



# KARDAN N.V.

## KARDAN N.V.

*(a limited liability company incorporated under the laws of The Netherlands,  
with its corporate seat in Amsterdam)*

Kardan N.V. ("**Kardan**" or the "**Company**") is offering up to 31,072,066 ordinary shares in its capital with a par value of €0.20 each (the "**Shares**"), to holders of ordinary shares in the capital of GTC Real Estate N.V. ("**GTC RE**"), a Kardan Group Company (the "**Offering**"). Shares in the Company's capital are listed and traded on Euronext Amsterdam by NYSE Euronext the regulated market of Euronext N.V. ("**Euronext Amsterdam**") and on the Tel-Aviv Stock Exchange ("**TASE**").

The Offering will take place as part of a triangular merger, in which GTC RE will merge into the newly incorporated company GTC Real Estate Holding B.V. ("**GTC Holding**"), a 100 per cent. subsidiary of the Company, and the current shareholders of GTC RE (except for the Company and GTC RE) ("**Shareholders of GTC RE**") will become shareholders of Kardan (the "**Merger**"). Upon effectiveness of the Merger, each GTC RE share owned by Shareholders of GTC RE at the close of business of the day on which the Merger will be executed, which is expected to be on or about 15 December 2008 (the "**Effective Date**"), will be converted into 0.81 Shares.

Upon effectiveness of the Merger, Shareholders of GTC RE will automatically receive Shares in accordance with the Exchange Ratio and on the basis of their respective holdings at the Effective Date as entered in the relevant GTC RE shareholder register (*register van aandeelhouders*) or their respective securities accounts. Shareholders of GTC RE, whose shares are registered directly in GTC RE's shareholder register, will automatically receive Shares through an entry in the shareholder register of Kardan. Shareholders of GTC RE whose shares are registered indirectly, that is through a book-entry system, will automatically receive Shares through a credit to their respective securities accounts.

Application will be made for the admission to and the listing of the Shares on Euronext Amsterdam and TASE. The final day for trading in GTC RE shares on TASE is expected to be on the Effective Date. The first day of listing and trading of the Shares on TASE and on Euronext Amsterdam is expected to be on or about 17 December 2008, the second trading day after the Effective Date.

This document constitutes a prospectus for the purposes of Article 5(3) of Directive 2003/71/EC (the "**Prospectus Directive**") and has been prepared in accordance with Netherlands law. This prospectus (the "**Prospectus**") has been filed with and approved by the Netherlands Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*, the "**AFM**") on 24 November 2008.

Distribution of this Prospectus and the offer of the Shares may, in certain jurisdictions, be subject to specific regulations or restrictions. Persons and/or entities in possession of this Prospectus are urged to inform themselves of any such restrictions which may apply in their jurisdiction and to observe them. The Company disclaims all responsibility for any violation of such restrictions by any person.

Copies (in print) of the Prospectus can be obtained at no cost from ING, Van Heenvlietlaan 220, 1083 CN Amsterdam, The Netherlands, fax: +31 20 797 9607, e-mail: [iss.pas@mail.ing.nl](mailto:iss.pas@mail.ing.nl). Alternatively, this Prospectus can also be found in electronic form on the Company's website at [www.kardan.nl](http://www.kardan.nl), or through the website of the AFM at [www.afm.nl](http://www.afm.nl).

Prospectus dated 24 November 2008



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## SUMMARY

*This summary must be read as an introduction to the more detailed information appearing elsewhere in this Prospectus. Any investment decision should be based on a consideration of this Prospectus as a whole, including in particular the risks of investing in the Shares by way of voting in favour of the Merger as set out in "Risk Factors". This summary is not complete and does not contain all the information that you should consider in connection with any decision relating to the Shares.*

*No civil liability will attach to the Company in respect of this summary, including the summary of the Offering and the summary of selected financial data included herein, or any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a state within the European Economic Area, the plaintiff may, under the national legislation of the state where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

*In this Prospectus, any references to the Company or Kardan refer to Kardan N.V. and where relevant to one or more of the Kardan Group Companies.*

### General Information About the Company

The Company is an international investment company based in the Netherlands, listed on Euronext Amsterdam and TASE. The Company's business is developing, managing and realising the value of its investments and activities in the markets in which it is present. Focused on emerging markets mostly within Central Eastern Europe ("**CEE**"), the Commonwealth of Independent States ("**CIS**"), India and China, the Company is primarily active in three sectors: real estate, financial services and infrastructure. The Company's activities are divided into seven fields of operation including: real estate, financial services – lending and retail banking, financial services – insurance and pension, infrastructure – assets and infrastructure – projects. In addition, the Company is active in the automotive & consumer goods and communications and technologies sectors through its subsidiary Kardan Israel Ltd. ("**Kardan Israel**").

The Company's strategy is to create value in the medium to long term, and its activities are based on the following principles:

- activities in markets and fields with significant growth potential;
- lean management level, combining entrepreneurial spirit with vast international business experience, capable of fast decision making;
- autonomic management of the Company's areas of business by a professional and experienced team supervised by the Company's headquarters;
- alignment of interests with leading individuals in the Kardan Group, as these individuals hold shares and options in certain Kardan Group Companies; and
- extensive cooperation, including partnerships, with large international entities and key local players.

As at 30 June 2008,<sup>1</sup> the Company's total assets amounted to approximately €5.0 billion, with revenues of €329 million in the first half of 2008 and 16,948 employees working for Kardan Group Companies as at 30 June 2008.

#### *Real estate*

The Company operates in the real estate segment mainly through its holdings in GTC RE and all companies in which GTC RE has a direct or indirect interest (the "**GTC Group Companies**") and together with GTC RE, the "**GTC Group**"). The GTC Group is active in

<sup>1</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

CEE, Russia and Ukraine through Globe Trade Centre S.A. ("**GTC SA**"), China through GTC Real Estate China Ltd. ("**GTC China**"), India and Western Europe. The GTC Group operates in the field of location, initiation, and development of residential housing and sales of housing units as well as in the field of location, initiation, development, leasing and management of office buildings and commerce centres. The Company is active on the real estate market in Israel mainly through its subsidiary Kardan Real Estate Enterprise and Development Ltd. ("**Kardan RE**").

#### *Financial services*

The Company operates in the financial services sector through its 80 per cent. holding in Kardan Financial Services B.V. ("**KFS**"). KFS is a banking and insurance holding group, active in 11 countries in CEE and CIS with over thirty investments. KFS and all companies in which KFS holds a direct or indirect interest (the "**KFS Group Companies**" and together with KFS, the "**KFS Group**") has a loan portfolio of approximately €1.4 billion as of 30 June 2008, annual insurance premiums of €390 million, over 1.7 million members in its pension funds and assets under management of approximately €800 million as of 30 June 2008.<sup>2</sup> KFS is the holding company of TBIF Financial Services B.V. ("**TBIF**") and TBIH Financial Services Group N.V. ("**TBIH**"). The Company holds a direct stake of 80 per cent. in KFS, which in turn holds 90.38 per cent. and 40 per cent. in TBIF and TBIH respectively. TBIF is a retail financial services provider (banking, consumer finance, leasing, mortgages and asset management) active in Russia, Ukraine, Romania, Bulgaria and Slovakia. TBIH is a provider of insurance (life insurance and other insurances) and pension services in several CEE and CIS countries. TBIH is jointly controlled by Kardan and Wiener Städtische Versicherung AG Vienna Insurance Group ("**VIG**").

