing, mortgages and asset management operations of the Bulgarian Company were transferred to TBIF. The said return granted the Bulgarian Company the value of 122.5 million Euros (after the transaction).

[g] Selling the Asset Management and Leasing Operations in Serbia - During 2006, TBIF sold all its holdings in asset managements and leasing operations in Serbia for a return of 3 million Euros. The transaction made a profit of 1.5 million Euro for TBIF and capital profit of about 1 million Euros for Kardan NV.

9.6.2 TBIH

[a] Acquisition of Insurance Operations in Turkey - In June 200, TBIH acquired 58.2% of the issued capital of Ray Sigorta A.S ("**Ray Sigorta**") from a Turkish company (In this section: "**the Seller**"), in return to a sum of 62 million Euros, which granted Ray Sigorta the value of 107 million Euros (after the transaction). Ray Sigorta deals mainly in elementary insurance and operates in Turkey. The Ray Sigorta shares are listed for trade on the Istanbul Stock Exchange. According to its undertaking under the acquisition agreement, in June 2007 TBIH offered an acquisition bid for the remaining Ray Sigorta shares in return to a sum of 17 million Euros, which granted Ray Sigorta the value of 107 million Euros (after the transaction). As part of the acquisition, the seller was given the option of selling the remainder of its holdings (20%) in Ray Sigorta to TBIH during the years 2010-2011 for the price of the acquisition with Libor rate interest. In addition, TBIH undertook to increase Ray Sigorta's capital in sums required for meeting the regulatory requirements which apply to it, and accordingly TBIH invested a sum of 10 million Euros in Ray Sigorta by allocation. As of this report, TBIH holds 74.26% of Ray Sigorta issued capital.

[b] Selling the Insurance Operations in Russia - In August 2006, TBIH Russian funds sold its holdings in the general and health insurance operations in Russia for a sum of 25.9 million Euros. The sale produced a profit of 22.8 million Euros for TBIH and a capital profit of about 8 million Euros for Kardan NV.

[c] Selling Holdings in an Insurance Company in Romania - In August 2005, TBIH completed the sale of its holdings in the Romanian insurance company Omniasig to WS, the Austrian insurance company. In return to the sale of its holdings, TBIH received a sum of 64 million Euros. The capital profit recorded by TBIH from this transaction was 50 million Euros. The sale produced Kardan NV with a capital profit of about 20 million Euros.

[d] Acquisition of Holdings in an Insurance Company in Romania - In November 2005, TBIH acquired about 49.99% of the Omniasig subsidiary, Omniasig Life SA ("**Omniasig Life**") a company dealing in life insurance, for a sum of 3.5 million Euros, as agreed under the agreement for selling its holdings in

Omniasig. The transaction granted Omniasig Life a value of 7 million Euros (after the transaction).

- [e] Establishment of Pension Funds Management Company in Romania - In May 2007, together with Omniasig, TBIH established a pension funds management company in Romania. TBIH invested a sum of 5 million Euros in the management company and it holds 90% of its issued capital. The remaining shares are held by Omniasig.
- [f] Selling the Pension and Insurance Operations in Slovakia - In September 2005, TBIH sold to a company in the full ownership of ING Groep N.V a Dutch financial institution dealing in banking, insurance and asset management services in over 50 countries, its holdings of the management company of the voluntary pension fund VSP Tatry and its holdings in the insurance company VSP, which holds the management company of a mandatory pension fund Sympatia Pohoda d.s.s. TBIH held a 100% of VSP Tatry's issued capital. In return to the sale of its holdings in VSP Tarty, TBIH received a sum of 35 million Euros. The sale produced a capital profit of 29 million Euros to TBIH and a capital profit of 12 million Euros to Kardan NV. In return for the sale of its holdings in VSP, TBIH received a sum of 8 million Euros. The sale produced a capital profit of 2.1 million Euros to TBIH and a capital profit of 1 million Euros to Kardan NV.
- [g] Selling the Pension Operations in Serbia - During 2006, TBIH sold all its holdings in the pension operations in Serbia for a sum of 4.5 million Euros. The transaction produced a capital profit of 4.2 million Euros to TBIH and a capital profit of 2 million Euros to Kardan NV.
- [h] Acquisition of Insurance Activity in Albania, Macedonia, and Kosovo - In September 2007, TBIH acquired about 75% of the issued capital of Sigma Albania SH ("**Sigma**") in return to a sum of 16.2 million Euros, which granted Sigma the value of 21.6 million Euros (after the transaction). The remainder of Sigma's shares is held by local private bodies (in this section: "**the Minority Shareholders**"). As part of the acquisition, a Put option was given to the minority shareholders, allowing them to coerce TBIH to acquire up to half of their remaining Sigma holdings in a period of six months from the date of the Sigma financial statements publication for 2010 and the remainder of all their holdings after the publication of the Sigma financial statements for 2011, according to an agreed formula which will reflect the development of the premiums and profits made by Sigma, but at any rate no less than the price per share agreed upon in the acquisition of September 2007. Concurrently, TBIH received a Call option to acquire shares under the said

conditions. Sigma deals mainly in elementary insurance and is rated as the second largest insurance company in Albania. Sigma operates in Albania, Macedonia, and Kosovo.

9.7 Dividends

9.7.1 KFS

Since its establishment, KFS did not distribute or declare dividends. As part of the re-organization, KFS made a self acquisition of its shares for a sum of 48.8 million Euros and a capital reduction of 72.7 million Euros. The shareholders in KFS passed their rights for these payments to WS as part of the return for the acquisition of 40% of KFS from WS. These sums were paid to WS in a method of offsetting the acquisition price of 60% in TBIH described in section 8.5.1.4 of the report.

In the framework of agreements with Bank Discount (as detailed in section 9.5.1 [d] of the report) KFS undertook to distribute dividends, beginning in 2009, in the amount of 10 million Euros per year, subject to every law and every agreement in which KFS is connected. It was furthermore determined that KFS is not entitled to distribute dividends without the authorization of Bank Discount, unless a number of terms are met, the principle terms being: repayment of a loan in the amount of at least 100 million Euros and taking into consideration the financial covenants as detailed in section 9.13.1 of the report.

9.7.2 TBIF

Since its establishment, TBIF has not distributed or declared the distribution of dividends.

Limitations on the dividend distribution: in the loan agreements between TBIF and the Dutch bank **Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V** ("FMO"), TBIF undertook to maintain certain financial ratios which may be affected by dividend distribution. For details on the said loan agreements, see section 9.13.2 [b] in this report.

9.7.3 TBIH

As part of the re-organization, TBIH declared a dividend in the sum of 98.3 million Euros and reduced its capital for a sum of 57.7 million Euros. Also, KFS, which was the only shareholder of TBIH, acquired from TBIH all its holdings in TBIF for a sum of 156 million Euros. The dividend and capital reduction were paid in a method of offsetting with the acquisition price.

Excluding the aforementioned, TBIH has not distributed or declared dividends since its establishment.

Limitations on dividend distribution: in the loan agreements between TBIH and FMO, TBIH undertook to maintain certain financial ratios which may be affected by dividend distribution. For details on the said loan agreements see section 9.13.2 [a] in this report.

As part of the re-organization transaction, the agreement between Kardan NV and WS set an obligatory policy for dividend distribution for a sum which is the lesser between: (a) 50% of the net profit of TBIH according to its financial statements; and (b) 100% of the cash balance as determined by the board of directors, after the payment of expenses (including interest expenses) and consideration of the future capital and liquidity needs of TBIH and its subsidiaries and financial covenants to creditors.

9.8 Financial Information

9.8.1 Following are the financial data of KFS according to a division to the banking and retail credit field¹⁰⁴ and the insurance and pension field¹⁰⁵ (in millions of Euros):

	Insurance and Pension	Banking and Retail Credit	Adjustments to Consolidated \ Other ¹⁰⁶	Insurance and Pension	Banking and Retail Credit	Adjustments to Consolidated \ Other	Insurance and Pension	Banking and Retail Credit	Adjustments to Consolidated \ Other
Revenues/ Premiums	81.6	94.4	84.7	80.1	41.6	21.2	95.6	9.9	49
Expenses	81.6	86.8	47.7	82.5	35.7	12.5	94.6	7.9	10
Profit (Loss) Before Taxes	----	7.5	37	(2.3)	5.8	8.7	1	2	39
Balance Assets for December 31	318	1,072.4	115.2	222.4	655.1	204.6	134.9	93.2	82.1
Management Assets / Credit Portfolio for December 31	297.3	1,232.6	----	494.2	782.2	---	353.5	370.1	---
Minor Portion in Net Profit / Loss	(0.1)	0.3	----	(2.6)	(3.6)	---	(2.2)	---	---

¹⁰⁴ Income in the field of retail banking and credit include interest income, net plus commission income, asset management services, and other incomes.

¹⁰⁵ Income in the field of insurance and pension include net income in the insurance field (premiums, net after reinsurance), in addition to incomes from investments and management fees of the pension funds management companies.

The changes in KFS's financial results and assets between the years 2005 and 2007 can be attributed to the following factors:

- [a] In the aspect of accounting – changes in the KFS holding rate in TBIF and in TBIH and in the method of consolidating of their accounting systems

In 2005, an up until the end of the first quarter of 2006, KFS consolidated TBIH's financial statements in a proportionate consolidation (at an average of 60%) and TBIH consolidated TBIF's financial statements in a complete consolidation. Beginning in the second quarter, KFS consolidated TBIF's financial statements in a complete consolidation. Beginning in the second quarter of 2006 and up to the first quarter of 2007, KFS consolidated TBIH's financial statements in a complete consolidation. Beginning in the second quarter of 2007 and correct as of the date of the report, KFS is consolidating TBIH's financial statements in a proportionate consolidation (40%) and TBIF's financial statements in a complete consolidation.

- [b] In the business aspect – changes in results and assets of TBIF and TBIH, as detailed in the following:

[1] Field of Retail Banking and Credit – the revenues, the assets and profit rose between 2005 and 2007. the increase in the said scope of activity is the result of acquisitions in the banking field in Russia (in Ukraine and of organic growth of existing businesses).

[2] Field of Insurance and Pensions – the revenues, the assets and the profit reveal a mixed course over the years 2005 through 2007 due to the rise and later on the fall in the KFS rate of holding in TBIH and due to the fluctuations in revenues and assets deriving from acquisition and sales of activities. the decrease in revenues and assets in 2006 versus 2005, derived mainly from the selling of general insurance operations in Romania. The increase in revenues and assets in 2007 versus 2006 derived from the increase in the scope of activity, particularly in light of the acquisition of the insurance company in Turkey and the organic growth of existing businesses which was deducted by the decrease in the consolidation rate of TBIH from complete consolidation to 40% .

For further explanations regarding the results of KFS activity and its assets, see section 4a of the board of director's report.

9.8.2 Following are TBIF's financial statements according to geographic distribution in each of the years 2005, 2006 and 2007 (in millions of Euro):

		Bulgaria	Romania	Slovakia	Croatia	Serbia	Russia	Ukraine	Georgia	Turkey	Albania Macedonia and Kosovo ²⁶⁷	Other	Total
Revenues / Premiums	2005	57.8	58.7	2.8	9.3	1.0	23.1	-	2.2	-	-	0.2	154.6
	2006	75.6	19.6	0.2	12.7	0.9	13.6	12.8	7.0	-	-	0.5	142.9
	2007	62.5	23.4	0.3	10.4	-	32.9	25.2	3.4	17.8	-	84.7	260.6
Expenses	2005	41.6	41.7	1.7	5.9	1.1	18.8	0.4	1.6	-	-	(0.1)	112.5
	2006	71.1	15.0	0.4	11.9	1.2	12.6	12.9	6.5	-	-	(0.9)	130.7
	2007	58.6	21.2	0.7	9.9	-	27.5	26.8	3.4	17.3	-	50.7	216.1
Profit (Loss) Before Taxes^{268*}	2005	17.4	33.7	6.1	17.5	(5.9)	(26.1)	(5.9)	0.4	-	-	4.8	42.0
	2006	(1.5)	13.9	(1.2)	0.1	(1.5)	0.2	(3.8)	0.4	-	-	5.6	12.2
	2007	3.8	2.3	(0.4)	0.4	-	5.5	(1.6)	-	0.5	-	34.0	44.5
Balance Assets for December 31	2005	201.0	45.2	0.7	44.5	6.0	60.4	0.8	3.6	-	-	(52.0)	310.2
	2006	185.9	135.2	1.5	91.6	-	129.0	323.4	7.5	-	-	207.9	1,082.0
	2007	189.7	182.6	1.6	34.2	-	278.2	451.8	4.7	103.6	16.5	233.6	1,505.6
Management Assets / Credit Portfolio for December 31	2005	432.8	67.5	23.3	161.1	19.9	18.4	0.1	0.6	-	-	-	723.6
	2006	607.3	114.8	26.0	237.7	-	77.8	212.0	0.7	-	-	-	1,276.4
	2007	703.3	164.9	31.7	144.7	-	178.9	306.4	0.2	-	-	-	1,529.9

(*) Profit (Loss) before taxes, diminution, expenses and revenues not directly related to retail and credit banking businesses.

(*) Profit (Loss) before taxes, diminution, expenses and revenues not directly related to pension and insurance businesses.

9.9 General Environment and Influence of External Factors

The KFS Group's primary business, in the fields of banking and retail credit as well as the fields of insurance and pension, are conducted in countries where the financial services sector enjoys rapid growth (Russia, Ukraine, Georgia, Croatia, Turkey, Albania, Macedonia and Kosovo) and in countries that have entered the European Union in recent years: Bulgaria, Romania and Slovakia which also enjoy a rapid rate of growth.

The data and analyses presented in the section below are based on external information. Kardan NV is not responsible for the quality or

²⁶⁷ The operations in Macedonia and Kosovo are of insignificant scope, concentrated through an Albanian insurance company, which has a subsidiary company in Macedonia and a branch in Kosovo. Therefore, the data presented are of the Albanian company

²⁶⁷ Profit (loss) before taxes, diminution, expenses and revenues not directly related to the pension and insurance business.

accuracy of the data presented in the following section. Furthermore, the information in the following section, including the Gross National Product, legislative changes, processes of privatization, foreign investments, capital market reforms, disinflation processes and relation to the projections and estimates regarding the market conditions in the future, is all forward-looking information, as defined in the Securities Act and which may not become realized, in full or in part, or realized in a different manner, even substantially differently from what is expected, as a result of EU policy, economic conditions and economic policies of others of relevant countries

Following are primary macro-economic indicators of the KFS Group target countries in 2007:¹⁰⁸

	Bulgaria	Romania	Ukraine	Russia	Croatia	Georgia	Slovakia	Turkey	Albania	Macedonia	Kosovo
GNP (billions of dollars) ¹⁰⁹	87	247	321	2,076	69	20	108	668	20	17	4
GNP growth (%)	6.1	5.9	6.9	8.1	5.9	12	8/8	5.1	5	4.6	2.6
GNP per person (in dollars)	11,800	11,100	6,900	14,600	15,500	4,200	19,800	9,400	5,500	8,400	1,900
Inflation Rate (%)	7.8	4.6	11.3	11.9	2.2	11	2.7	8.5	3	2	2
Population (in millions)	7.3	22.3	46.3	141.4	4.5	4.6	5.4	71.2	3.6	2/1	2
Unemployment rate (%) average	8	4.5	7	5.9	11.8	13.6	8.6	9.5	13	35	50

The countries in which KFS Group is active are characterized by the following features:

- [A] Continuous growth in GNP.
- [B] Changes in legislation based on European standards in order to enable future policy of integration with Western Europe. Slovakia was accepted into EU in 2004. Bulgaria and Romania were accepted into EU in 2007.
- [C] Privatization processes.
- [D] Growth in Foreign Direct Investments.
- [E] Capital market reforms.

¹⁰⁸ Source: world fact book, CIA revised March 2008.

¹⁰⁹ GNP data is presented according to purchasing power parity method

All of these trends contribute to the development of market economies that serve as fruitful grounds for private investments, including in the field of financial services. Kardan NV estimates that the processes described here have not been fully exhausted and the KFS Group is situated in a position that can benefit from the continuation of these processes.

9.10 Retail Credit and Banking Field Description

9.10.1 KFS's operations in the field of banking and retail credit are concentrated under TBIF. TBIF is a holding company active in the field of financial services in Central and Eastern Europe and in republics of the former Soviet Union, which include retail banking and credit, including leasing and mortgages, and asset management. TBIF was established at the end of 2001 as a subsidiary wholly owned by TBIH, out of the strategic viewpoint that information and client base achieved by TBIH in the field of pension and insurance should be mobilized to additional financial services. In light of the development that has commenced in the field of retail banking and credit, in which TBIF has been active since its founding, KFS has decided to strategically focus on the field of retail banking and credit. Consequently, in April 2007, the re-organization of the KFS Group was completed, such that TBIH transferred its holdings in TBIF to KFS (see section 9.5.1 [c] of the report). On the report date, TBIF is held at a rate of 90.38% by KFS.

Following are details regarding TBIF's operations according to country:

Bulgaria – TBIF was one of the pioneers in the field of non-bank loan services in Bulgaria and holds retail credit companies, leasing and asset management under the label, "TBI." TBIF is also active in the field of mortgages in Bulgaria.

Romania – Leasing and retail credit operations under the label "TBI".

Russia – Operations in the field of banking, retail credit, leasing and mortgages.

Ukraine – Banking operations that include retail and corporate banking and finance and operational leasing, retail credit, mortgages and asset management.

Slovakia – Operations in the field of asset management. Following is the centralization of TBIF operations in displayed according to geographic distribution:

	Bulgaria	Romania	Ukraine	Russia	Slovakia
Banking			V	V	
Retail Credit	V	V	V	V	
Leasing	V	V	V	V	
Mortgages²⁶⁹	V		V	V	
Asset Management	V		V		V

9.10.2 General Information on Field of Operations

[a] General

Banking, retail credit, leasing and mortgages.

After the fall of the Communist regimes, the financing and banking markets in the countries of Eastern Europe underwent a period of instability.

As of 2000, the business environment stabilized and along with economic growth and a growing likeness to the criteria of Western Europe, the lending market began developing. The factors that contributed to this development are, among other things, the privatization of government-owned banks and the admission of international entities into the banking field.

As a result of the admission of international entities and the increase in the power of local regulators, there was progress in the regularization of activities and the level of competition and professional expertise and information systems are on a constant rise.

Despite the aforesaid, the rate at which households use credit in Eastern European countries, especially in countries in which TBIF is active, are significantly lower from the penetration rates in the West.

Growth in the financing market has been especially high in the retail field where growth basically starts at a very low level.

Due to the market competition, there is a downward trend in the intervals, although the intervals are still higher than those in Western Europe.

In Eastern European markets there is significant potential stemming from the low level of penetration of products and the low level of disposable income per person.

²⁶⁹ The mortgage operations in Russia and Ukraine are conducted through the banks in those countries, as opposed to the mortgages operations in Bulgaria, which are conducted through an independent company.

The estimate is that the penetration rates of the financing products will increase significantly in the next few years as a result of the macro-economic development of the markets, increase in disposable income and changes in the consumer culture.

The aforesaid regarding the projection that penetration rates of financing products will grow significantly is forward-looking information, as defined in the Securities Act and which may not become realized, in full or in part, or realized in a different manner, even substantially different from what is expected, as a result of a delay or slow-down in the development of market macro-economics, the absence of growth in disposable income and the absence of a shift in the culture of consumption (regarding the projection of growth in penetration rates of financing products).

Asset Management

In Central and Eastern European countries, a high rate of the capital is still held in cash and money deposits. The attempt in Western Europe points to the fact that there is a trend of development of investments in other financial tools. A similar trend has commenced in Eastern Europe, but at this point in time, its scope is low. If the trend of reallocation of capital in Eastern Europe from standard bank cash and money deposits to other tools such as bonds, shares, etc., this trend is expected to benefit asset management companies in the private and public fields. Furthermore, the development of institutional players like pension funds and insurance companies also contribute to the development of asset management companies. Likewise, in the private field, the rise in disposable income per person also contributes to the development of the asset management market.

Restrictions, Legislation, Standardization and Special Constraints

Banking – the branch of banking is subject to very broad regulation in Russia and Ukraine, in spite of the fact that the scope of the regulation and the extent of the regulators influence have not yet reached the western conventional level. Every year shows improvement and the regulation is developing. Local laws, based on Western European legislation, oblige receiving licensing for banking activity and complying with certain requirements concerning the initial capital and liquidity. The banks of the TBIF Group hold all the required licenses and maintain the local regulatory requirements, TBIF's banking activity in Russia and Ukraine is subject to the central local banks.

Non- bank related finance - In some of the countries in which TBIF is active in the field of retail banking and credit, there are no special laws regarding lending companies that are not banks or any special regulation of this field. However, it is possible that in the future laws will be legislated according to European standards and will be related to issues such as minimal capital requirements and required levels of liquidity. The expectation is that the penetration rates of financing products will grow significantly in the coming years as a result of the macro-economic development of markets, rise in disposable income and a shift in the culture of consumption.

Asset Management - In the field of asset management there is regulation that relates to minimal capital requirements and manners of investment. Supervision of the field is done by a capital market supervisor in various countries.

Critical Success Factors

Success factors in the field of retail banking and credit are as follows:

- Early identification of target countries at the stages in which the level of penetration of banking and lending products is low.
- The establishment of a broad market strategy that includes branches, ATM machines and a presence in points of sale on retails products (electrical product market chains, furniture, malls, etc.).
- The existence of a proven loans underwriting system (debtor examination) that enables the rejection of debtors at high-risk levels.
- Attainment of financial resources at competitive prices that enable growth of loans portfolios.
- Development of an efficient customer service system that responds quickly to client needs.
- Production of products tailored to client.
- Recruitment and maintenance of professional, managerial human resources in countries of operation.
- The companies of the TBIF Group are managed by local management which enjoys the support and accumulated experience of TBIF in the various branches of activity.

Main Barriers of Entry

Banking – Capacity to attain financial resources to purchase banks. In recent years there has been continued growth registered in the value of banks in countries where TBIF operates (Bulgaria and Romania), not many banks are up for sale. Despite the option to attain a banking license independently and found a bank in these countries, this option requires significant investments, primarily in order to establish branches at a high distribution, which is necessary for the existence of a retail bank. Furthermore, after acquisition of the bank, one requires sources of finance at competitive prices that will enable the growth and liquidity of the bank.

Retail Credit, Leasing and Mortgages – Ability to attain inexpensive financial resources at significant levels and the ability to get a foothold in market chains, stores and product importers. The attainment of cooperation with market chains is very important in the field of retail credit, since the physical presence (counters) in points of sale is a competitive advantage that enables fast and easy supply of services.

Asset Management – The regulatory requirements and market structure facilitate profitability only for large asset portfolios, and thus it is difficult to penetrate the market. KFS, as an owner of large institutional entities in Bulgaria (insurance companies and pension funds), has an advantage since it owns significant amounts of assets transferred to TBIF asset management companies, while utilizing the synergy between the companies within the KFS Group. In addition, professionalism in the field of asset management is required.

Substitute products in the field of activity and changes in these.

The products that substitute those in the field of banking and loans are the use of money and cash. The low penetration rates of loans (bank and non-bank loans) and of the money deposits in countries where TBIF operates, testifies to the fact that the use of cash as an alternative means for more advanced financial services is still common.

Competition structure and change in the field of activity

Banking – The primary competitors in the banking field in Central-Eastern Europe and in the former Soviet Union republics are international banks (primarily European) which purchased banking operations in Russia and Ukraine and local banks that have not yet been passed over to the ownership

of international entities. The comparison of Russian and Ukrainian markets to other banking markets in Eastern Europe points to a relatively low rate (less than 50%) of international ownership, as opposed to the higher rates (about 80% and up) in other Eastern European countries.²⁷⁰ Should the Russian and Ukrainian markets continue to develop in accordance with the market development trend in Central-Eastern Europe, the estimate is that the number of international entities will rise and the process of consolidation between large banks will increase.

The aforesaid estimates regarding the rise in the number of international entities and the rise in consolidation processes between large banks constitutes forward-looking information, as defined in the Securities Act, based on processes that occurred in other Eastern European markets in which TBIF is not active in the branch of banking, on market surveys and on KFS management's knowledge of the banking market. These estimates may not become realized, in part or in full, or even substantially differently from what is expected, as a result of change in the trend of development in Eastern European markets and/ or due to changes in international policies in the region. .

Retail Leasing and Financing – The primary competitors in this field are bank-related entities (or bank subsidiary companies) and non-bank entities in various countries. The advantage of the bank-related entities is generally in the competitive interest rates offered. The advantage of non-bank entities is in the quality of service and presence in the actual points of sale.

Asset Management – The competitors in the field of asset management are primarily local entities (Bulgaria) and international banks (Slovakia). In Bulgaria, the market has yet to develop to the extent that it will attract the activity of more significant international entities.

[b] Products and Services

[1] **Banking** – As of 2004, TBIF reached a strategic decision to enter the activity of retail banking, out of the perspective that there is a clear synergy between this activity and that of retail credit, leasing and mortgages, and due to the fact that banks can utilize customers' money managed in the framework of deposits, which differs from non-bank related entities, in order to grant loans and they have no need to recruit other sources of finance, the TBIF Group focuses primarily on the broadening of its retail banking operations, including

²⁷⁰ Based on estimates of TBIF management, including data appearing in the CEE Banking Sector Report, published by the RZB Group, one of the leading banking groups in Eastern Europe.

the development of a chain of branches in all of its countries of operation, including peripheral cities for which TBIF enjoys a relative advantage due to it being one of the first entities that offer various financing services. The services TBIF provides in the field of banking are standard banking services to private clients and businesses. These services include managing deposits and accounts, money transfers, providing loans, ATM machine services, credit cards, etc. The banks in Russia and Ukraine issue international Visa and MasterCard credit cards as well as local credit card companies.

Following are a number of indicators regarding banking activity:

Country	Russia	Ukraine
Company	Sovcombank, Regional Credit Bank	VAB Bank
Total Loan Portfolio for December 31, 2007 (in millions of Euro) ²⁷¹	97.7	281.9
Total Loan Portfolio for December 31, 2006 (in millions of Euro)	9.3	209.9
Total Loan Portfolio for December 31, 2005 (in millions of Euro)	Irrelevant ²⁷²	Irrelevant
Number of branches as of December 31, 2007	92	175
Number of credit cards as of December 31, 2007	38	347

- [2] **Retail Credit** – Retail credit is supplied by TBIF subsidiary companies through over 7,500 representatives in branches of retail stores in different points of sale all over the countries in which they operate. Clients can receive credit from TBIF subsidiary companies after filling out a questionnaire and a review of their eligibility for a loan by one of the company representatives. TBIF's competitive advantage in this field is its ability to provide loans through an expeditious process. The retail credit provided by TBIF subsidiary companies is generally for electrical appliances and furniture. The TBIF Group offers its clients the option to purchase these products with credit (the

²⁷¹ The data for total loan portfolio as of December 31 for the years 2005 – 2007 reflect TBIF's segment.

²⁷² Where "irrelevant" appears, the activity has not yet been acquired at the time of data presentation or has been acquired for this date .

average transaction is about 560 Euro) for a period of up to 50 months (the average period is about 18 months). The correspondence is conducted between the client and the TBIF subsidiary companies.

In addition to providing retail credit at points of sale, the TBIF Group operates in the credit card field. TBIF received a franchise to issue MasterCard credit cards in Romania and Bulgaria. In these two countries, TBI Credit, a subsidiary of TBIF, is the only company not associated with a bank that has a franchise to issue MasterCard credit cards. This franchise facilitates the issuing of credit cards that are accepted at all MasterCard points of sale in Romania and Bulgaria and outside these countries, which gives TBI Credit in Romania and Bulgaria a competitive advantage over other companies that only issue local credit cards and whose use is restricted to a limited number of points of sale in Romania.

Following are a number of indicators regarding retail credit activity:

Country	Russia	Ukraine	Bulgaria	Romania
Company	Arka, SovcomBank	VAB Express	TBI Credit EAD	TBI Credit SA
Total Loan Portfolio for December 31, 2007 (in millions of Euro) ²⁷³	76.6	17.3	57.4	83.3
Total Loan Portfolio for December 31, 2006 (in millions of Euro)	67.5	Irrelevant	33.1	49.6
Total Loan Portfolio for December 31, 2005 (in millions of Euro)	18	Irrelevant	22.1	20.4
Number of Branches and sales points December 31, 2007	967	319	93	131
Number of Credit Cards as of December 31, 2007	Credit cards are marketed via bank activity	Credit cards are marketed via bank activity	60,390	32,155

[3] **Leasing** – The credit provided is usually for new cars and equipment and primarily through financial leasing. A standard transaction stands at 17 thousand Euro for a maximum period of 5 years (the average period is 3 years). TBIF intends on expanding its operations in the operational leasing branch for renting cars under the AVIS international brand in Ukraine and for that reason has acquired a company operating in this field together with Dan Rechev (see section 9.6.1 [e] of the report). TBIF also intends on examining its expansion of operations under the AVIS brand in additional countries in Eastern Europe. Furthermore, TBIF is operating in the operational leasing branch in Bulgaria and Romania on the basis of the existing platform of the TBI brand. As of December 31, 2007, about 60% of TBIF's loan portfolio in the leasing field were for the

²⁷³ The data for total loan portfolio as of December 31 for the years 2005 – 2007 reflect TBIF's segment.

purpose of purchasing new cars; about 9% are for the purposes of purchasing second-hand cars; about 9% for purchasing equipment and about 3% for purchasing other products. As of December 31, 2007 the scope of operative leasing out of the total of the leasing portfolio is insignificant.

Following are a number of indicators regarding leasing activity:

Country	Serbia	Ukraine	Bulgaria	Romania
Company	TBI Leasing doo	VAB Leasing	TBI Leasing EAD	TBI Leasing SA
Total Loan Portfolio for December 31, 2007 (in millions of Euro) ²⁷⁴	Irrelevant	6.5	27.9	81.6
Total Loan Portfolio for December 31, 2006(in millions of Euro)	Irrelevant	1.6	10.1	65.2
Total Loan Portfolio for December 31, 2005 (in millions of Euro)	7.1	Irrelevant	5.8	47
Number of Branches as of December 31, 2007	Irrelevant	7	12	18

The scope of activity in the leasing companies in Russia is insignificant as of the date of this report.

[4]Asset Management – The TBIF Group asset management companies provide services to pension funds and insurance companies of the TBIH Group and external entities. The services provided are the management of assets for institutional and private bodies, asset management for high net-worth individuals and managing trust funds and brokerages.

²⁷⁴ The data for total loan portfolio as of December 31 for the years 2005 – 2007 reflect TBIF's segment.

Following are a number of indicators regarding asset management activity:

	Bulgaria	Slovakia	Serbia
Company	TBI Asset Management & TBI Invest	Sympatia Finance	Stockbroker
Scope of Asset Management Portfolio for December 31, 2007 (in millions of Euro)(millions of Euro)	457.6	31.7	Irrelevant
Scope of Asset Management Portfolio for December 31, 2006 (in millions of Euro)(millions of Euro)	300.9	26	Irrelevant
Scope of Asset Management Portfolio for December 31, 2005 (in millions of Euro)(millions of Euro)	213.4	23.3	7.2
Products	Asset management for institutional and private bodies, brokerages and trust funds.	Asset management for institutional and private bodies, brokerages.	Asset management for institutional and private bodies.

The scope of asset management in the management company in Ukraine is not significant as of the date of this report.

- [5] **Mortgages** – The TBIF Group’s mortgage company in Bulgaria grants credit for the purchase of private residences, assets for commercial use and real estate. In Russia and Ukraine mortgages are marketed as an additional product provided by the TBIF banks. As of December 31, for the years 2007, 2006 and 2005 the mortgage companies’ loan portfolios stand at a total of 19.9, 17.9 and 11.1 million Euro accordingly.
- [6] Following is the distribution of revenues and profits in the field of banking and retail credit divided into services (in millions of Euro): ²⁷⁵

The TBIF Group’s activities have been characterized by rapid growth and profitability in its initial stages of operation. TBIF manages its own operations while working in constant cooperation with KFS management, in order to take advantage of the synergy between the KFS Group’s variety of financial activities. Each of TBIF’s subsidiary companies are run by local

²⁷⁵

The revenues include net interest revenues plus revenues from commissions, asset management services and other revenues.

management that is equipped with the knowledge and experience accrued by TBIF in its various fields of operation.

	Year	Banking	Retail Credit	Leasing	Mortgages	Asset Management	Other	Total
Revenues	2007	36.7	43.7	9.4	1.2	2.5	0.8	94.4
	2006	9.7	22	8.6	0.8	1.3	0.3	42.6
	2005	-	7.7	6.9	-	2.1	0.5	17.2
Profit (Loss) Before tax	2007	4.7	2	0.3	0.7	0.1	(0.2)	7.5
	2006	1.4	2.1	2.8	0.3	(0.6)	0.4	6.4
	2005	-	-	1.1	2.3	-	0.1	3.5

Revenues and profit of banking and retail credit activities are on rising trend the source of which is in acquisitions of companies and organic growth of existing businesses. The extensive increase in revenues between 2005 and 2007 derived mainly from an increase in banking services and retail credit services.

[c] Marketing and Distribution

TBIF subsidiaries' marketing and distribution operations are conducted at the points of sales (branches or presence at counters of market chains) through posters, approaching clients and responding to their needs. The marketing in Bulgaria and Romania is conducted through a customer service "call center." In addition, TBIF advertises its products through promotional sales in the newspapers and on billboards.

TBIF is aware of the importance of the branding of its subsidiary companies and thus it employs the services of western branding consultants. The bank and other subsidiary companies in Ukraine have been branded under the brand "VAB." TBIF intends to implement a similar process of branding in banking operations and other financing services in Russia in 2008. The leasing and retail credit operations in Romania and the leasing, retail credit and asset management operations in Bulgaria are all branded under the TBI brand, which is among the first brands in the field of non-bank financing in these countries.

Banking – TBIF is acting to expand its retail operations of its bank in Ukraine, and between 2006 and 2007 the bank branch structure throughout Ukraine was significantly expanded. The dispersal of branches in Russia continues,

including medium and small-size cities, whose competition, as of the date of this report, is relatively low in relation to the big cities.

Retail Credit – The retail credit products are distributed mainly to private consumers that purchase products in stores in the countries or which approach credit companies via the branches of retail credit companies or the TBIF Group’s branches. The emphasis on marketing and distribution is placed on the achievement of broad national distribution, a strong and recognized brand and fast and efficient service. The competitors in the field are banks and non-bank companies. The advantage of TBIF credit companies over the competitors, especially the bank competitors, is their ability to provide swift service to clients at points of sale.

Leasing – The marketing and distribution strategy for leasing services is based on the relationship between leasing companies and car and equipment suppliers, as well as the distribution structure of leasing companies themselves and TBIF’s companies, through which contact with leasing companies can be achieved. The companies offer fast and expedient service that is tailored to the personal needs of the clients.

Asset Management – The primary marketing and distribution structure in the asset management field is currently focused on direct marketing vis-à-vis institutional bodies and the biggest companies in the markets. If a rise occurs in the demand for products by private individuals, the marketing structure will be fitted for a more aggressive approach to the private sector.

[d] Seasonableness

In the field of retail credit, there is an element of seasonableness that stems from the tendency to purchase products primarily during the holidays, in the last quarter of each year.

[e] Competition

TBIF’s competitors in the various countries are primarily banks and financial institutions, both local and international. The main steps taken by TBIF to confront this competition are to provide professional service and quick responses. In addition, within the framework of the banking activities in Russia and Ukraine, TBIF is in the process of developing the option to address all client needs at all points of sales, comprised of supplying “classic” banking products such as checking and savings accounts alongside other financial services such as leasing, retail credit, mortgages and asset management services. Furthermore, the TBIF group concentrates its operations in Russia

and Ukraine on the development the layout of banks both in terms of their location and appearance.

Following are a number of indicators regarding the competition in bank activity countries where the TBIF Group is active: ²⁷⁶

Country	Russia	Ukraine
Company	Sovcombank. Regional Credit Bank	VAB Bank
Partners	Local entrepreneurs and managers	Local entrepreneurs and managers
Primary Competition	Ursa Bank, UralSib, AlphaBank	Ukrgasbank, Tas-Komerzbank, Alphabank
Market Share	0.02%	1.14%
Market Rating	77	21

[2] Following are a number of indicators regarding the competition in retail credit activity in countries where the TBIF Group is active: ²⁷⁷

Country	Russia	Ukraine	Romania	Bulgaria
Company	Sovcombank, Arka	VAB Express	TBI Credit SA	TBI Credit EAD
Partners	Local entrepreneurs and managers	Local entrepreneurs and managers	-	-
Primary Competition	UrsaBank	Home credit	Cetelem, BRD Finance, GE money, retail, EFG	Jet Credit Clarima
Market Share	2%	2.35%	16%	40%
Market Rating	55	11	3	1

[3] Following are a number of indicators regarding the competition in leasing activity in countries where the TBIF Group is active: ²⁷⁸

²⁷⁶ The data regarding the market sector and grading in the Russian market are according to the Russian Central Bank; the data regarding the market sector and grading in Ukraine are according to the Ukrainian Banking Association.

²⁷⁷ The data regarding the market sector and grading in the Russian market are according to the Russian Central Bank; the data regarding the market sector and grading in Ukraine and Bulgaria are according to estimates of TBIF management; the data regarding the market sector in Romania are according to estimates of TBIF management and regarding market grading in Romania according to the Romanian Central Bank.

²⁷⁸ The data regarding the market sector and grading in the Ukrainian market are according to the State Financing Department of Ukraine; the data regarding the market sector and grading in Romania are according to the Leasing and Non-Banking Financial Services Association; the data regarding the market sector and grading in Bulgaria are according to the BNB official statistics. There is no relation to competition in Russia because there are no formal data.

Country	Ukraine	Romania	Bulgaria
Company	VAB Leasing	TBI Leasing SA	TBI Leasing AD
Partners	Local entrepreneurs and managers	-	-
Primary Competition	Unicredit Leasing, JFC Eurofinance, Ukrtransleasing	Alpha, BCR, Sogolease, Afin	EFG Leasing, Interlease, Afin
Market Share	1.4%	2.5%	1.5%
Market Rating	10	12	10

[f] Intangible Assets

Following are a list of the main trademarks that TBIF utilizes: "TBI" in Bulgaria and Romania; "VAB" in Ukraine; and in Russia "Sovcombank", "Credit Regional Bank" and "Arka". The trademarks are registered on the names of the companies from the TBIF Group and are owned by these.

As said in section 9.6.1 [e] of this report, TBIF and Dan Rechev acquired 90% of the share capital of the holding company that holds the Ukrainian company providing leasing services in Ukraine under the "AVIS" brand. The Ukrainian company has a franchise for the use of the "AVIS" brand which it was awarded by Avis Europe Holdings Limited.

9.11 Description of the Field of Insurance and Pension

9.11.1 KFS's operations in the field of insurance and pension are concentrated under the TBIH Group. TBIH is a holdings company that operates in the field of insurance and pension in Central-Eastern Europe, in the republics of the former Soviet Union and in Turkey.

Following are details regarding TBIH Group's operations according to country:

Bulgaria – Bulgaria is the country in which TBIH first began its operations with the establishment of the first pension fund in the country. As of the date of this report, TBIH is operating in both the voluntary and mandatory pension fields. In 1999 TBIH purchased, through a process of privatization, the governmental insurance company in Bulgaria, which operates in the field of elementary insurance, life insurance and health insurance.

Romania – Operations in the fields of life insurance, and as of May 2007, the management of mandatory pension funds.

Russia – Operations in the fields of voluntary and mandatory pensions, and as of December 2007, the field of elementary insurance as well.

Ukraine – Operations in the fields of voluntary pensions, general insurance, life insurance and secondary insurance.

Croatia – Operations in the fields of elementary insurance, general insurance and mandatory pensions.

Georgia – Operations in the fields of elementary insurance, life insurance and voluntary pensions.

Turkey – Operations in the fields of elementary insurance as of June 2007.

Albania, Macedonia and Kosovo – As of September 2007, TBIH is operating in the field of elementary insurance through an Albanian insurance company, which has a subsidiary company in Macedonia and a branch in Kosovo. In addition, TBIH has a license to operate in the field of voluntary pension strictly in Albania.

Following is an outline of TBIH operations according to geographical distribution:

	Bulgaria	Romania	Ukraine	Russia	Croatia	Georgia	Turkey	Albania	Macedonia	Kosovo
Voluntary Pension	v		v	v		v		v		
Mandatory Pension	v	v		v	v					
Elementary Insurance	v		v	v	v	v	v	v	v	v
Life Insurance	v	v	v		v	v				
Health Insurance	v					v				

9.11.2 General Information on Operations

[a] General

Pension

As of the beginning of the 1990s, the economies of Eastern European countries that were part of the former communist bloc underwent significant change in its pension structures. The pension reforms in these countries constitute an answer for the sparse national insurance deposit base (due to the aging of the population), which constitutes a source for the guaranteed income of retirees and the difficulty the governmental pension system faces in trying

to meet future pension obligations. The reforms instated in Eastern Europe reflect the neglect of national insurance as an only source for pension funds and a transition to systems that include two additional levels of pension:

Mandatory Pension – A pension structure that obligates every employer to allocate money for his employers to private funds.

Voluntary Pension – A pension structure that allows members and their employers to deposit money in private funds.

In accordance with the reforms, the pension funds that have been established after acquiring the relevant licenses from the country, are Defined Contribution (DC) funds, in which members will benefit from pension payments in accordance with the savings they have deposited and the returns accrued on them throughout their years of employment (similar to the new pension funds in Israel). This structure reduces the exposure of pension funds and pension fund management companies actuarial deficits, as opposed to Defined Benefits (DB) pension funds which guarantee pensions at permanent amounts without any reliance on the returns attained, and which are thus exposed to significant actuarial deficits (similar to the old version of pension funds in Israel).

Following is a table exhibiting the status of pension reforms in select countries in Eastern Europe:

Pension Structure	Countries
Total pension reform (voluntary and mandatory pension)	Hungary (1998), Poland (1999), Latvia (2001), Bulgaria (2001), Croatia (2003), Slovakia (2005), Russia (2004)
Strictly voluntary pension structure alongside national insurance	Slovakia, Czech Republic, Lithuania, Serbia, Estonia, Macedonia, Georgia and Ukraine
Reform has yet to be implemented – only national insurance structure applied.	Romania, ²⁷⁹ Albania, and Belarus

Following are unique features of the operations regarding the pension field:

[1] Growth in the Scope of Assets Under Pension Fund Management:

The assets under fund management are growing due to the accumulation of ongoing deposits (unless a decline in membership occurs), an increase in salary that constitutes the basis for mandatory deposits and an increase in the

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In 2007 Romania began a process of reform in the field of voluntary and mandatory pensions.

demand for mandatory deposits as a percentage of income. In light of the fact that the age of most of the mandatory pension fund members in Eastern European countries ranges between 16 to 45, the growth in asset capacity is expected to continue to grow in the coming years.

The aforesaid information regarding the expectation of growth in the scope of assets is forward-looking information, as defined by the Securities Act, which is based on TBIH's knowledge and experience in the branch of pension funds. This estimate may not become realized, in full or in part, or may be realized in a different manner, even substantially differently from what is expected, if legislation is actually updated regarding mandatory deposits and/or due to a delay or slowdown in the macroeconomic development of markets that would prevent or delay growth in the scope of assets.

[2] Growth in Revenues of Pension Fund Management Companies:

Revenues of management companies are determined as the rate of ongoing deposits of members and the rate of accrued assets of members, and in certain cases, also as the rate of return on managed assets. These revenues increase in light of the growth in ongoing deposit amounts and the scope of assets in pension funds.

[3] Member Acquisition Costs:

The process of attaining members in pension funds is one that demands significant investments, especially at the beginning stages of the fund's establishment. The investments relate to the establishment of a broad branch structure, the payment of commissions to agents that recruit new members to the fund as well as advertising costs and the branding of the fund. The accounting guidelines do not allow capitalization of these costs or their reduction over time. The immediate recognition of these member acquisition costs is expressed in the losses in the first years of the fun activities.

Insurance

The insurance penetration rate (GNP partial insurance cost) in Eastern Europe is substantially lower from the insurance penetration rate in the West (Europe and the US). The insurance penetration rate in Central-Eastern European countries stands at less than 1%-4%, as opposed to Western countries, where the insurance penetration rate ranges between 7%-10%.²⁸⁰ The low insurance penetration rate stems from, among other things, a culture of business and

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Based on data from Insurance in Emerging Markets that was published by Swiss Re Report in October 2007.

consumption whose origins are in communism, where central management of insurance and disposable income was meager. Many residents in Eastern Europe still consider insurance a luxury, and product consumption is often prevented from necessity in law.

Following are the insurance market trends in Eastern Europe:

- Consolidation in the insurance branch – The disappearance of small, local companies.
- Improvement of the macro-economic situation, increase in disposable income and consumption of insurance products at rates near to those in the West with a change in the consumer conception regarding the "insurance culture".
- Changes in legislation that turn insurance into a mandatory product, for example a car, independent professions and construction.
- Increase in awareness of voluntary insurance due to exposure to mandatory insurance products.
- Increase in awareness of property insurance due to the development of the real estate field and the purchase of new assets by the public, sometimes through mortgages.
- The life insurance rate in Central-Eastern Europe out of the whole insurance field is low as compared to the West. There's a growth of proportions of life insurance from the whole insurance field. Continued growth to western levels may positively affect the profitability of insurance companies.

Legislative and Regulatory Constraints in the Insurance and Pension Field

The Pension Branch is by the nature of things an branch to which many legal provisions apply, seeing as members' monies must be safeguarded. The countries in which TBIH is active vary with respect to legislation in this matter, but in all of them the law concentrates on the following issues: the minimal capital required for establishing a pension fund or a management company, constrictions imposed on investing members' monies, collecting managing fees, reserves, taxation on deposits and withdrawals, and transition from one fund to another. The pension funds are under the supervision of the Supervisor of the capital market in each of the countries.

The Insurance branch is subject to ample regulation in the countries in which TBIH is active, although the extent of regulation and degree of influence exerted by regulators are not as yet as high as in western countries. It should be noted that with every passing year, the countries where TBIH is active show improvement in that area, in particular those which must bring their regulatory means up to western standards so as to be allowed in the

European Union. Local law, based on West-European legislation, require licensing of insurance companies, as well as meeting certain requisites concerning threshold capital and liquidity that vary as by the kind of insurance in question.

In most countries where TBIH works, car owners are required by law to purchase third party insurance to cover personal and property damages, and minimal coverage amounts are determined by governmental authorities. The prices of these insurance products are set by law, and in some cases, so are the commissions agents may charge. In some of these countries, those practicing certain free trades are must purchase professional liability insurance.

TBIH Group companies have all the necessary licenses. Local laws also specify the investment portfolios required of insurance companies so as to secure their insurance reserves, including the maximum amount permissible for each kind of investment, as by percentage with respect to reserves. These laws allow investment outside the country in question, to some extent, and compel a certain rate of investment in government bonds.

TBIH Group companies comply with the relevant investment regulations, except for Helios – the Croatian insurance company. Helios management is gradually changing its investment portfolio composition with a view to conform to investment regulations in 2008. The sanctions against incompliance with regulations are negligible, and include an insignificant penalty.

Success Factors in Insurance and Pension

TBIH's success factors as for insurance and pension are:

- Identifying target countries early, upon the onset of pension reforms or awakening of the insurance market as the one of the market's initial players
- Setting up a vast marketing array, deploying branches and an ample network of agents throughout each country
- Establishing good relations with employers
- Positioning a strong brand recognized by the general public and emanating reliability

- Professional asset management or underwriting array
- Efficient IT system and emphasis on member or customer service

Main Entrance and Exit Blocks

In pension related activity - it is very important to enroll members in the initial stage of the opening market soon after the reform (mandatory or voluntary). The field of pension plans is by nature one where communication with clients (members) is long term. Frequent transition between funds is not common in the countries in which TBIH operates. Hence, the chief entrance block is the high acquisition costs in a mature (reformed) market. Therefore entrance of new authorities by means of establishing a new pension fund and acquiring a significant market share in a mature market is rare. Entrance of new authorities and exit of existing ones is usually done through full or partial purchase of existing pension funds. In addition, there is also a trend of market consolidation, which stems from mergers of existing funds, in order to benefit the advantages of size.

In insurance activity – in recent years insurance markets have shown a consolidation trend, as opposed to a trend of new players' introduction. The more the insurance market is developed, the harder it is for new players to enter it because of the cost involved in acquiring a market segment. Another entrance block is minimum requisite capital required of insurance companies. The threshold requirements, however, limit mostly local players.

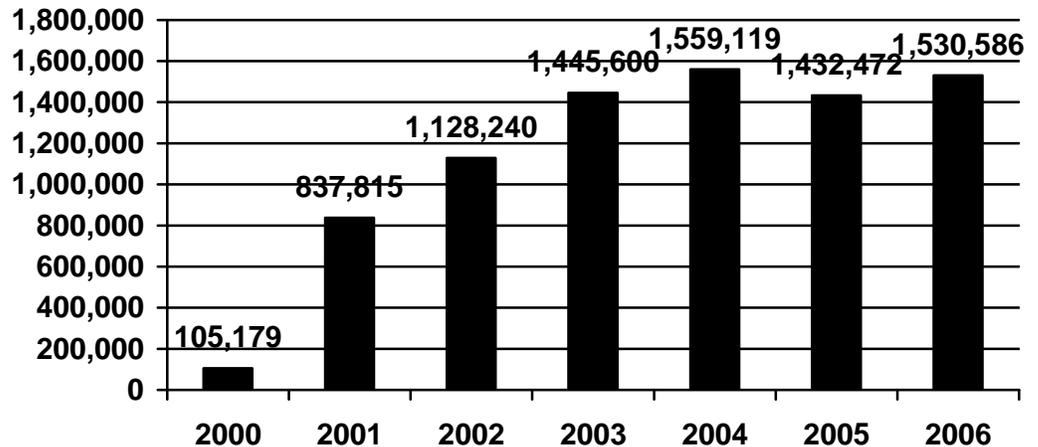
Structure of Competition

The competition in the pension fund activity in Central and Eastern Europe is against local as well as international players. Eminent players in pension markets are financial institutions such as insurance companies and banks, and trade unions and other influential local organizations. The competition revolves around enlisting members, usually by means of a widespread array of agents and branches. Funds' relations with employers are also very important.

The branch of insurance in Central and Eastern Europe has shown a rising trend of competition in recent years, and there is also a trend of consolidation where insurance companies merge into larger companies and the small insurance companies are abolished.

[b] Products and Services[1] Pension Funds

Following is a graph depicting the growth in member counts in all TBIH pension funds over the past eight years (year's end):



In 2006 and 2007, the number of members grew in all pension funds. The drop in the number of members in TBIH pension funds in 2005, with respect to 2004, is a mere consequence of selling the Slovakian pension fund (see section 9.6.2.[f] of the report) which at the date of sale, during 2006, included 60,000 members. This sale aside, the number of members in TBIH pension funds grew by 139,630 members between 2004 and 2005. TBIH has one pension fund in each of the countries in which it is active, save Bulgaria, where there are three TBIH Group funds working under the Doverie brand name (two mandatory funds and one voluntary), and Russia, where two voluntary and one mandatory funds are active in two different countries.

Following are various pension fund indices values of TBIH funds as of December 31st 2007:

Country	Bulgaria		Croatia	Russia		Ukraine	Georgia	Romania
Pension Fund	Doverie		Erste	Victoria, Kaliningrad		Europe	GPIH	Omniasig Pension
Type	Voluntary	Mandatory	Mandatory	Voluntary	Mandatory	Voluntary	Voluntary	Mandatory
Total Assets under management (Euro millions)	376.2		361.7	3.1		1.7	0.5	-
Number of Members	159,583	1,110,736	213,459	10,742	55,972	105,087	9,799	49,038
Rate of Deposit Relative to Average Salary	5%	5%	5%	6%	6%	0.9%	8%	2%
Deposits Management Fee	5%	5%	0.8%	1%	-	4.8%	4%	2.5%
Asset Management Fee	10% of yield	1%	1.2%	15% of yield	15% of yield	3%	2%	0.6%

Following are various pension fund values of TBIH funds as of December 31st 2006:

Country Pension Fund	Bulgaria		Croatia	Russia		Ukraine	Georgia	Romania
	Doverie		Erste	Victoria, Kaliningrad		Europe	GPIH	Omniasig Pension
Type	Voluntary	Mandatory	Mandatory	Voluntary	Mandatory	Voluntary	Voluntary	Mandatory
Assets under management (Euro millions)	376.2		361.7	3.1		1.7	0.5	-
Number of Members	159,583	1,110,736	213,459	10,742	55,972	105,087	9,799	49,038
Rate of Deposit Relative to Average Salary	5.5%	5%	5%	6%	6%	0.9%	8%	2%
Deposits Management Fee	5%	5%	0.8%	1%	-	4.8%	4%	2.5%
Asset Management Fee	10% of yield	1%	1.2%	15% of yield	15% of yield	3%	2%	0.6%

Hereunder is the distribution of contributions¹¹⁰ by country (Euro millions)

	2007	2006	2005
Bulgaria	110.1	51.1	41.9
Croatia	63.6	51.1	39.4
Slovakia	-	-	39.6
Serbia	-	2.0	2.4
Georgia	1.4	0.3	0.2
Russia	2.2	0.2	-
Ukraine	1.4	0.4	0.1
Total	178.7	105.1	120.6

¹¹⁰ Payments rendered by employers and employees to the pension fund, as by the employees' salaries.

[2] Insurance Companies

Following is a table concentrating various insurance company indices values of TBIH Group insurance companies:²⁸¹

Country	Bulgaria	Romania	Croatia	Georgia		Turkey	Ukraine	Albania, Macedonia and Kosovo
Company	Bulstrad	Omniasig Life ¹¹¹	Helios	GPIH	IRAO	Ray Sigorta	VAB Insurance	Sigma
Field	Elementary, life and health	Life	Elementary and life	Elementary, life and health	Elementary	Elementary	Elementary, life and secondary	Elementary
Branches and Points of Sale as of the report	87	54	35	11	1	7	32	45
Agents and Brokers as of date of report	6,075	2,994	495	96	65	754	142	17
Partners as of Date of report	Public cos., 96.84% owned by TBIB	WS	-	TBC (the largest private bank in Georgia)	Local partners	Dogan (20%) and Public (5.74%)	Local partners (the partners are also in KFS group's banking and pension activity in Ukraine)	Local partners

²⁸¹ The data source regarding the market segment and grading as of December 31, 2007 is the Supervisor of Insurance in the various countries and TBIH estimates.

¹¹¹ In 2005 and 2006, the general insurance company Omniasig was held by TBIH. It was sold out on August 2005. This table presents only the life insurance data of the company held by TBIH as at the time of statement.

Following is a table concentrating various insurance company indices values of TBIH Group insurance companies:²⁸²

Country	Bulgaria	Romania	Croatia	Georgia		Turkey	Ukraine	Albania, Macedonia and Kosovo
Company	Bulstrad	Omniasig Life ¹¹¹	Helios	GPIH	IRAO	Ray Sigorta	VAB Insurance	Sigma
Competition	Allianz, MunichRe, AIG, QBE, DZI, Hanover Re	Asirom, Allianz, Astra, Ardaf, Generali, AIG, Aviva, ING	Croatian Insurance, Eurohence, Allianz, Grawe, Merkur, Generali	Aldagi, Imedi-L		Axa, Anadolo, Allianz, AK Sigorta, Garanti	Oaranta, Generali - Garant, Aska, Allianz, Ukrainian Insurance Group	In Albania and Kosovo: Sigal and Insig In Macedonia: Varda, QBE and Tabak Seva
Premiums in 2007 (Euro millions)	102.3	12.6	18.3	8.2		82.9 ¹¹⁴	6.7 ¹¹³	- ¹¹²
Premiums in 2006 (Euro millions)	82.3	15.3	17	6.4	2.9	Irrelevant	Irrelevant	Irrelevant
Premiums in 2005 (Euro millions)	76.6	9.4	14.7	3.3	Irrelevant	Irrelevant	Irrelevant	Irrelevant
Market Share as at December 31 st 2007*	Elementary - 15.8%, Life - 8.1%	3.4%	Elementary - 1.1% Life - 2.2%	25%	12%	3%	0.5%	Albania- 18% Macedonia - 6% Kosovo- 11%
Market rating as at December 31 st 2007*	Elementary 1#, Life - 6#	10#	Elementary - 12#, Life - 13#	12#	4#	12#	Elementary - 35#, Life - 19#	Albania - 2# Macedonia - 6# Kosovo - 4#

Insurance activity is divided into three main branches as described hereunder:

Elementary Insurance – as in most western countries, car insurance constitutes a significant portion of the elementary insurance market. In all the countries in which TBIH is active (except Georgia) car insurance is mandatory. TBIH products in the car insurance field include compulsory vehicle insurance, vehicle property insurance, and vehicle insurance for

²⁸² The data source regarding the market segment and grading as of December 31, 2007 is the Supervisor of Insurance in the various countries and TBIH estimates.

¹¹¹ In 2005 and 2006, the general insurance company Omniasig was held by TBIH. It was sold out on August 2005. This table presents only the life insurance data of the company held by TBIH as at the time of statement.

¹¹² The acquisition of the insurance company Sigma was completed in September 2007, and first united in December 2007 and therefore the premiums of 2007 are not shown.

¹¹³ The acquisition of the insurance company VAB was completed on 2007, hence the premiums of 2007 stated were accrued in a period of just months.

¹¹⁴ The acquisition of the insurance company Ray Sigorta was completed in June 2007, hence the premiums of 2007 stated are for the second half of 2007.

motorists driving in foreign countries (Green Card). In addition, TBIH offers property, household, marine, aviation, and transportation insurances.

Life Insurance – life insurances, including saving and risk products. These products are not as common in Central and Eastern Europe as elementary insurance products. Lately, demand for life insurance has been rising, mainly due to the requirement of borrowers to have life insurance and increasing awareness of insurance in general.

Health Insurance – the market of health insurance in Eastern Europe is now in its infancy. Therefore, the products offered by TBIH subsidiaries in Bulgaria are such that provide basic coverage beyond that granted by the government.

[c] **Segmentation of Revenue and Profitability of Products**

[1] Pension

Following are data pertaining to TBIH activities in pension funds, segmented by voluntary and mandatory funds (Euro millions):

		Voluntary	Mandatory	Total
Revenue from management fee	2005	4.3	3.7	8
	2006	1.1	4.7	5.8
	2007	0.6	3.9	4.5
Profit (loss) from pensions ²⁸³	2005	(1.4)	0.1	(1.2)
	2006	(2.7)	0.5	(2.2)
	2007	(0.6)	(1.8)	(2.4)
Number of members	2005	234,890	1,197,582	1,432,472
	2006	235,797	1,294,789	1,530,586
	2007	285,211	1,429,205	1,714,416
Assets under management	2005	192.4	161.1	353.5
	2006	45.3	448.8	494.2
	2007	59.1	684.1	743.2

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Including expenses related to recruiting members of 2, 1.8 and 2.9 million Euro in 2005, 2006 and 2007 respectively.

The increase in loss in 2006 with respect to 2005 stemmed primarily from expenses involved in proceeding with the development of the relatively new funds in Russia and Ukraine. Operations in Serbia generated a loss of about 300 thousand Euro in 2006, until it was sold. The increase in losses in 2007 versus 2006 stemmed mainly from costs related to the continued development of funds in Russia and Ukraine and the establishment of a new fund in Romania.

Insurance

Following are financial data pertaining to insurance activity, segmented by elementary and life insurance (the field of Health insurance is insignificant, hence it not specified separately.) (Data presented in Euro millions):¹¹⁵

	2005			2006			2007		
	Elementary	Life	Total	Elementary	Life	Total	Elementary	Life	Total
Insurance premiums, gross	191.4	21.6	213	94.8	14.8	109.6	206.5	19.1	225.6
Premiums less reinsurance	164	20	184	68	14.3	82.3	134.6	18.5	153.1
Profit before tax ²⁸⁴	0.7	2	2.7	(0.8)	0.8	-	1.3	1.7	3
Total insurance related liabilities, net	121.5	52.1	173.6	92.4	60.4	152.8	285.1	57.2	342.3

The increase in premiums in 2007 with respect to 2006 stemmed mainly from Ray Sigorta's insurance company in Turkey's first consolidation beginning from mid-year (82 million Euros) and from a growth in premiums of the rest of the insurance companies. The increase in profit stems from the improvement in the results of most of the companies and particularly in improved profitability in life and elementary insurance activity in Bulgaria.

The decrease in premium from 2005 to 2006 is by and large due to selling the Romanian insurance company Omniasig in 2005. The drop in profitability was largely caused by not consolidating the Romanian company results and by the results obtained by the Bulgarian insurance company, mostly due to hard competition in car insurance.

¹¹⁵ Financial data are cited from TBIH's financial statements.

²⁸⁴ profit before tax excluding expenses and revenues which are not directly related to insurance activities

[d] Marketing, distribution and competitionPension

Following are details of several branches, partners and competing businesses in countries in which TBIH Group is active in the field of pensions, as of December 31st 2007: ²⁸⁵

Country	Bulgaria	Croatia	Russia		Ukraine	Georgia	Romania
Pension Fund	Doverie	Erste	Victoria	Kalilingrad	Europe	GPIH	Omniasig Pension
Number of Branches	60	1	64		26	11	1
Partners	CITUB (Bulgaria's largest workers union)	The Austrian bank Erste	Holding of 100%	Local partner (6%)	local partners, which also have part in KFS's banking and insurance operations in Romania	TBC (Georgia's biggest private bank)	Omniasig the insurance company which was sold to WS
Competition	Allianz, ING MunichRe, OTP, Silla	AZ (Allianz) BCI	mostly local		mostly local	Aldagi, Imedi-L	ING, Allianz, Generali
Market Share*	37%	14%	about 2%		37%	46%	1.6%
Market Rating*	1#	4#	12#		1#	1#	10#

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Source: For Bulgaria and Croatia – their capital market and pension commissioners, as for the rest of the countries – TBIH estimates.

Following are details of several branches, partners and competing businesses in countries in which TBIH Group is active in the field of pensions, as of December 31st 2006:

Country	Bulgaria	Croatia	Russia		Ukraine	Georgia
Pension Fund	Doverie	Erste	Victoria	Kalilingrad	Europe	GPIH
Number of Branches	59	80	21		18	3
Partners	CITUB (Bulgaria's largest workers union)	The Austrian bank Erste	100% held			TBC (Georgia's biggest private bank)
Competition	Allianz, ING MunichRe, OTP, Silla	AZ (Allianz) BCI	mostly local		mostly local	Aldagi, Imedi-L
Market Share*	38%	10%	2.5%		30%	85%
Market Rating*	1#	4#	15#		3#	1#

Following are details of several branches, partners and competing businesses in countries in which TBIH Group is active in the field of pensions, as of December 31st 2005:

Country	Bulgaria	Croatia	Serbia	Russia		Ukraine	Georgia
Pension Fund	Doverie	Erste	Dubav TBI	Victoria	Kalilingrad	Europe	GPIH
Number of Branches	59	59	80	12	2	14	3
Partners	CITUB (Bulgaria's largest workers union)	Erste Bank	Dunav (Serbia's largest insurance company)	100% held	local partners	100% held	TBC (Georgia's biggest private bank)
Market Share*	38%	11%	56%	less than 1%		15%	85%
Market Rating*	1#	4#	1#	25#		3#	1#

TBIH's marketing strategy is based on marketing systems deployed nation-wide and extensive arrays of agents. Members' enlistment is usually done by the fund or its agents' contacting employers or figures of influence therein. Nationwide spread marketing systems make it possible to reach significant market shares. In addition, TBIH has developed familiar local brands (in each country, its own) that successfully compete with well known international brands such as Allianz or ING. In east European countries, local, rather than international, familiarity with brands is very important.

In most pension funds, TBIH chose to join into its activities local partners that are players in the relevant labor or financial markets, such as banks, insurance companies and workers' unions. Associating with such organizations is important because they know the local markets and have connections with employers in those economies.

[2]

Insurance

The marketing and distribution array of TBIH Group is based on TBIH employees, an extensive chain of branches and agents and brokers. Agents' activity is particularly important in vehicle insurances, and the agents are paid commissions upon conscripting clients for insurance companies. Additionally, there is a trend in these markets of developing

brokerage as part of the marketing array. Brokers are businesses which provide clients with comprehensive solutions and assist them in selecting the insurance company best fitting their needs, having examined several companies. Brokers usually approach companies rather than private consumers.

[e] Seasonal

In the compulsory vehicle insurance department of elementary insurance, seasons have an effect, consequently, a substantial portion of yearly sales are transacted in January.

[f] Intangible Assets

The main trademarks that TBIH employs are: Doverid (Bulgarian pension), Bulstrad and Bulstrad Life (insurance in Bulgaria), Omniaisig Life and Omniaisig (life insurance and pension in Bulgaria), Ray (insurance in Turkey) and VAB (pension and insurance in Ukraine). The trademarks are registered on the names of the companies of the TBIH Group and they are the owners of these.

[g] Suppliers

The TBIH Group's insurance companies are connected in a secondary insurance policy in order to reduce the insurance risks they take upon themselves. TBIH insurance companies carry out secondary insurance in most insurance branches they operate in as direct insurers. Most of the secondary insurance policies are of the relative insurance type, according to which the reinsurer participates proportionally in the premium and the claim, and the quota share type which covers risks beyond a certain limit. The limits of each policy are determined according to the type of product insured. TBIH acquires its own secondary insurance from leading, top grade international insurance companies. Secondary insurance companies that insure the TBIH group's risk in the insurance branch are chosen according to the management policy of each one of the companies in TBIH and after obtaining WS's opinion regarding the quality of the secondary insurer and the cost of the insurance.

Secondary insurance coverage is determined separately for each branch of insurance according to the exposure of the subsidiaries and prior claims. In branches with a high level of exposure, for example aviation and marine insurance, the companies implement secondary insurance coverage that

limits the exposure to a claim or a single event. In other branches, for example, vehicle, the secondary insurance coverage is more limited.

Topics common to insurance and pension and to banking and retail credit; and additional details

9.12 Human Capital

9.12.1 The KFS Group was employing 7,026 employees on December 31st 2006, whereas on the same date on the following year there were 11,399 employees. KFS, TBIF and TBIH headquarters, located in Amsterdam, Netherlands, are made up of employees and consultants who manage, as by country or area of responsibility (pension, insurance, risk management, business development etc.) sectioning. All other KFS Group employees are locally employed in the various countries of activity.

9.12.2 Employees' training is done independently by each company in the group, while assimilating tools and knowledge accrued in KFS, TBIF and TBIH headquarters. As for financial statements, KFS holds concentrated trainings for executives in every country in which it operates.

9.12.3 In the second quarter of 2007, as part of the reorganization transaction KFS has allotted to KFS executives and consultants 865,519 KFS shares which constituted, at the time of allotment, 2% of KFS's issued and paid-up share capital, in return for a total of 5.2 million Euros (6 Euro per share).

9.12.4 In December 2007 and in the first quarter of 2008, the executives and one additional employee in the KFS group were allotted 107,190 KFS shares, which constituted at the time of allotment, about 0.2% and 0.1% of KFS's share capital, respectively, in return for a total of 800 thousand Euros (12 Euro and 0.36 Euro per share, respectively).

9.12.5 TBIF

[a] TBIF and the companies held by it offered the senior employees and service providers various options to purchase shares in companies held by TBIF.

[b] In 2001 TBIF and TBIH came together in an agreement with the CEO's Company, according to which the CEO's Company is entitled to acquire 5%-10% of TBIF shares and is entitled to acquire 5% in the event of shares issued in the company in the TBIH group. In September 2006, the CEO's Company realized its option

and acquired 15% of TBIF's issued capital in return for a total of 10.8 million Euros. In September 2006, TBIH acquired 4.38% of TBIF's issued capital from the Board of Directors for 9 million Euros. On this same occasion, the remaining options of the CEO's Company to acquire shares in TBIF and TBIH that were granted in the said agreement of 2001 were annulled. The transaction produced a goodwill of 5.6 million Euros. The transaction granted TBIF a value of approximately 72 million Euros (after the investment).

Regarding the shares remaining in the hands of the CEO's Company (10.62% of TBIF), the CEO's Company was granted protection against dilutions until the total of KFS shareholders' investments (including loans and guarantees) would reach 172.5 million Euros. In addition, Call options and Put options allow the CEO's company to sell its holdings to KFS, and provide KFS the option to purchase the CEO's company's shares in TBIF (10.62%) in three equal during 3 years, starting on June 30th, for each of the years 2008, 2009 and 2010. The option's realization price will be determined on the basis of significant TBIF share transactions in the year before the realization date or according to a value estimation on the realization date, but will not be lower than the value evaluation we will set, should we set, in the KFS Group's agreement with third parties. In case of change of control in KFS, the CEO's company will be entitled to exchange its shares for KFS shares and participate in the change of control transaction. Also, if KFS shares are registered for trade, the CEO's company will be entitled to exchange its shares for KFS shares.

As part of the transaction, the CEO's company received a 7.6 million Euro non-recourse loan from TBIH, with a Euribor annual interest, plus 3%, paid with repayment of the loan fund. TBIF shares held by the CEO's company are mortgaged against the loan.

In November 2007, KFS has purchased 1% of TBIF's share capital from the CEO's company. At the same time, the agreement with the CEO's company was repaired in a way entitling KFS to pay the proceeds for realizing the option provided to it by cash and/or by Kardan NV shares (should KFS choose to realize the option through Kardan NV shares, a price modification will be conducted, so that if a year after realizing the option, the market value of Kardan NV shares which the CEO's company received within the agreement, is lower than the realization price, KFS will pay the CEO's company the difference in cash). In addition, KFS has undertaken, as part of its agreement with the CEO's company, that in the circumstances detailed in the agreement, it will give out further loans to the CEO's company in order to enable it to keep its part in TBIF. Furthermore, KFS and the CEO's company have signed a voting agreement, according to which,

in case KFS holds 50% or less of the TBIF voting power, the CEO's company will vote in the TBIF general assembly as KFS instructs it to.

9.12.6 TBIH

- [a] In 2002 TBIH adopted the option plan for TBIH employees and consultants, in the framework of which options TBIH granted options that could be realized in TBIH shares, out of which were realized in April 2007, within the reorganization transaction, options for TBIH shares which constituted 3% of TBIH's share capital. The remaining options that were not realized became invalid.
- [b] TBIH and the companies held by it granted senior employees various options to acquire shares in the companies held by TBIH.

9.12.7 Following is the distribution of KFS Group employees in 2007 according to countries and fields of activity:

	Holland	Bulgaria	Romania	Croatia	Slovakia	Georgia	Russia	Ukraine	Turkey	Albania ²⁸⁶	Total
Banking and retail credit - TBIF	8	843	614	-	13	-	3,400	3,457	-	-	8,335
Insurance and pension - TBIH	5	732	210	277	-	183	829	414	232	160	3,049
Headquarter	2	2	-	-	-	1	6	2	1	1	15
Total	15	1,577	824	277	13	184	4,235	3,873	233	161	11,399

²⁸⁶

Including Macedonia and Kosovo

Following is the distribution of KFS Group employees in 2006 according to countries and fields of activity:

	Holland	Bulgaria	Romania	Croatia	Slovakia	Georgia	Russia	Ukraine	Total
Banking and retail credit	-	585	526	-	13	-	2,119	2,049	5,292
Insurance and pension	-	685	190	200	-	115	62	457	1,709
Headquarter	3	7	-	-	-	-	15	-	25
Total	3	1,277	716	200	13	115	2,196	2,506	7,026

9.13 Financing

9.13.1 KFS

- [A] KFS finances its activities by means of its equity, as well as by loans. Most of the credit serves the banking and retail credit businesses concentrated by TBIF.
- [B] KFSs purchase of minority shares in TBIH, described in section 9.5.3 [b] of the report, was financed by a loan of 99 million Euro extended to KFS by WS at a yearly interest rate of EURIBOR plus 2%. In line of the re-organization transaction, some of the loan has been repaid by way of setoff. As of the date of this report, the loan has been repaid in full.
- [C] In line of the re-organization transaction, a debt of about 7 million Euro owed by KFS to TBIH was engendered. This debt incurs interest at a rate of Euribor plus 3% per year, and it will outstand in April 2010, or in case of control changes in KFS. In February 2008, after the date of balance sheet, the loan was fully paid.
- [D] In March 2007, Kardan NV extended to KFS a credit line at an amount of 60 million EURO whereby to finance TBIF operations. The loan is for three years and it incurs a yearly interest at rate of EURIBOR plus 2.875%. As of the date of this report the entire credit line has been used and out of this amount, in December 2007, Kardan NV invested a total of 19 million Euros in IFS share capital against KFS's allocation of shares at a rate of 4% of KFS's issued capital (at the time of the allocation), in a way that

following the investment Kardan NV held 89.8% of KFS's issued capital (for details of the agreement of KFS share allocation to Bank Discount following which Kardan NV' holdings were diluted to 80% of KFS issued capital, see section 9.5.1 [d] of the report). As of December 31, 2007 and as of the date of the report, the credit line balance stood at a total of 42 million Euros and 28 million Euros, respectively. Furthermore, Kardan NV has also extended other loans to KFS in August 2006 for financing TBIF operations, totaling 10 million Euro at a yearly interest rate of 7.5%, which were fully paid in February 2008, after the date of balance sheet.

[E] For details on the engagement with Bank Discount to extend a credit line and regarding the securities that put up for Bank Discount, see section 9.5.1 [d] of the report.

[F] Following is a table specifying the composition of KFS's¹¹⁶ loan balance as at 31st December 2006 and 31st December 2007 (in Euro millions):

	Loan balance as at December 31 st 2006	Average interest rates for 2006	Loan balance as at December 31 st 2007	Average interest rates for 2007
Short term loans				
From banks	-	-	-	-
Other	-	-	97.4	7%
Long term loans				
From banks	-	-	-	-
Other	10.2	7.5%	28.7	7.6%
Bonds	-	-	-	-
Total loans	10.2	-	126.1	

[G] As part of the agreement of loan made with Discount Bank, as elaborated in section 9.5.1.[d] of the report, KFS has undertaken a financial liability (covenant) before the bank, whereby it shall preserve a ratio of equity per balance at a rate of no less than 28% of KFS's assets (according to KFS's non-consolidated financial statements) and a minimal equity of 125 million Euro. KFS also undertook financial liabilities that concern TBIF and TBIH because in these companies the ratio of equity per balance maintained will be no less that 10% of their assets (according to non-consolidated financial statements) and a minimum equity of 100 and 110 million Euros will be maintained, respectively. KFS, TBIF and TBIH maintain the said ratios as of this report.

¹¹⁶ Data extracted from KFS's non-consolidated financial statements

- [H] TBIH shares lien – in April 2007, after the re-organization transaction had been completed, three different liens benefiting WS were registered, on 264,111 TBIH shares held by KFS, that is, 32.6% of TBIH's issued capital. 177,211 shares were put under lien in connection to a loan extended by Ws to KFS, as elaborated in section 9.5.1[c] of the report. as of the date of the report the loan has been repaid and in accordance the liens have been removed. 72,981 shares were put under lien in connection to another loan extended by TBIH to TBIF and as of December 31, 2007 the remainder of the loan promised with liens is a total of 40 million Euros. In March 2008, all of KFS and TBIH holdings were put under lien to Bank Discount, which is 324,190 TBIH shares which constitute 40% of TBIH share capital, in connection to the loan that Bank Discount extended to KFS as detailed in section 9.5.1 [d] of the report.
- [I] Following is the detail regarding credit balances in variable interest (in millions of Euro)

Variable Mechanism	2006		2007		סמך למועד פרסום הדוח	
	Interest range in %	Credit as of December 31	Interest range in %	Credit as of December 31	Interest range in %	Total Credit
Euribor	-	-	Euribor+2%-3%	116	Euribor+2.5%-3%	165.2
Libor	-	-	-	-	Libor+2.5%	9

9.13.2 TBIF

- [A] TBIF's operations are financed by means of a shareholders' loans extended by KFS, and other loans from corporations and other banks.
- [B] According to the loan terms of September 2006, FMO has given TBIF two unsecured loans totaling 30 million Euro in the following manner:

A loan of 15 million Euro outstanding in six equal semiannual installments as of March 2009. The loan bears interest at an average rate of ERIBOR plus 3.75%, paid every six months. In addition, according to the terms of loan FMO is entitled to a yearly payment of an amount equal to 6.5% of KFS's pretax profit, up to a ceiling (including interest) of 12% of the average loan balance for that year;

A loan of 15 million Euro outstanding in ten equal semiannual installments as of March 2009. The loan bears a yearly interest at a rate of EURIBOR plus 3.5%, paid every six months;

By signing the loan agreements TBIF has undertaken to maintain certain financial ratios concerning the degree of risk and assets: capital to risk weighted assets ratio greater than 10%, original to total capital ratio (tier 1) equal or greater than 67%, and current to total assets ratio greater than 10%. As at December 31st 2007 and at the time of report, TBIF meets all these requirements.