#### *Infrastructure*

The Company is active in the infrastructure business through its holding in Tahal Group International B.V. ("**Tahal**") and all companies in which Tahal has a direct or indirect interest ("**Tahal Group Companies**" and together with Tahal, the "**Tahal Group**"). The Tahal Group is a leading international engineering group specialised in water-related infrastructure projects and water-related asset ownership. The Tahal Group has participated in the planning, development, design, construction and management of thousands of projects in over 50 countries across five continents. The Tahal Group's advanced technical resources include a staff of around 1,600 employees including engineers and scientists in a wide variety of disciplines.

#### *Automotive & consumer goods*

The Company is active in the automotive & consumer goods sector in Israel through Kardan Israel and its group companies, Universal Motors Israel Ltd. ("**UMI**") and S.F.D.I. Ltd. ("**SFDI**"). UMI imports and markets vehicles made by General Motors and its related companies ("**GM Group**"). UMI also engages in other activities in the automotive industry.

SFDI engages in import and marketing of a range of electrical appliances. SFDI holds approximately 70 per cent. of Kardan Sahar Ltd., which imports and markets household electrical appliances (white goods and brown goods), mainly products of Bauknecht, Whirlpool and Sanyo and also 70 per cent. of ElectroDan Sahar Ltd., which imports and markets household electrical appliances under the brand name 'Bellers'.

#### *Communications & technologies*

The Company operates in the communications & technologies sector through Kardan Communications Ltd. ("**Kardan Communications**") and Kardan Technologies Ltd. ("**Kardan**

<sup>2</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

**Technologies**”). The Company focuses its investments on small and medium sized enterprises (“**SME**”) in the technologies sector, mainly in the fields of communications and media that have moved beyond the start-up stage and have strong growth potential.

Kardan Israel and all companies in which Kardan Israel has a direct or indirect interest (the “**KI Group Companies**”) are referred to as the “**KI Group**”.

### **The Offering**

As part of the Merger process, the Company is offering up to 31,072,066 newly issued Shares to Shareholders of GTC RE. The Shares are being offered in connection with the Merger. The Company will not issue fractions of Shares and therefore the number of Shares to be issued will be rounded down to whole numbers. To the extent Shareholders of GTC RE may be entitled to fractional Shares as a result of the application of the Exchange Ratio, the shareholders will be entitled to a payment in cash. The Offering is governed by Netherlands law.

The Offering is subject to the Merger becoming effective. If the Merger does not become effective, the Offering will automatically be withdrawn.

There will be no ‘proceeds’ in the Offering in the strict sense. The consequence of the Offering being successful is that Shareholders of GTC RE will cease to be shareholders of GTC RE and that they will become shareholders of the Company.

Admission to listing and trading of the Shares on Euronext Amsterdam is expected to occur on or about 09:00 am (CET) on 17 December 2008 or as soon as possible thereafter, barring unforeseen circumstances. Admission to listing and trading of the Shares on TASE is expected to occur on or about 09:45 am (Israeli time) on 17 December 2008 or as soon as possible thereafter, barring unforeseen circumstances. It is expected that delivery of the Shares will be made on or about 16 December 2008. ING Bank N.V. has been appointed by the Company to act as listing and paying agent for the listing of the Shares on Euronext Amsterdam.

To the extent required by applicable law any material alteration to information included in the Prospectus will be published in a supplement to this Prospectus which has been approved by the AFM. The Company will publish the availability of any supplement to the Prospectus in an advertisement in the *Officiële Prijscourant* (“**OPC**”) and a Dutch national daily newspaper. The results of the Offering will be published in a pricing statement. Any further information which the Company deems important to communicate and for which the Company is not required by the applicable law to publish a supplement to the Prospectus, will be communicated to investors through a press release or an advertisement.

### **The Merger**

The Merger is intended to create a larger holding company with a strengthened financial and equity position. The Merger is necessary to further increase the transparency of the Company and all companies in which Kardan holds a direct or indirect interest (the “**Kardan Group Companies**”) and together with the Company, the “**Kardan Group**”) and to create value for shareholders. For more information see “The Merger” chapter on page 38.

The Company, GTC Holding and GTC RE propose to merge GTC RE into the newly incorporated company GTC Holding, a 100 per cent. subsidiary of the Company, whereby at the same time the Shareholders of GTC RE will become shareholders of the Company, all as contemplated by the merger proposal dated 16 October 2008 (“**Merger Proposal**”) and the Explanatory Memoranda of the same date, which provide for the terms and conditions of the Merger. The Merger will be governed by the terms and conditions following from the applicable provisions of Netherlands law, the Merger Proposal and the Explanatory



Memoranda. Shareholders of the Company, GTC Holding and GTC RE will be asked to vote on the decision to merge as contemplated by the Merger Proposal and the Explanatory Memoranda at the extraordinary general meeting of shareholders of the Company, GTC Holding and GTC RE, respectively.

The Merger Proposal contains offers to holders of non-convertible debentures issued by GTC RE (“**GTC RE Non-Convertible Debentures**”) and convertible debentures issued by GTC RE (“**GTC RE Convertible Debentures**”). The Company offers to the holders of GTC RE Convertible Debentures, under the condition precedent of the Merger becoming effective, to exchange their GTC RE Convertible Debentures for New Kardan Convertible Debentures, on the terms and conditions as described in the Merger Proposal. The Company offers to the holders of GTC RE Non-Convertible Debentures, under the condition precedent of the Merger becoming effective, to exchange their GTC RE Non-Convertible Debentures for New Kardan Non-Convertible Debentures, on the terms and conditions as described in the Merger Proposal (see further “The Merger”).