- [C] In May 2007, VAB, a Ukrainian bank 48.83% of which are held by TBIF, completed a capital conscription of 125 million USD (about 90 million Euro) by issuing unsecured bonds stated in USD. The bonds bear a yearly interest of 10.125%, calculated every six months. The bonds' term of repayment is three years since issuance. The bonds were rated BB by Moody's and (-B) by Fitch. VAB intends to use the issuance proceeds to enlarge its loans portfolio.
- [D] Various TBIF subsidiaries occasionally put liens on their credit portfolios appertaining to leasing, retail credit, and mortgage operations (receivables), benefiting the extenders of credit. As at 31st December 2007 and at the time of report, the balance of loans secured by such liens adds up to 124 million Euros and 128 million Euro, respectively.
- [E] As for the loans extended by Kardan NV to KFS, as described in section 8.13.1 (D) of the report, as of December 31st 2007 and at the time of report, the balance of the owners' loans extended by KFS to TBIF is, in total, 27 million Euro and 88 million Euro, respectively. For details regarding the conversion of part of the balance of the owners' loans extended to TBIF by KFS against and allocation of TBIF shares, see section 9.5.2 [c] of the report.
- [F] Hereunder is a table listing the composition of TBIF's loans balance as of December 31st 2006 and December 31st 2007 (in Euro millions)²⁸⁷

²⁸⁷

As of December 31 2006 TBIF was held by TBIH and was fully consolidated and therefore separate data are not presented for this date. The data do not include owners' loans that KFS extended to TBIF.

	Loans balance as at 31 st December 2007	Average Interest Rates for 2007
Short term loans		
From banks	108.6	9.2%
Other	62.4	7.7%
Long term loans		
From banks	130.5	8.6%
Other	50.2	8.8%
Bonds	41.8	9.4%
Total loans	393.5	

[G] Hereunder is a table of credit balances at variable interest rates (in Euro millions):²⁸⁸

Variable Mechanism	2007		Around the date of this report	
	Interest range in %	Credit as of December 31	Interest range in %	Total Credit
Euribor	Euribor+2.25%-5%	223.2	Euribor+2.25%-5%	223.2

[H] Within the framework of bond recruits in countries of activity, some of TBIF's subsidiaries were rated as follows: VAB bonds were rated BB by Moody and (B-) by Finch; TBI Credit bonds in Bulgaria were rated by the local rating agency, NCRA, at bgA3 for the short term and bgP-2 for the long term; Sovcombank bonds were rated by Moody's local rating at Baa2.RU.

9.13.3 TBIH

[A] Loans from FMO Bank - according to the loan terms of August 2003 and May 2004, TBIH has taken unsecured loans at a total amount of 12 million Euros from the Dutch bank FMO. The loans are outstanding in 19 equal payments as of February 2006, and TBIH may repay them in early repayment at the end of every quarter. It was agreed that should TBIH cease to control its subsidiary Doverie Pension Fund AD, 50% of the loans amount will be outstanding for early repayment. The loans bear interest of LIBOR plus 3.5%, paid every quarter. In the agreements TBIH has entered, it undertook to preserve certain financial ratios pertaining to the degree of leverage and liquidity (external loans to equity ratio – less than 1.5, secured loans to equity ratio – less than 0.75, debt expenses to total resources ratio – greater than 1.25, and debt expenses to cash growth –

²⁸⁸

As of December 31 2006 TBIF was held by TBIH and was fully consolidated and therefore separate data are not presented for this date.

greater than 1.25.) As at December 31st 2007 and at the time of report, TBIH meets these requirements.

Along with the loans agreements, the parties signed option agreements according to which FMO is entitled to invest the loans' amounts in TBIH shares. These options were revoked in 2006, when TBIH purchased them from FMO for 3 million Euros.

[B] In shareholders' loans extended to TBIH by WS during 2007, at a total amount of 192 million Euro, for the sake of funding the acquisition of new companies or further investing in existing subsidiaries, TBIH's holdings and rights in various subsidiaries were put under lien to the benefit of WS, as follows: all of TBIH's holdings in Sigma, Ray Sigorta and Life Omniasig; 20% of TBIH's holdings in Bulstrad; and all rights related to the loan and option agreement with a Russian insurance company that was acquired. The loans bear an interest of average EURIBOR rate plus 3.5% paid every quarter. Some of the loans have a grace period for payment of interest of one to two years. The loans will be repaid between 2010 and 2015. In accordance with the shareholders agreement between KFS and WS, KFS has not extended shareholders' loans to TBIH.

[C] Hereunder is a table specifying the composition of TBIH's loan balance as of December 31st 2006 and December 31st 2007 (in Euro, millions):

	Loan balance as at December 31st 2006¹¹⁸	Average interest rates for 2006	Loan balance as at December 31st 2007	Average interest rates for 2007
<u>Short term loans</u>				
From banks	97.2	15.2%	1.1	9.5%
Other	16.4	7.4%	-	-
<u>Long term loans</u>				
From banks	94.6	7.2%	9.9	8.1%
Other	27.5	6.7%	199.6	8.2%
Bonds	41.3	7.7%	-	-
Total loans	277			

¹¹⁸ Data include TBIF's loan balance, whose financial statements of December 31st 2006 were fully consolidated by TBIH.

[D] Hereunder is a table of credit balances at variable interest rates (in Euro millions)

Variable Mechanism	²⁸⁹ 2006		2007		סמוך למועד פרסום הדוח	
	Interest range in %	Credit as of December 31	Interest range in %	Total Credit as of December 31	Interest range in %	Total Credit ¹
Euribor	Euribor+3%-6%	150.1	Euribor+3%-4%	202.8	Euribor+3%-4%	205.5
Libor	Libor+3.5%	24.2	Libor+3.5%	5.9	Libor+3.5%	5.9

9.13.4 Taxation

Each of the KFS Group subsidiaries is taxed as by the local tax laws of the country in which it operates. To KFS, TBIF and TBIH, which are Dutch holding companies, Holland's tax laws apply and various covenants. For details about Dutch tax law and applicable covenants, see section 16.1 of the report.

Hereunder are the companies tax rates imposed in the countries of activity:

	Companies Tax Rate
Bulgaria	10%
Romania	16%
Croatia	20%
Slovakia	19%
Georgia	25%
Russia	24%
Ukraine	25%
Turkey	20%
Albania	10%
Macedonia	10%
Kosovo ²⁹⁰	*7%

²⁸⁹ Data include TBIF's loan balance, whose financial statements of December 31st 2006 were fully consolidated by TBIH.

²⁹⁰ The tax imposed on activities in Kosovo is a function of premiums rather than profit

KFS has tax assessments that are closed until 2004. KFS's accumulated loss for tax purposes, as of December 31st, 2007, is a total of 1.3 million Euros.

TBIF has tax assessments that are closed until 2004. TBIF has no accumulated loss for tax purposes.

TBIH has tax assessments that are closed until 2003. TBIH's accumulated loss for tax purposes, as of December 31st, 2007, is a total of 11.7 million Euros.

The tax rates of part of KFS Group subsidiaries differ from the statutory rate. This difference is mainly from the differences between the assessment basis for tax requirements and the assessment basis for financial statements.

9.14 Insurance

Retail credit activity in Romania and Bulgaria is secured with credit insurance.

9.15 Essential Agreements

9.15.1 KFS

[A] For loan agreements with FMO – see sections 9.13.2 [b] and 9.13.2 [b] of this report.

[B] TBIH shareholder agreement – in April of 2007, upon completion of the re-organization transaction, the TBIH shareholder agreement between KFS and WS became valid, settling the assembly of the managing board of directors and the board of directors, as well as customary settlements regarding share transference. According to the agreement, KFS received joint control of TBIH, along with WS, until 2010, or until two years after purchases and/or investments in new business by TBIH, at a total of 226 million Euros, through funding provided or organized by WS – the earlier of the two. It was further determined that WS has Industrial leadership in the insurance field, and shall appoint the chairman of the board and/or the supervising board of directors in TBIH's subsidiary insurance companies, but the chairman will not have a decisive vote. In addition, KFS was given a Put option to sell its shares to WS after April 5th, 2011 (including shares purchased by KFS in the allocation after signing the agreement) or part of them, from time to time. The realization price will be the fair value of the shares (determined, if not agreed upon, by an outside evaluator), and if the following conditions exist, the realization price will be no less than the price

derived of TBIH's value in the re-organization transaction, with an annual interest in a Euribor rate with 2%. And these are the conditions: (A) the realization notice had been given no later than December 31st, 2011; (B) the realization notice addresses all KFS shares in TBIH; and (C) TBIH had not purchased new businesses in an investment of at least 200,000 million Euro, with addition of the proceeds received by TBIH from selling their Russia properties (totaled at approximately 26 million Euros) while the funding for these purchases, should TBIH require funding, was given or organized by WS). In May of 2007, WS undertook to fund new TBIH investments in its existing businesses in a total of 5 million Euros, and KFS agreed that these investments will be considered as new business investments for purposes of the shareholders' agreement.

[C] For the KFS share purchasing agreements and provision of options (that have expired) to minority shareholders – see sections 9.5.1 [a] through [c] of this report.

[D] During the report period the option agreement was valid in which Kardan NV provided Genesis and Ariel with a Put option to demand of Kardan NV to acquire the balance of their holdings in KFS (about 11.8% before allocation to WS) at a price that would be agreed on, or in lack of agreement – that would be determined by an external estimator, the option to sell KFS shares to Kardan NV under certain terms and the option for Kardan NV to purchase shares from Genesis and Ariel under certain terms. All of the aforementioned options have expired.

[E] For the KFS re-organization agreement which also includes options for minority shareholders valid at the time of the report – see section 9.5.1 [c] of this report.

[F] KFS shareholder agreement – in April of 2007, as part of the KFS re-organization transaction, the KFS shareholders signed a shareholder agreement, replacing a renewed agreement from April 2006 between Kardan NV and the minority shareholders, which was cancelled after completing the re-organization. In the new agreement it was determined, among other things, that:

Minority shareholders will be authorized to appoint one director in the KFS supervising board of directors, as long as they hold at least 3% of the KFS share capital.

A minority shareholders' approval will be required for performing significant moves that are detailed in the agreement, as long as together they

hold at least 9% of the KFS share capital, including allocation of shares in a lower value than that of the re-organization, as well as registering KFS shares for commerce.

The shareholders have granted each other with a first right of refusal for KFS shares, as well as the right to join KFS share sales. In the event that the majority shareholder receives an offer to sell 100% of the KFS share capital, the minority shareholders have undertaken to join the sale, as long as the selling price is at least equal to KFS's value in the re-organization transition, with interest.

- [G] TBIH share purchase by KFS from the TBIH minority shareholders – section 9.5.3 [b] of this report.
- [H] KFS share allocation agreement to Bank Discount – section 9.5.1 [d] of this report.
- [I] KFS agreement with the management company under complete ownership of TBIF's CEO – see section 9.12.5 [b] of this report.

9.15.2 TBIF

- [A] KFS agreement with the management company under complete ownership of TBIF's CEO – see section 9.12.5 [b] of this report.
- [B] Purchase of Bank in Ukraine (VAB) – see section 9.6.1 [d] of this report.
- [C] Purchase of retail credit activity in Russia – see section 9.6.1 [a] of this report.
- [D] Holdings purchasing agreement in the Russian bank – see section 9.6.1 [b] of this report.
- [E] Agreement for combining TBIF activity in the field of loans (mainly in banking and retail credit) in Russia with activity in a Russian regional bank – see section 9.6.1 [c] of this report.
- [F] .Acquiring leasing activity in Ukraine – see section 9.6.1 [e] of this report.

- 9.15.3 TBIH
- [A] The TBIH agreement with the management company under complete ownership of TBIF's CEO – see section 9.12.5 [b] of this report.
 - [B] FMO bank loan agreements – see section 9.13.3 of this report.
 - [C] Sale of pension and insurance activity in Slovakia – see section 9.6.2 [f] of this report.
 - [D] Acquisition of an elementary insurance company in Russia – see section 9.6.2 [b] of this report.
 - [E] Selling holdings in an insurance company in Romania – see section 9.6.2 [c] of this report.
 - [F] Purchasing holdings in an insurance company in Romania – see section 9.6.2 [d] of this report.
 - [G] Purchasing agreement of insurance activity in Albania – see section 9.6.2 [h] of this report.
 - [H] Purchasing agreement of insurance activity in Turkey – see section 9.6.2 [a] of this report.

9.16 **Business Objectives and Strategy**

KFS's strategy is to generate value for shareholders through activity in the financial sector of selected Central and Eastern-European countries. KFS wishes to act as a leading financial services supplier in the countries in which it is active, and focuses on reaching significant growth in the medium-long run.

The following principles have guided and continue to strategically guide the KFS group:

- [1] Early penetration in countries that KFS has identified having significant business potential. The early identification is essential for achieving the land grab effect, and enables occupying leading position in markets. There is great importance in entering these markets in the initial development stages (first mover advantage), so as to enable the ability to obtain significant market segments in the stages when the competition is relatively limited, through creating strong brands and establishing a broad array of branches.

- [2] Development and expansion of KFS Group's activity in the banking field and retail credit and in the field of insurance and pension in the target countries, while suiting the activity to the specific market through expanding activities of KFS Group companies and through establishing and acquiring new companies in countries where the KFS Group is active.
- [3] Establishing new ventures in the fields of activity or acquiring controlling shares in existing companies and taking an active part in their management, along with partnership with local and international bodies (banks, professional unions, funds, investment companies and local businesspeople). In its activity in Russia and Ukraine, in certain cases, the KFS Group has adopted a model of business partnership based on joint control with local bodies. In these cases, the KFS Group is punctilious regarding shareholders agreements that define their rights in the joint management of the company as well as in share transactions in each of the aforementioned companies.
- [4] Management by local professionals from Central and Eastern Europe: management, employees and suppliers. Management will be performed with coordination, supervision and super-management of the KFS, TBIH and TBIF headquarters, situated in Holland.
- [5] In the TBIH and TBIF headquarters, management is performed according to countries (a separate supervising manager for each country), as well as according to different fields of activity.
- [6] Establishing an extensive national marketing system in each target country: branches, sales points and agents.
- [7] Creating strong brands in the active countries. The KFS Group's entrance into markets in primary development stages creates a situation in which the local KFS group brand is familiar, of ten more than the international brands, especially in cases in which veteran local companies with familiar brands were acquired, or companies with international brands.

[8] Attaining sources of finance and substantial financial resources for continuing the group's investment activity and support for continuing to develop the scope of activity of subsidiaries.

[9] Assimilation of Western quality level management tools and technology in the KFS Group's companies.

9.17 Development Forecast for the Coming Year

9.17.1 KFS

During 2008, KFS intends to support the further growth of TBIF, by producing owner loans and increases of capital, by utilizing funds received in the framework of allocation of KFS shares to Bank Discount Bank and through the credit lines received in the framework of the same transaction (see section 9.5.1 [d] of this report).

9.17.2 TBIF

TBIF focuses on banking and retail credit activity in four countries: Ukraine, Russia, Romania and Bulgaria. The future structure of the TBIF group is expected to be based on four retail banks, in the countries where TBIF is presently active. As part of the banking activity, the entire range of loan services will be supplied to retail clients – retail credit, leasing, mortgages and asset management. In Russia and Ukraine TBIF already has existing banking activity which is expected to expand significantly in the coming year. In addition, TBIF is examining entering banking and retail credit activity in other countries.

9.17.3 TBIH

TBIH plans to work toward continuing activity growth in the insurance and pension fields through its existing subsidiary companies. In addition, TBIH deals with insurance and pension business development activity in other countries in the area mainly in fields of insurance. The coming year is expected to bring a combination of growth in the group's organic activity, which may be accompanied with additional acquisitions of insurance companies and pension funds.

9.18 **Risk Factors**

The KFS Group's activity is characterized by the following risk factors:

Macro risks

- 9.18.1 Fluctuations and difficulties in forecasting the growth of markets in Central and Eastern Europe, the former Soviet Union and Turkey – KFS's business strategy is based on its estimations regarding market trends and general trends in Central and Eastern-European countries, former Soviet countries and Turkey. Economic conditions in developing markets where KFS is active are difficult to forecast and are prone to fluctuations. The success and growth of KFS businesses depends on the continuance of economic growth in the countries and market where it is active. KFS's business strategy is partly based on estimations regarding future economic trends and market trends in Central and Eastern-European countries, which might not be realized. Economic deceleration in these countries might have a negative effect on KFS's results and on its chances of business expansion.

Industrial Risks - KFS

- 9.18.2 The regulatory banking, insurance and financial services environment in Central and Eastern Europe, the former Soviet Union and Turkey is unstable and not as developed as is customary in Western countries – the banking, insurance, pension fund management and other financial industries are subjected to legislation. In markets in Central and Eastern Europe, the former Soviet Union and Turkey, the regulatory authorities and the courts are inexperienced, relatively to the west, in the application of regulations, and there is uncertainty as to their interpretation. There is also much uncertainty regarding fines and punishments which the regulation authorities may enforce under these circumstances.
- 9.18.3 Operational Risks – the KFS Group works in large extents in different fields, exposing itself to operational risks such as loss as a result of defective data processing methods, lack of coverage of secondary insurers, human error, fraud and lack of proper control and inspection procedures. As part of the errors relating to the field of loan distribution, one might name the error of distributing loans to a private entity or person which intends to deceive the company and refrain from paying its debt or is unable to repay its debt . As part of unique insurance operational errors, one might name errors which might occur in the process of adjusting reinsurance coverage of the coverage given to the insureds. In addition, actuary errors have considerable

implications on the suitability of the tariff and of the insurance reserves. The KFS Group has several means for dealing with these risks, including a procedure and supervision system, intended to minimize the exposure to these risks as much as possible.

Industrial Risks – The Banking and Retail Credit Field

- 9.18.4 Raising Capital – TBIF will require large financial resources in order to maintain its positions in the markets in which it is active, and for funding its activity in the future.
- 9.18.5 Competition – many of TBIF's competitors are connected to large international bodies and they have much greater financial and technical resources than those of TBIF's subsidiaries, and can therefore devote more resources to development, promotion and product sales.
- 9.18.6 Credit Risk – the results of TBIF's banking and retail credit activity might be negatively affected by the deterioration of the debtors' ability to realize their liabilities. TBIF and its subsidiaries deal with this risk by setting credit policies and exposure limitations regarding, among other things, the debtors' identity, the size of the loan, the industry's fields and the types of collateral.
- 9.18.7 Interest Risk – the results of TBIF Group's subsidiary companies' activity might be affected by changes in interest rates and their possible influence on the subsidiaries' asset values and the TBIF Group's liabilities.
- 9.18.8 Liquidity Risk – the results of TBIF's activity are exposed to a risk which may originate from the TBIF Group's or its subsidiaries' lack of ability to provide liquidity needs, in light of the existing uncertainty as to the availability and cost of sources. TBIF is endeavoring to minimize this risk by providing loans and recruiting sources of capital linked to the same interest calculating mechanism.
- 9.18.9 Exchange Rate Risk – changes in the exchange rates of different currencies in which TBIF's business is conducted might affect the results of TBIF's activity, due to changes in exchange rates following the existing difference between the assets' currency and the liability currency.

Industrial Risks – Insurance and Pension Fields

- 9.18.10 External Factors' Effects on Frequency and Severity of Insurance Claims – external factors might affect the severity of claims, and as a result, the profitability of TBIH's insurance business. For example:
- Weather changes, especially large natural disasters, might significantly decrease the number of insurance claims and affect the reinsurers and the costs of reinsurance.
- A rise in the crime rate might increase the number of insurance claims.
- Inflation outbreaks or depreciation of the local currency might increase the cost of claims.
- International or local economic deceleration might cause many claims in industries which are sensitive to the economic conditions.
- It shall be pointed out that policy pricing is performed based on past experience and future forecasts, and is unpredictable due to the character of activity.
- 9.18.11 Insurance Risks – incorrect pricing and actuary of the products' tariff as well as of the insurance reserves, might have a negative effect on the policies' profitability and on TBIH's business expenses. For further details see note 30 of the financial reports.
- 9.18.12 Success in the life insurance and pension markets is conditioned, among other things, in an increase in the residents' disposable income in the markets in which TBIH is active – the life insurance and pension products market in Central and Eastern Europe and the former Soviet Union can grow only if the disposable income of these markets' residents grows significantly. This might take a long time, and so TBIH might have to wait much longer than planned until its life insurance investments bear fruit.
- The keys to financial success in the pension market following the suitable legislation in the voluntary and mandatory pension fields, are: achieving a critical number of clients and a growth in the industry's work salary. An investment in a pension fund in a country where the work salary will not grow through time, or where TBIH will not be able to achieve a critical number of clients, might be lost.
- 9.18.13 Reinsurance – TBIH's insurance companies acquire reinsurances in the international markets. Changes in risk prices and in the volume of reinsurances offered in these markets have an influence on the companies' profitability. In addition, according to the insurance policies, reinsurance

does not free the direct insurers of their liability towards the insured, and so the reinsurers' stability can affect the insurance companies' business results.

- 9.18.14 Insurance losses might be higher than TBIH's insurance reserves – this is a built-in risk in the insurance business, originating from the creation of insurance reserves, especially in industries with long term futures, meaning, in cases when the claim can be submitted long after the policy has ended. Insurance reserves are calculated on the basis of the companies' estimations, which might later be discovered as erroneous. In this case, the reserves might be lower than the companies' actual loss.
- 9.18.15 Achieving a significant number of clients in the pension market – one of the pension funds' most significant success factors is reaching a significant number of members in the period of the mandatory reform. In this limited period (usually several months), employees of a certain age range which constitute the young work force, are obligated to choose a pension fund. If at the time of reform the pension fund does not have a significant number of members, local regulatory bodies may not authorize its activity, or there might not be economic rentability in operating a small fund. In this case there might be a need to sell the members to a different fund, and there is a risk of the investment not being fully returned.
- 9.18.16 TBIH's subsidiary companies' investment results – TBIH's net profit partly depends on the results of the investments of subsidiary companies engaging in the pension and insurance field, which invest in financial assets according to limitations of local regulation in each of the countries in which they are active.

The following are KFS, TBIF and TBIH's estimations regarding the type and degree of the aforementioned risk factors on their businesses:

Nature of Risk	Degree of Risk
<u>Macro Risks</u>	
Fluctuations and difficulties in forecasting the growth of markets in Central and Eastern Europe, the former Soviet Union and Turkey	High
<u>Industrial Risks</u>	
The regulatory banking, insurance and financial services environment in Central and Eastern Europe, the former Soviet Union and Turkey is unstable and not as developed as is customary in Western countries; the pension funds and life insurance markets are affected by premium taxation, which can change	Medium
Operational Risks	High
Capital Raising	High
Competition	High
Credit Risk	Medium
Interest Risk	Medium
Liquidity Risk	High
Exchange Rate Risk	High
<u>Insurance and Pension Field</u>	
Outside Factors' Effects on Frequency and Severity of Insurance Claim	Medium
Insurance Risks	Medium
Success in the life insurance and pension markets is conditioned, among other things, in a raise of the residents' disposable income in the markets in which TBIH is active	Medium
Reinsurance	Medium
Insurance loses might be higher than TBIH's insurance reserves	Low
Success in the pension market depends, among other things, on achieving a significant number of clients	Medium
TBIH's net profit partly depends on the results of the investments of subsidiary companies engaging in the pension and insurance field	Low

KFS operates a financial risk management system, alongside a procedure and supervision system, in order to minimize or prevent as much as possible the exposure or the affect of the aforementioned factors on the activity. For further details see note 30 of the financial statements.

10. Description of the Infrastructure Fields – The Projects Field and the Assets and Investments Field

10.1 General

Kardan NV operates in the infrastructure fields through Tahal Group and Tahal Assets, whose operations are intended to be coordinated under the holdings company Tahal International, which is a subsidiary fully owned by Kardan NV, incorporated in Holland in December 2007. The consolidation of operations under Tahal International will be carried out as part of the reorganization process taking place in the infrastructures field, as specified in section 10.4.1 of this report. The operations in the infrastructures field are divided into two operational fields which are presented as business sectors in the financial statements of Kardan NV – the Infrastructure – Projects Field and the Infrastructure – Assets and Investments Field. The operations in each one of the said fields are performed as follows:

The Projects Field operations – is performed through the Tahal Group, which is, as of the date of the report, a subsidiary in full ownership of Kardan NV, which will be transferred to the full ownership of Tahal International. The Tahal Group holds 100% of the issued capital of Tahal Consultant Engineers (hereinafter "**Tami**") which holds 99.9% of the issued capital of Israel Water Planning Ltd. (hereinafter "**Tahal**"). The Tahal Group, through related companies and subsidiaries, deals in providing engineering planning and water supervision services – waste water, water treatment, and landfills; energy; gas and agriculture, and also deals in the performance and establishment of projects in the fields of water resources and water supply, irrigation, desalination, waste water treatment and purification, environmental engineering, civil engineering, water supply, sewage systems, agriculture and geographical data systems and the solid waste field. For a description of the operations in the project field, see section 10.9 of this report.

The Tahal Group is a private company, incorporated in Holland in 1992.

Tahal is a private company incorporated in Israel in 1952. Until 1996 Tahal was owned by the State. In 1996, as part of a privatization by tender move, Tahal was acquired by several private bodies, including Kardan Israel. Throughout the years, Kardan Israel has gradually increased its holdings in Tahal, acquiring the shares of the other shareholders and in April 2001 the move was completed and 99.9% of Tahal's issued capital was held by Kardan NV. In light of the expansion of Tahal's operations abroad, Kardan Israel transferred its holdings in the Tahal Group in March 2005.

For the description of the transfer of holdings in Tahal from the Tahal Group to Tami, in such way that after the transfer Tahal Group holds 100% of Tami's issued capital, which in its turn holds 99.9% of Tahal's issued capital, see section 10.4.2[b] in this report.

The Assets and Investments Field operations – performed through Tahal Assets. Tahal Assets is a holdings company investing in bodies which own yielding assets or initiating on its own projects in the infrastructure field such as desalination facilities, municipal waterworks operational franchises, hydroelectric power plants, municipal authorities water and tax collection, and waterworks and sewage infrastructure maintenance. As of the date of the report, Tahal Assets is in the full ownership of Tahal International. Tahal Assets is a private company incorporated in Holland in December 2007. Tahal Assets intends to concentrate asset and investment activities in Israel under one company, fully owned by Tahal Assets – Tahal Assets Israel Ltd. (Tahal Assets Israel). For a description of the operations in the field of assets and investments see section 10.10 of this report.

The operations in both said fields are performed mainly in countries in Eastern Europe, Asia, Africa, and South America. Kardan NV consolidates the financial statements of Tahal International, Tahal Group, and Tahal Assets.

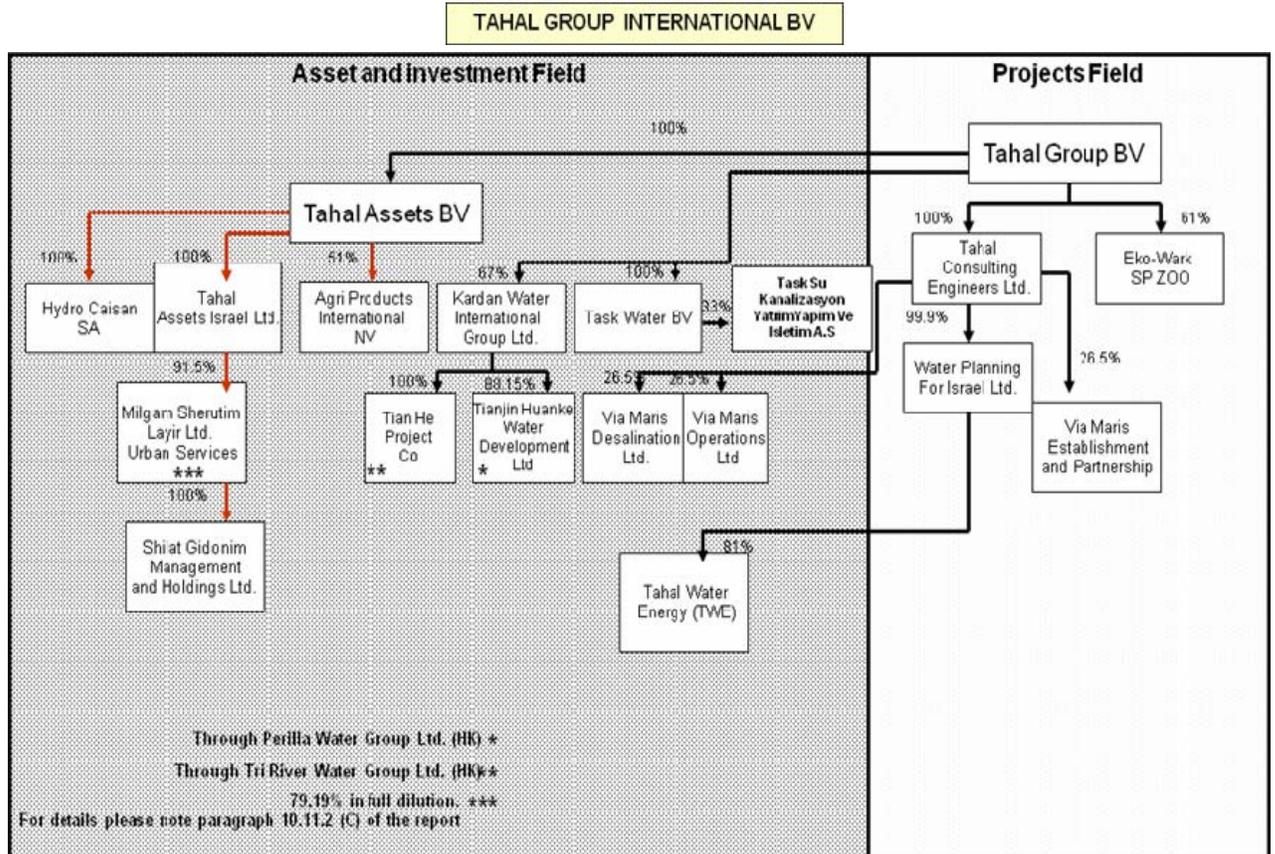
10.2 Following are details regarding the holdings in the Tahal Group:¹

Held Company	Holding Company (as of the date of the report)	Holding Company Holdings Rate (as of the date of the report)	The Investment sum in the held company listed in the holding company's books as of December 31st 2007 (in millions of Euros)	The rate which the investment sum in the held company comprises out of Kardan NV's equity as of December 31st, 2007	Contribution to the net profit of Kardan NV in 2007 (in millions of Euros)	Notes
Tahal Group	Kardan NV	100%	15.9	4.6%	(6.4)	As part of the reorganization in the Tahal Group the holdings in the Tahal Group are to be transferred to Tahal International

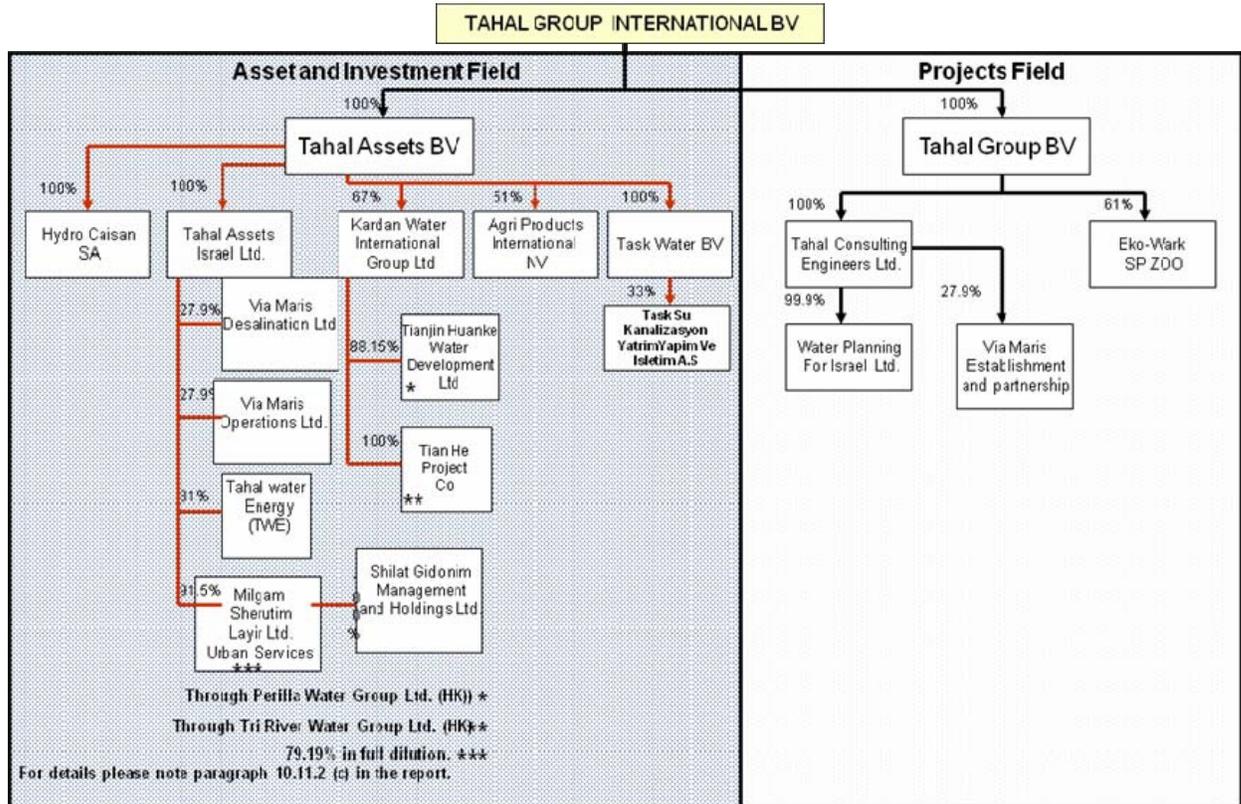
¹ Until the reorganization, the infrastructure operations were carried out through the Tahal Group. Tahal Assets and Tahal International were incorporated in December 2007, therefore the data in this table refer to the Tahal Group only.

10.3 Holdings Structure Diagrams

10.3.1 Following is the structure diagram of the main holdings of the original Tahal Group in material subsidiaries and related companies as of the date of the report (before completion of reorganization):



10.3.2 Following is the structure diagram of the main holdings of the original Tahal Group in material subsidiaries and related companies after the completion of the reorganization (as specified in section 10.4.1):



10.4 Structural Changes and Material Acquisition

10.4.1 Tahal International

Until 2007, the original Tahal Group³ dealt mainly in planning projects (the Tahal Group's traditional field) and execution projects. During 2007 the group started significant operations of investments in the infrastructure field, which created the need of reorganizing the group.

During the fourth quarter of 2007 and the first quarter of 2008, the original Tahal Group decided on a reorganization move, under which Tahal International was established and the original Tahal Group's operations were divided into two operations fields: (1) the Projects field – planning, execution, and building operations of infrastructure field projects, executed by the Tahal Group, through subsidiaries and related companies (herein after "**the Project Companies**", "**the Tahal Group**"); and (2) the Assets and Investments field – operating in investments in yielding assets in the infrastructure field such as desalination facilities and their operation, acquiring municipal waterworks operational franchises, hydroelectric power plants, municipal authorities water and tax collection, and waterworks and sewage infrastructure maintenance, performed by Tahal Assets.

For the purpose of separating these two operations fields as said, the original Tahal Group transfers the holdings in the project companies and these are concentrated under the Tahal Group company whereas the significant holdings in companies which own yielding assets in the investment field are transferred and concentrated under Tahal Assets. Furthermore, the holdings in Tahal Group and in Tahal Assets will be transferred from Kardan NV and Tahal Group respectively, to Tahal International.

Since the reorganization process began, the original Tahal Group had set up separate management Headquarters for Tahal International, Tahal Assets and Tahal Group, where decisions concerning projects are under the jurisdiction of the Tahal Group, decisions about investments are made by Tahal Assets and decision about strategic and financing issues are made in Tahal International. As of the date of the report, no transfer of employees has been made from one field of operations to another. The original Tahal group intends to carry out employee transfers between the fields of operations during 2008.

³ Until 2007 the Tahal Group included Tahal Group and its subsidiaries and related companies. As said above, Tahal International incorporated in December 2007.

The original Tahal Group intends to complete the reorganization as said before the end of first half of 2008.

The estimates regarding the date of the reorganization completion are forward-looking information, as is defined in the Securities Law, based on the estimates of the original Tahal Group estimations. These estimates may not actualize, wholly or in part, or may actualize differently, including materially, than expected due to new legislation, including all tax law related matters, and/or procedural setbacks which the original Tahal group has no control over.