## **Risk Factors**

Investors should carefully consider the matters discussed under the heading “Risk Factors” beginning on page 12. These risks include:

### *General*

- The Company is exposed to risks arising from unforeseen changes in developing and unstable markets in which the Company directs a large part of its investments
- A change in the positive trends in certain markets where the Company operates, could have an adverse effect on the operations of the Company
- Changing laws and regulations may influence the Company’s capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities
- The crisis in the financial markets and a slowdown in the world economy could have negative consequences for the results of the Company
- A significant decline in the value of shares which the Company holds could have an adverse effect on the Company and its ability to raise funds based on these shares
- The Company’s growth and continued operations depend on its ability to maintain sufficient funding
- Fluctuations in the exchange rates of the currencies in which the Company conducts its businesses could affect its financial situation and the results of its operations
- Fluctuations in interest rates and in inflation rates could affect the results of the Company
- Tax authorities’ interpretations of relevant laws and treaties could lead to additional tax liabilities for the Company
- The Company is dependent on certain key employees
- The Company may have difficulty managing its expanding operations
- Legal proceedings in which the Company is involved or may become involved in the future could adversely affect the Company
- The Company might be dependent on the consent of third-party shareholders in companies in which it invests
- The Company granted put options to a number of minority shareholders, the exercise of which could be a burden on the Company’s cash flow or may have a dilutive effect on the Company’s shareholdings

- A change of control in the Company could have a material impact on its business
- Negative business results of the Kardan Group Companies will have an adverse effect on the Company's ability to develop its business and defray its liabilities
- Some of the Company's businesses are exposed to various requirements of the authorities that oversee the preservation of the environment or may have environmental liabilities not revealed by environmental reviews, which could materially adversely affect the Company's businesses, financial condition, operational results or prospects
- The increasing number of Kardan Group Companies may lead to failure to accumulate relevant and reliable internal and external information and to assess whether adjustments to or disclosures in financial statements are required, which may result in inaccuracies in the financial reports

## **Risks Related to the Main Sectors of Operations of the Company**

### *Real estate sector*

- Some of the GTC Group's projects require large initial investments, which will only start generating income after a long period of time and are subject to certain risks, which could materially adversely affect the businesses, financial condition, operational results or prospects of the GTC Group
- The global financial crisis and a slowdown in the world economy could materially adversely affect the GTC Group
- A decreased demand for, or an increased supply of, office space and commercial space or a contraction of the market for residential or commercial real estate in case of an economic downturn in markets in which the GTC Group is active, could materially adversely affect the businesses, financial condition, operational results or prospects of the Company
- The GTC Group's tenants may not be able to pay rent and the GTC Group might not be able to collect rent on time
- The GTC Group may be exposed to various valuation risks
- Estimation of the fair value of the GTC Group's investment properties may not be correct
- A policy of restraint adopted by the central banks in countries in which the GTC Group operates may result in an increase of interest rates and a decline of demand for residential properties and of the value of projects
- The GTC Group could face development- and construction risks which may lead to damages and could adversely affect the GTC Group's reputation and results
- A lack of available land may limit the growth potential of the GTC Group's business
- The mortgage market for residences is not sufficiently developed in markets in which the GTC Group is active
- 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 GTC Group's results
- The GTC Group is exposed to specific risks associated with operating in the real estate markets in China and India

### *Financial services sector*

- Adverse market developments or deficiencies in underwriting may lead to a deteriorated portfolio quality and result in credit risk



- Insufficient access to capital may threaten the KFS Group's capacity to grow, execute its business model and generate future financial returns. Furthermore, the inability to meet increasing capital requirements may threaten the KFS Group's ability to support the growth of existing operations and pursue new acquisitions
- Increasing funding costs may affect the ability of the KFS Group businesses to grow at the desired speed, resulting in an inability to fully use the existing sales networks, which may negatively affect the KFS Group's financial results
- The global financial crisis may have a negative effect on the KFS Group's banking operations in Russia and Ukraine, putting additional strain on their liquidity position and preventing normal inter-bank operations. Stability of deposits remains subject to the market environment stabilising. The credit crunch may also have adverse effects on the KFS Group's non banking businesses in Bulgaria and Romania due to difficulties or inability to refinance liabilities to banks and bond holders
- The greater resources of the KFS Group's competitors may limit its ability to pursue future business opportunities
- Some of KFS Group's activities depend on its ability to obtain and maintain government licenses, any failure to obtain or maintain these licenses could have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group
- Insurance losses could exceed insurance reserves, which may have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group
- The frequency and the level of insurance claims are affected by uncontrollable external factors; changes in these factors could materially adversely affect the businesses, financial condition, operational results or prospects of the KFS Group.
- Reinsurance recoverables may be lower than estimated and may adversely and materially affect the KFS Group's financial results
- The net results of the insurance and pension businesses of the KFS Group are partly dependent on investment results, which may have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group
- The results of the pension business depend on reaching a critical number of members; failure by the KFS Group to reach such thresholds could materially adversely affect the businesses, financial condition, operational results or prospects of the KFS Group
- The KFS Group is dependent upon a number of its relationships with consumer retail outlets and car dealerships, deterioration in these relationships or an inability to develop such relationships in new markets, may affect the businesses, financial condition, operational results or prospects of the KFS Group
- Because of the absence of centralised credit information or the unreliable quality of such credit information, the KFS Group may not be able to accurately check creditworthiness of borrowers, which could lead to an increased credit risk exposure and affect the businesses, financial condition, operational results or prospects of the KFS Group
- Some activities of the KFS Group involve operating risks that are specific for insurance activities and which may materially adversely affect the businesses, financial condition, operational results or prospects of the KFS Group
- Success in the non-life insurance, life insurance and pension markets is conditioned, among other things, on an increase in the disposable income in the markets in which the KFS Group is active

### *Infrastructure sector*

- Infrastructure development and construction projects are subject to various execution risks
- The Tahal Group's business is substantially dependent on infrastructure development and construction projects undertaken by a limited number of government entities. The Tahal Group derives a significant proportion of its revenues from its contracts with such entities
- The Tahal Group's ability to negotiate standard form government contracts may be limited
- The Tahal Group's revenues from its construction and infrastructure businesses depend upon the award of new contracts and payment terms under such contracts
- Infrastructure development projects have substantial capital requirements and the Tahal Group may not be able to raise the required capital for such projects
- The Tahal Group has high working capital requirements. If the Tahal Group experiences insufficient cash flows to meet required payments on its debt and working capital requirements, this may have an adverse effect on the Tahal Group's financial condition and results of operations
- The Tahal Group's businesses face significant competition
- Delays in the completion of current contracts or complying with the contract schedules could adversely affect the Tahal Group's financial condition and results of operations
- On projects that may be awarded to the Tahal Group on the basis of joint venture partnerships or co-sponsorships, the Tahal Group may be jointly and severally liable for the performance of obligations by its joint venture partners or co-sponsors
- An inability to obtain or maintain approvals or licenses required for the Tahal Group's operations may adversely affect the Tahal Group's operations
- During the execution of fixed price, turnkey, and one item-rate contracts, the Tahal Group is exposed to significant construction risks
- The Tahal Group's insurance policies may not provide adequate protection against various risks associated with the Tahal Group's operations and some risks may not be able to be insured under economic viable terms
- The Tahal Group may be subject to various warranty and indemnity claims and other costs relating to its projects
- Due to projected increase in the number of projects, the Tahal Group may face performance risks

### *Automotive and consumer goods sector*

- The KI Group's businesses in the automotive and consumer goods sector depend on distribution agreements which may not be renewed. Failure to renew contracts may have a material adverse effect on the businesses, financial condition, operational results or prospects of the KI Group
- The KI Group depends on governmental permits; should the KI Group lose such permits this could have a material adverse effect on its business, financial condition, operational results or prospects
- The KI Group's dependence upon GM Group companies may have an adverse material effect on its businesses, financial condition, operational results or prospects
- The KI Group's sales may be affected by government-imposed import duties or a change in regulations which could materially adversely affect its businesses, financial condition, operational results or prospects

- Fluctuations in the standard of living in Israel and a slowdown in the Israeli economy may have an adverse effect on sales of private motor vehicles
- The KI Group holds stocks in substantial amounts. Any decrease in sales may therefore affect the KI Group's business results

#### *Communications and technologies sector*

- The KI Group has invested in early-stage companies operating in the communications and technologies sector. Such investments are characterised by a high degree of risk and difficulties in assessing the value of such investments. The KI Group may have to write-off investments in unsuccessful companies which may materially adversely affect its businesses, financial condition, operational results or prospects

#### **Risks related to the Shares**

- The Offering may be terminated
- The marketability of the Shares may decline and the market price of the Shares may fluctuate and represent a different value than the value of the Shares calculated on the basis of the Exchange Ratio
- The Company has a limited free float, which may have a negative effect on the liquidity, marketability or value of its shares
- A controlling group of shareholders is able to determine all matters requiring shareholder approval with a normal majority and will after the effectuation of the Merger most likely remain able to do so due to shareholders absenteeism during the general meetings of shareholders
- The pre-emptive rights of holders of the Company's shares may be restricted or waived by the management board of Kardan ("**Management Board**") subject to the approval of the supervisory board of Kardan ("**Supervisory Board**")
- The holders of the Shares face potential dilution of their shareholdings in the future
- The stock exchanges on which the Shares are traded are located in different time zones and have trading days that do not or not fully overlap

## Summary Financial Information

The data hereunder are taken from the financial statements of the Company. This information should be reviewed together with the comprehensive information that appears in the aforesaid financial statements, including their notes. See "Index to Financial Statements" on page 200 of the Prospectus. The data set out below in relation to 2008 were derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

### Profit and Loss Data

	Six months ended 30 June		Year ended 31 December*		
	2008	2007	2007	2006	2005
<i>(€ in millions, except percentages, per share and share amounts)</i>					
<b>Revenues</b>					
Sales and Services . . . . .	26	21	61	50	43
Contracts revenues . . . . .	72	35	86	65	48
Insurance activities . . . . .	60	23	66	61	87
Banking and retail lending activities . . . . .	56	30	72	25	9
Rental revenues . . . . .	35	27	60	72	55
Equity in net earnings of associated companies . . . . .	3	3	6	7	7
Management fees . . . . .	1	1	2	1	1
Gain on issuance of shares in associated companies and subsidiaries to third parties . . . . .	2	3	45	52	14
Net adjustment to fair value of investment properties . . . . .	71	102	287	209	117
Gain on disposal of assets and other income, net . . . . .	3	30	47	19	51
Other financial income . . . . .	85	16	42	27	7
	<u>414</u>	<u>291</u>	<u>774</u>	<u>588</u>	<u>439</u>
<b>Expenses</b>					
Cost of sales and services . . . . .	21	16	46	41	28
Contracts costs . . . . .	59	26	68	49	39
Operating expenses of insurance activities . . . . .	62	22	64	63	84
Costs of banking and lending activities . . . . .	52	26	65	21	7
Cost of rental operations . . . . .	8	6	12	20	16
Selling and Marketing expenses . . . . .	10	9	19	15	11
General and Administrative expenses . . . . .	27	20	56	44	24
Financing expenses . . . . .	90	51	148	126	57
Other expenses, net . . . . .	1	2	4	6	7
	<u>330</u>	<u>178</u>	<u>482</u>	<u>385</u>	<u>273</u>
<b>Profit (loss) before income taxes . . . . .</b>	<u>84</u>	<u>113</u>	<u>292</u>	<u>203</u>	<u>166</u>
Income tax . . . . .	19	25	42	46	30
<b>Net profit (loss) . . . . .</b>	<u>65</u>	<u>88</u>	<u>250</u>	<u>157</u>	<u>136</u>
Attributable to :					
Equity holders . . . . .	16	34	90	41	46
Minority interest holders . . . . .	49	54	160	116	90
	<u>65</u>	<u>88</u>	<u>250</u>	<u>157</u>	<u>136</u>
<b>Net profit (loss) per ordinary share (in €)</b>					
Basic . . . . .	<u>0.20</u>	<u>0.42</u>	<u>1.11</u>	<u>0.55</u>	<u>0.72</u>
Fully diluted . . . . .	<u>0.02</u>	<u>0.42</u>	<u>1.10</u>	<u>0.47</u>	<u>0.67</u>

\* The Company's financial statements for the years 2005 and 2006 were expressed in US Dollar. The US Dollar-Euro translation was carried out in accordance with procedures and exchange rates as described in the notes to the Company's financial statements 2007.

## Balance Sheet Data

	30 June		31 December*		
	2008	2007	2007	2006	2005
<i>€ in millions</i>					
Total current assets	2,071	1,505	1,929	892	451
Total non-current assets	2,914	1,875	2,343	1,333	1,057
<b>Total assets</b>	<b>4,985</b>	<b>3,380</b>	<b>4,272</b>	<b>2,225</b>	<b>1,508</b>
Total current liabilities	1,159	681	1,133	532	225
Total non-current liabilities	2,680	1,839	2,066	935	846
Equity	359	299	343	267	137
Minority interests	787	561	730	491	300
<b>Total equity and liabilities</b>	<b>4,985</b>	<b>3,380</b>	<b>4,272</b>	<b>2,225</b>	<b>1,508</b>
<b>Cash Flow Data</b>					
Net cash provided by (used in) operating activities	(61)	(98)	(100)	136	(17)
Net cash provided by (used in) investing activities	(556)	(200)	(539)	(132)	(265)
Net cash provided by (used in) financing activities	421	668	1,135	263	253
Foreign exchange difference relating to cash and cash equivalents	2	—	(12)	(16)	38
Net increase/(decrease) in cash and cash equivalents	(194)	370	484	251	9
Cash and cash equivalents at the beginning of the period	893	409	409	158	149
Cash and cash equivalents at the end of the period	699	779	893	409	158
<b>Financial Ratio's</b>					
Solvency % (including minority) <sup>1</sup>	23.0%	25.4%	25.1%	34.1%	28.9%
Solvency % (excluding minority) <sup>2</sup>	7.2%	8.8%	8.0%	12.0%	9.0%
Return on equity % <sup>3</sup>	4.5%	11.4%	26.2%	14.4%	32.7%
Debt/equity <sup>4</sup>	7.5	6.2	6.0	3.5	6.2
Expenses/Revenues %	79.7%	61.2%	62.3%	65.5%	62.3%
Profit (loss) before income taxes/Revenues	20.3%	38.8%	37.7%	34.5%	37.8%
Net profit (loss)/Revenues	15.7%	30.2%	32.3%	26.7%	31.0%

1 The percentage of shareholders' equity and minority interests out of total assets.

2 The percentage of shareholders' equity out of total assets.

3 The percentage of the net profit or loss out of shareholders' equity.

4 The ratio between total long-term debt out of shareholders' equity.

\* The Company's financial statements for the years 2005 and 2006 were expressed in US Dollar. The US Dollar-Euro translation was carried out in accordance with procedures and exchange rates as described in the notes to the Company's financial statements 2007.