10.4.2 Structural Changes in the Tahal Group

- [A] On December 30th, 2004, in light of the Tahal operations expansion abroad, Kardan Israel engaged in an agreement to transfer its holdings in Tahal to the Tahal Group for a sum of 25 million dollars (about 18 million Euros) (after declaring dividends for 1 million dollars (about 0.7 million Euros) which Kardan Israel received). The execution of the agreement was conditioned by the agreement of the bank funding Tahal's operations. The bank's agreement was received and the transfer was completed in March 31st 2005. The said transaction granted Tahal the worth of 26 million dollars (about 18.7 million Euros) as of the end of 2004.
- [B] On September 7th, 2006 an agreement was signed between Tami and the Tahal Group according to which the Tahal Group transferred its holdings in Tahal to Tami for the allocation of 1,000 Tami shares of 0.1 NIS nominal value each, in such a way that after the transfer the holdings in Tahal and Tami are as follows: (1) Tahal Group holds 100% of Tami's issued capital; (2) Tami holds about 99.9% of Tahal's issued capital. In November 2006 the transaction was completed after all the required authorizations were received; including the authorization from the courts. As a preliminary stage to the said structural changes, Tami performed a self acquisition of its shares, and acquired from Tahal 12,357,144 Tami shares held by Tahal, which constituted the entire issued shares capital except for one share. The acquisition was performed in return to the shares nominal value and in an overall return to Tahal of 1,235,714 NIS. Consequently, the shares acquired in the said self-acquisition were cancelled out of Tami's issued and registered capital. Following these actions, Tami's issued share capital prior to the said structural change execution was one share of 0.1 NIS nominal value, held by Tahal.

10.5 Material Acquisitions and Selling as part of Operations

10.5.1 Material Acquisitions and Selling in the Projects Field

- [A] In February 2007, an agreement was signed between Eko-Wark Sp. ZOO (hereinafter "**Ekowark**"), a company registered in Poland, and the Tahal Group, according to which the Tahal Group was allocated 33% of Ekowark's issued capital in return to a sum of about 1.6 million Euros. Ekowark operates in northwest Poland, and deals in executing contractual work in the infrastructure fields (such as waterworks and sewage). In August 2007 the Tahal Group granted a loan to Ekowark in the sum of 1.2 million Euros. This sum used Ekowark to acquire its own shares, held by other Ekowark shareholders. After the said acquisition from the shareholders, the Tahal Group acquired the same shares from Ekowark for their nominal value, so that as of the date of the report, Tahal Group holds 61% of Ekowark's issued capital. The acquisition was performed within the original Tahal Group's strategy of penetrating additional countries in central-eastern Europe as well as expanding the range of services the original Tahal Group will provide in the projects field.
- [B] In January 2006, Tami has acquired Bamag GmbH's part in a project of planning, building and setting up a waste water treatment facility in Arad, Romania. In return Tami paid Bamag a sum of about 12.8 million dollars (about 9.5 million Euros).
- [C] In 2006, the original Tahal Group won a tender together with two partners (a Greek company and a Turkish company), in equal shares, for a turn key project for planning and building a waste water purification facility in Pashkui, in Turkey, at an overall scope of 54.2 million Euros. In February 2007 the original Tahal Group sold its full holdings in the venture for a sum of 2.2 million Euros.
- 10.5.2 For the description of material acquisitions in the asset and investments fields see section 10.10.2 of this report.

10.6 Dividends

Tahal Group

In 2006 and 2007 and until the date of the report Tahal Group did not distribute dividends.

Limitations on dividend distribution by Tahal – a conditional document signed on November 2006 between Tami and Tahal and the bank funding the Tahal Group operations, limits, among other the things, the dividend distribution by Tami to a rate of no more than 50% of the distributable profits (see section 10.16.9 of this report). As of the date of the report, negotiations are being conducted with several banks in regard to a new funding agreement which will be appropriate for the Tahal Group structure following the reorganization, including all matters related to a new covenants paper to be signed by the Tahal Group, which shall replace Tami's financial obligations. For this matter see section 10.16.8 of this report.

10.7 Financial Information

Below are financial data for the Tahal Group fields of activity (in million Euro):

	<u>2007</u>			2006
	Activities in the field of projects (Tahal Group)	Activities in the field of projects (Tahal Assets)	Tahal Group Total	Tahal Group
Income	66	9	75	65
Net profit (loss) after minority share	1	(8)	(7)	1
Assets as of December 31st	56	97	153	53
Equity as of December 31st	18		18	23

For an explanation of the results of the Tahal Group and its assets, see Section 4A of the Board of Directors Report.

10.8 General Environment and the Influence of External Factors

The global water market on which the Tahal Group focuses (water transportation and supply, waste water processing, desalination, and water and sewage networks) is a market in constant growth, in light of the increasing severe shortage in drinking and irrigation water. According to UNESCO estimates,

global water consumption shall rise, and shall total approximately 2,764km³ in 2025, in comparison to the 2000 consumption totaling approximately 2,184km³. Some estimates state that in 2025, approximately 1.8 billion people shall live in countries or areas with significant water shortage, and that approximately two thirds of the world's population shall live in conditions of water shortage.

There are three primary factors affecting the growth in water consumption:

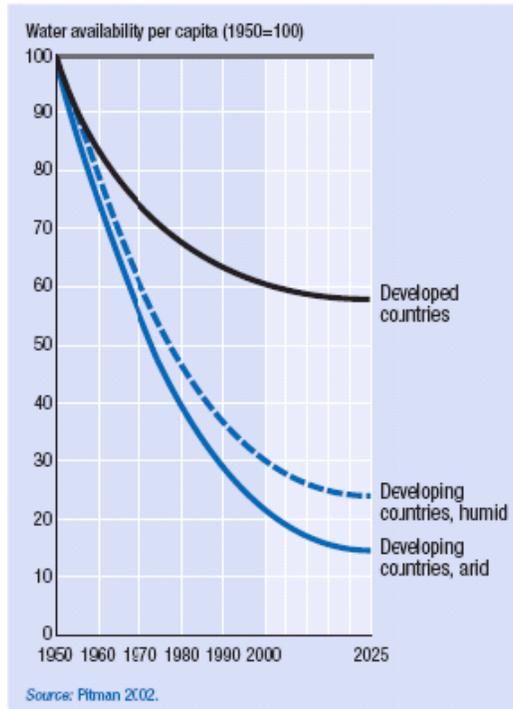
Climate changes – the water shortage is worsened because of climate changes, especially in the driest areas of the world, in which approximately 2 billion people live, and where half of the total poor population of the world lives. Global warming is expected to lead to droughts, floods and to a redistribution of the world's water resources. According to a UN report, approximately 20% of water shortage in the world is due to global warming.

Agriculture – the amount of water required for agriculture grows in direct correlation to population growth. Agriculture is the largest consumer of drinking water. Currently, approximately 70% of all drinking water are allocated to agriculture (approximately 95% in some developed countries).

Urbanization – demand for water grows with urbanization, as in more developed places, the demand for water for private and industrial uses is greater.

The shortage and demand are even greater in developing countries, some of which are in arid regions, and some of which face difficult problems in access to drinking water and water quality.

The following graph shows water access per capita, since 1950, and compares developed and developing countries in rainy regions, and developing countries in arid regions. It should be clarified that for the purpose of creating a starting point, for the purpose of the comparison, it has been arbitrarily decided that access to water per capita in 1950 was a value of 100.



The main operations of the original Tahal group both in the projects field and in the assets and investments field is in developing countries enjoying a rapid growth in the infrastructure field and in countries which recently joined the EU. The original Tahal Group operates mainly in the countries of Eastern Europe, Latin America, Asia, and Africa.

Improvement of and investment in infrastructure, and water infrastructure in particular, are mostly a requirement of international institutions (including – the World Bank and the EU), institutions which provide budgets to these countries for the purpose of executing projects in the infrastructure field.

Tahal Group activities in each country are directly influenced by the overall level of investment in that country. Improvement of the economic – security atmosphere, governmental decisions on the allocation of development resources, or the encouragement of investments and industry may naturally have a positive effect on projects and Tahal Group activities in those countries.

The Tahal Group shall strive in upcoming years to work on large projects, in addition to small and medium size projects in which it has been active so far. This change could increase the risk in the Tahal Group activities, as detailed in Section 10.25 of the report.

The main success factors of the original Tahal Group are first and foremost the knowledge and experience it has accumulated in the fields of infrastructure over its years of activity, as well as its ability to initiate projects in countries with a potential for obtaining work, joining partners in various countries in order to create a synergy between Tahal's abilities and its partners abilities (foreign companies), derived from the years of Tahal Group activities in different parts of the world. In addition, the original Tahal Group is in constant and ongoing contact with banks and financing and insurance institutions in Israel and globally in order to locate the projects financing sources.

10.9 **The Projects Field Description**

10.9.1 General Information on the Operations Field

Within this operations field, the services provided by the Tahal Group are divided into two types:

[A] Execution Projects

Execution projects usually include all the components of an infrastructure project, i.e. planning, acquisition and execution as well as organizing the export finance. In these projects the Tahal Group provides services such as planning and management, equipment acquisition, equipment installation, and civil engineering work, performed by the company or subcontractors on its behalf. In these projects, the Tahal Group is responsible over the project for the client in the Turn Key method.

The execution projects are usually in the fields of waterworks and sewage and include water resources, water supply, desalination, waste water treatment and purification, sewage systems, waste water purification facilities and agriculture.

[B] Planning Projects

The traditional field of operations of the original Tahal Group, which constitutes its technological core. The Tahal Group deals in providing engineering planning, consulting and supervision services in the following fields: water supply, water treatments, dams and drainage, civil engineering, electricity, roads, environmental engineering, energy and gas, water resources and national planning, hydrology, water desalination, agriculture and irrigation.

10.9.2 Income Segmentation

[A] Following is the Tahal Group's income distribution from the projects field, divided into execution projects and planning projects (given in millions of Euros):

	2007		2006		2005	
	Income	% of Total Income	Income	% of Total Income	Income	% of Total Income
Execution Projects	44.2	68%	45.4	70%	31.0	63%
Planning Projects	21.1	32%	19.4	30%	18.1	37%
Total	65.3*	100%	64.8	100%	49.1	100%

* Total income from sales only (less equity profits and other income).

[B] Following is the Tahal Group's income distribution from the projects field according to geographical areas (given in millions of Euros):

	2007		2006		2005	
	Income	% of Total Income	Income	% of Total Income	Income	% of Total Income
Eastern Europe	23.8	36.47%	23.6	36.41%	19.4	39.50%
Latin America	16.2	24.73%	19.2	29.65%	12.3	25.0%
Asia and Africa	25.3	38.80%	22.0	33.94%	17.4	35.4%
Total	65.3*	100%	64.8	100%	49.1	100%

* Total income from sales only (less equity profits and other income).

- [C] Following is the Tahal Group's gross profit distribution in the projects field, divided into execution projects and planning projects (given in million Euros):

	2007		2006		2005	
	Income	Rate of Gross Profit of the Total Income	Income	Rate of Gross Profit of the Total Income	Income	Rate of Gross Profit of the Total Income
Execution Projects	8.8	19.93%	9.6	21.06%	9.2	29.82%
Planning Projects	5.4	25.43%	6.4	32.92%	5.7	31.42%
Total	14.2	21.70%	16.0	24.61%	14.9	30.41%

- [D] Following is the Group's gross profit distribution in the projects field according to geographic areas (given in million Euros):

	2007		2006		2005	
	Income	Rate of Gross Profit of the Total Income	Income	Rate of Gross Profit of the Total Income	Income	Rate of Gross Profit of the Total Income
Eastern Europe	6.4	26.86%	5.5	22.89%	6.6	34.09%
Latin America	1.3	7.78%	3.4	17.91%	3.2	26.18%
Asia and Africa	6.5	25.73%	7.1	32.31%	5.1	29.29%
Total	14.2	21.70%	16.0	24.61%	14.9	30.41%

The income from this work according to the execution contracts are acknowledged according to the completion rate method when the following conditions apply: the income is known or can be estimated; the income collection is predictable or certain; the execution costs are known and can be estimated. The completion rate is set according to the final engineering rate, all according to the accepted accountancy principles.

10.9.3 Material Projects

[A] Following are details regarding the material projects, in each one of which the overall income for 2007 constitutes at least 10% of the overall income total of the Tahal Group in 2007 in the projects field:

Client	Project Subject	Income in 2007 (Million Euros)	% of Income Total	Scheduled Project Completion Date	Rate of Sales out of the Sum of Predicted Project Sales Received as of December 31st 2007	Expected Income in 2008 (Million Euros)	Expected Income as of 2009 (Million Euros)
Dominicana – The Santo Domingo Water Institution	Restoration of <u>Santo Domingo City</u> waterworks	7.8	11.9%	2008	95.1%	1.6	0

[B] Following are the details regarding projects in the projects field which were signed in 2007 and in the first quarter of 2008 and for which each of them the overall expected return constitutes 10% or more of the overall income total of the Tahal Group in 2007:

Project Location (City and Country)	Client	Nature of Project	Name of engaging Company	Type of Project	Tahal Group's Part in the Project	Project Commencing Date	Performance Percentage	Project's Planned Completion Date	Revenues for 2007 (in millions of Euros)	Project's Total Proceeds (in millions of Euros)
Russia, Saint Petersburg,	Limited Liability Company Torgovy Dom Razvitiye	Equipment supply by Tami, supervision, installation and preliminary operation of equipment, as well as providing warranty for it and supply of spare parts for the water treatment factory	Tami	Equipment supply	100%	August 2007	10%	April 2009	850	Approximately 18,000 (received in payments for phases of equipment supply)
Russia, Obninsk	Municipal Institution City Construction	Equipment supply, upgrading and renovation of the city's sewage purification plant	Tami	Turn-Key	100%	December 2007	2%	December 2009	-	Approximately 19.7
Poland, Bialograd	Water and Waste-Water Disposal Company Ltd. In Bialograd	Contractual works related to water and sewage networks	Ekowark	Turn-Key	100%	June 2007	5%	June 2009	-	Approximately 8.6
Poland, Kolobrzeg	Water and Waste-Water Disposal Company Ltd. In Bialograd	Contractual works related to water and sewage networks	Ekowark	Turn-Key	100%	December 2007	1%	December 2009	-	Approximately 9.8
Poland, Szczecinek	Water and Waste-Water Disposal Company Ltd. In Bialograd	Contractual works related to water and sewage networks	Ekowark	Turn-Key	100%	September 2007	3%	September 2009	-	Approximately 8.1
Botswana*	The Botswana Government	Testing the feasibility and planning of the project designed to build an infrastructure for pumping some of the water from the Zambezi River and transferring them to dry areas of Northern Botswana	Tahal Group	Turn-Key	100%	With the fulfillment of certain suspending conditions according to the agreement signed by the parties		24 months after commencing	-	Approximately 9.5

Angola, Luanda	Angola's National Water Company (EPAL)	Building a 400 Km water supply system	Tami	Turn-Key	100%	With the fulfillment of certain suspending conditions according to the agreement signed by the parties		18 months after commencing	-	Approximately 34
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* In May of 2007, Tahal Group has signed a principle agreement with the Botswana Government, for the execution of a comprehensive water and agriculture project in Botswana. The term of the agreement is 15 years and it outlines the general principles of performance. The project is composed of two phases as follows: (1) the first phase is a Turn-Key project for building an infrastructure for pumping some of the water from the Zambezi River and transferring them to dry areas of Northern Botswana for irrigation and cultivation of agricultural areas. The project's cost is estimated at approximately 400 million dollars (272 million Euros). Besides the agreement regarding the performance of feasibility analysis as described herein, the project's commencement is stipulated on the signing of an agreement between countries located in the area, regarding the distribution of the Zambezi River's water. According to the Botswana Government's estimations, this agreement can be formed during the 24 months from the day of signing the principle agreement. As part of the aforementioned first phase, an agreement was signed during February of 2008 between the Botswana Government and the Tahal Group, for the performance of feasibility and planning testing of the project, which is expected to last approximately 24 months. According to this agreement, the proceeds will be paid according to milestones which will be determined in the agreement, and will sum up at a total of approximately 9.5 million Euros. After completing the feasibility analyses, the parties will agree upon the performance phases and the proceeds received at each phase. (2) The second phase is the development of agricultural farms in areas where water infrastructures were built during the project's first phase, as described in section (1) above. The completion of the infrastructures as aforementioned in section (1) will enable the project's work and development to begin. The project's cost is estimated at approximately 300 million dollars (204 million Euros). Before starting the project financed by financial bodies and/or investors under the responsibility of the Tahal Group, the group will perform feasibility analyses and the project will be performed according to the conclusions formed during said inspections. The project's research costs will be funded by the Tahal Group.

The estimations appearing in the table, regarding the planned completion dates of the different projects, are forward-looking information, as defined in the Securities Law, based on the estimation of the Tahal Group management regarding its engagements with each client. These estimations may not be realized, partially or

fully, or be realized in a different, even significantly different manner than expected, as a result of clients' budget constraints which can cause a delay in the project's completion and/or as a result of part of the risk factors described in section 10.25 of this report. In addition, estimations regarding the expected revenues of each project are forward-looking information, as defined in the Securities Law, based on engagements with clients. These estimations may not be realized, partially or fully, or be realized in a different, even significantly different manner than expected, as a result of clients' budget constraints, which might cause the project's termination and/or as a result of part of the risk factors described in section 10.25 of this report.

10.9.4 Clients

The original Tahal Group works in the project field with a large number of clients in a large number of countries. The original Tahal Group's clients are mostly local authorities and governmental authorities in different countries. The average time for a execution project ranges between two to four years.

The payment table for performance of a project usually includes an advance in a rate of 10%-15% of the project's scope, paid upon signing the contract (for provision of an advance payment warranty accordingly). The other payments are spread out upon the project's performance term, according to milestones and objectives which are agreed upon with the client in the contract and which change for each project. A final payment, at a rate usually ranging between 10% and 15% of the whole work scope, is paid when the project is completed and delivered to the client, in exchange for delivery of performance quality warranty, valid for the warranty term which ranges between a year and two years.

10.9.5 Order Accumulation

The following is Tahal Group's order accumulation for December 31st, 2007 (data in millions of Euros)*:

	Total Order Accumulation		Accumulation Realization for The Year 2008					Accumulation Realization for the Year 2009	Accumulation Realization for the Year 2010 and Beyond
	Total Order Accumulation For December 31 st , 2007	% from total order accumulation for December 31 st , 2007	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total for 2008		
Europe	126.7	67%	8.3	20.2	22.2	13.7	64.4	41.3	21
America	11.3	6%	3.3	3.4	1.2	1.0	8.8	2.2	0.3
Asia and Africa	51.2	27%	6.4	6.2	5.5	5.0	23.2	14.4	13.5
Total	189.2	100%	18.0	29.8	28.9	19.7	96.4	57.9	34.8

The following is Tahal Group's order accumulation for December 31st, 2006 (data in millions of Euros):

	Total Order Accumulation		Accumulation Realization for The Year 2007					Accumulation Realization for the Year 2008	Accumulation Realization for the Year 2009 and Beyond
	Total Order Accumulation For December 31 st , 2006	% from total order accumulation for December 31 st , 2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total for 2008		
Europe	54	44%	5.4	6.8	6.6	4.8	23.8	21.6	8.7
America	25	20.3%	4.7	4.7	5.1	5	19.6	4.7	0.6
Asia and Africa	43.8	35.7%	5.2	5.4	4.5	4.5	19.6	11.5	12.7
Total	122.8	100%	15.3	16.9	16.3	14.3	63	37.8	22

The conditions for acknowledging a project order or for supplying services by the Tahal Group and adding it to the order accumulation are (1) a signed commercial contract and (2) receiving an advance from the client.

Estimates regarding order accumulation realization are forward looking statements, as these are defined by the Securities Law, which are based on the estimates of the Tahal Group in regard to the fulfillment of the undertakings of factors it has engaged. These estimates may not be realized, partially or wholly, or may be realized differently, possibly materially differently, than what is expected, as a result of the non-fulfillment of the forecast regarding the rate of sales of the order accumulation and/or as a result of some of the risk factors detailed in Section 10.25 of the report.

10.9.6 Product Quality Warranty

Tahal Group is obligated to supply warranty for the inspection term (usually lasting one year from the delivery day) for projects it performs. In order to insure its obligation, Tahal Group usually supplies the client with a warranty for the inspection term (in rates ranging between 10% and 15% of the project's scope).

As of December 31st of 2006 and 2007, the warranty remainder given to clients for the inspection period is set on a total of approximately 4.7 million dollars and 3.5 million Euros, respectively.

10.10 Assets and Investment Field Description

10.10.1 General Information on the Activity Field

The asset and investment activity focuses on investment in yielding infrastructure assets, such as desalination facilities and their operation, sewage treatment, purchasing franchises for the operation of municipal water systems and investments in hydraulic power plants. Within this framework, business opportunities in the field of infrastructure are identified, companies and enterprises dealing in fields that are highly demanded in the infrastructure field are established, and holdings in existing companies are purchased. In addition, the group participates in tenders for receiving franchises or for signing B.O.T⁴ or B.O.O⁵ agreements, and later on continues in building and operation of desalination or sewage treatment facilities, operation of municipal water and sewage systems, operation of water supply systems, franchises for waste management sites, handling money collection for local authorities and more. The investment activity in this field is mostly based on leverage from the original Tahal Group, creating a risk regarding the investment return – a risk influenced, among other things, by the business environment in which the original Tahal Group is active (for more details see sections 10.9 and 10.26 of this report).

As part of this activity, the Tahal Group strives to become a partner in the execution of projects in the said investments, while basing its activity on its technological-engineering core.

10.10.2 Significant Held Companies and their Activities

[A] **Task Su Kanalizasyon Yatiri, Yapim Ve Isletim A.S. (“Task”)** is a holdings company which is competing through its subsidiaries for the franchises for managing municipal water and sewage corporations in Turkey. In November 2006, the Tahal Group has signed an agreement with Task, according to which the Tahal Group acquired approximately 33.3% of Task’s issued capital through Task Water B.V (“Task Water”)– a subsidiary which will be fully owned by Tahal Assets as part of the reorganization process (as of the date of this report, Task Water is fully owned by the Tahal Group). As of the date of this report, Task has four franchises: (1) A 35 years franchise for management of a

⁴ A B.O.T (Build, Operate, Transfer) project is a project ordered by a public authority (country, municipality of government authority), an enterprise which builds the project’s facility on its own expense and operates it. After an agreed period of time, the entrepreneur returns the facility to said public authority, which undertakes to purchase the facility. In a B.O.T project the entrepreneur’s revenues are received from the ordering party or from the facility users.

⁵ A B.O.O (Build, Operate, Own) project is similar to a B.O.T project, but after completion of the project, the facility and the project rights remain in the entrepreneur’s ownership.

municipal water corporation in Gulluk, Turkey, starting in 2006. (2) A 35 years franchise for management of a municipal water corporation in Corlu, Turkey, subject to the approval of the Turkish Ministry of Interior Affairs. (3) A 29 year B.O.T agreement for planning, building and operating a sewage purification plant in the Dilovasi industrial zone in Turkey, including a commitment to a minimal amount of sewage. (4) A 49 year franchise for operating the water and sewage industry in Kars, Turkey, subject to the approval of the Turkish Supreme Court and Ministry of Interior Affairs. Until the date of this report, Task Water B.V has brought in 2.7 for the funding of Task's activity. As part of the transaction, the Tahal Group paid a premium of approximately 7.8 million Euros for receiving the franchise for the city Corlu (out of which 1.2 million Euros are intended for the partners, for a warranty given by the partners, according to which if Task does not receive the franchise, the Tahal Group will act to realize the warranty), and another 6.6 million Euros, approximately, which are held in trust until receiving the Ministry of Interior Affairs' approval regarding the Corlu franchise. When the franchise will be granted, 6.6 million Euros shall be transferred to Task. Should the aforementioned approval not be obtained., the sum held in trust shall be returned to the Tahal Group. As of the time of this report, the approval is yet to be received. It was further agreed that should the Corlu franchise be obtained, the partners will transfer to Task the 6.6 million Euros as equity from the trust, and the Tahal Group will transfer to Task an additional 3.3 million Euros as equity.

- [B] **Kardan Water International Water Group Ltd (“The Joint Company”)** is a joint enterprise established in 2007, which will invest, operate and manage water and sewage infrastructure projects in China. The joint enterprise was established in continuance of the agreement signed in April 2007, in which it was decided to establish the joint company, whose shareholders will be the Tahal Group and a team of experienced professional experts who are active in the Chinese water business (“**The Local Partners**”). It was further agreed that Tahal Group will hold 66.6% of the joint company's shares, and the local partners will hold the remaining 33.3%.

According to the settlement between the Tahal Group and the local partners, it was agreed that in the first phase, the Tahal Group will provide the funding needed for the joint company's activity, and the local partners will provide the joint company with their contacts, their experience and their acquaintance with the Chinese water industry, and will try to bring to the joint company projects in its field of activity (Deal Flow). According to the aforementioned agreement, at the phase of establishing the joint company, the Tahal Group has invested in the joint company's capital a total of 22.5 million Euros – half of which was given

for allocation of preferred shares, which have preference in case of a dividend distribution and in case of liquidation of the joint company. In addition, the Tahal Group has undertaken to provide the joint company with loans, in an extent of up to 41.15 million Euros (hereinafter in this section: “**Shareholders' loans**”). The shareholders' loans will last for a period of 5 years, and will carry Euribor rate interest with an addition of 2.2%. The funding mentioned in this section will be gradually provided to the company, according to its needs and the rate of its investments. As of the day of this report, the Tahal Group has provided the joint company with a total of approximately 11 million Euros, out of the total of 41.15 million.

The joint company intends to use the aforementioned funding (the equity and the shareholders' loans) for investment in selected projects for development, management, operation and maintenance of Chinese water supply systems and sewage infrastructures.

Tahal Group has a right to appoint directors in the joint company according to its relative share. The agreement also includes customary settlements between shareholders in the company, including right of first refusal, tag along and drag along.

As of the day of this report, Tahal Group's holding of the joint company was not yet transferred to Tahal Assets as part of the reorganization process.

Projects in Which the Original Tahal Group Engaged Through the Joint Company

- [A] In September of 2007, the joint company won a tender for purchasing 88.15% of Tianjin Huanke Water Development Ltd.'s (“**Huanke Water**”) issued capital, for a total of 12 million Euros and assuming Huanke Water's previous obligations towards bank institutions, a total of 10 million Euros. The share transfer was completed in January 2008. The rest of Huanke Water's shares are held by a Chinese Government company. Huanke Water holds franchises for the operation of 6 active Chinese industrial sewage facilities: four of them in the city Tianjin and the other two in the Shandong province. The facilities were built by Huanke Water as part of the B.O.T projects, and their operation franchises last for average periods of 22 years. According to the franchise agreements, the payments for facility operation will be collected from the municipal authority that signed the franchise, and the payment will be calculated according to the amount of sewage purified. The present capacity of all six facilities is about 200 thousand cubes a day, and the joint company plans to raise it during 2008 to 250 thousand cubes. The revenue total expected for 200 thousand cubes of sewage is approximately 6.2 million Euros annually. The

total investment planned until the end of the franchise term is a total of approximately 50 million Euros.

The aforementioned information regarding the plans to enlarge the facility, the expected revenue and the planned investment is forward-looking information, as defined in the Securities Law. This information may not be realized, partially or fully, or be realized in a different, even significantly different manner than expected, as a result of changes in market conditions, changes in legislation, privatization processes, changes in foreign investments in China, or the occurrence of some of the risk factors described in section 10.25 of this report.

- [B] In December 2007, a transaction was completed between the joint company and the local authorities of the city of Dazhou, in the Sichuan province of China; for purchasing 100% of Tian He Project Co's ("**Tian He**") shares, for a total of 1.8 million Euros. Tian He holds a 30 years B.O.O franchise for water supply and industrial sewage purification in a new industrial park in the city. The franchise agreement gives Tian He exclusivity in all manners regarding sewage purification and water supply in the city's industrial zone. The project will be performed in three phases, according to demand, when the first phase is expected to be completed by August of 2008. The investment in the first phase of the project is estimated at about 22.5 million Euros, and the total investment until the end of the franchise period is estimated at approximately 34 million Euros. The quantity of sewage expected to be processed in the first phase of this project is set at approximately 20 thousand cubes a day, and the expected water supply is approximately 100 thousand cubes a day.

Until the time of this report, 17 million Euros were invested in the project. The total annual revenues expected for the first phase of the project are set at 9.7 million Euros.

The estimations regarding the expected date for completing the first phase of the project, the extent of expected investments in the project, the quantity of sewage and water treated and supplied by the project and the total proceeds expected in the first phase of the project are forward looking information, as defined in the Securities Law, which is based on technical and other estimations of the original Tahal Group regarding the building of facilities and other factors. These estimations may not be realized, partially or fully, or be realized in a different, even significantly different manner than expected, as a result of one change or more in the factors used as their basis, including a change in the market situation in China, political and economical changes in China, legislation changes and standardization

changes relating to the Chinese infrastructure industry, and other risk factors described in section 10.25 of this report.

- [C] **Milgam City Services Ltd. (“Milgam”)** – Milgam provides different services to over 100 local authorities and municipal corporations in Israel. Milgam’s activity is divided at the time of the report into two main types: (A) Milgam manages and operates municipal water authorities, and also reads, treats and replaces water meters. For these types of activity, Milgam has operation contracts with the local authorities, and the proceeds are defined separately in each agreement. (B) Milgam manages and operates the money collection system for different local authorities, including preparation of assessments, debit production and the collecting itself. Agreements in this industry are characterized in proceeds derived as a percentage of all actual collection. The length of engagement in both of Milgam’s types of activity ranges between one year and ten years. In addition, Milgam has started operations in the parking services management field²⁹¹, and is working on entering the cellular parking activity field.²⁹²

In September of 2007, a transaction was completed, in which Tami purchased shares composing about 88% of Milgam’s issued and paid-in capital (about 76.16% in full dilution) from City Partners Limited Partnership (“**City Partners**”) and from other shareholders. On the date of signing the contract with City Partners, Tami held about 3.5% of the Milgam shares (about 3.03% in full dilution). Tami paid 61.5 million NIS (about 11 million Euros) for purchasing the aforementioned holdings (the proceeds reflected a company value of 78 million NIS to Milgam (approximately 14 million Euros), representing a share price of 37.8 NIS). After the aforementioned acquisition, Tami held about 91.5% of the Milgam shares (about 79.19 in full dilution).

During December of 2007, Tami transferred the whole of its aforementioned holdings in Milgam to Tahal Assets as part of the reorganization process, together with all of Tami's rights and undertakings in regard to Milgam. In addition, a shareholder of 6% in full dilution of Milgam’s issued capital has a Put option, according to which during a period of 5 years, beginning in

²⁹¹ Milgam has started offering services in the field of parking management, which include management of parking tickets from the moment these are given up to the actual charge. As part of this, Milgam manages the relevant information system of the local authority. As of the date of the report, Milgam is managing parking services in the cities of Rehovot, Nes Ziona and Beer Sheva.

²⁹² In July 2007, Milgam won a tender for the management of cellular parking in the State of Israel for a period of six and a half years. Wining this tender enables Milgam to offer its services to local authorities in Israel in all matters related to the charging of parking fees through cellular phones. For the provision of the said services, Milgam created a company together with partners owning the required technology. This company is controlled by Milgam.

September 2007, he may obligate Tahal Assets Israel to purchase all of their holdings in Milgam in a share price of 37.8 NIS per share, with a deduction of different amortizations as specified in the option agreement, signed in September 2007. Alongside said Put option, Tahal Assets Israel was given a Call option, according to which Tami is able, during that same period, to obligate said shareholders to sell it all their Milgam shares for the aforementioned share price. The Milgam Board of Directors Chairperson has the option of purchasing from Milgam 11.75% in full dilution of Milgam's issued capital for the aforementioned price for a realization price of 8.59 NIS per share. The Board of Directors Chairperson has the Put option of obligating Tahal Assets Israel to purchase these shares at a price of 37.8 NIS per share. As of the date of the report, the Board of Directors Chairperson and Tahal Assets Israel are negotiating for a parallel Call option, according to which, Tahal Assets Israel could obligate the Board of Directors Chairperson to sell these shares to it. An additional shareholder in Milgam holds approximately 1.5% of the Milgam share capital (approximately 1.3% in full dilution), and Milgam has an option, unlimited in time, of purchasing these shares from him at a share price of 25.529 NIS.

As of December 31st, 2007, Milgam has 109 million NIS (about 19 million Euros) in total assets, 44 million NIS (about 8 million Euros) in equity, 110 million NIS (about 20 million Euros) in revenues and a net profit of about 7 million NIS (about 1.2 million Euros).

In December 2007, Milgam acquired shares, composing 100% of the issued capital of Shilat Gidonim Holdings Ltd. ("**Shilat**") for a total of 18 million NIS (about 3.2 million Euros), out of which a total of 14 million NIS were paid in December 2007, 2 million were entrusted (for guaranteeing the seller's obligations according to the terms of the transaction) and will be paid on 21 months later. 2 more million NIS will be transferred if the agreements between Mitar Computerization, Planning and Organizing Inc ("**Mitar**") and certain local authorities remain valid for a period of between 2 and 3 years. Shilat has full ownership of Mitar, which mainly engages in collecting services for local authorities.

- [D] **Hydro Caisan SA ("**Hydro**")** – in October 2007, Tami signed an agreement for purchasing 100% of the issued capital of Hydro, which has a 50 year franchise for operation of a hydraulic power plant in the Chiriqui lake in Panama. Hydro received the aforementioned franchise in April 2007. In order to use said franchise, Hydro must win a tender for electricity sale, which is expected to be published during April 2008, and which Tahal Assets is planning to bid for. The estimated investment extent for this project is a total of 150 million dollars

(about 102 million Euros), out of which Hydro estimates 70% will come of bank funding and the rest through equity. Tahal Assets estimates that the expected annual revenue from this project will add up to 25 million dollars (about 17 million Euros). In May of 2007, Tahal Group has undertaken to allocate minority shares to private entrepreneurs. As of the date of this report, Tahal Assets is contacting private entrepreneurs as to the aforementioned allocation or its conversion into cash.

In December 2007 Tami transferred all of its holdings in Hydro to Tahal Assets as part of the reorganization process.

The estimations regarding the estimated investment extent in the project and the total of expected revenues from the project are forward-looking information, as defined in the Securities Law, which is based on the estimations of the Tahal Assets Group. These estimations may not be realized, partially or fully, or be realized in a different, even significantly different manner than expected, as a result of delays in signing the agreements, changes in the project's definition and costs and delays in the project's progress.

[E] **Derech Hayam Desalination Ltd. ("Derech Hayam")** – as of the date of this report, Tami holds 26.5% of Derech Hayam, which owns a 25 years franchise for a sea water desalination plant in Palmachim. This is a B.O.O agreement, signed in 2002, for the planning, funding, building, operation and maintenance of a 30 million NIS/year sea water desalination plant in Palmachim. In May 2007, the building of the desalination facility was complete and it began selling water as planned. The cost of the investment registered in the Derech Hayam books for establishing this project is set at 0.5 billion NIS (about 90 million Euros). Expected revenues from the project for 2008 are approximately 16 million Euro.

The estimates regarding the expected proceeds are forward-looking information, as is defined in the Securities Law, based on the estimates of Derech Hayam. This information may not actualize, wholly or in part, or may actualize differently, including materially, than expected due to regulatory changes in the water market, and/or the realization of some of the risk factors detailed in section 10.25 of the report.

In January 2008, after the balance date, Tami and other shareholders in Derech Hayam entered into an agreement with a shareholder for purchasing holdings of 5% he owned in Derech Hayam, in Derech Hayam Desalination Joint Establishment and in Derech Hayam Operation Inc. Should the acquisition be completed, Tami will hold about 27.9% of each of the aforementioned

corporations, and will pay 2.5 million NIS (about 0.4 million Euros) in return. The agreement is stipulated on suspending conditions, including, among others, Israel's agreement to sell the shareholder's holdings and the agreement of the funding bodies.

As part of the reorganization process, Tami's holding of Derech Hayam and in the operation company will be transferred to Tahal Assets Israel. The transference is expected to be performed by the end of the first half of 2008, subject to the agreement of the country, the funding bodies and the partners. The holdings of Derech Hayam Desalination Joint Establishment will be left in the hands of the Tahal Group due to the type of its activity, which is performance activity. As of the date of this report, the Joint Establishment is inactive since the building of the desalination facility was completed.

- [F] **Agri Products International B.V (“Agri Products”)** – as of the date of this report, Tahal Assets holds 51% of Agri Products' share capital. Agri Products established an agricultural produce cultivation factory in Bulgaria together with a local partner and has purchased an agricultural produce cultivation factory in Greece. The Bulgaria factory began operational in 2008 and the Greece factory began operating on the date of its purchase. In December 2007, the Tahal Group B.V transferred all of its holdings in Agri Products to Tahal Assets as part of the reorganization process.
- [G] **Tahal Water Energy Ltd.** – held at a rate of 81% by Tahal, is an enterprise engaging in building and operating a “pumped storage”⁶ electricity power plant in Emek Hayarden. The enterprise marks a penetration to a new field of private power plants. The facility's scope is 159 megawatt and its expected establishment cost is approximately 150 million dollars⁷. The project will be funded by the method of project finance, and its establishment is subject to electricity instructions and regulations. As of the date of this report, Tahal's holdings in Tahal Water Energy Ltd are yet to be transferred to Tahal Assets Israel as part of the reorganization process.

⁶ Manufacturing electricity by water: the water is pumped and stored in an upper storage in times of low demand and are sent to the bottom storage to operate electricity turbines in times of peak demand.

⁷ The estimation regarding the establishment of the pumped storage project in Emek Hayarden is forward-looking information, as defined in the Securities Law, based on the Tahal Assets Group's estimations. These estimations may not be realized, partially or fully, or be realized in a different, even significantly different manner than expected, as a result of the realization of some of the risk factors described in section 10.26 of this report.

10.10.3 Revenue Segmentation

[A] Herein are details regarding the 2007 revenues from assets of asset and investment companies (data in millions of Euros):

Held Company	Business Field	2007 Revenues (in millions of Euros)	% of Total Revenues
Task⁸	Management of urban sewage and water corporations in Turkey.	0.1	0.86%
Agri⁹	Processing of agricultural produce.	3.4	39.43%
Milgam¹⁰	Collection of water and municipal fees for local authorities, and water and sewage infrastructure holdings.	5.1	59.71%

* Sale revenues only (with a deduction of equity profits and other revenues).