## RISK FACTORS

*An investment in the Shares involves a high degree of risk. Prospective investors should consider carefully the following risk factors, together with the other information contained in this Prospectus, in connection with any decision relating to the Offering. If any of the risks set forth below were to materialise, the business, financial condition, operational results or prospects of the Company could be materially adversely affected and this may have a material adverse effect on the trading price or value of the Shares. Further, the risks and uncertainties described in this section may not be the only risks and uncertainties that the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also materially adversely affect the business, financial condition, results of operations or prospects of the Company.*

*In this Prospectus, any references to the Company or Kardan refer to Kardan N.V. and where relevant to Kardan N.V. and one or more of the Kardan Group Companies.*

### **The Company is exposed to risks arising from unforeseen changes in developing and unstable markets in which the Company directs a large part of its investments**

The Company directs a large part of its investments to developing and unstable markets, a type of investment that embodies a high level of risk. Such investment exposes the Company to risks arising from unforeseen changes that could occur in these markets, such as (geo-)political, regulatory, legal and economic changes.

The success of the Company in developing and unstable markets inter alia depends on its continued operations and on the continued development of the real estate, financial services and infrastructure markets. A decline in the level of development of the markets could have an adverse effect on the Company's business. In addition, the Company notes that the official information published in developing countries is not always reliable or complete and that therefore relying on such information may adversely affect the Company.

### **A change in the positive trends in certain markets where the Company operates, could have an adverse effect on the operations of the Company**

The Company has considerable operations in CEE, CIS and China and operates mainly in the real estate, financial services and infrastructure sectors. The Company continues to direct managerial and financial resources to CEE and CIS countries in view of the economic growth in the region in recent years and out of an expectation that the ongoing trend of narrowing general and economic gaps between Eastern and Western Europe will continue, and to investments in China and possibly India, which have experienced accelerated growth in recent years and which are large developing markets with the ability to generate value over the long term. A change in these trends in CEE, CIS, China and India could have an adverse effect on the operations of the Company.

Furthermore the Company is active in Israel, mainly in the sectors real estate, automotive and consumer goods and communications and technologies. These activities might be affected by the Israeli economy and market conditions as well as by the political and military conditions in Israel and in the Middle East. Changes in these conditions may affect the Company's activities in Israel.

### **Changing laws and regulations may influence the Company's capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities**

The weakness and complexity of the legal and enforcement systems in the countries where the Company operates is a risk to its activities. In some of these countries, the legal systems are immature and are in the process of adapting to economic developments. Here the Company is exposed to conflicting rules between local law and federal law, to corruption in government and in the legal systems, a high level of discretion of governmental authorities,



and so on. Some of the laws in these countries are new and untested by actual application and there is uncertainty as to their interpretation. There is also much uncertainty regarding fines and punishments which the regulatory authorities may impose under these circumstances. Furthermore, adverse changes in applicable laws and failure of expected changes could adversely affect the Kardan Group Companies' current businesses and growth prospects.

**The crisis in the financial markets and a slowdown in the world economy could have negative consequences for the results of the Company**

The crisis in the financial markets could have various adverse economic implications, inter alia on the global credit market, and could lead to a slowdown of the world economy in general. Such marked upheavals could on the short-, medium- and long terms have negative consequences for (amongst others) the results of the Company, its equity base, the value of its assets, the condition of its business, its ability to comply with the covenants agreed upon with lenders and its ability to raise financing, as well as terms of such financing.

**A significant decline in the value of shares which the Company holds could have an adverse effect on the Company and its ability to raise funds based on these shares**

A considerable part of the Company's assets are holdings in shares of companies which operate and/or are traded and listed on the markets of various countries. A significant decline in the market value of such shares could adversely affect the value of the Company, result in the Company not being able to comply with financial criteria set out under existing obligations and hamper the Company's ability to raise capital and loans.

**The Company's growth and continued operations depend on its ability to maintain sufficient funding**

Access to funding is essential to the Company's business. Maintaining access to sufficient funding is necessary for a continuation of the Company's activities and the continued growth of its business. An inability to access funding in the money markets, the capital markets or otherwise may lead to an inability to finance the Company's operations and may influence its ability to meet the Company's financial obligations as they fall due, which in turn could materially adversely affect the Company's results of operations and financial condition.

The Company's access to sufficient funding may be impaired by its level of operational performance, its level of indebtedness, a lack of cash flows to service its debt payments as well as, among other factors, harm to its reputation. In addition, the Company's ability to access sufficient funding may be impaired by factors that are not specific to the Company, such as general market conditions, severe disruption of the financial markets or negative views about the prospects for the industries or regions in which the Company operates.

**Fluctuations in the exchange rates of the currencies in which the Company conducts its businesses could affect its financial situation and the results of its operations**

The Company operates in developing markets using various currencies (such as the US Dollar, the Euro, the Renminbi, Israeli Shekels, and the currencies of the CEE and CIS countries). The Company's ability to raise funding in these respective currencies is highly limited. Hedging is not always available or economically viable. Changes in the exchange rates of the currencies in which the Company conducts its business could affect its financial situation. Furthermore, the developing economies of countries in which the Company operates may experience higher currency volatility as a result of the global financial crisis, which may adversely influence the financial results and cash flows of the Company's businesses.

### **Fluctuations in interest rates and in inflation rates could affect the results of the Company**

Fluctuations in interest rates and in inflation rates could adversely affect the results of the Company. Because the Company has taken out significant loans with variable interest rates or which are linked to consumer price indexes (“CPI”), future changes of inflation and interest rates could have an adverse effect on the Company’s results. In addition, because the development of the Company’s businesses depends on raising sufficient financing a significant rise in the interest rates could adversely affect the Company’s growth.