⁸ Task B.V is expected to be transferred to Tahal Assets as part of the reorganization process.

⁹ As of the date of this report, Agri is owned by Tahal Assets.

¹⁰ As of the date of this report, Milgam is owned by Tahal Assets. Milgam is united in Tahal Group's financial statements, starting from the fourth quarter of 2007.

10.10.4 Order Accumulation

The following is the order accumulation of asset and investment companies, for December 31st, 2007 (data in millions of Euros)¹¹:

	Total Order Accumulation		Accumulation Realization for The Year 2008					Accumulation Realization for the Year 2009
	Total Order Accumulation For December 31 st , 2007	% from total order accumulation for December 31 st , 2007	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total for 2008	
Task	1.3	3.23%	0.2	0.2	0.2	0.2	0.6	0.6
Milgam	39	96.77	4.8	4.8	4.8	4.8	19.5	19.5
Total	40.3	100%	5	5	5	5	20.1	20.1

The estimates regarding the expected proceeds are forward-looking information, as is defined in the Securities Law, based on the estimates of the Tahal Group regarding the fulfillment of the obligations of factors it has engaged. This information may not actualize, wholly or in part, or may actualize differently, including materially, than expected due to the non-realization of forecasts regarding the rate of sales by the different companies, and/or the realization of some of the risk factors detailed in section 10.25 of the report.

¹¹ According to the decision of the Tahal Assets' management, in case of expected revenues from yielding assets, Tahal Assets will acknowledge the order accumulation of sales for a period of 2 years only. Therefore the accumulation regarded in the table refers to revenues which are expected until the end of 2009.

Shared Subjects for the Project Field and the Investment Field and Further Details

10.11 Permanent Property and Facilities

Herein are details regarding the permanent property and the facilities which the Tahal Assets Group has rights in:

The Site	The Company Holding The Asset's Rights	Asset Holding Rate by the Holding Company	Location	Right of Asset	General Characterizations and Notes
Agricultural Produce Cultivation Factory	Agri through Footyard Eood	Indirectly held by Tahal in a rate of 34%	Bulgaria	Ownership	(For details see section 10.10.2 (F) of this report)
Agricultural Produce Cultivation Factory	Agri through Mastfoods S.A.	Indirectly Held by Tahal in a rate of 24%	Greece	Ownership	(For details see section 10.10.2 (F) of this report)
Lot and Buildings	Ekowark	61%	Poland	Ownership	(For information on Ekowark see section 10.10.2 (F) of this report)
Lot and the Tahal building located on it, in Tel-Aviv, over areas of 3,300sm and 5,801sm, respectively.	Tahal	100%	Israel	Leasing	
Two floors in an 11 story office building in Haifa, of 680sm in overall area.	Tahal	100%	Israel	Leasing	The floors are partially leased to third parties.
A Lot in Lod, an area of 3,400sm, with 450sm of warehouses on it.	Tahal	100%	Israel	Leasing	The warehouses are leased to a third party, except for 100sm used by the Tahal Group.

10.12 Marketing

Marketing activity, as well as project management and investment identification, is performed in the original Tahal Group by geographical responsibility division according to continents (Europe, America and Asia-Africa).

Some of the projects and investments are initiated by the Tahal Group, which identifies the necessity of the client's project or of the investment to the Tahal Group according to the matter at hand, conducts financial feasibility studies, and sometimes organizes the funding solution for the project or the investment.

The Tahal Group's main success factors are active marketing through identification and initiation of projects in countries with a potential of obtaining jobs, joining partners from different countries in order to create synergy between Tahal's capabilities and those of its partners (foreign companies), funding and leverage resulting from independent sources of the Tahal Group, ability and access to funding sources and programs.

In addition, the original Tahal Group keeps ongoing contact with banks and funding and insurance establishments in Israel and around the world in order to locate funding sources for projects.

The original Tahal Group is not dependent on one person or body with regards to marketing.

10.13 Competition

The original Tahal Group competes against international engineering companies, against international companies performing extensive water infrastructure and water treatment companies, and against companies with holdings in the infrastructure industry.

In the assets and investments field, the original Tahal Group competes with international bodies investing in the infrastructure industry, such as Aqualia, Suez, Veolia and others.

Tahal deals with its competitors by maximizing its efficiency; using advanced and innovative technologies; active marketing through location and initiation of projects and investments; joining partners in different companies; and access to funding sources and programs, which enable it to offer its clients funding solutions.

10.14 Human Capital

- 10.14.1 The original Tahal Group's organizational structure is divided into two activity types. In the project field, the division is geographical (Europe, Latin America, Israel and Asia-Africa) ("**The Geographical Distribution**"), and in the assets and investments field each company is managed by its own management, this in addition to the management and headquarters' departments of the Tahal Assets groups, which are currently being established. During the report period, an executive sector was established, which is an additional division of the Tahal Group headquarters that operates analogous to geographical distribution, which deals with all the aspects of executing projects, including the management of timetables. The Israel division changed its mission to an engineering division which can provide its services in the field of planning and engineers to all the projects of the original Tahal Group in all countries in which it operates.
- 10.14.2 The original Tahal Group invests resources in training employees through professional supplementary courses, internal sessions, studies towards advanced degrees and language courses.
- 10.14.3 A collective work agreement in the engineering branch applies to all Tahal's employees in Israel (143 employees as of this report). The work agreements with the other employees are individual work agreements.
- 10.14.4 Below is a table displaying the distribution of employees as Tahal Group, as of December 31st, 2007.²¹⁶

Region	Number of Employees as of December 31, 2007	Number of Employees as of December 31, 2006
Eastern Europe	343	140
Latin America	45	47
Asia and Africa	1,104	431
Total	1,492	618

The significant change in employee numbers in 2007 stems mainly from the purchase of Ekowark and Milgam, as detailed in sections 10.6.1[A] and

²¹⁶ Excluding Task and Agri employees which are not included in the Tahal manpower count, due to a managerial decision of the Tahal Group management.

10.11.2[C] of this report. In 2008, the Tahal Group is expected to perform employee relocations between fields of activity, as part of the reorganization process.

10.14.5 In June 2007, the former CEO of Tami and Tahal concluded his term and in October 2007, the current CEO began his tenure with Tami and Tahal and also serves as the Managing Board of Directors Chairman of Tahal International, Tahal Group and Tahal Assets. In the interim period the Tami VP of finances for Tahal served as a substitute CEO.

10.14.6 Options for Senior Executives

In accordance with the agreement signed in September 2001 with Tahal's Chairman of the Board, he was granted 327,793 options in December 2002, which can be realized for 327,793 shares in Tahal, for a realization price of 1.89 dollars per share, whereby this price was translated into NIS on April 18, 2001 according to the dollar exchange rate and index-linked from that point on. The options were granted without consideration in accordance with the terms of section 102 of the Taxation Ordinance and the regulations it stipulates. The options can be realized in three equal parts at the end of every year, as of April 19, 2001 and until April 18, 2006, or until the end of the business agreement between Tahal and its Board Chairman (or the end of the extended period), according to the later date; meaning, April 18, 2008. Up until this report, the Tahal Board Chairman did not realize any of his options. Tahal International intends to grant the Board of Directors Chairperson options which may be realized as Tahal International shares. The terms for granting the options have not been agreed upon yet. In March 2008, an agreement has been signed with the new CEO, according to which he will be allocated Tahal International options, which constitute 3% of Tahal International's issued and paid share capital after the allocation, this at a realization price reflecting a value of approximately 40 million dollars (approximately 30 million Euros) to Tahal International. Under the terms of the agreement, the options may be realized in four parts, a quarter at the end of each year, starting at the date of the commencement of the new CEO's employment by Tahal International. The realization period shall start at the date of the option realization right, as aforesaid, and will end one year after the termination of the employee – employer relations with the new CEO. The options shall be allocated according to the terms of section 102 of the Income Tax Order (Capital Course). Upon the conclusion of the previous CEO's term, on June 2007 the options granted to him for the purchase of shares in Tahal, at an amount constituting 3% of Tahal's capital at the time in which these options were granted, expired.

10.15 Suppliers

The original Tahal Group purchases equipment for projects in the field of infrastructure (such as pumps, valves, piping, electrical appliances, instrumentation and control systems) from a large number of suppliers in Israel and abroad. Tahal is not dependent on any specific supplier or any one product.

Tahal Group tends to enter agreements with independent subcontractors for the purpose of executing its projects. Tahal International's subsidiary companies usually approach several leading local subcontractors in order to get offers for carrying out a project. The projects are usually carried out through the Turn Key system using one general contractor that enters into an agreement with the relevant subsidiary company for the purpose of executing the project. The head contractor enters into agreements with the subcontractors, according to which the latter work on portions of the project in such a way that the head contractor is directly responsible for the relevant subsidiary company for building the entire project.

10.16 Financing

- 10.16.1 Tahal International funds its operations through shareholder loans which it receives from Kardan NV, its parent company. Most of the shareholder loans are required for funding Tahal Assets. Tahal International shall examine in the future the possibilities of diversifying its funding sources.
- 10.16.2 Tahal Group – Tahal Group finances its operations through its equity, approved bank credit lines and from positive surplus cash flows that the projects yield. Project purchases may be financed by Tahal Group through shareholder loans.
- 10.16.3 Tahal Assets – Regarding projects of investment and operation, Tahal Assets shall strive to finance its investments through shareholder loans and/or through project finance, which guarantees that the financing entities can lean primarily on the asset's cash flow for the finance return they provided for its establishment or purchase.
- 10.16.4 As of December 31st, 2007, the total sum of all loans given by Kardan NV to the Tahal Group was approximately 90 million dollars (approximately 61 million Euros).
- 10.16.5 Credit lines – The following credit lines are Tami credit lines used for Tahal Group operations; The credit line approved for a total of 17.5 million dollars (about 11.9 million Euro) and in addition, a guarantees lines of 108 million dollars (about 73.4 million Euro). As part of negotiations with banks regarding a

new financing arrangement (as detailed in section 10.16.8 of the report), the credit lines shall be adjusted for the possible growth in Tahal Group activities, as detailed in section 10.8 of the report.

10.16.6 Loans –

- [A] The original Tahal Group's short-term loan and credit balances for December 31, 2006 and 2007 totaled at 16 million dollars (about 12 million Euro) and 18 million dollars (about 13.6 million Euro), respectively.
- [B] On December 31 2006 and 2007, the original Tahal Group did not have any long-term bank loans.

10.16.7 Interest – The average interest rate on short-term bank and credit loans for December 31 2006 and 2007 were 6.4% and 5.6%, respectively.

10.16.8 As of the date of this report, negotiations are being conducted with several banks regarding a new financing arrangement. The arrangement shall deal with credit lines for the Tahal Group and its covenants, among other things, so that they will be appropriate for the new structure of the Tahal Group, and the possible growth in its activities.

10.16.9 Tami has undertaken several financial obligations (covenants) vis-à-vis banks for the financing of its operations.

Within the context of the financial obligations, Tami undertook to maintain each and every one of the financial measures on the basis of its consolidated and audited financial reports. Tami has obligated itself in the following measures:

- [1] Tami's minimal tangible equity (as defined in the terms document) will not decrease at any time below 32 million NIS, linked to the consumer price index, starting from the price index published in July 2000.
- [2] The basic equity will increase on January 1 of each year as of January 1, 2002 at rate of 4% of its equity from the previous year.
- [3] The ratio between the total current assets and the total current obligations will be greater than 0.8.
- [4] A portion of its tangible equity will not diminish at any time from the rate of 27% of its total credits and loans from financial institutions.

- [5] The financial debt – operational profit ratio as defined in the documents will be at any given point less than 3.75 and the majority ratio of financial debt to operational profit according to Tami's last three consecutive annual financial statements will not exceed 3.5.

In addition, Tami has undertaken vis-à-vis Bank Leumi LeIsrael Ltd. that the Tahal Group will remain its owner and its holdings rate in Tami will not drop to less than 60% total dilution in the event of a sale and/or allocation of Tami's shares to a strategic investor and its bank approval and that Tami's holdings rate will not drop to less than 51% in total dilution in the event that Tami's shares are issued.

Tami also undertook that dividend distribution performed by Tami would be restricted to a rate that will not exceed 50% of Tami's net profit from ongoing operations according to Tami's annual financial statements for the previous calendar year.

As aforesaid in section 10.16.8 of the report, the Tahal Group is holding negotiations with a number of banks regarding a financing agreement, including all matters related to the regulation of Tami's compliance with the said financial criteria.

10.17 Guarantees

- 10.17.1 Tami and Tahal provided bank guarantees for a total of 39.8 million Euro to the benefit of clients due to advances they received for projects and execution of work, as well as for investment in the Derech Hayam (By Way of Sea) Project (see section 10.10.2[E] of this report).

The composition of Tami and Tahal guarantees are as follows:

Guarantees Type	Total Guarantees for December 31, 2007 (in millions of Euros)	Total Guarantees as of December 31, 2006 (in millions of Euros)
Financial guarantees (especially for advance payment from clients)	18.5	11.3
Executive and Tender Guarantees	21.3	20.1
Total	39.8	31.4

- 10.17.2 Tami has provided an irrevocable guarantee to Tahal vis-à-vis Israeli banks to fulfill its obligations through the provision of Tahal real estate property as securities or in any other manner as agreed upon between the companies from time to time.
- 10.17.3 Tami, together with others, provided an unlimited liability to the benefit of the State of Israel without any limitation on amount, to guarantee its obligation in the Derech Hayam holdings company, regarding its obligation to meet the franchise terms vis-à-vis the State of Israel.
- 10.17.4 Kardan NV provided a guarantee to Tami for 1.4 million dollars (about 0.95 million Euro) for its holdings in Derech Hayam. This guarantee is a counter guarantee for the performance guarantee Tami provided to Bank Hapoalim Ltd.
- 10.17.5 Tami and Tahal each created a floating charge on their assets to the benefit of Bank Leumi. In addition, Tahal put a lien on its rights to a Tahal building in Tel Aviv and on real estate properties in Haifa (for a description of the aforesaid real estate properties, see section 10.12 of the report).
- 10.17.6 Kardan NV provided Tami with a guarantee of approximately 16.8 million NIS (approximately 3 million Euros) this against a Tami loan from a bank institution.
- 10.18 Taxation
- 10.18.1 For a description of tax aspects related to holdings in companies incorporated in Holland, see section 16.1 of the report.
- 10.18.2 Tami has a number of approval statements for "approved plans" accepted from the investments coordinator and that relate to taxation rates that apply to profits stemming from several projects for part of their export, and provide Tahal a reduced tax rate of 25%. Part of the approval statements were provided for a period of two years and are extended from time to time to additional periods, and some are provided for the entire length of the project.
- 10.18.3 Tami has transferred losses from previous years which stood at a total of 7.3 million dollars (about 5 million Euros) on December 31, 2007. In 2007 Tami accumulated transferred losses totaling 1 million dollars (approximately 0.7 million Euros).
- 10.18.4 Tami and Tahal had final tax assessments for 2000. On October 31, 2005 they received tax assessments for the fiscal years 2001-2003 according to which they are required to pay tax supplements totaling at 3.7 million dollars. According to the estimates of the Tahal and Tami managements, and their legal advisors, the companies have well-based claims against the Israel Tax Authority demands and thus it does not expect to have additional tax-related expenses beyond the

allocations included in the financial statements for the aforesaid assessments. Tami and Tahal submitted appeals on the aforesaid statements and agreements have not been reached with the tax authorities in this matter, the assessments were issued in a warrant for the aforesaid amount. Tami and Tahal appealed to a court of law regarding these aforesaid assessments and as of this report, discussions have not yet taken place in court.

The estimates regarding the claims against the Israel Tax Authority demands and the tax debts detailed above constitute forward-looking information, as defined in the Securities Law that are based on Tami and Tahal management estimations. These estimations may not become actualized, in part or in full, or actualize in a different manner, including even significantly different from what is expected, as a result of the court's failure to accept Tami and Tahal's claims.

10.19 Environmental Protection and Additional Environmental Regulations

The original Tahal Group's operations are subject to environmental protection laws and regulations in the various countries in which it operates and Tahal Group operates according to these aforesaid laws and regulations.

10.20 In addition, the original Tahal Group operates according to recognized environmental protection regulations in Israel and the world, and has an ISO 9001-200 certification, which is an international and Israeli standard.

Restrictions and Supervision

The original Tahal Group operations are subject to regulations and standards in the various countries in which it operates regarding water-sewage, energy, gas and agriculture. The original Tahal Group operates according to regulation related to the execution of projects in each of the countries in which some project is being carried out.

The original Tahal Group works according to engineering standards as required for executing planning projects and general projects, and in accordance with all the legislative and standards directives of the State of Israel and each and every one of the countries in which a project of some sort is being carried out.

Restrictions or special constraints do not apply to the original Tahal Group with regard to its operations in Israel or abroad.

In its work, the original Tahal Group implements new and innovative technologies in the fields of infrastructure in which it operates.

10.21 Substantial Agreements

10.21.1 For a description of substantial agreements that corporations from the original Tahal Group have entered regarding the projects, see section 10.9.3[B] of the report

10.21.2 For a description of the substantial agreements that corporations from the Tahal Group have entered regarding assets and investments, see section 10.10.2 of the report.

10.22 Partnership Agreements

Tahal Group creates business partnerships on projects in Israel and the world with Israeli and foreign companies, and is a party to the launching of joint business enterprises for the purpose of participating in tenders in accordance with the format and threshold terms that are required in the various projects it executes.

10.23 Legal Proceedings

Tahal Group has an obligation to guarantee the best service possible. The company is insured with professional liability insurance up to 10 million dollars for every claim. Tahal Group's excess insurance stands at a total of 75,000 dollars per claim. In 2007, Tahal Group allocated 152,000 dollars in deductible fees for claims. Tahal Group does not expect any damages beyond the aforesaid allocation.

10.24 Business Strategy and Objectives

The Tahal Group strategy includes the following principles:

10.24.1 The continued increase in scope of operations in terms of its projects, specifically through its projects that include management, planning, purchase, establishment and at times, arranging the financial solution for the client (for example, the Turn Key method projects), that will join Tahal's 1 operations in the field of engineering and supervision services.

10.24.2 The expansion of operations in the field of assets and investments through entering investments in a number of additional countries in developing markets that Tahal has determined as an objective, including countries in Central and South America, Eastern Europe and Asia, while continuing investments in countries in which the original Tahal Group already operates in the framework of this field.

- 10.24.3 The expansion of operations in the fields that relate to and complement the traditional fields of the original Tahal Group operations, such as: activation of purifying machines, desalination, hydro-electro power stations and more.
- 10.24.4 Creating the financial capacity that can serve as a mobilizing tool for conducting the necessary investments in entrepreneurial projects in the original Tahal Group fields of business, through cooperating with financial entities and accessibility to bodies that raise and provide funding.

The data presented in this section constitutes the original Tahal Group plans and estimates and is forward-looking information, as defined in the Securities Law that is based on Tahal Group's experience and familiarization with its operations. These estimations may not become actualized, in part or in full, or actualize in a different manner, including even significantly different from what is expected, as a result of changes in the countries Tahal Group operates in, or changes in market condition due to the actualization of some of the risk factors detailed in section 10.25 of the report.

10.25 Risk Factors

The original Tahal Group operations involve the following risk factors:

Macro Risk Factors

- Investment in developing markets characterized by political instability – The Tahal Group operates in developing and emerging markets, and is therefore exposed to the risks entailed in activities in developing countries (including governmental, regulatory, political and military risks, and local economy risks). It should be stated that some Eastern European countries are not part of the EU. Political and security instability in countries the Tahal Group operates in (including nationalization of property by the authorities) could effect markets in those countries, and therefore negatively affect Tahal Group activities, including the funding and outcome of activities.

Industry Risk Factors

- Financial exposure due to the arrangement of financial packages - In project in which the original Tahal Group is a party to the organization of the financial package to clients, there is the risk of financial exposure due to the banks' right of recourse that finance the original Tahal Group in the event of a breach of financial agreement terms. Acceptable exposure for such a risk factor is at a rate of 5%-10% of the total funding for the project.

There is no financial mechanism for hedging the risk and thus Tahal Group's policy is to not expose itself to this risk beyond the expected profit for the project.

- Exposure due to engineering planning - The original Tahal Group is exposed to claims planning and engineering projects. The risk involved in executing such planning and engineering work is covered by the professional liability insurance policy. Tahal Group management thinks the insurance policy covers the risks involved in such operations. Nevertheless, there are risks regarding environmental protection that cannot be fully insured.
- Exposure due to failure to win tenders - Tahal Group is not confident it will get new projects or that projects it has been granted will be completed fully. This fact may lead to a decrease in income and thus there may be substantial damage to Tahal Group's financial status and business outcomes.
- Introduction of additional investors in the group's field of activities -. The entry of additional investors in the original Tahal Group operations, especially in developing countries, may influence the competition in the infrastructure sector of these areas and as a result on Tahal Group outcomes.
- The capacity of companies working under Tahal Group to repay the loans they took and take additional loans for the development of their businesses is dependent on the companies' capacity to yield cash flow and to realize assets or turnover loans at a scope that allows them to payoff debts, as well as the changes in the equivalence of these companies and the assets they hold.
- Taxation exposure - The calculation of the original Tahal Group tax debts involves the interpretation and implementation of laws and various tax covenants. Tahal Group conducts transactions in various countries. In accordance with that, Tahal Group operations are subject to the tax laws customary in those countries, and the tax debt calculations requires interpretation and implementation of tax covenants and laws of these countries. Tahal Group calculated its tax debts on the basis of its understanding the effectiveness of the laws and covenants. Nevertheless, the tax authorities may interpret or implement relevant laws and covenants in such a manner that drags additional tax debts.
- Operational Risks – In light of the potential significant projected increase in the scope of projects, Tahal Group faces an operational risk that stems from the lack of prior experience in carrying out large-scale projects. [There is no expressed basis for such a risk in this text.]
- Performance Risks – In light of the potential significant projected increase in the number of projects and their scope, Tahal Group faces performance risks that stem from any deviation or mistake in the pricing of costs of these projects which may lead to larger financial losses than in the past. Such a deviation could result from engineering or pricing mistakes, increases in the costs of raw materials, work input costs, as well as logistic

problems which were not previously predicted and/or which were not known, and which could lead to a failure to comply with timetables, and a poor performance quality due to a lack of professional manpower in the countries where the Tahal Group operates.

- Investment Risks – Tahal Assets investment operations are usually based on mobilization on the part of Tahal Group. Since, on the one hand, the investment operations are usually conducted in developing countries that enjoy rapid growth in infrastructure and, on the other hand, there are risks stemming from operations in developing countries (including state risks, regulatory risks, political and military risks and local economic risks), there is a risk of recourse on investment.
- Currency and protection currency – Due to the extensive operations in developing markets in countries that are naturally unstable politically and economically, the original Tahal Group faces currency risks in various countries. Tahal Group is making arrangements to protect it from such risks.
- The environment – Tahal Group activities shall be subject to regulations, limitations and conditions related to the environment in the different countries in which it operates. The Tahal Group might be liable expenses due to these risks.

Below is a table ranking the types and effect of the risk factors detailed above on Tahal Group businesses, in the company's evaluation:

Risk Factor	Degree of Influence		
	Great	Medium	Small
Macro Risk Factors			
Investment in developing markets characterized by political instability		X	
Industry Risk Factors			
Financial exposure due to the arrangement of financial packages		X	
Exposure due to engineering planning			X
Exposure due to failure to win tenders		X	
Introduction of additional investors in the group's field of activities		X	
The ability of group companies of paying their loans and taking additional loans for developing their business			X
Taxation exposure			X
Operational risks		X	
Performance risks		X	
Investment risks		X	
Currency and currency protection risks		X	
Environmental issues			X

11. Description of Vehicles and Household Appliances Sector

11.1_ Kardan NV's primary activity in this sector is its holding in UMI (40.50%) through Kardan Israel. Kardan Israel holds 40.5% of the issued capital of UMI indirectly and Kardan NV holds about 28.89% of UMI's issued capital indirectly.

- Kardan Israel fully holds the issued capital of Kardan Motors, which holds about 90% of Taldan's issued capital. Taldan holds 45% of UMI's issued capital. UMI imports and markets vehicles made by General Motors, Opel, Isuzu and Saab. UMI also markets spare parts for the vehicles it imports and deals in several complementary or related activities.
- Kardan NV presents its investment in UMI in its financial statements on balance sheet value basis.
- As aforementioned, Kardan Israel bought together with others, through OPSIP OMED Assets, 50% of OMED's shares. OMED holds, inter alia, about 54% of Dan Vehicles shares. Kardan Israel also holds directly 5.78% of Dan Vehicles shares. Pursuant to this transaction, Kardan Israel holds, directly and indirectly, about 13.92% of Dan Vehicles shares and Kardan NV holds about 9.93% of Dan Vehicles shares indirectly. Dan Vehicles, is a public company, traded on the Tel Aviv stock exchange, that mainly operates in the operational leasing field and in the short term car rental and owns the franchise for using "AVIS" brand in Israel. Dan Vehicles is not a material company of Kardan NV.
- Moreover, Kardan Israel, deals, through "SFDI", in import and marketing of a range of electrical appliances. SFDI holds about 70% of Kardan Sahar Ltd., (**Kardan Sahar**), which imports and markets household electrical appliances (White Line and Brown Line), mainly products of BAUKNECHT, WHIRLPOOL and SANYO and also 70% of ELECTRODAN SAHAR Ltd., which imports and markets household electrical appliances under the brand name "BELLERS". SFDI is not a material company of Kardan NV.

11.2 Details of UMI (which is the only material company in the vehicles and household appliances sectors), are presented in the following table:

Held Company	Name of Holding company	Holding rate of the holding company (as at the Statement date)	Linked Holding rate of Kardan NV (as at the Statement date)	Investment in the held company recorded in the holding company books as at December 31, 2007 (in ILS'000)	Rate of the linked investment amount in the held company out of Kardan NV's equity as at December 31, 2007 ²⁹³	Market value of the investment in the held company as at December 31, 2007 (in ILS'000)	Contribution to Kardan NV's Net profit in 2007 (in ILS'000)	Held company Activity description
UMI	TALDAN Motors Ltd.	45%	28.89%	193,319	36.3%	-	5,535 ²⁹⁴	Vehicles Import & Marketing and provision of related services.

11.3 Data out of the financial statements of UMIr for 2007 are presented in the following table (amounts indicated in ILS'000):²⁹⁵

Material Company Name	Revenues for 2007	Net Profit for 2007	Equity as at December 31, 2007	Total Assets as at December 31, 2007	Accounting Presentation
UMI	2,106,695	94,531	423,869	949,845	Included

11.4 Dividends Division by TALDAN

- TALDAN is subject to a limitation on dividend division, resulting from TALDAN's commitment, that its equity shall not fall below ILS90,000K. This commitment was made under lien of TALDAN shares, to secure bonds issued by Kardan Israel to institutional investors. It should be noted that TALDAN's equity, as at December 31, 2007 amounts to ILS186,938K. For additional details, see section 7.9.4 herein.
- Details of dividends paid by TALDAN in 2006 and 2007 are presented below:

Payment Date (year)	Total Dividend (in ILS'000)	Share of Kardan Motors
2006	11,250	10,125
2007	8,950	8,055
2007	9,000	8,100

²⁹³ Equity attributed to Kardan Israel (without minority rights).

²⁹⁴ Including proceeds from management fees.

²⁹⁵ Equity and net profit data attributed to company shareholders (without minority rights).

11.5 UMI

- Detailed description of UMI, which is a material included company of Kardan NV are specified as follows:

11.5.1 Holding in UMI

UMI is a private company, incorporated under the laws of Israel in 1993.

TALDAN, which is held at the rate of 90% by Kardan Motors, holds 45% of UMI's issued capital. Kardan Israel holds through linkage, 40.5% of UMI's issued capital and Kardan NV holds through linkage about 28.89% of the issued and paid off capital of UMI.

The other shareholders in UMI are: Hamizrach Holding Company Ltd. ("**Hamizrach Company**") - (45%) and General Motors Overseas Distribution Corporation ("**GMODC**"), a subsidiary of General Motors ("**GM**") (10%).

UMI shareholders entered an agreement among them, that stipulates instructions on the management of UMI, including instructions on directors appointment (TALDAN and Hamizrach company have the right to appoint three directors each and GMODC has the right to appoint one director); certain decisions require a special majority (at least four directors, and one director at least on behalf of each shareholder) and certain decisions require an unanimous vote of all shareholders in the general meeting; GMODC has a veto right on decisions related to changes in the senior Management of UMI; the parties are granted first right of refusal to buy shares of any party that wishes to sell its shares; shareholders are committed to refrain from transferring their shares to a third party, unless that party is approved by GMODC and joins the agreement as a party thereof; each of the shareholders has the right to buy all the shares (and not part thereof) of a shareholder (except GMODC). In the event that control over the shareholder is transferred to another (except permitted transfers, defined by the agreement), at a price determined according to a formula defined by the agreement, GMODC is entitled to oblige the other shareholders (relative to their holding rates) to buy all GMODC shares, at a price determined according to a formula defined by the agreement (Put option). If a party violates any of the material instructions of the agreement, the other

shareholders are entitled, subject to GMODC's decision, to oblige that party to sell its holding to the other shareholders, at a price determined according to the same formula.

Kardan Israel is committed to holders of Kardan N.V. bonds, to put bonds issued by Kardan Israel to institutional investors for immediate payment (see section 7.9.4 herein - note (3) of notes to the table, in the event that UMI shares are sold, or loss of UMI franchise.

11.5.2 UMI Activities - Scope

UMI imports and markets vehicles made by GM and its related companies ("**GM Group**"). Vehicles are marketed under the brands: Chevrolet, Buick, Chevy Trucks, Cadillac and Hammer (manufactured in GM plants in North America, South Africa and Korea); Opel and Saab (manufactured in GM plants in Europe) and Isuzu (manufactured in GM plants in Japan and Thailand).

UMI markets family sedans, luxury sedans, commercial vehicles and Sport Utility Vehicles (SUV). UMI also imported up to March 2006, Isuzu trucks marketed through Universal Trucks Israel Ltd. ("**UTI**") (of which UMI holds 50%). As of April 2006, UTI performs both the import and the marketing directly.

UMI also provides, directly and through subsidiaries and related companies (collectively in this section "**UMI**") related services and other activities, detailed in section 11.5.3. herein.

11.5.3 UMI's Fields of Operation

UMI operates in two fields:

Vehicles - vehicles import and marketing.

Related and other services - import and marketing of spare parts and accessories for vehicles from different suppliers, maintenance and repair services to vehicles imported by UMI at a central garage and three additional garages, operated by UMI; trade-in, of used cars from customers who purchase new vehicles and sales of the used cars to third parties; elementary insurance (mainly for vehicles sold by UMI) and research and development mainly in the automotive field ("**Related and other services field**"). Up to July 2007, UMI operated in the operational leasing field. This activity was terminated upon concluding the sale of UMI holding in Traffic Lease Ltd. ("**Traffic Lease**"), that operated in this field (see section 11.5.8[a] herein).

Since the most material operation in the related and other services field is the spare parts import and marketing, only this activity is described within the related and other services operation.

11.5.4 Dividends Division

Details of dividends distributed by UMI during 2006 and 2007 are detailed below:

Payment date (month/ year)	Total Dividend amount (in ILS'000)	TALDAN's Share (in ILS'000)
December 2006	25,008	11,254
April, 2007.	20,011	9,000
October 2007	19,998	9,000

UMI is committed to banking institutes to ensure that its equity will not be lower than the rate of 25% of its total consolidated balance sheet at any time, and in addition, the equity will not be lower than the amount of ILS300,000K at any time. Under certain circumstances, this commitment may delay or reduce dividend distribution by UMI. Please note that UMI's equity at the end of 2007 amounts to some ILS435,072K, and consists 45.8% of the total consolidated balance sheet.

11.5.5 Financial Information about UMI's Fields of Operation.

Financial data of UMI's fields of operation are presented in the following table (in ILS'000):

	Vehicles Field		Related and Other services field		Consolidated	
	2007	2006	2007	2006	2007	2006
Revenues (from external sources)	1,662,955	1,346,585	443,740	363,794	2,106,695	1,710,379
Total costs attributed to the field of operation	1,472,678	1,170,790	297,788	276,571	1,770,466	1,447,361
Gross profit ²⁹⁶	190,277	175,795	145,952	87,223	336,229	263,018
Total assets as at December 31	-	-	-	-	950,937	885,570

In 2007, UMI delivered 14,070 vehicles, compared to 10,833 vehicles in 2007. Sales growth in 2007 stems from increased sales in the entire vehicles market, from UMI's resumed considerable activity among institutional customers, after a decrease in 2006 and from increased sales of SUVs and

²⁹⁶

UMI does not attribute Administration and General Expenses and also Marketing Expenses to fields of operation.

vans.

Despite the decrease in vehicle deliveries in 2006, the operational income of UMI increased from some ILS84,000K to some ILS110,000K, pursuant decreased vehicles costs, due to a decreased USD exchange rate and subsequent to increased activity of UMI in the exclusive vehicles market and the private market. For explanations on the results of UMI, see section A4 of the Directorate's report.

11.5.6 General Environment and Impact of External Factors on UMI Operations

UMI is exposed to trends, events and development in its sphere of operations, as follows:

Economical condition - vehicles sales volume in Israel is affected by the condition of the Israeli economy and its activities volume. Changes in the conditions of the economy are caused, inter alia, by different economical, political and security factors, where improved economical conditions increase vehicles sales, while poor conditions decrease vehicles sales. The Israeli economy shows an improvement trend in recent years, with subsequent improvement of vehicles sales volumes in Israel.

Global Economy - UMI operations are affected by the global economical conditions and policy in general and specifically in countries from which UMI imports vehicles.

Fluctuations in Exchange Rates - UMI purchases vehicles from foreign countries, with different currencies. Fluctuations in exchange rates of the foreign currencies into the Israeli currency may cause changes in vehicles purchase prices and changes in selling prices to customers, resulting in significant changes in sales volumes and profitability.

Taxation - Purchase tax at different rates is applied to all vehicles imported to Israel: 78% on private vehicles and 72% on commercial and cargo vehicles. For details on gradual reduction of Purchase tax rate on new vehicles, which upon completion on 2010 will apply a uniform 72% tax rate on vehicles with total weight of 4.5 tons, see section 11.5.7[b] herein. No purchase tax is applied to trucks, as of February 2005. As a rules, customs at the rate of 7% of the vehicle's value is charged on vehicles manufactured in foreign countries and imported to Israel. However, no customs are paid on vehicles imported to Israel which are manufactured in the U.S.A., Canada or the European Union, according to agreements with the European Union and the governments of U.S.A, Canada and Mexico. V.A.T. is charged on all vehicles sales in Israel. Changes in tax rates affect purchases of new

vehicles.

11.5.7 Vehicles Field

11.5.7.1.1 General

UMI imports and markets vehicles manufactured by GM Group, including light trucks manufactured by Isuzu (through UTI) and Chevrolet. UMI is one of the largest vehicles importer in Israel. Vehicles import is performed according to a franchise granted to UMI by the manufacturers of the vehicles it imports and markets, under franchise agreements. Subsequent to these agreements, UMI imports various types of vehicles, including family sedans, luxury sedans, commercial vehicles and SUVs.

11.5.7.1.2 General Information on the Field of Operation

Sales volume of new vehicles in the Israeli vehicles market amounted in 2007 and in 2006 to about 191,000 and 194,000 new vehicles respectively. This market is one of the most competitive markets in the world (data is based on information published by the Vehicles Importers Association). High tax rates (about 110% on vehicles from Europe and the U.S.A. and about 125% on vehicles from Asia)²⁹⁷, relatively low purchasing power of customers, geographical isolation and absence of local manufacture, which limits the competition, create a highly price sensitive market and cause fluctuations. All leading vehicles manufacturers are represented in Israel, including the whole range of secondary brands, in most cases. The standardization issue is a main component that affects the supply of vehicles on sale in the Israeli market. Traffic regulations require conformance to the European common market standards (accepted standard requirements in Europe focus mainly on safety of the vehicle, passengers, pedestrians, and air pollution). It is also permitted to import vehicles manufactured on North America that conform to the American standard and to several dedicated Israeli standardization requirements. Vehicles which fail to conform to this standard are forbidden from import into Israel. The Management of UMI estimates that several Chinese manufacturers will complete a standardization process, at a similar level to the European standard²⁹⁸ within the next few years. Achievement of this standardization will enable import of Chinese vehicles to Israel. This will intensify the competition in this sector and may

²⁹⁷ For changes in tax rates, see this section, herein.

²⁹⁸ This estimate is anticipated future information, as defined in the Securities Act, based on statements of Chinese manufacturers. This estimate may not materialize, fully or partially, or materialize differently, including materially different than expected, due to different factors related to Chinese manufacturers and standardization processes.

lead to prices reduction.

The vehicle market is also affected, inter alia, by petrol prices (diesel fuel, gas and petrol), which may affect vehicles purchase volumes and vehicles market mix (type of vehicle sought after by potential customers). Increased petrol prices causes customers to shift to smaller vehicles, with reduced petrol consumption and even transition to vehicles operated by alternative energies (e.g., hybrid, electricity and fuel cells).

The vehicles market may also be affected by the style of the different customers and preferences, affected by technological innovations, price and tradability.

Two main types of customers are apparent in the Israeli vehicles market, private customers and small business customers, who buy single vehicles and institutional customers, e.g., leasing companies, car rental companies and Government vehicles administration.²⁹⁹

Restrictions, Legislation, Standardization and Other Constraints

The Ministry of Finance and the Ministry of Transport act in recent years according to Government decision on reducing the centralization in the vehicles sector in Israel and introducing tax, standardization and regulation reforms.

Recommendations of a committee, established to review the issue were implemented in 2002 and structural changes were approved in the vehicles sector, related to the approval process of vehicles import to Israel. The main change was cancellation of vehicles importer exclusivity, granted by law in Israel. The committee also implemented additional changes, e.g., obliging the vehicles importer to maintain relations with the vehicles manufacturer (to protect vital consumer interests in all aspects related to ensuring warranty, technical support, garages deployment, spare parts sales, etc.); establishing a garages network and minimum required deployment of spare parts sale points; obliging the vehicles importer to operate a central garage, yet cancelling the requirement to own the garage; obliging the vehicles importer to provide bank guarantees as a condition to receive an import license; cancel spare parts price control; cancel the restriction requiring availability of a minimal spare parts inventory level; and expanding the warranty on the vehicles.

²⁹⁹

The Government Vehicles Administration is the entity responsible for vehicles purchase and maintenance for all government ministries and dependent departments.

A second inter-ministerial committee started a review process in 2003, to investigate in depth the reason for failure of the changes implemented according to the recommendations of the first committee to increase the number of players in the sector. The report of this committee, submitted in July 2004, recommended to implement a mechanism that will enable alternate import, parallel to imports from the vehicle manufacturer. The committee recommended establishment of lower entry restraints than the previous restraints, comprised of a range of requirements related to conditions which the importer must fulfill - on all aspects related to the importer's identity, the vehicle, and after sale service support, including proof of financial soundness and depositing the required bank guarantees.

No legislation was proposed on the subject of the parallel import, since the committee submitted its recommendations, therefore, its expected effects on UMI cannot be foreseen. The second committee estimated that vehicle prices will not decrease significantly pursuant to its recommendations, and certainly not for the most popular vehicle models, nor in the near future. The second committee estimated that a price decrease is expected in the long range, for expensive vehicles.

Several material changes were introduced in 2005, in taxes applied to the purchase of a new vehicles, such as:

- (1) As part of the Ministry of Finance policy on canceling distortion of taxes applied to certain groups of vehicles, the Ministry canceled the ability to offset V.A.T., on vans and light commercial vehicles (light vans and commercial vehicles weighing under 3,500 kg) and purchasing tax on recreational SUVs was raised to the rate of a sedan.
- (2) The Ministry of Finance announced a gradual reduction of purchase tax on new vehicles, from 95% in 2005 and down to 72% on January 2010. Purchase tax rate in 2006 was 89% and in 2007 - 84%. As of January 2010, purchase tax rate will be uniform for all vehicles of 4,500 kg total weight. It was also decided, that purchase tax credits table for safety accessories will be gradually updated every year, starting from 2006 and up to 2010 and the table was updated accordingly on January 2008, to provide a total maximum accrued benefit for tax purposes of ILS2,400.
- (3) Cancellation of the tax benefit on diesel fuel included a reduction of license fees of vehicles with diesel engines and cancellation of the purchase tax (at a 5% rate) on commercial vehicles with total weight exceeding 4.5 tons.

These changes caused a decrease in the general market share of vans and light commercial vehicles in the Israeli vehicles market. On the other hand, the growth trend indicated in the vehicles market in Israel, which began in 2003, continues consistently up to an all time sales volume record in 2007. Although the growth rate may not be attributed entirely to the purchase tax reduction, the Management of UMI expects that this growth trend will continue in the near future as well.

On January 3, 2008, after the balance sheet date, the authorities published Amendment No. 4 to the Traffic Regulations - 1961, setting the license fee applied to a vehicle according to the vehicle type, designation and price group ("**The Amendment**"). According to the said amendment, price groups of vehicles were down graded at a rate of about 3%, as of January 1, 2008. Pursuant to said price groups update, the majority of vehicles importers updated vehicles prices downwards at a rate of about 3% during January 2008. UMI also reduced the prices of vehicles it sells at a rate of about 3%. The Management of UMI estimates that this minor update is not expected to significantly affect its operation.

The aforementioned estimates on the effect of the reduced purchase tax and the effect of the updated price groups are anticipated future information as defined in the Securities Act, based on the impact of these changes on sales volume in the market in recent years. These estimated may not materialize, or materialize fully or partially, differently, including materially different than expected, due to assimilation of taxation changes by the market, fluctuations in exchange rates of foreign currency/ Israeli currency related to UMI and to its competitors, developments and changes in the security and/or economical conditions in Israel (growth or slow down) and sharp changes in petrol prices and/or materialization of all or some of the risk factors detailed in section 11.5.16 herein.

Legal Constrains on UMI Operations

UMI is subject to the following legal constraints:

- (1) The Control of Commodities and Services Order (vehicles import and provision of services to vehicles) - 1978, regulates several obligations applied to a vehicles importer. The order stipulates, inter alia, that an importer is entitled to sell an imported vehicle only according to a permit issued by the Vehicles and Maintenance Services Department. UMI holds the permit required to sell imported vehicles. The order prohibits the sale of a new vehicle, unless the vehicle is sold by the

importer (of vehicles of the same make) or a local vehicles manufacturer. The order requires the importer to enter its signature or confirm in writing a vehicle order form and purchase agreement, when the vehicle is sold by an entity authorized by the importer. The order sets conditions for granting a license to import vehicles (the said license is usually granted for a period of one year) and subjects the issue of the said license to the condition that require the importer to provide maintenance services to the vehicle through service garages it operates under license, including a central service garage.

- (2) Traffic Regulations - 1961, stipulate that a vehicle may not be registered and no license is issued for it, unless the Licensing Authority inspected and certified the prototype of that vehicle model and unless a certificate, issued by an authorized laboratory, or any other required certificate is submitted to the Licensing Authority, certifying that the vehicle conforms to the prototype of that type or model.
- (3) Vehicles standardization - the Standardization Department of the Vehicles Department at the Ministry of Transportation defines, every year, the changes in mandatory requirements applied to different types of vehicles for next year models. The Department indicates which amendments were required by the European standardization and what are the special conformance to standards requirements in Israel, based primarily on European and American standardization requirements. Standardization requirements focus on vehicle safety, passengers and pedestrians safety and air pollution.

UMI holds all the permits and certificated detailed in this section, which are valid as at the report date.

Changes in Operation Volume in this Sector

To the best of UMI's knowledge, sales split in the Israeli vehicles market leaned in favor of the institutional customers, consisting over 60% of total vehicles sales in Israel in 2007. The Management of UMI estimates that more than half the sales in the main market segments (small vehicles and compact vehicles) come from leasing companies. These transactions reduce the inventory financing cost on the one hand, since storage times of vehicles sold through leasing transactions is shorter, while discount rates, granted in these transactions, reduce profitability on the other hand.

Amendment to the Income Tax Law (value of vehicle usage) - 1987 and Amendment to Income Tax Law (deduction of vehicle expenses) - 1995

(“**The Amendments**”), were published on December 31, 2007 and became valid on January 1, 2008. Value of vehicle usage is intended to reflect the economical benefit gained by the employee resulting from use of a vehicle made available by the employer (owned, rented or leased) and tax it accordingly. The amount of the benefit is determined according to the price group of the vehicle.³⁰⁰ The amendment implements the decision of the Government (approved by the Finance Committee of the Knesset), to correct a tax distortion, which prior to the amendments, caused the vehicle usage value to be significantly lower than the economical value of the benefit contained in receiving an attached vehicle from the employer, requiring employees who received identical wages to be taxed differently. According to the amendments, usage value will increase gradually, over four years, starting from January 2008, up to the tax year beginning on January 2011.

The Management of UMI estimates that these amendment will not affect its sales volume to leasing companies significantly in the next few years, due to the following reasons: (1) UMI’s main sales to leasing companies are of vehicles in the low price groups, out of all the price groups affected by usage value regulations, therefore, amendments effect on taxation of employees who hold such vehicles is relatively low;³⁰¹ (2) The raise of usage value is expected to spread over four years, during which usage value of vehicles included in groups 1 and 2 will increase in the first two years by ILS200 per year only; (3) Concurrently to raising usage value and taxing employees accordingly, tax rates on earned income are expected to decrease over several years, for the middle classes (employees earning (gross) as at the report date, from ILS4,271 to ILS16,380) who are the majority of employees who are expected to be affected by the amendments.

The aforementioned estimate is anticipated future information, as defined in the Securities Act, based on aforementioned factors and on the increased purchasing rate by institutional customers during the period that followed the publication and implementation of the amendments. This estimate may not materialize, fully or partially, or materialize differently, including materially different than expected, due changes in the amendments and/or materialization of all or some of the risk factors detailed in section 11.5.16 herein.

³⁰⁰ Seven (7) price groups are used to determine the vehicle’s usage value and license fees, which are updated every year according to changes in the CPI.

³⁰¹ Usage value for Group 1 is expected to amount at the end of the four years period to ILS2,260 (an addition of ILS1,080); usage value for Group 7 is expected to amount at the end of the four years period to ILS8,720 (an addition of ILS3,870); and for Group 2, which is the most common group in the leasing trade, usage value is expected to amount at the end of the four years period to ILS2,450 (an addition of ILS1,120).

Critical Success Factors

The Management of UMI believes that the factors listed below greatly contribute to its success:

- The extensive and varied products line offered by GM, one of the world largest vehicles manufacturers.
- Quality of the relations with GM. UMI is the only Israeli vehicles importer that is held by the vehicles manufacturer (for details on GM holding in UMI, see section 11.5.1 herein). The said holding ensures adaptation of both vehicles and prices to market requirements.
- Crossing exchange rates of foreign currency - UMI's currency basket contains USD, Japanese Yen and EUR. The ability to balance ratios provides UMI with a competitive edge and long term stability.
- Good marketing ability and high branding of vehicle models among customers.

Primary Entry Barriers

Financial soundness - required by the high financial transaction volumes involved in importing new vehicles to Israel. It should be noted, that the committee established in 2003 to reform the vehicles market, which recommended parallel import, also recommended that a minimum equity of ILS50M must be defined as minimum equity required to prove the financial soundness of the vehicles importer. As mentioned, the recommendations of this committee were not implemented as laws.

11.5.7.1.3 **Products**

UMI imports and markets the following vehicles:

- Commercial vehicles of the brands: Chevrolet, Buick, Hammer and Cadillac, manufactured by GM and classified as family sedans, SUVs, commercial vehicles, light trucks, executives sedans and luxury sedans.
- Commercial vehicles manufactured by GM Europe (Opel and Saab brands).
- Vans and Pick-up trucks manufactured by Isuzu.
- Light trucks manufactured by Isuzu (through UTI) and Chevrolet.

Details of delivered vehicles (in units) in 2005, 2006 and 2007 are presented in the following table:

Brand	2007	2006	2005
Chevrolet, Buick, Hammer and Cadillac	12,124	9,281	11,594
Opel and Saab	303	209	570
Isuzu	1,643	1,340	1,598
Total	14,070	10,833	13,762

Details of delivered vehicles (in units) split into vehicle types in 2005, 2006 and 2007 are presented in the following table:

Classification	2007	2006	2005
Family Sedans	8,044	5,978	10,214
SUVs	731	502	750
Commercial vehicles	689	970	46
Executives Sedans	1,595	1,098	1,132
Luxury Sedans	1,036	805	210
Vans and Pick-up trucks	1,975	1,480	1,410
Total	14,070	10,833	13,762

Increased sales volume in 2007 is due to increased sales volume in the entire vehicles market, to UMI's resumed activity among the institutional customers after a decrease in 2006 and intensified sales of SUVs and pick-up trucks.

Decreased sales volume in 2006 is due to intensified focus of UMI on the exclusive vehicles market and the private market, at the expense of the institutional market (leasing).

In 2007, 2006 and 2005, about 59%, 55% and 58% of the sales, respectively, were to institutional customers and about 41%, 45% and 42% of the sales, respectively were to private customers.

UMI's market share in 2007, 2006 and 2005 was about 7.2%, 7.1% and 9.3% respectively of the total vehicles deliveries in Israel.

Segmentation of Revenues from Products

Detailed UMI revenues derived from product groups, consisting 10% or more of total UMI revenues in the vehicles field are presented below:

Brand	2007					
	Amount (in ILS'000)	Percent of Total UMI revenues from vehicles field	Amount (in ILS'000)	Percent of Total UMI revenues from vehicles field	Amount (in ILS'000)	Percent of Total UMI revenues from vehicles field
Chevrolet - Buick - Hammer - Cadillac	1,331,816	82.7%	1,083,937	81.5%	1,125,078	75%
Isuzu	244,734	15.2%	219,240	16.5%	299,924	20%

11.5.7.1.4 Marketing and Sales

UMI conducts the marketing and sales activities both directly, through two show rooms it operates and through 16 authorized distributors, who operate show rooms in 15 cities throughout Israel. UMI entered marketing agreements with each of the authorized distributors. Principles of the agreements with the authorized distributors, regulating their operation were approved by GM Group, and any change in these agreements (including cancellation and extension) is subject to the consent of GM Group, and also the appointment of any new distributor. Subject to UMI's marketing policy, all show rooms are operated according to uniform criteria, defined by the Management of UMI, jointly with GM Group. In return for fulfilling their obligation, UMI pays commissions to the authorized distributors, for vehicle sales and for sales of accessories installed by the authorized distributors according to orders from customers.

Sales Promotion and Advertising

Advertising activities of UMI focus on advertising the different brands in newspapers, radio and television. Public relations activity of UMI includes both sales promotion of different brands and sales promotion of UMI in general. UMI sales promotion and advertising expenses amounted in 2007, 2006 and 2005 to about ILS29,333K, ILS29,671K and about ILS28,921K, respectively. UMI also initiates special sales promotion campaigns from time to time, which grant discounts on a range of vehicles, special credit terms, additional accessories in the vehicles and/or easier delivery terms. UMI enters agreements with business-institutional customers (transportation companies, car rental companies, etc.) from time to time, and grants discounts in some of these agreements or offers special credit terms.

11.5.7.1.5 Competition

The vehicles market in Israel is highly competitive in all vehicle types (mini models, family sedans SUVs, etc.). About fourteen vehicle importers currently compete in the market, and each represents one or several vehicle manufacturers. Estimates of UMI Management and publication of the Vehicles Importers Association in Israel, rate UMI in the fourth place among vehicles importers in Israel for 2007, with a market share of about 7.2% for that year. UMI is expected to maintain its status.³⁰²

The market share of UMI in 2006 and 2005 amounted to 7.1% and 9.3%, respectively.

To the best of UMI's knowledge, its main competitors are: DELEK Motors (Mazda and Ford importer), COLMOVIL (Mercedes, Hyundai and Mitsubishi importer), Union Motors (Toyota and Lexus importer), David Lubinsky (Peugeot and Citroen importer), KARASSO (Nissan and Renault importer), Champion Motors (Volkswagen, Audi, Skoda and Seat importer) and KAMOR (B.M.W. and Chery importer).

Primary Methods Employed by UMI to Contend with Competition are:

- Effective advertising and maintaining a positive image.
- Continued monitoring of customers changing preferences, to adapt vehicles models and prices thereof, imported to Israel by UMI, to the requirements of the Israeli consumer.

Factors Affecting the Competitive Status of UMI are:

- A wide range of products - UMI imports a wide range of products, thereby ensuring long term high competitiveness.
- Currency Versatility - UMI purchases the products from different countries, in different currencies, this ensuring currency versatility and crossing currency rates, versus a vehicles importer who depends on one primary currency only.

³⁰²

This estimate is anticipated future information, as defined by the Securities Act, based on UMI's sales forecast for 2008, on total sales in the market and on UMI's sales volume and sales volume in the market during January and February 2008. This estimate may not materialize, fully or partially, or materialize differently, including materially different than expected, due to changes in products pricing and/or materialization of all or some of the risk factors detailed in section 11.5.16 herein.

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11.5.7.1.6 Suppliers

UMI entered franchise agreements to import and market in Israel with the following parties: GMODC, Adam Opel Aktiengesellschaft, Isuzu Motors Limited and Saab Automobil AB .The agreement with Saab Automobil AB is extended automatically for a period of one year and all other agreements are for periods ranging from three to five years and may be extended for additional periods, upon mutual consent of the parties. As at the report date, and pursuant to extension, the agreements are valid and expire from 2008 to 2011. The agreement with the nearest extension date is the agreement with GMODC, due expire on August, 2008. As at the report date, the parties opened negotiations to extend the agreement with GMODC. Details on the agreements non-extension risk are presented in section 11.5.16 herein.

According to the agreements, the manufacturers appoint UMI as an authorized marketer in Israel, authorized to trade in the agreed upon vehicles (the authorization includes sales, leasing and service provision). The list of the agreed upon vehicles is specified in the agreements and is updated from time to time according to the policies of the manufacturer and UMI and according to market conditions. Two of the agreements stipulate that selling prices of vehicles to customers are determined by UMI alone, while the other agreements stipulate that vehicles selling price to the customer are determined by mutual consent of the parties. According to the agreements, the manufacturers supply UMI with spare parts, accessories and other items, for periods specified in the agreements (even after regular import of the vehicles to Israel by UMI is terminated).

The agreements require UMI to conform to certain standards, detailed in the agreements (e.g., financial soundness, service level, etc.).

The agreements commit the manufacturers to indemnify UMI for amounts it spends to repair vehicles during the warranty period (for details of the warranty granted to customers, see section 11.5.7[g] herein). Some of the agreements entitle the manufacturers to appoint additional importers to markets vehicles they manufacture in Israel.

The agreements also stipulate, that changes in UMI ownership and management, defined in the agreements, require detailed application to the manufacturers and obtaining their advance written approval. Any aforementioned change, implemented without an advance written approval is a cause for canceling the agreement.

Usually, one party may cause the termination of the agreement in the events specified in the agreements, including an event of violation or insolvency of the other party, or in the event of changes in the holding control or ownership of the other party. In addition, the manufacturers are usually entitled to terminate the agreement in other events, specified in the agreements, inter alia in the event that UMI fails to receive a certain permit, which is crucial for its operation under the agreements.

According to the agreement with GM, GM reserves the right to interfere in the business management of UMI, in the event that UMI and/or any of its authorized distributors fails to meet regional and general marketing plans, concluded with GM Group every year.

UMI is materially dependent on GM, which is its main supplier.

In addition, UMI entered agreements with service providers, including marine and land transportation companies, which transport the vehicles from production counties to Israeli ports and from there to UMI warehouses throughout Israel. UMI is not dependent on transportation suppliers.

Land transportation (from the port to UMI's Bonded warehouses) is usually performed by TA'AVURA Cement Containers Ltd., which owns trucks adapted to transport vehicles, at prices concluded between the parties from time to time. The Management of UMI estimates that termination of UMI operations with this company will not have a material effect on UMI operations.

11.5.7.1.7 Operating Capital

Finished Products Inventory Holding Policy

UMI usually purchases vehicles for inventory according to its forecast of expected demand. UMI holds in stock vehicles designated for immediate delivery. The majority for the vehicles delivered by UMI are delivered from the inventory.

Policy of Granting Warranty for Products

UMI provides a warranty for all the vehicles it sells, to repair certain faults in the event that such faults occur in the vehicle during the warranty period, as defined in the Warranty Certificate UMI gives to every customer. The warranty period corresponds to the warranty period UMI receives from vehicles manufacturers, designated to indemnify UMI for expenses incurred during the warranty period which is usually defined as a period of three years, or the period required for the purchased vehicle to travel one hundred

thousand (100,000) kilometers, according to the earliest (except warranty for Opel and Saab models, granted for a period of two years, with an option to the customer, to purchase warranty for one additional year). According to agreements entered between UMI and various vehicle manufacturers, the manufacturers indemnify UMI for expenses incurred by UMI for repair of vehicles during the warranty period.

The repair service for vehicles during the warranty period is provided, inter alia, by the Central Garage, operated by UMI and by garages authorized by UMI. UMI pays amounts due for such repairs to the authorized garages, according to agreements UMI entered with the authorized garages. For details on restrictions applied by force of the Trade Restriction Law - 1988 (“**Trade Restriction Law**”) on stipulating that a warranty is valid only when service is provided by authorized, see section 11.5.8[i] herein.

Credit Policy

Credit to Customers - UMI does not grant credit to private customers who purchase vehicles from UMI. Credit is granted only to business customers, who purchase a considerable number of vehicles. Credit to business customers is granted for different periods, according to terms concluded with each customer separately. As at December 31, 2007, credit to business customers averaged at about 100 days.

Credit from Suppliers - as at December 31, 2007, average credit granted to UMI by its suppliers was about 37 days from bill of lading execution date.

11.5.8 Related and Other services field

11.5.8.1.1 General

In this field, UMI imports and markets original and alternative (new only) spare parts and accessories for vehicles; provides maintenance and repair services to vehicles imported by UMI; vehicles trade-in; elementary insurance (mainly vehicles) and research and development in the vehicles field. As aforementioned, the import and marketing of spare parts and accessories for vehicles is the material activity in this field, therefore, only this activity is described in this field. Up to July, 2007, UMI operated in the field of operational leasing, through Traffic Lease. A transaction to sell the entire holding of UMI in Traffic Lease was closed on that date, in return to some ILS7,500K (including owners loan payoff loaned to Traffic Lease by UMI). Activity in the leasing sector was negligible.

b. General Environment and Effect of Material External Factors

Two main trends are apparent in UMI's field of operation:

- (1) Opening the market to increased competition, pursuant to the order published by the Commissionaire of Trade Restriction (for additional details, see section 11.5.8[i] herein), stipulating that vehicle owners may have their vehicles served and repaired during the warranty period, even in unauthorized garages and garage operators are entitled to purchase spare parts from any supplier and are not obliged to purchase spare parts from the vehicle importer.
- (2) Changes in vehicles mix sold by UMI and changes in the customers mix began after UMI started importing Korean vehicles and increased its sales to Leasing and Car pools companies resulted in causing the spare parts department to work directly with leasing and car pools companies and maintain routine maintenance agreements, in addition to former loyal customers, such as garages and spare parts vendors.

Critical Success Factors

- (1) **Range of Spare Parts** - UMI offers a significantly wider spare parts range, compared to spare parts range offered by competitors in the GM spare parts sector. This range includes both original and alternate (not original) spare parts.
- (2) **Service and Availability** - UMI operates an advanced, modern warehouse and an independent distribution system, to supply spare parts to the chain of garages, about three to eight times every day.
- (3) **Competitive Prices** - UMI monitors market prices constantly and sets the consumer prices with due consideration of market prices.

Restrictions, Legislation, Standardization and Other Constraints

For details on the reform in the vehicles market in Israel, see section 11.5.7[b]. A report and details of an agreed upon order, issued by the Commissionaire of Trade Restriction and on restrictions applied by force of this order on vehicles importers in Israel, see section 11.5.8[i] herein.

Restricted Usage Regulations (recording transactions in used vehicles parts (Theft Prevention), maintaining a log to record theft of parts and restrict use of vehicle parts) - 2007 ("**Restricted Use of Used Spare Parts Regulations**"), enacted on June 2007, were intended to regulate and

supervise the use of vehicles spare parts, according to Restricted Usage and Recording Transactions In Used Vehicles Parts regulations - 1998 (“**Restricted Use of Used Spare Parts Law**”). The Restricted Use of Used Spare Parts regulations forbid installation of used vehicle parts³⁰³ in a damaged vehicle, which was first licensed according to the vehicle license less than two years from the repair date. The Management of UMI estimates, that transition from the use of used vehicle parts to new vehicle parts (original and alternative) is anticipated, pursuant to the law and regulations that restrict the use of used spare parts, especially in cases of spare parts designated to repair vehicles damaged by accidents, yet UMI cannot estimate, at this stage, the consumption growth rate of new spare parts.

Changes in Operation Volume in this Sector and Its Profitability

Profitability in the spare parts sector increased during 2007, due to decreased exchange rates, which yielded a higher profitability.

11.5.8.1.2 Products and Services

UMI supplies original spare parts, made by GM Group and alternate spare parts (not original) mainly to the authorized garages and also supplies the aforementioned spare parts directly, to other customers, mostly merchants. Sales of spare parts by UMI increased at a rate of 10% in 2007, due to increased volume of transactions in this field.

11.5.8.1.3 Marketing and Sales

No active marketing steps are made by UMI in the spare parts field. Yet, UMI offers discounts and runs campaigns from time to time, to retain its customers. UMI operates an independent spare parts distribution system that offers quick and convenient service to customer and provides UMI with a competitive edge over its competitors.

11.5.8.1.4 Competition

The spare parts market is characterized by intense competition and numerous players in the market. Competition in this sector intensified in recent years with a price reduction trend, mainly due to an order published by the Commissionaire of Trade Restriction (see section 11.5.8[i] herein). UMI competes against local suppliers of alternative spare parts (not original) and against several importers, importing original spare parts, purchased abroad. The primary competitors of UMI are: “AUTOLINE”, “AZARCO

³⁰³ These regulations apply to doors, hoods, front and rear side panels, engines, bumpers, boots and gear boxes.

HALAFIM”, “ZUKO”, “MONTEQUE”, “AUTOTIV”, “SUPER BODY”, “SUPER HELEK” and “BITAN SPARK”.

UMI contends with the competition in the spare parts sector by maintaining a considerably wider spare parts range than the range maintained by its competitors, which includes both original and alternate spare parts (not original); expansion of the suppliers system; applications to manufacturers to reduce prices to customers and offering different campaigns to the customers; expansion of UMI’s distribution system, to enable numerous deliveries of spare parts to customers on the same day; relocation to a new spare parts warehouse and installation of control and command systems which enable spare parts delivery at minimal time; and entering maintenance and spare parts delivery agreements which leasing companies and car pools. The Management of UMI estimates that its profitability in this sector will not be affected, despite intensifying competition in the spare parts market, pursuant to developing methods to contend with the competition (see above).³⁰⁴

11.5.8.1.5 Suppliers

Spare parts imported by UMI are shipped to Israel by sea or air freight and transported in Israel by UMI to garages and warehouses. UMI also purchases safety and vehicle accessories, alarm systems, radio units, etc., from various suppliers.

11.5.8.1.6 Operating Capital

Finished Products Inventory Holding Policy

UMI maintains a stock of spare parts intended for current supply of spare parts, as required by law. UMI is also committed according to franchise agreements with vehicle manufacturers to maintain sufficient stock of spare parts, required to meet customer demands for current repairs under the warranty.

Policy of Granting Warranty for Products

UMI grants full warranty for spare parts installed in vehicles it sells for a period ranging from three months to one year (according to the product and the manufacturer), or until the vehicle containing the installed spare parts

³⁰⁴ This estimate is anticipated future information, as defined by the Securities Act, based on spare parts sales volume by UMI in the last three years. This estimate may not materialize, fully or partially, or materialize differently, including materially different than expected, due to changes in the competition in this sector, including enhanced competing methods adopted by competitors of UMI and changes in the Israeli economy and security conditions and/or materialization of all or some of the risk factors detailed in section 11.5.16 herein.

traveled from 6,000 km to 20,000 kg (according to the product), according to the earliest (for details of legal restrictions, see section 11.5.8[i] herein. According to agreements entered between UMI and some of the spare parts manufacturers, these spare parts manufacturers indemnify UMI for expenses incurred by UMI during the warranty period. The warranty period granted by UMI does not necessarily correspond to the warranty period granted by the spare parts manufacturers. Nevertheless, in cases where UMI grants a longer warranty period than the period granted by the spare parts manufacturers, these manufacturers reduce UMI's purchase prices, thereby usually offsetting excess expenses incurred by UMI for a longer warranty period. As of 2006, GM does not grant a warranty to UMI for spare parts supplied by GM to UMI. The aforementioned termination of the warranty granted by GM to UMI does not affect UMI's operations materially.

Credit Policy

Credit to Customers of Spare Parts - payment terms of UMI's business customers, averaged to 70 days, as at December 31, 2007. Usually, UMI does not grant credit to private customers.

Credit from Suppliers - as at December 31, 2007, UMI received from suppliers in Israel a 60 days average credit and a 37 days average credit from off-shore suppliers.

11.5.8.1.7 Environment

Operations of the authorized garage owned by UMI and its commissioning and delivery center, located at Park Reem, are subject to Ministry of the Environment requirements. Lubricants and other materials used at these sites (e.g., car wash detergents) require special treatment and arrangements in conformance to the Ministry of the Environment requirements, to prevent environmental pollution by such materials and waste created by using these substances. As at the report date, UMI conforms to the aforementioned requirements.

11.5.8.1.8 Legal Constrains on UMI Operations

UMI operations in spare parts import and marketing fields subject UMI to the Control on Commodities and Services law (production of and trade in traffic products) - 1983 ("**Production and Trade Law**"), which applies, inter alia, to trade in spare parts of vehicles. The Production and Trade law stipulates mandatory licensing by the qualified authority in the Ministry of Transportation for production of and trade in traffic products (spare parts). The license is granted for one year and the administration may renew or

deny renewal of the license. UMI holds the said license. The Production and Trade Law requires to grant a said warranty to spare parts for a period of no less than three months or travel of 6,000 km, according to the earliest. Moreover, the Production and Trade law also stipulates that a traffic product may not be sold at a price exceeding the consumer price, as defined by the law.

UMI is also subject to the Control on Commodities and Trade law (vehicles import and services provision) - 1978 (“**Import and Services law**”) which requires a vehicles importer to maintain a stock of traffic products (assembly, instrument, spare part, material used for repair or maintenance of the vehicle or its safety) at the quantity recommended by the vehicles manufacturer or at the quantity indicated by inventory flow during the last twelve months, or according to the stipulation of the Vehicles and Maintenance Services Department Manager at the Ministry of Transport. The Import and Services law also stipulates that a vehicles importer will deliver every traffic product for each of the vehicles models it imports, not later than seven days from receiving the order. However, if the importer proves that all means to order the product, from any source capable of supplying the Product at that time were employed and that the delayed delivery was out of its control, the product will be delivered to the customer within 14 days from the order date. The Import and Services law requires the importer to perform additional duties, including marketing traffic products through four sales points throughout Israel, at Tel Aviv, Haifa, Jerusalem and South districts.

The Import and Services law also stipulates that an importer is prevented from forbidding a service garage to operate as a service garage of another importer, but is entitled to require installation of a physical separation between the different service areas.

In addition, a procedure update issued by the Ministry of Transport, by force of the authority of the Ministry of Transport according to section 18 of the Import and Services law, requires an importer to report to the customer, prior to vehicle delivery, on every defect in the vehicle, except replacement of a complete original part installed in the vehicle, which does not need any paint application and also except “one scratch on one part of the vehicle's body, painted over professionally and approved by the Professional Manager of the garage”, as required by the aforementioned update, where up to the said procedure update, the report duty applied only in cases where damage to the vehicle exceeded 5% of its value. The updated instructions of the Ministry of Transport entitle consumers, inter alia, to refuse acceptance of a new vehicle they purchased if the commercial value of the vehicle decreased

by a total rate of 3.5% and up of its value, where up to the said procedure update, consumers were entitled to refuse acceptance of a new vehicle they purchased only if the damage to the vehicle exceeded 10% of its value. Moreover, a new buyer may refuse acceptance of the vehicle when the determined reduced value of the vehicle is 6% and up of its value, due to painting only. In the event that the customer chooses to accept the damaged vehicle, despite the reduced value, the importer must compensate the customer at the rate of the reduced value and provide the customer with a commitment to purchase the vehicle back under terms specified in the procedure.³⁰⁵

UMI operations are also regulated by an order, issued by the Trade Restriction Court, in its decision according to section 50b of the Trade Restriction law. This order, effective as of April 2003, forbids a vehicles importer to limit the authorized service garage, in all matters related to spare parts purchase, but the importer may still oblige the service garage to use spare parts which conform to quality and compatibility requirements. The importer is also entitled to oblige the garage to use spare parts of a certain type (e.g., original spare parts) when the service is provided under the warranty and the importer incurs 90% at least of the cost of this service, or when the service is provided under a RECALL event (when the importer invites all vehicle owners of the model in which defects were found to its service garages, for repair), for which the importer assumes full responsibility.

The order also requires to grant a warranty according to the instructions of the law (two years) or according to the warranty granted by the manufacturer, as a regional or global policy. Every additional period of warranty must be priced separately and offered to the customer separately from the vehicle price.

The order became effective on April 2003 and expires on April 2008.

The Commissionaire of Trade Restriction announced at the end of October, 2007, the initiation of a comprehensive inspection of vehicles import, spare parts and service garages field and vehicles importers were already required to submit extensive information and data on these issues to the Trade Restriction Authority.

³⁰⁵

Data included in this section are based on a Press Release, published by the Ministry of Transport on December 18, 2007.

11.5.8.1.9 Customers

UMI's customers list includes private customers and institutional customers. In 2007, 2006 and 2005, sales rates to institutional customers were about 59%, 55% and 58% respectively, compared to about 41%, 45% and 42% respectively to private customers.

Under agreements between UMI and large business customers, UMI grants discounts or offers special credit terms, according to transaction volumes.

UMI entered an agreement with the Ministry of Defense, under which UMI is committed to provide routine maintenance services to vehicles used by the Ministry of Defense for a period of six years from the purchase date, in return for a global payment, concluded in the agreement.

The primary customers of UMI in the spare parts field are the authorized garages.

UMI operates a customers service center at UMI Management offices, in Rishon Le'Zion, to maintain customers loyalty on a routine basis and attend to certain events related to providing service to customers.

11.5.9 Fixed Assets and Installations

Details of UMI offices, show rooms for vehicle sales, bonded warehouses, spare parts warehouses and rented garages at which UMI operates are presented below, distinguishing between property owned by UMI or rented premises:

Site	Location	Title to the Asset	General Characteristics and Notes
UMI Offices (UMI House)	Rishon Le'Zion	Partial ownership*	The Project includes an offices building, show rooms, trade and display rooms, spare parts warehouse and a service garage.
Logistics Center	Modyeen Region Industrial Park	Leasehold	Including a spare parts warehouse
Commissioning and Delivery Center, Bonded Warehouse and spare parts warehouse	Reem Park	Leasehold	
Show room	Tel Aviv	Rented from a shareholder	
Show room	Rishon Le'Zion	Partial ownership (see section 1 above)	
Spare parts warehouse	Haifa	Rented from a subsidiary	
Spare parts warehouse and show room	Tel Aviv	Rented from a shareholder	
Garage	Rishon Le'Zion	Ownership (see section 1 above)	
Trade-in site	Tel Aviv	Rented from a shareholder	
Trade-in site	Rishon Le'Zion	Partial ownership (see section 1 above)	
A.S.O. Hadera	Hadera	Ownership	Construction started in 2007 and expected to end during 2008

* About 24.5% of this property are directly owned by UMI. UMI purchased the rights in the property under a combination transaction between Kardan Real Estate and a UMI shareholder, inter alia.

11.5.10 Intangible Assets

UMI owns trademarks of UMI name and logo, registered in Israel.

UMI also holds a license to use trademarks of GM Group, by force of the marketing franchise agreements entered between UMI and vehicles manufacturers, for the purpose of operation according to the franchise agreement terms, including vehicles advertising and promotion. Usage right is not exclusive and does not entail royalty payments to manufacturers. UMI received the right to grant usage rights to marketers of vehicles, pursuant to obtaining approval of the vehicles manufacturers.

11.5.11 Human Resource

On December 31, 2007, UMI employed about 335 employees, in the following three departments: About 30 employees in the Administration and Finance Department, about 140 employees in the Marketing Department and about 165 employees in the Service Department, that includes the customers service employees, central garage and spare parts warehouses employees.

About 5 employees are members of UMI's senior management. In addition to permanent employees, UMI engages the services of a negligible number of employees from manpower placement firms, from time to time, as needed.

On December 31, 2007, UMI employed 310 employees.

On January 1, 2007, after the balance sheet date, the CEO of UMI resigned his position and started serving as the Chairman of UMI's Directorate, and the Marketing and Sales Director resigned his position and serves as the CEO of UMI, as at the report date.

The employees earn fixed wages, except marketing and sales employees, whose wages are comprised of a fixed element and a variable element, which varies according to sales volumes in show rooms at which they are stationed. Employees receive bonuses from time to time, according to the decision of the Management of UMI and subject to Directorate approval.

UMI initiates routine training activities and marketing seminars, for UMI sales personnel and employees of the authorized distributors, to maintain high and uniform service level at UMI's show rooms. UMI also initiates technical training for garage employees.

UMI is a member in the Tel Aviv - Jaffa Chamber of Commerce ("**Chamber of Commerce**") and is subject accordingly to the instructions of all the collective agreements to which the Chamber of Commerce is a party. Consequently, UMI is obliged to allocate provisions for pension for all its employees, by force of the general collective agreement in the import, export, trade and services sectors, executed in 1977 (and updated in 1983 and 1987) and to allocate provisions for severance payments for all its employees by force of the general collective agreement (framework) on comprehensive pension insurance in Israel, executed on November 19, 2007 (according to the provision rates and dates specified in the agreement). As at the statement date, UMI allocates all the aforementioned provisions according to the instructions of the agreements.

11.5.12 Financing

UMI finances its operations through banks financing.

For details of credit amounts received from banks as at December 31, 2007, including details of liens and commitments for conforming to financial criteria, see notes 14, 18 and 23 to the financial statements of UMI, attached to the financial statements.

11.5.13 Taxation

UMI has final tax assessments up to December 31, 1997. According to the law, tax reports submitted up to and including 2003 are regarded as a final assessment, subject to certain conditions. For additional details, see Note 22 to the financial statements of UMI, attached to the financial statements.

11.5.14 Material Agreements

11.5.14.1.1 For details of the agreement between UMI shareholders, see section 11.5.1 herein.

11.5.14.1.2 For details of franchise agreements with vehicles manufacturers, see section 11.5.7[f] herein.

11.5.14.1.3 According to the agreement between UMI and its shareholders, UMI pays its shareholders, since 2001, an annual rate of 5% of the nominal annual profit before tax, with the addition of a fixed amount of ILS2,800K, linked to the CPI, for management and consultation services rendered by them to UMI. According to the agreement, management fees amount shall not exceed an annual amount of some ILS10,000K, linked to the CPI of December 2001. In 2007, 2006 and 2005 UMI paid to TALDAN some ILS3,600K, ILS2,718K and some ILS3,815K, respectively. The agreements do not include a time limit.

11.5.15 Legal Proceedings

For details on a material legal proceedings, to which UMI is a party, see Note 23 to the financial statements of UMI, attached to the financial statements.