### **Tax authorities’ interpretations of relevant laws and treaties could lead to additional tax liabilities for the Company**

Tax planning and the calculation of the tax liabilities of the Company involve the interpretation and application of the tax laws and treaties of various jurisdictions. The Company undertakes transactions in various countries, mainly through local companies in which it invests. Accordingly, the activities of the Company are subject to the tax laws in place in those countries, and calculation of its tax liabilities involves their interpretation and application of local tax laws as aforesaid. The Company assesses its tax liabilities on the basis of its understanding of those laws and treaties. However, the tax authorities could interpret or apply the relevant laws and treaties in a way that would lead to additional tax liabilities.

### **The Company is dependent on certain key employees**

The activities of the Company are conducted by a small and skilled managerial staff experienced in the markets in which the Company operates. Accordingly, the Company depends on services provided by a small number of managers and consultants. Although the Company has adopted compensation policies based on incentives intended to retain its managerial staff, changes in its managerial staff could have an adverse effect on the Company and on the results of its operations. In addition, in CEE and CIS countries there is a shortage of experienced managers. Therefore, the Company might find it difficult to recruit suitable managers, both for expanding its operations and for replacing managers who resign or recruiting such suitable managers may entail substantial costs both in terms of salaries and other incentive instruments.

### **The Company may have difficulty managing its expanding operations**

In recent years the Company’s activities have grown substantially, which could lead to risks that could adversely affect the Company. Such risks include the potential diversion of financial and management resources from existing operations, difficulties in integrating operations, technologies, products and personnel of new activities or acquired companies into the Company’s existing operational systems, significant delays in completing the integration of acquired companies, potential costs of unanticipated litigation and tax and accounting issues.

The Company’s growth could result in additional indebtedness, costs, contingent liabilities and impairment expenses related to goodwill and other intangible assets. In addition, further growth may divert the Company’s management’s attention and other resources. All of the foregoing could adversely affect the Company’s businesses, results of operations and financial condition.

### **Legal proceedings in which the Company is involved or may become involved in the future could adversely affect the Company**

The Company is currently not involved in legal proceedings which it expects will have significant effects on its business or the financial position of the Kardan Group. However, the Company cannot exclude that pending or future legal proceedings may be resolved in a way that is detrimental to the Company and as such may lead to significant liabilities. The outcome of such future proceedings and a deterioration of pending proceedings could adversely affect the results of the Company and its financial situation.

**The Company might be dependent on the consent of third-party shareholders in companies in which it invests**

Some of the Company's businesses are implemented through the Kardan Group Companies in whom a third party has a participating percentage. In addition, the other shareholders in the companies in which the Company invests hold contractual rights entitling them to approve significant managerial decisions in those companies. In some cases, material operations are held under joint control agreements. Therefore, the Company under circumstances is dependent on external shareholders for implementing its business strategy.

**The Company granted put options to a number of minority shareholders, the exercise of which could be a burden on the Company's cash flow or may have a dilutive effect on the Company's shareholdings**

The Company granted put options to a number of minority shareholders in some of the Kardan Group Companies, to sell their shares to the Company or Kardan Group Companies in certain cases and according to agreed upon indicators which may in hindsight differ from fair market value. Exercise of these put options could be a burden on the cash flow of the Company or the Kardan Group Companies or may have a dilutive effect on the shareholdings of the Company or of the Kardan Group Companies in the event that compensation for the put option is made by issuance of shares.

**A change of control in the Company could have a material impact on its business**

Under agreements with financing entities and agreements with investors in Kardan Group Companies, a change in the control of the Company could have various implications (including a right to early repayment of loans, cancellation of material agreements, a right of shareholders to sell their shares to the Company and/or a right for shareholders to buy shares in the capital of the Company or Kardan Group Companies at a price lower than the market price), that could materially impact the Company's business.

**Negative business results of the Kardan Group Companies will have an adverse effect on the Company's ability to develop its business and defray its liabilities**

The financial data of the Company are influenced by the financial data and business results of the Kardan Group Companies and by the disposal or acquisition transactions in those companies. Therefore, the Company is affected by the factors that influence each of its areas of operation. As a holding company, the Company enjoys regular receipts of cash flows from management fees and from interest payments on loans it has provided to Kardan Group Companies. In addition, the Company raises loans or debentures for financing its activities through (a security right on the shares of) the Kardan Group Companies and also realises shares in Kardan Group Companies. Negative business results will have an adverse effect on the Company's ability to develop its business and defray its liabilities. Furthermore, the Company and the Kardan Group Companies may be similarly impacted by the same events. This may have a magnifying effect on certain risks.

**Some of the Company's businesses are exposed to various requirements of the authorities that oversee the preservation of the environment or may have environmental liabilities not revealed by environmental reviews, which could materially adversely affect the Company's businesses, financial condition, operational results or prospects**

Some of the Company's businesses are subject to various environmental laws and regulations. Although often environmental reviews are conducted, there can be no assurance that such reviews have revealed all potential liabilities or that environmental laws and regulations will not change, resulting in liabilities or increased costs to the Company, or interruption or termination of the development of some of the Company's projects, developments or investments.

**The increasing number of Kardan Group Companies may lead to failure to accumulate relevant and reliable internal and external information and to assess whether adjustments to or disclosures in financial statements are required, which may result in inaccuracies in the financial reports**

With an increasing number of subsidiaries based in the various emerging markets, timely in- and external financial reporting becomes more onerous. This may lead to failure to accumulate relevant and reliable internal and external information to assess whether adjustments to or disclosures in financial statements are required, which may result in inaccuracies in the financial reports.

**Risks related to the main sectors of operations of the Company**

In addition to the risk factors mentioned above, the Company is subject to the following risk factors related to its business in the real estate, financial services, infrastructure, automotive and consumer goods and communications and technologies sectors.

**REAL ESTATE SECTOR**

**Some of the GTC Group's projects require large initial investments, which will only start generating income after a long period of time and are subject to certain risks, which could materially adversely affect the businesses, financial condition, operational results or prospects of the GTC Group**

The GTC Group's activities are focused on the development and construction of real estate investments. These projects require large investments, including the purchase of land, in the early stages of the projects and only start generating income after a long period of time because of the long-term nature of construction work. These projects are subject to various risks, each of which could cause delay of a project and therefore increase the time until the project starts generating income, increase the costs of a project compared to the budget, cause the loss or decrease of expected income of a project or, in some cases, even cause the abortion of a project. These risks include but are not limited to:

- delays or cost overruns resulting from amongst other things adverse weather conditions, work disputes, insolvency of construction contractors, shortages of equipment or construction materials, accidents or unforeseen technical difficulties;
- actual income from rent or sale of residential units and the occupancy rates of office and commercial areas being lower than forecasted;
- at the end of the construction of a project the GTC Group could have difficulty acquiring occupancy permits or other approvals required by law to complete the project; and
- planning authorities in the various countries in which the GTC Group operates could refuse to approve development plans and could modify existing plans.