11.5.16 Discussion of Risk Factors

UMI operations are characterized by the following risk factors:

Macro Risks

- Fluctuations in exchange rates of currencies used by UMI to purchase the vehicles it markets, may affect vehicle prices in ILS to Israeli customers and also prices of UMI vehicles, compared to prices of competing vehicles, and consequently on the demand for vehicles marketed by UMI. UMI is exposed to liabilities linked to foreign currency, mainly due to credit from suppliers. UMI initiates future transactions from time to time, for protection against such exposure.
- Private vehicles are a consumer product. The demand for this product is affected, inter alia by households standard of living. A decrease in households standard of living may affect the number of vehicles sold by UMI to private customers, and consequently affect its business results. Sales of vehicles in general and mainly commercial vehicles and trucks are affected by the volume of the economical activity. A decrease in the economical activity may decrease the volume of vehicle sales.

Sector Risks

- Changes in regulatory arrangements, e.g., competition regulation in the vehicles field and the attached services field (import and marketing of spare parts and accessories for vehicles), changes in the government taxation policy, or changes in the policy related to vehicles classification as sedan or commercial vehicles for tax purposes, which may lead to changes in the structure of the market where UMI operates, by changing the demand for a vehicle of a certain size or type, or demand for vehicles manufactured in certain countries.
- UMI operates as an importer of vehicles to Israel, subject to licenses and permits. Although these were extended permanently in the past and there is no reason for concern about future extension, it is possible that unexpected circumstances may lead to non-extension. Moreover, unexpected changes in regulation arrangements may affect the competition in the Israeli vehicles market.

Special Risks

- Dependence on Marketing Agreements - Primary UMI revenues are derived from import and marketing of vehicles and spare parts manufactured by GM Group, consequently, it is dependent on continued relations with GM Group. Marketing agreements with the vehicles

manufacturers were renewed in the last decade, therefore, UMI has no reason to doubt extension of these agreements in future, however, non-renewal should not be excluded from the considerations. If GM Group will not extend its agreements with UMI after the current agreements expire, UMI will sustain a material impact. Termination of UMI relations with any of the manufacturers which are members of the GM Group, will affect UMI's revenues and business results. Upon termination of the marketing agreement with any of the said vehicles manufacturers, UMI will cease to market spare parts for those vehicles, which will further affect the business results of UMI.

- Import and sale of vehicles are involved in maintaining a large inventory which may be devaluated due to model year obsolescence (resulting from marketing models of a new model year, inter alia), technological improvements, regulation, changes in foreign currency exchange rates, etc.
- UMI is materially dependent on the Global GM company, which is the main supplier of UMI. The Management of UMI estimates that a material worsening of Global GM condition may have a material adverse effect on UMI's condition, for a short term, at least.

The table below presents the risk factors detailed above, classified according to the degree of the effect of each factor on UMI business, according to division into risk types and according to UMI estimates:

Risk Factors	Risk Factor Effect Rate		
	High Effect	Moderate Effect	Minor Effect
Macro Risks			
Fluctuations in Exchange Rate		X	
Economical Conditions		X	
Sector Risks			
Changes in Regulatory Arrangements		X	
Licenses and Permits	X		
Special Risks to UMI			
Dependence on Marketing Agreements	X		
Stock Maintenance			X
Worsening of Global GM condition		X	

12. Description of the Communication and Technologies Field

- 12.1 The Kardan NV Group operates in the communications and technologies markets, mainly through Kardan Communications and Kardan Technologies.

Communication – Kardan Israel has full ownership of the subsidiary, Kardan Communications, which coordinates the communication operations of Kardan Israel and holds the following material companies:

RR Sat – a company held in at a rating of 24.5% by Kardan Communications, which deals in satellite links in Israel and abroad. Arar Sat is represented in Kardan Communications financial statements and in Kardan NV's financial statements on equity basis.

BFTV – Kardan Communications holds 30.22% of the rights in BFTV, which deals in operating a television channel for infants and babies. BFTV is represented in Kardan Communications financial statements and in Kardan NV's financial statements on equity basis.

In addition, Kardan Communication is active through additional companies, which are not material companies for Kardan Israel and Kardan NV' in the media and multi-channel television broadcast field, through Kardan Communications' holding of about 2.3% (indirectly, through Lidan Investment Agencies Ltd.) of the DBS Satellite Services (1998) Ltd. (YES) (about 2% in full dilution) which is the DBS franchiser in Israel; in developing and assimilation of software for television networks; in developing and providing innovative access products and communications exchange networks solutions; in providing call center services in Central-Eastern Europe; in providing data and added value services for mobile phones and in a venture capital fund specializing in the technology field.

Technologies – Kardan Technologies was incorporated in Israel in 1994 and is a public company traded in the Tel-Aviv Stock Exchange. As of the date of the report, Kardan Israel holds 61% of Kardan Technologies' issued capital. Kardan Technologies material holding is rights in limited partnership on behalf of Formula Vision Portfolio Holdings – Limited Partnership (hereinafter – “**the Partnership**”), in which rights were acquired by Kardan Technologies on December 2006 for a sum of 21 million dollars. The partnership holds a portfolio of four (4) companies operating in the field of technology: FES Software Ltd., dealing in developing software solutions for companies working in the life insurance and pension sectors (27.4% of the capital and 25% in full dilution); Idit IDI Technologies Ltd., dealing in developing and marketing software solution for management and full support of all the business procedures of elementary insurance companies (67.3% of the capital and 56.6% in full dilution); Giga

Spaces Technology Ltd. dealing in developing and marketing unique grid-based technological solutions (sharing and using computer resources optimally) which allow processing, sharing and large scale data distribution in quick files (16.93% and 13.78% in full dilution); and Transtech Control Ltd. (hereinafter “**Transtech**”), which deals in developing, manufacturing and supplying command and control systems for runway lighting in airports worldwide (20.4% and 8.6% in full dilution). In December 2007 the partnership sold its full holdings (21%) in Babylon Ltd. (see section 12.2.1 of the report).

In addition, Kardan Technologies holds, directly and indirectly, about 6.6% of the venture capital fund Concord Ventures 1 and in low rates two active technology companies in which holding is immaterial as well as several inactive companies.

There are no companies in the communication and technologies field which are material to Kardan NV.

12.2 Acquisitions, Sales, or Transfers of Assets in a Material Scale outside Normal Business, Capital Investments, and Share Transactions

- 12.2.1 In December 2006, Kardan Technologies acquired rights in a partnership which held at that time the portfolio of five (5) technology companies in return to a sum of 89.5 million NIS.
- 12.2.2 In December 2007 the partnership sold its full holdings (about 21%) in Babylon Ltd., which is a public company, with shares traded in the stock exchange. On January 3rd, 2008 the partnership completed the aforementioned sale. The sale was for a sum of 25.2 million NIS (out of which about 23.4 million NIS in cash, granting a price of 3 NIS for every sold share and 1.8 million NIS as an option equivalent granted to the partnership as part of the transaction, according to which the partnership can buy back from the buyer up to half the shares sold at an agreed price. In return to this said option the buyer was given the right to refuse to the repurchase for a total payment of 11 million NIS). Following the transaction, Kardan Technology registered in the fourth quarter of 2007 a profit of 11 million NIS. Also, following the said sale of the Babylon shares, the partnership paid a sum of 18.2 million NIS to Kardan Technologies. This complies with the arrangement set by the parties as part of the partnership agreement.
- 12.2.3 In January, February and May 2006, Kardan Technologies sold 502,282 latent shares of Kardan Technologies it owned, during stock exchange trade, for a sum of 1.9 million NIS.

12.2.4 In November 2006, RR Sat issued 4,195,000 regular share, which constituted about 24.3% of the RR Sat issued capital (after the issuing), for a price of 12.50 dollar a share with a total return of 47.3 million dollars (after expenses), which granted RR Sat the worth of 215.5 million dollar after the funds at the date of the issuing. The issuing was carried out in NASDAQ. Following the issuing, Kardan NV registered a profit of about 6.2 million Euros in the fourth quarter of 2006.

12.2.5 Following are the main details regarding investment in company rights in BFTV in 2006 and 2007 and until the date of the report:

Date of Investment (Month, Year)	Investment Sum (Thousands Dollars)	Kardan Communications part of the Investment
February 2006	42,500	-
March-April 2006	5,700,000	33.3%
August-September 2006	1,900,000	30.6%
January 2007	1,000,000	30.56%
March 2007	716,175	41.89%
April 2007	3,000,000	30.39%

The investments described above granted BFTV the worth of between 8,500 thousands dollars and 32,000 thousands dollars.

12.3 Description of the Economical Environment and External Factors Influence

The business environment of Kardan Communications and Kardan Technologies is comprised of several main factors: the strength of the capital markets in the US and Europe, the status of the venture capital industry in the US, Europe and Israel, and the relevant business environment of each one of the held companies.

As a rule, the communications and technologies field is characterized with much competition, rapid technology developments, variable market conditions, the need to make significant investments in research and development, and short product lifespan.

The results of some of the held companies' operations are dependant, among other things, upon their ability to develop, at any given time, new generations of products and services tailored for the variable conditions of the market in which they operate. This applies significantly more to companies which focus on the production of one product or one group of products.

Most of the held companies in the field of communications and technologies face much competition, a fact which may cause a reduction of prices and drop in profits. Also, the companies in this field often compete with larger and better-established companies, a fact which makes penetration into the product market and obtaining a significant market segment much more difficult.

The companies in the advanced technology and software field are dependant upon recruiting and retaining professional and quality human resources in their fields of operations. A deficiency in professional and skilled personnel in these fields causes fluctuations in the employment costs and may cause a significant worsening of the company's operations.

The securities prices of companies operating in the advanced technology and software field are characterized by fluctuations, a fact which affects the ability of investors to gain capital profits from actualizing their investments including the option to carry out private or public issuing in held companies or finding alternative financing sources for these companies.

For information on the crisis in the financial markets, see section 6 of the report.

12.4 Human Resources

Kardan Communications employs two employees: a full-time CEO and a part-time CFO at 25% of position.

Granting Options for Kardan Communications' Employees

A waiver agreement was signed between Kardan Communications and the Kardan Communications' CFO (hereinafter "**the CFO**") on January 15th, 2008. The waiver agreement was signed since until its signing Kardan Communications did not allocate the CFO with options it was suppose to grant him according to the understanding between the parties. As part of the waiver agreement the CFO relinquished the right to receive the options he was entitled to as said for a payment of 2,620 thousands NIS which will be paid on March 31st 2008 and an additional sum of 700 thousands NIS which will be paid no later than March 31st 2011 and which will be linked to the index from the date of the first payment. Also, in return to this the CFO relinquished, as part of the waiver agreement, andy

claim and/or demand and/or complaint regarding the options. The option benefits of the Kardan communications CEO have yet been established on the date of the report, but it was agreed that he will be allocated with options in the amount which will be up to 3% of the Kardan Communications shares. Kardan Communications estimates that the benefits for the Kardan Communications CEO will sum up to 2,200 thousands NIS. Also, it was agreed with the Kardan Communications CEO that Kardan Israel will be entitled to grant him by allocation shares of Kardan Israel at the value of the Kardan Communication shares which were to be allocated to him with the realization of the options.

12.5 Legal Procedures

Kardan Technologies holds about 87.8% (92.6% in full dilution) of the shares of Global E-nvestment Development (G.E.D) B.V. (hereinafter “**Global**”), a company registered in Holland. Kardan Technologies ceased to consolidate Global’s financial statements as of January 1st, 2006 since this company is inactive. Global holds about 20% of the Callis Soft S.A (hereinafter “**Callis**”) which is under liquidation and served as a director in it. In 2004 a claim was filed in France by the liquidator of Callis against directors in Callis separately and together. The reason for the claim is the responsibility of the managers and directors of Callis for the excess assets mortgages created in Callis adding up to 15 million Euros (about 87.7 million NIS). According to French law, the court may instruct that payment of the liability excess created in a company in liquidation will be paid by the directors or managers of that company, if it is proven that actions they performed contributed to the company’s financial debt. Global’s legal consultants estimate that it has good basis for defense and the chance that Global will be obligated to pay any material payment for this claim is small.

12.6 Objectives and Business Strategy

Kardan Communications intends to continue to strengthen and develop its holdings in the held companies. Kardan Technologies will examine the options for realizing its various investments. Also, the Kardan Communications management and the Kardan Technologies management are examining additional investments.

12.7 Discussion of Risk Factors in the Communication and Technology Fields

The operations of Kardan Israel in the communication and technologies fields are characterized by the following risk factors:

Macro-Economical Risk

- **Exchange Rates** – fluctuations in the dollar, Euro, and pound Sterling exchange rate against the Shekel may influence the business results of the companies held by Kardan Communications and Kardan Technologies (hereinafter in this section 12.7: “**the Held Companies**”) and Kardan Technologies itself since Kardan Technologies received a dollar linked loan from a banking corporation. Also, the companies held by Kardan Communications and Kardan Technologies operate on an international level therefore their results may be influence by dramatic changes in the exchange rates.
- **Negotiable Securities and Financial Assets** – fluctuations in the negotiable securities and financial assets rates may influence Kardan Communications’ business results, due to its indirect holding of public companies’ shares listed for trade in NASDAQ (RR Sat).
- **Competition** – the held companies operate in a competitive environment, a fact which may reduce their growth rate.
- **Client Dependency** - a cessation of engagement with any of the big clients of the held companies may cause a significant damage to their income.
- **The National Security Conditions in Israel and Instability** may worsen the supply of the held companies’ products and hinder the receiving of new contracts.
- **Economical Regression** – in the world market may influence the receiving of new orders from clients.
- **The Sub Prime Crisis** – may have various economical influences, including the world credit market, as specified in section 6 of this report. In case the said influences are realized, the held companies may be influenced by the crisis. Kardan Communications and Kardan Technologies cannot estimate at this stage the above said consequences and their influence upon their operations. However, Kardan Communications and Kardan Technologies intend to continue and track the credit market developments in general and the sub-prime crisis in particular. Following a preliminary examination of the crisis influence on the held companies, it seems Kardan Communications and Kardan Technologies are not directly, immediately, or materially exposed to the sub-prime crisis.

Field-Related Risk Factors

- **Investing in Growing Companies** – the investment in growing companies involves a business risk, stemming from the nature of their business, and among other things, their investments in research and development and of frequent technological changes.
- **Investment in Private Companies and Minority Position** – a special risk in involved in investing in private companies, regarding which it may not be assured that Kardan Communications, Kardan Technologies, and the partnership could actualize their investments if there is not market where their securities are traded in. Furthermore, some of the partnership’s investments grant a status of minority shareholder. Therefore, the ability of the partnership to influence the invested companies is small.
- **Lack of Property Protection** – the technology with which some of the held companies work directly, and the products developed by them indirectly are sometimes not protected by patents and registered trademarks. There is a risk that similar products will be developed by the competitors or other entities, in light of the fact that there are no material limitations regarding such development.
- **Employee Dependency** – in some of their investments, Kardan Communications and Technologies are dependant upon key personnel, who are vital human resources for the management and development of investments. The companies in this field are dependant upon the recruiting and retention of professional quality human resources and deficiency in such personnel may cause fluctuations in employment costs and may damage significantly the operations of Kardan Communications and Kardan Technologies.
- **Market Growth** – the success of the held companies depends upon the continued growth of the market they operate in. The cessation of market growth, due to economical regression, further reforms, etc. may damage the business of the held companies.
- **Technological Risk** – the held companies’ success in predicting the developing market trends and presenting new and advanced products regularly will influence the held company’s success. In case where the held companies will not predict the market development correctly, their future income and profitability may be damaged.
- **Protection of Intellectual Property Rights** – the success of the held companies depends upon their ability to protect their intellectual property rights in their products, keep their trade secrets and operate without transgressing against other companies’ property rights. Although the intellectual property laws and the conditions set in the usage licenses provide protection, the attempt to prevent an unauthorized usage of the companies’ products may be complex and expensive, especially in countries where the law does not sufficiently protect the owners of intellectual property rights.

- **Financing** - Kardan Communications and Kardan Technologies and/or some of the held companies will need additional financing in the future. Their inability to recruit financing sources will hinder the continuation of their operations.

Following is a table which rates, according to Kardan NV's estimation, the type and degree of influence of the risk factors specified above on Kardan NV's business in the communications and technologies fields:

	The Risk Factor Influence Degree		
	Great Influence	Medium Influence	Little Influence
<u>Macro Risk Factors</u>			
Exchange Rate	X		
Negotiable Securities and Financial Assets	X		
Competition			X
Client Dependency		X	
Israel Security Conditions		X	
Economical Regression	X		
The Sub-Prime Crisis	X		
<u>Field-Related Risk Factors</u>			
Investing in Growing Companies		X	
Investment in Private Companies and Minority Position		X	
Lack of Property Protection		X	
Employee Dependency			X
Market Growth		X	
Technological Risks		X	
Protection of Intellectual Property Rights		X	
Financing		X	

12.8 Following are details about the immaterial companies held by Kardan Communications and Kardan Technologies which are included in the communications and technologies field:

Held Company	Holding Company	Holding Rate owned by Holding Company (as of the date of the report)	Description of the Held Company's Operations
R.R. Sat Global Communications Networks Ltd.	Kardan Communications	24.55%	Management and distribution services
Baby First T.V. LLC.	Kardan Communications	30.22%	Production and broadcast of a content channel for babies and infants in Israel and abroad.
Teledata Networks Ltd.	Kardan Communications	37.51%	Teledata supplies products and solutions for telephony and communication services providers in the access networks field
Syntech Media Ltd.	Kardan Communications	16.63%	Syntech Data develops and markets an advanced integrative system for broadcast networks managements in television and cables.
IVP Ivory Video Productions Ltd.	Kardan Communications	53.08%	Operates since 2001 a channel offering Israeli content of Israeli content providers for viewers in the US and in Europe.
Tikshuv Global Ltd.	Kardan Communications	50%	Providing Call Center services in Eastern Europe.
Unicell Advanced Cellular Solutions Ltd.	Kardan Communications	32%	Providing data services and added value for cellular phones.
Aviv Ventures I L.P	Kardan Communications	13.7%	Venture capital fund specializing in the technology field.
The Partnership	Kardan Technologies	According to Agreement	Holds a portfolio of 4 technology companies.
Concord Ventures I	Kardan Technologies	6.6% ²²⁶	Venture capital fund specializing in the technologies field.
Nanomotion Ltd.	Kardan Technologies	1%	Development of Electronic Applications
DBS Satellite Services (1998) Ltd.	Lidan Investment Agencies Ltd. ²²⁷	4.67%	A company providing multi-channel television services through satellite.

²²⁶ The holding is direct and indirect: about 5.3% through one of the partnerships comprising the fund and about 1.3% through the general partner of the fund.

²²⁷ Kardan Communications holds 49% of Lidan Investment Agencies Ltd.

Chapter D: Additional Details

13. **Competition**

All Kardan NV Group's areas of operation are competition-influenced.

Nevertheless, Kardan NV Group's strategy is to invest in companies with relative business and marketing advantages that help them successfully compete in relevant markets. Kardan NV Group operates in developing markets in order to be one of the pioneering companies in its areas of operation, and to situate itself in the market before the competition becomes fierce.

This strategy led a discernable amount of Kardan NV Group's holdings to be one of the leading companies in the markets in which it operates. In the above chapters the competition in every field and its relative advantages of Kardan NV Group's holdings were detailed extensively.

14. **Human Resources**

In accordance with Dutch law, Kardan NV has a double tiered management structure comprised of the Management Board, the effective manager of ongoing operations for Kardan NV and the Supervisory Board which oversees Kardan NV's policies and its business practices. Kardan NV's headquarters include five Management Board members, one of whom is a Chief Operating Officers ("COO") who together manage Kardan NV. Likewise, the headquarters also includes a finance and legal department, and secretaries.

The headquarters, located in Amsterdam, Holland, is responsible for laying down Kardan NV's strategy and supervising its implementation. The headquarters deals with locating and initiating business opportunities and manages the Kardan NV Group's operations abroad and the ongoing operations of the Kardan NV headquarters. Kardan NV Headquarter employees provide services to headquarters of other companies in the Group. In addition, Kardan NV receives, via Kardan Israel, services regarding Kardan NV's connection to human resources in Israel and with Israeli financial entities, including financial and legal services, in view of the fact that Kardan NV's shares are also traded on the Tel Aviv Stock Exchange.

In November and December of 2006, 716,927 options for purchasing up to 716,927 standard shares of Kardan NV were allocated, without consideration, to four Management Board members of Kardan NV at that time and 382,400 options for purchasing up to 382,400 Kardan NV standard shares to additional employees

of Kardan NV and Kardan Israel (hereinafter in this section: “**Offerees**”). Options were allocated to the Offerees that selected as such in accordance with section 102 of the Income Tax Ordinance in the capital gain track (as far as this is allowed by law). The price of a realization of a share for Offerees that are residents of Israel was set at 90% of the closing price for company shares in the Tel Aviv Stock Exchange on November 2, 2006 and is 46.512 NIS per share (subject to adjustments) while the realization price of the options for the Offerees who are not residents of Israel was set at 90% of the closing price for Kardan NV and Euronext shares in the same period and is 8.568 Euro per share (subject to adjustments).¹⁵⁶ Kardan NV has the right to allocate shares to Offerees that reflect the bonus element of the options realized instead of the total shares that stem from the quantity of options they are actually eligible to, as calculated at time of realization, in exchange for their nominal value, or the bonus element in cash (except for offerees to whom options were allocated under Section 102 to the Income Tax Ordinance, who will not be entitled to receive the bonus element in cash). Each of the Offerees will be eligible to realize a third of the options granted after a year from the time of allocation, and an additional third two years after the time of allocation, and the remainder, three years after the time of allocation (“**Eligibility Periods**”). The options are given for realization from the aforesaid Eligibility Periods and for a period of five years from the time of allocation. A condition for option realization by the Offeree is that at the time of realization the Offeree will be employed by Kardan Israel or by another company in the Kardan NV Group. In 2007 the Offerees realized 11,933 options in return for cash. Also, 35,900 shares have expired, which were allocated to two employees whose employment with Kardan NV was terminated before their being entitled to exercise their options. The expense included in the financial statements for 2007 on these options came to a total of some 2 million Euro. The expense remainder to be attributed to the profit and loss statements in the following years came to a total of some 1 million Euro. For more information regarding the options, see note 34B to the financial statements.

The companies active with the Kardan NV Group are managed by independent headquarters. For details on the human capital of the chief companies see the description under the areas of Kardan NV operations.

¹⁵⁶

The realization price is adjusted due to the dividend distribution in July 2007 for a total of 45.868 NIS for Kardan NV employees that are Israeli residents and 8.4527 Euro for Kardan NV employees that are not Israeli residents.

15. Finance

For details regarding finance for 2007, see notes 20, 24, 26, 27 and 35(L) to the financial statements.

15.1 Following are data regarding the loans balance allocated to Kardan NV in millions of Euros effective as of December 31, 2007 and their interest rates:

		Balance as of 31.12. 2007 (EUR million)	Interest Rate	Repayment of Principal	Interest Repayment	Guarantees and Restrictions
Long-term loans from banks	Index-linked in NIS	5	5.00%	August 31, 2009	August 31 of every year 2006 - 2009	³⁰⁶
	In Euro	20	EURIBOR + 1.3%	November 21, 2009	September 7 of every year 2007 - 2009 and at the principal payment date	³⁰⁷

³⁰⁶ **Israel Bank Loan** – Kardan NV provided the bank with a permanent, first rank lien for 1,776,118 shares in its subsidiary GTC RE (the original lien was for GTC RE bonds (series A), which were replaced with shares after the aforementioned bonds were converted to GTC RE shares) and undertook to issue additional securities if the securities values were to drop from 60% of the debt balance. Likewise, Kardan NV undertook, inter alia, that Kardan NV would not lose control of GTC RE and that Kardan NV's equity would not depreciate to less than 30% of the remaining balance (company). As of the date of this report, Kardan NV has fulfilled its financial obligations.

³⁰⁷ **Israel Bank Loan** – Kardan NV provided the bank with a permanent, first rank lien for 2,966,234 shares in its subsidiary GTC RE (the original lien was for GTC RE bonds (series A), which were replaced with shares after the aforementioned bonds were converted to GTC RE shares) and undertook to issue additional securities up to 115% of the remaining balance of the debt, if the securities values were to drop from 105% of the debt balance. Likewise, Kardan NV undertook, inter alia, that the control in Kardan NV will not be changed. In March of 2008, post-balance, Kardan NV provided the bank with a lien for 2,025,000 shares in its subsidiary Kardan Israel, for the completion of the security for the loan. As of the date of this report, Kardan NV has fulfilled its financial obligations.

		Balance as of 31.12. 2007 (EUR million)	Interest Rate	Repayment of Principal	Interest Repayment	Guarantees and Restrictions
	In Euro	6	EURIBOR + 1.4%	April 18 of every year 2008 - 2011	April 18 of every year 2008 - 2011	³⁰⁸
	In Euro	6	5.62%	January 15, 2009	September 7 of every year 2007 - 2008 and at the principal payment date	³⁰⁹
Long-term loans from Non banking sources	Index-linked in NIS (non- marketable bonds)	22	6.60%	January 30, 2010	February 1 of every year 2006 - 2010	³¹⁰
	Index-linked in NIS (marketable bonds)	218	4.45%	February 25 of every year 2013 - 2016	February 25 of every year 2008 - 2016	³¹¹

³⁰⁸ **Israel Bank Loan** – Kardan NV provided the bank with a permanent, first rank lien for 719,488 shares in GTC RE under its ownership and undertook to issue additional securities up to 100% of the debt balance if the securities values were to drop to 90% of the debt balance. In March, 2008, post-balance, Kardan NV provided the bank with a lien of 635,000 shares in its subsidiary Kardan Israel, for the completion of the security for the loan. As of the date of this report, Kardan NV has fulfilled its financial obligations.

³⁰⁹ **Loan from Israeli Bank** – Kardan NV provided the bank with a permanent, first-rank lien for 707,330 shares in GTC RE under its ownership (the original lien was for GTC RE bonds (series A), which were replaced by shares after the aforementioned bonds were converted to GTC RE shares) and undertook to issue additional securities up to 110% of the debt balance if the securities values were to drop from 85% of the debt balance. Likewise, Kardan NV undertook, inter alia, that the Kardan Group would not lose its control of GTC RE, and that Kardan NV's equity will not drop below 30% of the balance total (company). In March, 2008, post-balance, Kardan NV provided the bank with a lien of 890,000 shares in its subsidiary Kardan Israel, for the completion of the security for the loan. As of the date of the report, Kardan NV has met its financial obligations.

³¹⁰ **Loan from an Israeli Institution** – Kardan NV provided a lien for the lender of the permanent, first-rank lien for 12,460,837 shares in GTC RE under its ownership and undertook to issue additional securities if the securities values were to drop from 125% of the debt balance. Likewise, Kardan NV undertook, inter alia, that the equity – balance ratio (a company, according to Israeli accounting guidelines) will not be less than 28% and that the equity will not depreciate to less than 150 million NIS (about 27 million Euro) for a period exceeding 3 months and from a total of 140 million NIS (about 25 million Euro) for a period exceeding one month. Effective as of the date of the report, Kardan NV has met its financial obligations. An executed amendment of the loan agreement, after the balance sheet date released the lien of the shares and transferred the lien to a monetary deposit, amounting to some EUR 25 million.

³¹¹ See additional details of the debentures in section 15.3[A] herein.

15.2 Following is data regarding the loans balance provided to Kardan NV in thousands of Euro as of December 31, 2006 and their interest rates.

		Balance as of December 31, 2006 (EUR million)	Interest Rate	Principal Repayment	Interest Repayment
Long-term loans from banks	Index-linked in NIS	5	5.00%	August 31, 2009	August 31, 2009 of every year 2006 - 2009
	In Euro	20	EURIBOR + 1.3%	November 21, 2009	September 7 of every year 2007 - 2009 and at the principal payment date
	In Euro	16	EURIBOR + 2.25%	April 12 for years between 2007-2011	Every quarter of years 2007 - 2011 and at loan payoff date
	In Euro	7	EURIBOR + 2.0%	750,000 Euro on April 18, 2007 (repaid) 1,500 thousands of Euro on every April 18 th of years 2008 – 2011	April 18 of every year 2008-2011
Long-term loans from Non banking sources	Index-linked in NIS	20	6.60%	January 30, 2010	February 1, of every year 2006 – 2010
	In Dollars	29	Libor + 2.25%	Loan repaid in full in March, 2007.	

15.3 Capital Raising Through Issuing Bonds

[A] In February 2007, Kardan NV issued to its Israeli institutional investors a nominal value of 840 million NIS in bonds (Series A), which were rated by Maalot at an AA rate (in this section: "Bonds"). The bonds are index-linked to consumer prices and bear an annual interest at a rate of 4.45%. The bonds (principal) will be repaid in four equal payments between 2013 and 2016. The interest on bonds will be paid once a year.

In June 2006 bonds were registered for trading in the Tel Aviv Stock Exchange. Until registered for trade, Kardan NV paid the bond holders an additional interest rate of 0.8% per year, in such a way that the annual interest rate was 5.25%.

Kardan NV undertook that at any time at which the bonds (series a) are valid, Kardan NV will hold tradable securities, free of any lien, whose market equivalent will be equal to 200% of Kardan NV's principal uninsured debt. If the tradable securities value will be less than 180% of Kardan NV's principal uninsured debt, Kardan NV undertook to provide a permanent lien to the benefit of the bond holders (series A) on GTC RE shares, at a value of 125% of the

principal bonds, as it will be at that time. The aforesaid undertaking will be null in the event that Maalot decides that there is no longer a need to include the aforesaid obligation in the framework of the bonds in order to maintain the bond ranking, as it will be at that time. In addition, according to Maalot's ranking, the ranking is based on the assumption that Kardan NV will maintain an adjusted equal value (market value of public companies [in holdings?]) in addition to the financial value of private companies held in accordance with the value estimates as presented by Maalot) of the assets along with cash (cash and equivalent of cash) (included in the framework of the current assets) for a debt that will not be less than 4. In view of recent events in the capital markets, and the ongoing decrease in market prices (see section 6 to the report regarding the financial markets crisis), there has also been a similar decrease in Kardan NV's adjusted holdings worth ratio plus gross cash to debt ratio (as of the date of this report, after adjusting for the fluidity of the portfolio and current maturities, the ratio is approximately 3.5). Kardan NV and its held companies have cash reserves and lienable assets which allow them to obtain financing. Kardan NV believes that its business position and its financial strength will not be negatively affected.

- [B] In July, 2007, Kardan NV allocated to institutional Israeli investors, in a private allocation through the broadening of the series, a nominal value of 350 million NIS in Kardan NV's bonds (Series A), in exchange for a total sum of 357 million NIS (about 60 million Euro). The additional bonds were issued at a 1.01% discount, and the weighted discount for all bonds (Series A) is 0.287%.
- [C] After raising the bonds , as detailed in sections 15.3[A] and 15.3[B] and in order to receive its payments to Kardan NV's cash flow sources in Euro at a nominal value, Kardan NV entered into hedge agreements with four different Israeli banks, according to which starting from the day of the transaction, the banks will pay Kardan NV the index-linked cash flow in NIS required to repay the bonds and Kardan NV will pay the banks an analogous cash flow in Euro at permanent interest rates that range between a rate of 5.38% and 5.64%.

15.4 Guarantees

Kardan NV has provided its subsidiary and associated companies with securities for various loans. The balance of these securities, as of December 31, 2007 and as of the date of the report totals approximately 36.1 million Euro and about 94.4 million Euro, respectively.

Following are the details for the securities provided as mentioned by Kardan NV:

- 15.4.1 Kardan NV is liable for all of Kardan Israel's obligations to its institutional investors for which it issues bonds as detailed in note (3) in Kardan Israel's bond table – see section 7.10.4 for the report. The balance of this security, as of December 31, 2007, totaled approximately 19.5 million Euro.
- 15.4.2 Kardan NV is liable to Tami for a loan, provided by the Bank of Israel, and the balance of this security as of December 31, 2007 and the financial report totaled about 3 million Euro a year.
- 15.4.3 Kardan NV provided Tami with a security to the amount of 0.9 million Euro for Tahal's holding in Via Maris Desalination Ltd (as specified in section 10.17.4 of the report). This guarantee is a counter guarantee for the performance guarantee that Tahal provided for Bank Hapoalim Ltd.
- 15.4.4 Kardan NV provided the Bank of Israel with collateral for Kardan Israel's debt to the bank, whose balance as of December 31, 2007, totaled approximately 0.2 million Euro. In February, 2008, post-balance, Kardan Israel repaid its loan, and the guarantee expired.
- 15.4.5 Kardan NV provided an Italian bank with collateral securing Foodyard Holding AD's, a company indirectly held by Tahal Assets, debt to the bank. The security balance as of December 31, 2007 totaled approximately 12.5million Euro.
- 15.4.6 Post-balance, Kardan NV provided a bank guarantee amounting to 50 million Euro as collateral for a credit framework amounting to 175 million Euro, allocated by Israel Discount Bank Ltd., to KFS. This guarantee may be utilized only if it is not possible to enforce the Put option granted KFS under the shareholders agreement with TBIH (as detailed under section 9.15.1[B] to the report). In addition, it was determined that Israel Discount Bank Ltd., would provide KFS with an additional credit framework amounting up to 50 million Euro for a period of 11 years against Kardan NV's guarantee at an amount of EUR 50 million. The second credit framework was not provided as yet; therefore, Kardan NV did not yet provide an additional guarantee. See detail in section 9.5.1[D] herein. Kardan NV also undertook an obligation to the Israel Discount Bank to hold at least 51% of the instruments of control in KFS free of all liens, and to effect that Kardan NV's obligation will be rated by Maalot or Midrug Credit Rating Company Limited ("**Midrug**"). In addition, so long as Kardan NV's guarantee for the loan is valid, the following events would constitute default events under the loan agreement: should Kardan NV's equity depreciate below 270 million Euro or 7% of its assets; should, for a period exceeding 21 days,

Kardan NV's security be rated BB+ or less by Maalot or Bal or less by Midrug, or if Kardan NV cease being obligated to issue reports as per Israeli securities laws.

15.4.7 Post-balance, Kardan NV provided the bank with a guarantee to the amount of approximately 91 million RMB (about 8.5 million Euro), as collateral for a subsidiary of Kardan Water International Group Ltd., a held company, which deals in infrastructure – assets and investments (see section 10.10.2[B]).

15.5 Finances Provided After Balance Sheet Date

[A] In 2006, under a credit agreement signed with an Israeli bank (in this section: "**the Bank**"), Kardan NV provided a lien to the bank on a portion of KFS' shares (which constituted 55% of KFS' capital, and which following an internal purchase as part of the re-organization process described under section 9.5.1[C] to the report, increased to a portion of 63%). Under this lien, Kardan NV undertook, inter alia, not to allow the dilution of its holdings in KFS, not to allow KFS' holdings in TBIH to fall below 51%, and not to approve any decisions in the general assembly of KFS' shareholders, which, to the bank's opinion, may negatively affect KFS' value, without approval from the bank. In addition, under the loan documents, Kardan NV undertook to the bank as follows: to keep a capital to debt ratio (company) of 26%; that its equity would not fall below 98 million dollars; not to lien TBIH's shares in order to obtain additional loans, except: (1) 25 million dollars (2) for financing an increase in its holdings in TBH beyond its holdings at the date of the agreement (75%), under certain conditions.

Under the approval of KFS' re-organization (detailed under section 9.5.1[C] to the report) by the bank, the bank agreed to change some of the aforementioned stipulations, and Kardan NV undertook towards the bank, following the re-organization: to cause KFS to maintain at least a 51% holding in TBIF free of all liens; to cause KFS to keep at least a 35% or 30% in TBIF under mutual control; and that the sum of KFS' loans not exceed 100 million dollars.

Under the transaction made with the Israel Discount Bank Ltd. in December of 2007 (as detailed under section 9.5.1[D] to the report), the bank approved the removal of the lien on part of KFS' shares, in such a manner that the portion of the shares to which the bank has lien amounts, as of the date of this report, to approximately 29%. It was also agreed that the bank's approval would not be required for additional capital allocations in KFS.

In addition, Kardan NV undertook towards the bank: to keep a capital to debt ratio (company) of 28%; that its equity would not fall below 180 million dollars; to continue to keep at least a 51% holding in KFS free of all liens; to cause KFS to keep at least a 45% holding in TBIF's capital and 50.01% in voting rights free

of all liens; that the sum of KFS' loans not exceed 300 million Euro, not including loans from Kardan NV, and below a total of 359 million Euro.

In March of 2008, the agreement with the bank was amended in such a way that Kardan NV was provided with an additional loan to the amount of approximately 14 million Euro. The principal of the loan is to be repaid in five equal payments on February 21st of each of the years 1009 through 2013, and the interest is to be repaid quarterly starting from the date that the loan was extended, and until full repayment is made in 2013. The loan was provided in Euro, and it bears an annual interest of Libor+1.43%. The agreement states, that the interest rate is to increase should Kardan NV's bond (series A) rating, as determined by Maalot, fall below an A rating. The loan is guaranteed by lien and securities as detailed above.

- [B] In March, 2008, Kardan NV engaged in a contract with the Bank of Israel in an agreement, whereby Kardan NV was provided with a loan for a six-month period, to the amount of approximately 10 million Euro. The loan is in Euro, and bears an annual interest rate of Libor+1.4%. Under the loan agreement, Kardan NV undertook to keep a minimum equity level of 115 million Euro, and also undertook to maintain a capital to balance ratio (company) of 30%. In addition, Kardan NV undertook that should a lien be given on shares to bond holders (series A) (as detailed under section 15.3 to the report), a lien would be given on marketable shares to the bank, to the amount of 125% of the debt balance. As of the date of this report, Kardan NV has fulfilled all its financial obligations.

16 **Taxation**

For details on taxation please see note 31 to the financial statements.