**The global financial crisis and a slowdown in the world economy could materially adversely affect the GTC Group**

The current crisis in the financial markets further affects the global credit market and the world economy. Therefore, real estate projects in which the GTC Group participates and all financing issues relating thereto, may be affected by reduced financing sources, the ability to refinance existing projects, increased financing expenses and/or reduced customer demand.

**A decreased demand for, or an increased supply of, office space and commercial space or a contraction of the market for residential or commercial real estate in case of an economic downturn in markets in which the GTC Group is active, could materially adversely affect the businesses, financial condition, operational results or prospects of the Company**

Changes in supply and demand in real estate in the countries in which the GTC Group is active may negatively influence the occupation rates of the assets, the rental fee rates, and

the possibility of actualising 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. The same would result in lower rental rates and existing tenants delaying as long as possible the renewal of expiring lease agreements and agreeing to shorter lease periods, which could materially adversely affect the businesses, financial condition, operational results or prospects of the GTC Group. Furthermore, the GTC Group may bear maintenance costs for property it cannot rent out.

**The GTC Group’s tenants may not be able to pay rent and the GTC Group might not be able to collect rent on time**

The value of real estate and any improvements to properties may depend on the credit and financial stability of the GTC Group’s tenants. If a significant number of the GTC Group’s tenants would become unable to meet their obligations or if the GTC Group is unable to collect rent from tenants, the GTC Groups’ income and funds available for interest payments may be adversely affected. In the event of default by a tenant, the GTC Group may experience delays in enforcing their rights as the lessor and the GTC Group may incur substantial costs in order to protect its investments.

**The GTC Group may be exposed to various valuation risks**

The value of the GTC Group’s properties may decline resulting in an inability to optimise the GTC Group’s cash flow returns. Investment or divestments of the GTC Group’s properties may take place at economically unfavourable times and under unfavourable terms. Strong yield shifts in the market may prove to be incidental rather than structural. The estimated future reversionary potential of market rents may not be achieved through rent renewals. The property valuation result is an integral component of the profit and loss statements of the GTC Group and may materially affect, and increase the volatility of, the GTC Group’s results.

**Estimation of the fair value of the GTC Group’s investment properties may not be correct**

In the consolidated financial statements of the Company, investment properties are measured initially as a cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that a cost is incurred if the recognition criteria are met. It excludes the cost of day to day servicing of an investment property. Investment properties are subsequently presented at fair value. The fair value is determined once a year by independent real estate valuation experts in accordance with recognised valuation techniques. These techniques include estimating future cash flows from assets and estimates of discount rates applicable to those assets. In some cases the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Company’s assets.

Fair value of investment properties is based on independent appraisal values. Independent appraisal values are however subject to judgments, estimates and assumptions and do not take into account estimation uncertainty, if any, about key assumptions concerning the future as property valuations are based on market conditions in effect as at balance sheet date. In addition to the independent annual valuations the management of the Kardan Group Companies adjust the fair value in the course of a year if it estimates that the fair value needs to be adjusted. These adjustments are management’s best estimate based upon developments in the markets.



**A policy of restraint adopted by the central banks in countries in which the GTC Group operates may result in an increase of interest rates and a decline of demand for residential properties and of the value of projects**

A policy of restraint adopted by the central banks in the countries in which the GTC Group operates may result in higher interest rates on residential loans. The difficulty in obtaining loans on attractive conditions for the purchase of residential properties could result in a decline in demand for residential properties and of the value of the projects which the GTC Group is developing.

**The GTC Group could face development- and construction risks which may lead to damages and could adversely affect the GTC Group's reputation and results**

Obligations with respect to properties under construction, or which are to be constructed in the future, are subject to risks including:

- insolvency of a contractor;
- construction or other unanticipated delays;
- construction costs before ensuring rental revenues will be earned from the project;
- cost over-runs on one or more projects; or
- failure of tenants to occupy and pay rent in accordance with lease arrangements.

Any of these risks could have an adverse effect on the GTC Group's financial condition, operating results and reputation.

**A lack of available land may limit the growth potential of the GTC Group's business**

The GTC Group's ability to enter into new projects in the real estate business depends on the availability of land and on the policy of the local governments and administration. A lack of available land may limit the growth potential of the GTC Group's real estate business and could affect the prospects of the Company.

**The mortgage market for residences is not sufficiently developed in markets in which the GTC Group is active**

Difficulty in receiving loans with convenient conditions for purchasing apartments may affect the demand for residential units in the projects established by the GTC Group.

**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 GTC Group's results**

The competition in the real estate markets in which the GTC Group is active has increased over the past years. This has amongst other things led to increased prices for land and an increase of land supply. Furthermore, market conditions caused a price increase of quality contracting services. If this trend continues, this may affect the results of the GTC Group.

**The GTC Group is exposed to specific risks associated with operating in the real estate markets in China and India**

In its activities in China, the GTC Group is exposed to a market in which the government plays a very active role in the economy in general. This exposure includes, amongst other things, the risk of legislative and regulatory changes in the real estate sector, including risks resulting from amendments already made in regulations. Additionally, operations in the Chinese real estate market necessitate substantial administrative and bureaucratic efforts as it is necessary to receive many permits when performing business activities. Furthermore, the ability of the GTC Group to receive credit in China for construction is limited.



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 GTC Group. The GTC Group is also exposed to amendments of the law and regulations regulating activity in the real estate sector in India. Moreover, business activities in China and India require numerous approvals and certificates. The GTC Group is assisted by local partners to obtain these approvals. Absence of such assistance in the future or difficulties in obtaining the said approvals may affect the GTC Group.

## **FINANCIAL SERVICES SECTOR**

### **Adverse market developments or deficiencies in underwriting may lead to a deteriorated portfolio quality and result in credit risk**

Managing credit risk is of key importance to the businesses of the KFS Group. Unfavourable market developments may lead to a worsening of financial conditions and to deteriorating payment behaviour of borrowers due to various factors and fraud schemes. This may negatively affect the portfolio quality of the KFS Group. Furthermore, as the markets in which the KFS Group operates may swiftly change this will require a timely response in adapting credit policies and respectively underwriting may fail to properly assess the creditworthiness of loan applicants, which again will result in increased credit risk for the KFS Group.

### **Insufficient access to capital may threaten the KFS Group's capacity to grow, execute its business model and generate future financial returns. Furthermore, the inability to meet increasing capital requirements may threaten the KFS Group's ability to support the growth of existing operations and pursue new acquisitions**

Capital needs are determined by the aim to maintain leverage ratios and minimal capital requirements. Furthermore, growth will require extra capital injections. Inability to raise additional capital may jeopardise further growth of the KFS Group's operations. Thus the capacity to execute the KFS Group's business model and to reach its targets may be threatened if growth rates are lower than planned and financial results are negatively affected. In addition, the strong growth of KFS Group's businesses is accompanied by increasing capital requirements, also required by local authorities, and an inability to fulfil such requirements may have a severe adverse impact on the businesses of the KFS Group.