Following are additional details regarding the taxation on Kardan NV:

16.1 **Taxation in Holland**

The corporation tax in Holland applies to the global income (from any source) of a company residing in Holland, at a rate of 20% for taxable income of up to 25,000 Euro and 23.5% of the taxable income above this amount and up to an amount of EUR 60,000 and a rate of 25.5% on taxable income exceeding EUR 60,000, subject to certain permanent exemptions in Dutch tax law. One of these is the “**Participation Exemption.**” In accordance with the Participation Exemption, a Dutch company that meets certain terms may benefit from a tax exemption on its income from dividend and capital gains that stem from shares it holds in another company (“**Held Company**”). Participation Exemption terms changed since 2007. Starting in 2007, a Participation Exemption applies on any holding of 5% or more of the Held Company shares. Nevertheless, holdings in passive companies (companies where over 50% of their fair value is derived from held

securities) subject to effective tax at a rate lower than 10% (to be calculated in accordance with Dutch taxation laws) will not grant eligibility for a Participation Exemption. The exception to the rule is holdings at a rate of 5% or more in companies where at least 90% of their income (integrated) is on real estate properties. Holdings in such companies will enjoy a Participation Exemption even if the Held Companies are classified as passive companies subject to an effective tax rate lower than 10%.

Kardan NV estimates that as of the report, it is eligible for the exemption.

16.2 Taxation in Israel

Kardan NV is a Dutch company, and thus, in accordance with the directives of the 1961 Tax Ordinance (New Version) (“**The Ordinance**”), and the directives of the pact between Israel and Holland regarding the prevention of multiple taxes and prevention of tax evasion regarding income tax (“**The Pact**”), Kardan NV will be obligated to pay Israeli tax only on income earned or developed in Israel for capital gains from realizing real estate properties in Israel or rights in property association in Israel and likewise, on capital gains from selling movable goods that serve part of the Kardan NV’s permanent institutional assets in Israel.

Kardan NV was issued a final tax assessment for 2003 (the year it was founded). Kardan NV filed an objection to this assessment. For more information, see note 31 to the financial statements.

16.3 Taxation on Companied Held by Kardan NV

Kardan NV Group is required to pay tax on taxable profits of every company, according to the local tax regulations at each and every country where member companies of Kardan NV Group are incorporated. Tax liability of foreign companies holding real estate is, inter alia, due to profit from sale of property, or alternately, due to rent proceeds less expenses incurred directly from the property, including interest expenses paid for loans taken to purchase the property, property maintenance and management expenses, and allowed depreciation, less part of the property cost (the rate varies from one property to another), all according to the local tax regulations at the country at which the real estate holding company is incorporated. Tax rates paid on income vary from one country to another and range from 10% to 25% as of the date of this report. In some countries, VAT implications may also apply to companies’ transactions.

Below is a table specifying the general taxation principles in the different tax areas in countries in which Kardan NV Group’s main companies operate:

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For Company Incorporated in Holland or Luxembourg	Thin Financing Laws	Capital Gain Tax Rate	“Transfer” Tax	Other Taxes
Poland	19%	On commercial structures at rates of 1.5%-10% calculated according to direct tax method. A 25% depreciation will apply in most cases.	20%	5% according to pact with Holland and 10% according to pact with Luxembourg (except for a few exceptions)	Debt-to-capital ratio of 3:1 must be maintained in the event of a loan from shareholder holding over 25% of company shares or from a company held by the said shareholder	On sale of real estate – 19%. Dutch and Luxembourgian companies that sell shares in Polish company are exempt.	If VAT is not applied to a transaction, a transfer tax will apply at a rate of 2%. The transfer of taxed shares at a rate of 1%. In other cases, only Vat at a rate of 22% will apply.	Annual property tax on structures and real estate owned and/or leased from the state or local authorities, ¹⁶² paid monthly, changes in accordance with the real estate usage. The tax amount is set by the Polish authorities every year as a maximum amount in square meters. Property tax is defined as an expense for purposes of calculating the tax on companies.
Romania	16%	Provided between 8-60 years.	16%. A reduced 10% rate will apply if the European Directive applies. (As of 2011 the exemption applies provided that the European Directive applies)	Dutch company – exempt (except several exceptions). Luxembourg company – 10% (except for a number of exceptions).	Debt-to-capital ratio of 3:1 should be maintained	16%. In principle, Dutch and Luxembourg companies that sell shares in a Romanian company are exempt.	Applied tax is 1%-4%.	Local annual tax for building owners, at a rate of 0.5%-1.5% of the property value on the books. Land tax is applied in accordance with the property type and location. VAT liability may apply on various real estate transfers, from 2008.
Hungary	16% plus solidarity tax at a rate of 4% was added.	At rates of 2%-6%. Leased commercial structure is eligible for 5% reduction.	0%	Exempt	Debt-to-capital ratios should generally be maintained at a 3:1 ratio.	On real estate sales by Hungarian resident – 16% plus a solidarity tax at a rate of 4% Dutch and Luxembourg companies that sell shares in Hungarian companies are exempt.	As a rule, transfer tax is at a rate of 10%, although in certain cases there are reduced tax rates between 2%-6% and exemptions may be granted under certain conditions.	Local tax on structures/real estate that may reach a rate of 2% and property tax derived from the property value, dependent on number of factors including location. Additional taxes in insignificant rates may be imposed.

¹⁶² On yielding properties, annual property tax is collected from renters.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For Company Incorporated in Holland or Luxembourg	Thin Financing Laws	Capital Gain Tax Rate	“Transfer” Tax	Other Taxes
Serbia	10%	At a rate of 2.5%.	20%	Holland – exempt. Luxembourg – 20%.	Restriction on finance expenses allowed according to set formula in Serbian law.	10%. Tax is applied on shares transfer at a rate of 0.3%. In principle, a Dutch or Luxemburg based company selling shares in a Serbian company are tax exempt in Serbia, provided that shares were sold to a Serbian citizen. Tax may be withheld in Serbia at a rate of 20%.	5% calculated according to appraisal of value for tax purposes. As of July, 2007, tax rate decreased to 25%.	Annual property tax at a rate of 0.4% - 2% of the property value.
Croatia	20%	5%-10%	15%	Luxembourg – 15% Netherland – 0%.	Debt-to-capital ratio of 4:1.	20% In principle, a Dutch or Luxemburg based company selling shares in a Croatian company are exempt.	Tax on real estate transfer at a rate of 5%.	Additional taxes in insignificant rates may be imposed.

State	Companies Tax Rate	Allowed Reduction on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest – For Company Incorporated in Holland or Luxembourg	Thin Financing Laws	Capital Gain Tax Rate	“Transfer” Tax	Other Taxes
Bulgaria	10%.	4%	10%	Luxembourg – 10%. Netherland – Exempt. Note that the reduced tax rates according to pact do not apply automatically and certain reporting requirements, varying according to paid interest amount must be fulfilled..	Dept-to-Capital ratio of 3:1 should be maintained. Starting on 2008, financing expenses, capitalized according to IFRS standard No. 23 will be excluded from financing expenses calculations for conformance with thin financing laws.	10%. In principle, Dutch and Luxembourg based companies, selling shares in a Bulgarian company are exempt.	2% tax on real estate transfer (RETT) and 0.1% tax on property registration. The aforesaid taxes are applied to the higher between the agreed sales price according to contract and the property value for tax purposes. As of 2008, RETT rate will range from 2%-4%, determined according to property location,	Municipal annual real estate tax at a rate of 0.15% of its value on the books (as of 2008, rate will range from 0.3% to 0.15% and determined according to property location). In addition, a municipal garbage-removal tax (at a rate that changes annually) in accordance with relevant area.
Slovakia	19%	Across 20 years in a direct or accelerated line, according to choice.	0%-19%, dependent on meeting European Directive terms	Exempt	None. Thin financing laws will apply from 2008, if the average loans amount exceeds some EUR 3 million. Effective debt to capital ratio in this case will be 6:1.	19%. Dutch and Luxembourg based companies, selling shares in a Luxembourg based company are exempt.	None	Property tax on land and structures. Tax rate changes according to property location and size. Additional taxes, at insignificant rates may be imposed.

State	Companies Tax Rate	Allowed Depreciation on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest - For Company Incorporated in Holland or Luxembourg	Thin Financing Laws	Capital Gain Tax Rate	“Transfer” Tax	Other Taxes
Ukraine	25%	Permanent percentage method from remainder devalued at a rate of 2% per quarter.	15% (except a few exceptions)	Luxembourg – 15% Netherlands – 10%.	There are no thin financing laws but there are certain restrictions on financing expenses when the Ukrainian company has above 50% foreign expenses.	25% In principle, Dutch and Luxembourg based companies, selling shares in a Ukrainian company are exempt. Tax liability may be incurred if the sale is made to an Ukrainian citizen.	Tax at a rate of 1% on transfer of real estate.	Additional taxes, at insignificant rates may be imposed.
Germany	Companies Tax – 25% + surcharge at a rate of 5.5% of Companies Tax, totaling tax rate in Germany to 26.375%. Moreover, there is a municipal trade tax that applies to the taxable income of companies and institutions. This tax is at a rate of 13%-20.5%, in accordance with the area of operation, and can be deducted upon determination of taxable income for purposes of calculating companies tax (taxed capital gains as regular income obligated by companies tax). As of 2008, company tax is reduced to 15%, reducing	Depreciation of buildings is at a rate of 2%-3%.	Generally, interest on inter-companies loans is tax exempt, except certain cases (e.g., when a bank is involved in the loan or various loan types, e.g. loan convertible to shares or a loan that participates in the profits, etc.) where withheld tax applies at rates of 25% - 35%.	Luxembourg - exempt. Netherlands - exempt unless it is a loan convertible into shares or a loan that participates in profits, where withheld tax rate on interest is 15%.	Debt-to-capital ratio of 1.5:1 should be maintained. According to thin financing tax reform in Germany, as of 2008, a reporting unit with net financing expenses exceeding EUR 1 million is allowed to 30% of the Tax EBITDA of that unit. Certain relief is possible if the foreign financing rate in the group is higher than its rate in the reporting unit.	Taxed as a regular income – companies tax. Usually, a German company (or even a non-German company under certain terms) selling shares in a German company is liable to Capital gain tax at 5% of the gain. In principle, Dutch and Luxembourg based companies, selling shares in a German company are exempt.	3.5% of sales value on properties (4.5% rate in Berlin). Also applies to sale of 95% at least of shares of a company whose chief assets are real estate and then 3.5% of real estate value is applied in accordance with internal German legislation, which is usually lower than the property market value.	Property tax – applied at varying rates in different areas (0.5%-1.5%).

	the total companies tax to 15.825%. Trade tax rate is also reduced from an average rate of about 16% to an average of about 14%. Thus, total tax rate is reduced from about 39% to 30%.							
Switzerland	13%-30%, depending on the relevant canton in which the operation is performed. As of 2008, tax rate will decrease to about 12% - 25%.	Commercial structures: 1.5%-2% in a direct line, 3%-4% through reduced balance method. Industrial structures: 3.5%-4% in direct line, 7%-8% through reduced balance method.	0% (except interest on loans from banks and negotiable bonds).	0% (except interest on loans from banks and negotiable bonds).	Debt-to-capital ratio calculated according to specific rate for any kind of property separately. In some of the cantons, debt-to-capital ratio for a debt of 1:6 must be maintained.	Taxed as regular business income-companies law. In principle, Dutch and Luxemburg based companies, selling shares in a Swiss company are exempt.	Transfer tax applied at varying rates in different cantons.	Tax on real estate applied at different rate for different cantons. Additional taxes, at insignificant rates may be imposed in different cantons.

State	Companies Tax Rate	Allowed Depreciation on Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest - For Company Incorporated in Holland or Luxembourg	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
China	33% (33% national companies law + 3% local companies law) As of January 1, 2008, companies tax rate decreased to 25%. A reduced rate of 15% will apply should the company be located in a special economic area. Parallel transition instructions may be applied to companies located in these regions, over a period of 5 years.	Deduction over 20 years (unless classified as tradable shares)	10%. In addition, there may be a business tax applied (BT) at a rate of 5% on payment of interest for foreign resident.	10%. In addition, there may be a business tax (BT) at a rate of 5% on payment of interest.	The necessary debt-to-capital ratio is dependent on the total investment amount (investment in capital and shareholder's loans) as specified below: 0 to 3 million dollars – required because 70% of total investment is capital; 3 million dollars and up – required because 50% of total investment but no less than 2.1 million dollars will be in capital. In addition to aforesaid restrictions, additional restrictions may apply on real estate companies in foreign investments (RE FIE) on the taking out of loans. Required, inter alia: (a) the issued capital will be repaid in full; (b) a license for use of real estate; (c) at least 35% of project financed through investment in capital. As of 2008, shareholders loan to a regular company is subject to thin financing restrictions in China, which were not published as yet. There is also a small chance that shareholders loans will be approved, unless	Similar to companies law. Tax pacts between China and Luxemburg and the Netherlands do not grant any benefit.	At time of sales of real estate, BT may apply at a rate of 5%. The buyer will be applied a property tax at a rate of 3%-5% (in accordance with the nature of property and location) In addition, a stamp tax will apply at a rate of 0.03%-0.05% for the agreement. A land appreciation tax may also apply at a rate of 30%-60% to the sale of real estate.	Property tax at a rate of 0.05% and a municipal real estate tax at a rate of 1.2% applied on 70%-100% of the cost of property, or municipal real estate tax at a rate of 18% (12% if real estate is owned by local entity) on the value of annual leasing fees leased to an entity in foreign investments. As of 2007, land usage tax ranging from RMB 0.6 (Chinese currency) to RMB 30 per one square meter is applied to companies with foreign investments.

					granted before June 1, 2007.			
Russia	Federal tax rate is 6.5%. Local area tax rate ranges between 13.5%-17.5%.	Reduction in the direct-line method. According to tax regulations, the number of years in which there is a reduction on commercial structures is at least 30 years.	20%	0%	Restrictions apply to tax deduction on loans and loaners that meet the criteria specified by law.	Identical to companies tax rate. In principle, Dutch and Luxemburg based companies, selling shares in a Russian company are exempt.	No transfer tax.	Russian property tax applied to average value of property on the books, at a maximum rate of 2.2% (sometimes reduced to 2% in different areas).

State	Companies Tax Rate	Allowed Depreciation on Deduction of Commercial Structures	Withholding Tax on Interest - General	Withholding Tax on Interest - For Company Incorporated in Holland or Luxembourg	Thin Financing Laws	Capital Gain Tax Rate	"Transfer" Tax	Other Taxes
Israel	29% (the companies tax rate is expected to fall gradually to 25% until 2010 in the following manner: For 2008 fiscal year – 27%; for 2009 fiscal year – 26%; for 2010 fiscal year and so forth – 25%).	4%	Companies law (29% in 2007 but expected to fall gradually to 25% until 2010).	15% according to pact with Holland. 10% according to pact with Luxembourg.	None	Between 25% of companies tax rate (29% for 2007 expected to fall gradually to 25% until 2010). Dutch companies that sell shares in Israeli company are exempt from tax, except if it is a sale of shares in property association.	Sales tax at a rate of 2.5% will apply on sale of real estate assets whose purchase date is before effective date (November 7, 2001).	Municipal tax will apply in accordance with property type and location.
Turkey	20%	50 years	10%. Tax rate of 0% applies to international companies, foreign companies and foreign banks.	15% reduced tax rate of 10% applies on loans of over two years.	Debt-to-capital ratio of 3:1 (ratio of 1:6 will be possible regarding debts from relevant banks).	32% effective (20% + 15% of 80%). In principle, Dutch and Luxemburg based companies, selling shares in a Turkish company are exempt..	Land registration fees – 3%. When real estate is sold the buyer and seller are both obligated to pay a tax rate of 1.5%.	Municipal tax at a rate of 0.1%-0.3%.

16.4 Taxation of Kardan NV Group Companies Residing in Israel (also see above table)

Following an amendment to the Israeli Income Tax Ordinance, since 2005 there has been a gradual reduction in the companies tax rate in Israel from a rate of 35% to a rate of 25% as follows: 34% in 2005, 31% in 2006, 29% in 2007, 27% in 2008 and 25% from 2010 onwards.

Following the reforms to the Israeli Income Tax Ordinance, the majority of which went into effect on January 1, 2003, the "Foreign Controlled Company" legislation ("**FCC**" and "**FCC Legislation**", respectively) also went into effect at that date. A foreign company shall be considered an FCC if it meets all the following criteria: [1] Its shares or the rights in the company are not registered for trade on the stock exchange however, in cases where they have been registered in part and less than 30% of the shares or rights of the same group of people have been offered to the public; [2] The majority of its revenues or the majority of its profits are derived through passive income; [3] The applicable tax rate for said passive incomes does not exceed 20%; and [4] More than 50% of one or more of the instruments of control in the foreign company are held directly or indirectly by Israeli residents. Under the FCC legislation, an Israeli resident who is a controlling party in an FCC,¹⁵⁶ which has unpaid profits (as defined under the ordinance), shall be considered as having received as dividend his relative share in those profits, and accordingly, he shall be subject to taxation of the quarterly dividend income (while being credited for tax expected to be paid abroad on the divided dividend at such time as the profits are actually distributed).

Kardan NV's management does not expect the FCC legislation to have any significant impact on the taxability of the Israeli resident companies in the group.

Actual distribution of dividends from the foreign companies residing in Holland which are held by Kardan NV Israeli resident companies, shall be subject to withholding tax in Holland and taxation in Israel (in general 25%) while being credited for taxes withheld in Holland. Distribution of dividends from Israeli resident companies in Kardan NV to Kardan NV, shall be subject to withholding tax in Israel at a rate of 5% as provided under the treaty.

For more information regarding tax arrangements made by Kardan Israel and Kardan Real Estate see clarification section 7.11.6 to the report.

16.4.1 The tax rates applicable to the Kardan NV Group companies differ from the statutory tax rate (see clarification 31F to the financial reports). This difference is due mainly to tax-exempt profits or profits subject to reduced taxation.

16.4.2 For more information regarding losses accrued for tax by the Kardan NV Group companies, see clarification 31C to the financial statements.

¹⁵⁶ An Israeli resident holding 10% at least, directly or indirectly, alone or with others, of one of the instruments of control in a foreign company defined as a "Foreign Controlled Company".

16.4.3 Stamps on Documents Tax law - 1961 ("**Stamp Tax Law**"), applies to numerous types of agreements and documents at the rate of 0.4% - 1% of the value indicated in the agreement or the documents. According to a legal opinion submitted to Kardan NV group, it is most likely that Kardan NV and its material companies will not be liable to significant tax liabilities resulting directly from the amendment to the Stamp tax law, valid as of January 2003. The Stamp tax law was canceled, as of January 1, 2006.

17. Restrictions and Supervision of Kardan NV's Activities

17.1 Kardan NV is subject to Dutch law, including Dutch companies' laws and securities laws. In addition, Kardan NV is subject to the Securities Law and certain ordinances derived from that law, that apply to companies incorporated outside of Israel and traded on the Israeli stock exchange.

17.2 December 2004 saw the enactment of the law amending Book 2 of the Dutch Civil Code, regarding the adjustment of the corporate governance structure to the "Best Practice of Corporate Governance" Code submitted by the "Tabaksblat Committee" in December of 2003 ("**the Tabaksblat Code**"), applicable to companies incorporated in Holland, and which are traded on a reputable stock exchange in Holland and/or outside Holland. The statutory obligation under the Tabaksblat Code is of "adapt or explain" nature, meaning – traded companies can deviate from the best practice guidelines. The possibility of adopting all the Tabaksblat Code guidelines depends on the specific conditions of each company. However, the executive board of directors and the supervisory board of directors of traded companies are required to adopt the guidelines in their actions, which meets the requirements for corporate governance under the Tabaksblat Code. Also, traded companies are required to devote a chapter in their statutory annual report submitted in Holland ("**the Dutch Report**") for an in-depth description of their corporate governance structure, as well as to the manner of their compliance with the Tabaksblat Code, including failure to apply the best practice provision. Under Dutch law, Kardan NV was required to apply the provisions of the Tabaksblat Code as of the 2004 Dutch report.

After having considered the possibility of implementing the best practice provisions, Kardan NV, as of the date of this report, does not intend to change its statute, due to Kardan NV's belief that its statute, as of the date of this report, encompasses the substantial provisions which it intends to adopt. However, as a result of said consideration, Kardan NV formulated a recommendation regarding the best practices provisions which it intends to adopt and explanations for the non-implementation of the other provisions. Said recommendation was approved by the general assembly of Kardan NV's shareholders, which convened in May, 2005.

The substantial provisions adopted by Kardan NV include the following:

- [A] A member of Kardan NV's executive board of directors shall not also serve as a member of the supervisory board of directors in more than two traded companies, and shall not serve as chairman of the supervisory board of directors in a traded company. Membership in the supervisory board of directors in other companies in the group to which Kardan NV belongs shall not be included in this regard. Appointment of an executive director as a supervisory director in another traded company shall require the approval of Kardan NV's supervisory board of directors. An executive director shall inform Kardan NV's supervisory board of directors of any significant other position that he accepts.
- [B] Kardan NV shall review, develop and adopt provisions regarding risk management and control systems, and shall report on this process in the Dutch report.
- [C] In addition to the provisions in Kardan NV's statute regarding transactions with controlling parties, the guidelines detailed under the Tabaksblat Code were adopted regarding cases of conflict of interests between Kardan NV and one or more members of the supervisory or executive boards of directors.

Among other provisions, Kardan NV has decided not to adopt the following provisions:

- [A] Under the best practice provisions, the general assembly is entitled to prevent the appointment of an executive or supervisory director through a majority decision of the shareholders present during the vote, and it is possible to determine that such a majority must represent a certain portion of the company's issued capital, and that such portion shall not exceed one third. Kardan NV's statute states that such a decision must be made by a majority of two thirds of the shareholders present during the vote, which hold more than one half of Kardan NV's issued capital.
- [B] Also, Kardan NV has not adopted the ban on appointing persons who have previously served as executive directors to the position of chairman of the supervisory board of directors, or to the position of chairman of the audit committee.
- [C] In addition, Kardan NV has not adopted the recommendation, whereby all directors in the supervisory board of directors, save one, must be independent directors (as defined under the Tabaksblat Code). Kardan NV believes, that it is not necessary to adopt this recommendation, based on the specific composition of its shareholders. Today, Kardan NV has five independent directors (as defined under the Tabaksblat Code) and two that are not independent.

- 17.3 In October 2007, an amendment to the Dutch law on tender offer became valid. Up to that date, buying the control over a public Dutch company, contrary to an Israeli company, did not require a tender offer. More over, up to the amendment date, a shareholder holding 95% at least of the shares in a limited Dutch company was entitled to open legal proceedings against the other shareholders, to cause these shareholders to transfer their shares to him, at a price and terms determined by the court, and on the other hand, the minority shareholders were entitled under certain circumstances to oblige the majority shareholder to purchase their shares at a price and terms determined by the court.

The main principles of the aforementioned amendment require a shareholder who buys directly and/or indirectly, together or separately, control means, namely over 30% of the voting rights in a public Dutch company traded in stock exchange in the European Union, to submit a tender offer for all the shares of the company which he does not hold. This obligation does not apply to a shareholder who held over 30% of the voting rights before the amendment became valid. The said amendment also secures the rights of a minority share holder to demand that a shareholder holding over 95% of the issued capital of the company will buy his shares from him, within three months from the response to the tender offer period. The amendment provides that the tender offer will be at a fair price, meaning, the high share rate in the year preceding the tender offer, paid for securities of the same type or category by the offering party. The offering party is also prevented from buying shares during one year from the tender offer submission date, at better terms than the terms offered in the tender offer. It should be noted that a control buyer will not be required to submit a tender offer if he disposed of the control within 30 days from control buying date, provided that he did not exercise the voting rights during the 30 days period.

There are several shareholders in Kardan NV, acting in coordination, who together held together over 30% of the voting rights in Kardan NV on the amendment enforcement date.

18. **Substantial Agreements**

- 18.1.1 Loan agreements with banks – see table in section 15.1 to the report.
- 18.1.2 Loan agreements with financial institutions in Israel – see table in section 15.1 to the report.
- 18.1.3 Bonds issued to institutional investors – see section 15.1 to the report.

For descriptions of additional substantial agreements to which companies in the Kardan NV group are party, see the substantial agreements sections in the chapters outlining Kardan NV's activities.

19. **Legal Proceedings**

For information regarding substantial legal proceedings see clarification 32A to the financial statements.

20. **Objectives and Corporate Strategy**

20.1 Kardan NV Group's strategy is to create value in the intermediate-long term, and its activities are based on the following principles:

- [A] Activities in markets and fields with significant growth potential.
- [B] Lean management level, combining entrepreneurial spirit with vast international business experience, capable of fast decision making.
- [C] Automatic management of the company's areas of business by a professional and experienced team supervised by Kardan NV Group's headquarters.
- [D] Partnership with leading individuals in Kardan NV Group in holding certain companies in the group.
- [E] Extensive cooperation, including partnerships, with large international entities and key local players.
- [F] Assimilation of international management standards in the group.

20.2 Most of the investments considered by Kardan NV meet the following criteria:

- [A] Significant growth potential.
- [B] Located in developing markets.
- [C] Kardan NV Group is to be the controlling party or one of the controlling partners.
- [D] Calculated risk levels reviewed after in-depth suitability checks.

20.3 **Kardan NV Group's Corporate Objectives**

International Activity

The past several years have been years of growth for Kardan NV Group. The group has transferred the bulk of its business from Israel to Central-Eastern Europe, and subsequently to Asia as well. Activities initiated by Kardan NV and developed gradually over the past decade have started to come to fruition, and express the company's strategy and entrepreneurial abilities.

The Kardan NV Group expects growth to continue, mainly in its international activities, the majority of which are located in developing countries experiencing growth, and the group intends to continue to be a part of that growth.

The Kardan NV Group's objectives are continued growth on two levels:

[A] Continued growth of the companies active in the various areas of activity.

[B] Expansion of activity in each area to additional countries and to additional areas of activity within the current areas.

The expected continuation in growth in international activities is forward-looking information, as defined in the Securities Act. based on expectations for continued growth in the economic markets in Central-Eastern Europe in general, and in those markets where Kardan NV operates in particular. These assessments may not to come to pass, in part or in their entirety, or to be realized in a manner different from that expected, including materially different than expected as a result of a deceleration or deterioration in the economic status of these markets, as well as due to the risk factors detailed under section 24 to this report.

Activities in Israel

[Kardan NV Group shall continue to develop its existing activities in Israel while keeping an eye on the condition of the local market. Also, Kardan NV Group shall continue to seek additional opportunities that may expand its investments in Israel.

For more information regarding the objectives and strategy in the various areas of activity, see the information in those chapters describing the company's areas of activity.

21. **Expected Developments for the Upcoming Year**

The Kardan NV Group is considering various options for implementing changes in its corporate structure, which would lead to the simplification of the group's holding structure, strengthen it financially, and provide it with a better ability to utilize the group's financial resources in its various fields of operation. Among other things, the group is considering the possibility of increasing Kardan NV's holdings in the real estate sector, including the possibility of consolidating GTC RE into Kardan NV.

Additionally, in 2008, Kardan NV Group shall continue to seek possibilities for expanding its business, while giving preference to significant investments within its existing areas of activity and in developing markets.

To this end, in 2007 Kardan NV and several of the material companies it holds, raised considerable financial resources, including, inter alia, Kardan NV negotiable bonds issued to institutional investors in Israel to a total amount of 840 million NIS (approximately 150 million Euros), negotiable GTC RE bonds (see section 8.5.14[A]

[5] herein), GTC Poland bonds (see section 8.5.14[B] [6] herein) and credit frameworks granted to KFS by Israel Discount Bank Ltd., (see section 9.5.1[D] herein).

For more information regarding expected developments for the upcoming year in the company's various areas of activity, see those chapters detailing the company's areas of activity.

22. **Events or Matters Exceeding Kardan NV's Ordinary Business**

In March, 2004, Kardan NV was notified by Messrs. Yossef Greenfeld and Eitan Rechter, who are among the controlling shareholders in Kardan NV and serve as functionaries in Kardan Israel regarding the filing of indictments against them for offenses under the Securities Law. Messrs. Greenfeld and Rechter were acquitted of all charges against them by the Magistrate's Court on February 28, 2008..

23. **Information Regarding Post-Balance Sheet Events**

For information regarding post-balance sheet events, see section B to the board of directors' report.

24. **Discussion of Risk Factors**

Kardan NV's activities are characterized by the following risk factors:

Macro Risks

- 24.1 **Investment in developing markets** – Kardan NV makes a significant portion of its investments in developing and unstable markets. This type of investments entails a high level of risk. Such investments expose Kardan NV to risks due to unexpected changes that may occur in these markets, such as political, state, regulatory, legal and economic changes.

Kardan NV's success in developing markets depends on the continuing development of those markets, the continuing development of the real estate sector, the development of financial services and infrastructure. A decrease in the level of development of those markets might have a detrimental effect on Kardan NV's business. In addition, it should be noted that the official information published in developing countries is not always credible or full. Reliance on such information constitutes a risk factor.

- 24.2 **Investments in markets characterized by political instability** – The markets where Kardan NV operates are characterized by political instability. Occasionally, ethnic and religious differences between the various populations constituting the society in those countries where Kardan NV operates have ignited hostilities, some of which have lasted for long periods of time. This type of instability influences the economies of those countries where Kardan NV operates.

- 24.3 The economic environment and the economic status in Central-Eastern Europe, China and India – Kardan NV Group has significant activity in Central-Eastern Europe, especially in the fields of real estate, financial services and infrastructure, and in China the group is active in the real estate sector. Kardan NV Group continues to divert managerial and financial resources to investments in Central-Eastern Europe, in light of the economic growth experienced in this region in the past several years, and out of the belief that the closing of gaps, economic and otherwise, between Eastern and Western Europe is expected to continue, and also to investments in China, which experiences accelerated growth in recent years and it intends to direct such resources to investments in the real estate field in India, which is a large developing market, capable of creating long term value. A change in these trends in central-eastern Europe, China and India may adversely impact Kardan NV Group's operations.
- 24.4 The judiciary systems in countries where the company is active – the weakness of the judiciary and enforcement systems in those countries where Kardan NV operates and the complexity of the various methods constitute a risk to the company's activities. In some of those countries where Kardan NV is active, the legal systems are immature and still adapting to economic developments. In this regard, Kardan NV is exposed to contradictions between local and federal laws, government and judiciary corruption, high levels of discretion granted to government authorities, and so forth. Some of the laws common in those countries where Kardan NV operates are new laws whose actual application has not yet been determined. All these serve to create an atmosphere of legal ambiguity.
- 24.5 **Risks in Operation in Israel** - The Israeli economy experienced a slow-down in recent years. A material share of Kardan NV Group's operations is conducted in Israel, especially in the fields of real estate, consumer goods marketing and investments in communication and technology. This activity is affected by the condition of the Israeli economy and by the security and political situation in Israel and in the Middle East. Any deterioration in the economical condition in Israel, for any reason, will have an adverse effect on Kardan NV Group, inter alia due to the effect on the willingness of foreign parties to enter business relations with Israeli companies, like companies held by Kardan NV. Moreover, political and security instability may have an adverse impact on the operations of Kardan NV Group in Israel.
- 24.6 **The financial markets** crisis - The crisis in the financial markets may have various economical implications, including the global credit market, as detailed in section 6 herein. Shocks in these markets may have an adverse impact on the results of Kardan NV Group, its assets value, assets realization ability, state of business and its ability to raise funding, and also affect funding terms. Since it is impossible to forecast expected developments in these markets, it is too early to evaluate, at this stage, the implications for Kardan NV Group.

Sector Risks

- 24.7 Taxation Exposure – Taxation planning and calculation of Kardan NV Group's tax obligations involve the interpretation and application of laws and tax treaties on various different judiciary fields. Kardan NV Group carries out transactions in different countries, mostly through investments in local companies. Accordingly, the group's activities are subject to the taxation laws common in the various different countries, and calculation of the group's tax obligations involve the interpretation and application of the laws and tax treaties in those countries. Kardan NV Group evaluated its tax obligations based on its understanding of the application of such laws and treaties. However, the tax authorities may interpret or apply such relevant laws and treaties in such manner as to create additional tax obligations.
- 24.8 Dependence on external financing – Kardan NV and some of its subsidiary companies (Kardan Israel, GTC RE, KFS, TBIH, TBIF and more) act as holding companies, which, for the development of their business and in order to return loans taken in the past, depend on external financing. In order to finance their continued expansion, Kardan NV and the subsidiaries are liable to require additional financing, through the raising of external capital and/or through the realization of assets. It should be noted that Kardan NV and some of its subsidiaries, have undertaken many loans, which they may be required to renew. In light of the fact that the companies held by the Kardan NV Group do not yield such a cash flow as to allow them to return the full scope of their debts, the future financing ability of Kardan NV and its subsidiaries depends in part on their ability to obtain external financing in the future.
- 24.9 Changes in exchange rates – Changes in the exchange rates of the various different currencies in which the group carries out its business may affect Kardan NV's financial status. Kardan NV Group's business (as well as its liabilities) are carried out in various different currencies, including U.S. dollars, Euro, Yen, New Israeli Shekels, and the currencies of countries in Central and Eastern Europe, and China. In some cases, Kardan NV Group carries out hedging transactions so as to minimize the effects of fluctuations in exchange rates on its business. However, fluctuations in the exchange rates of the various currencies in which the group conducts its business may influence the group's financial standing and its business results.
- 24.10 Fluctuations in the share prices of held companies – Fluctuations in the share prices of held companies in Kardan NV Group, which are traded on the various stock exchanges, may affect Kardan NV Group. A significant portion of the group's assets are holdings in tradable shares on stock exchanges in various different countries. A significant reduction in the market value of these companies could occur due to many reasons, including weakness in the local or global capital markets and changes in exchange rates, and such a reduction may impact Kardan NV Group's value, require the group to repay liabilities contingent on the meeting of various financial criteria

(dependent on the market value of the held companies), and to hinder Kardan NV Group in the raising of capital and loans.

- 24.11 Fluctuations in interest and inflation rates – Fluctuations in interest rates and in the inflation rate may affect Kardan NV Group's business results. As the group holds significant loans with variable interest rates and/or interest rates linked to the rate of inflation in Israel, and future changes in these rates may impact the group's business results. Also, a significant rise in the interest rates may hinder future business development for Kardan NV Group, which relies, among other things, on obtaining loans.

Unique Risks

- 24.12 Dependency on key personnel – Kardan NV Group's activities are managed by a small group of skilled managers, experienced in those markets in which Kardan NV operates. Therefore, Kardan NV depends on the services provided by a small group of managers and consultants. Even though the group has adopted an incentive-based rewards policy, which is designed to minimize drop-out of management personnel, such departure could detrimentally affect the group and its business results. In addition, in Central and Eastern European countries there is a lack of experienced managers. Therefore, Kardan NV Group may find it difficult to recruit suitable managers, both for the expansion of its activities, as well as for replacing resigning managers.
- 24.13 Vulnerability to legal proceedings – Kardan NV Group is involved in legal proceedings, the resolution of which may have a negative impact on the group. Although Kardan NV Group does not expect these legal proceedings to end with significant liabilities, a negative outcome could have a negative effect on the group's business results or its financial standing.
- 24.14 Dependency on third parties – Kardan NV Group may depend on the consent of third party shareholders in those companies in which it invests for the implementation of its corporate strategy. Some of the group's business is carried out through companies in which the group invests, and in which third parties hold partnership percentages. Also, the other shareholders in those companies in which Kardan NV invests hold contractual rights which grant them rights regarding many significant managerial decisions in these countries. Therefore, Kardan NV Group may depend on the consent of these shareholders for the implementation of its corporate strategy.
- 24.15 Vulnerability to the realization of sales options – Kardan NV Group has granted sales options to several minority shareholders in some of the companies in which it invests, to sell their shares to companies in the group under certain conditions. Also, under some of these agreements, Kardan NV Group may be required to purchase shares in those companies in which it invested. The realization of these sales options may encumber the group's cash flow.

- 24.16 Changes in control – Due to agreements with financing parties and through agreements with various different investors in several of the companies in Kardan NV Group, changes in control in the group may have various implications (including right for early repayment of loans, cancellation of fundamental agreements, shareholder rights to sell their shares to Kardan NV Group and/or shareholders' rights to purchase the group's shares in held companies, at a price lower than the market price) which may significantly affect the company's business.
- 24.17 Holding company – Kardan NV's financial data are influenced by the financial data and the business results of its held companies, as well as by realizations or acquisitions in those companies. Therefore, Kardan NV is affected by those factors influencing each of its areas of activity, and which are detailed under the chapters outlining the group's areas of activity. As a holding company, Kardan NV enjoys ongoing cash flow revenues from dividends, management fees and interest payments on loans granted by Kardan NV to companies in the group. In addition, from time to time Kardan NV and Kardan Israel raise loans or bonds for the financing of their activities, and realize shares in held companies. Kardan NV's ability to provide financial resources for the development of its business and to fulfill its obligations depends significantly on the ongoing cash flows provided by those companies which it holds and on its ability to raise loans and realize holdings. Therefore, negative business results by those companies held by Kardan NV will have a negative effect on Kardan NV's ability to develop its business and fulfill its obligations.
- 24.18 Environmental protection – Some of the companies held by Kardan NV are exposed to various requirements by environmental protection authorities. Changes in the policy of these authorities may have an effect on the profitability of these held companies, and thus on the profitability of Kardan NV.

Below is a table classifying, to the best of Kardan NV Group's belief, the abovementioned risk factors according to type and their level of influence over Kardan NV's activities:

Risk Factors	Level of Influence		
	High	Intermediate	Low
<u>Macro Risks</u>			
Investment in developing markets	X		
Investment in markets characterized by political instability	X		
General environment and economical condition in central-eastern Europe, China and India	X		
The judiciary system in countries of activity	X		
Risks through activity in Israel		X	
Crisis in Financial markets	X		
<u>Sector Risks</u>			
Taxation exposure		X	
Dependence on external financing		X	
Changes in exchange rates		X	
Fluctuations in share prices of held companies		X	
Fluctuations in interest and inflation rates		X	
<u>Unique Risks:</u>			
Dependence on key personnel		X	
Vulnerability to legal proceedings			X
Dependence on third parties		X	
Vulnerability to realization of sales options			X
Changes in control		X	
Holding Company		X	
Environment			X

See also reference to unique risk factors included in the description of Kardan NV's primary held companies detailed under the description of Kardan NV's areas of activity.