### **Increasing funding costs may affect the ability of the KFS Group businesses to grow at the desired speed, resulting in an inability to fully use the existing sales networks, which may negatively affect the KFS Group's financial results**

The KFS Group has invested significantly over the last years in developing an extensive sales network with nation wide coverage in the countries of its operations. Lack of funding or increased cost of funding may negatively affect the ability of the KFS Group's businesses to take full advantage of their regional presence, curbing their sales. Furthermore, inability to benefit from its investments in branches and points of sales to certain minimum levels may prevent the KFS Group from breaking-even, with their losses aggravating the financial results of the business. Because the KFS Group operates in rapidly developing markets with many new entrants, missing to reach the required constant high growth of volumes may lead to loss of market share.

### **The global financial crisis may have a negative effect on the KFS Group's banking operations in Russia and Ukraine, putting additional strain on their liquidity position and preventing normal inter-bank operations. Stability of deposits remains subject to the market environment stabilising. The credit crunch may also have adverse effects on the KFS Group's non banking businesses in Bulgaria and Romania due to difficulties or inability to refinance liabilities to banks and bond holders.**

Stability of the deposit base of the banking operations is highly dependent on stabilisation of the markets. Due to a high degree of globalisation virtually all markets are influenced by the

global financial crisis. Withdrawal of deposits may jeopardise the liquidity position of the banks. In an environment where the interbank market malfunctions this may negatively affect banks' normal lending activities, curbing their business generation capacity. Maintaining the deposit base and liquidity position may require further increase of the interest rates on deposits, which will increase cost of funding for the banks. In an environment of deep financial crisis and dysfunctional interbank market, the role of the national banks is crucial in preventing the risk of a massive run on the banks in these markets which may have a detrimental effect on the banking operations. All these developments will have a negative effect on KFS Group's financial results. Moreover, an inherent risk to banking operations relates to the possibility of a material withdrawal of deposits that may be caused by a wide array of reasons relating to the individual bank itself or to the general market environment.

**The greater resources of the KFS Group's competitors may limit its ability to pursue future business opportunities**

Many of the KFS Group's competitors form a part of multinational financial services groups, which have significantly greater financial and technical resources than the KFS Group. As a result, these competitors may be able to devote greater resources to developing, promoting and selling their products than the KFS Group.

**Some of KFS Group's activities depend on its ability to obtain and maintain government licenses, any failure to obtain or maintain these licenses could have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group**

Pension, insurance, asset management, banking and other financial activities carried out by the KFS Group require licenses from the relevant federal and local government authorities. There can be no assurance that the KFS Group will be able to obtain or maintain such licenses in the future. Applying for a new license is a burdensome and time-consuming process. The relevant authorities may, at their discretion, impose additional requirements or deny any request for licenses. The loss of a license, a breach of the terms of a license or failure to obtain licenses in the future, could result in the KFS Group being unable to continue some or all of its activities and incur penalties or fines by the competent authorities. Any such failure could materially adversely affect the businesses, financial condition, operational results or prospects of the KFS Group.

**Insurance losses could exceed insurance reserves, which may have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group**

There is an inherent uncertainty in the establishment of insurance reserves and outstanding claims, particularly reserves for certain branches of general insurance with so called "long-tail" business, i.e. policies written on an occurrence basis, where claims can arise long after the policy has expired. This uncertainty arises from a number of factors, including on-going interpretation of insurance policy provisions by courts, inconsistent decisions in legal proceedings regarding coverage and expanded theories of liability. In addition, on-going changes in claims settlement practices can lead to changes in loss payment patterns that are used to estimate reserve levels. Consequently, ultimate losses could materially exceed established loss reserves, which could have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group.

**The frequency and the level of insurance claims are affected by uncontrollable external factors; changes in these factors could materially adversely affect the businesses, financial condition, operational results or prospects of the KFS Group.**

The frequency and severity of claims are affected by uncontrollable external factors. These factors are subject to change. Examples of such external factors are (i) the weather, (ii) the

cost of medical treatment, (iii) the cost of car repairs, car parts and used car prices, (iv) the cost of building materials, (v) the cost of labour in the construction sector and (vi) the number of criminal events. In addition, the techniques and data used to predict events or to estimate certain costs on the basis of which loss reserves are established may be inaccurate. Consequently, ultimate losses could materially exceed established loss reserves, which could have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group.

**Reinsurance recoverables may be lower than estimated and may adversely and materially affect the KFS Group's financial results**

There is uncertainty involved in estimating the availability of reinsurance and the collectability of reinsurance recoverables. This uncertainty arises from a number of factors, including whether losses meet the qualifying conditions of the reinsurance contracts and whether the reinsurers have the financial capacity and willingness to pay. TBIH insurance companies acquire their reinsurance in the international market. The changes of the risks costs and the offer of reinsurance in the market may affect the gain of these companies. Therefore the financial condition and strength of the reinsurer may affect the financial performance of the KFS Group. Furthermore, the reinsurance cannot dismiss the first insurer from the responsibility to pay the insurance payments under the policies.

**The net results of the insurance and pension businesses of the KFS Group are partly dependent on investment results, which may have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group**

The net results of some of the KFS Group Companies from their insurance and pension businesses depend in part on investment results from financial instruments of funds invested by the various KFS Group Companies. Investment results which are lower than expected may have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group.

**The results of the pension business depend on reaching a critical number of members; failure by the KFS Group to reach such thresholds could materially adversely affect the businesses, financial condition, operational results or prospects of the KFS Group**

One of the key factors influencing the financial success in the pension market is reaching and surpassing a critical number of subscribers at or around the time when mandatory pension legislation comes into effect (i.e. a "first mover" approach allowing early entrants to secure a permanent footing) and employees are required to become members of a private pension fund. Where the KFS Group's pension funds fail to reach the required number of members, the KFS Group would have to consider exiting that market, and may not be able to recover its investments made in relation to the establishment of the relevant pension fund, which could affect the businesses, financial condition, operational results or prospects of the KFS Group.

**The KFS Group is dependent upon a number of its relationships with consumer retail outlets and car dealerships, deterioration in these relationships or an inability to develop such relationships in new markets, may affect the businesses, financial condition, operational results or prospects of the KFS Group**

In its consumer finance and leasing businesses, one of the KFS Group's primary competitive advantages is its ability to provide fast and simple credit approval, including point of sale credit approval for consumer loans. This service enables the KFS Group to compete with other lenders who may offer lower interest rates. To provide this level of service, the KFS Group relies upon its relationships with retail chains and car dealers, including the operation by KFS Group of credit desks at the point of sale. Whereas in the past some of these relationships permitted the KFS Group to be the exclusive provider of consumer credit for

particular retailers, retailers are generally no longer willing to grant exclusivity to any single credit provider. In the future, increased competition may result in the KFS Group being required to pay commissions to the retail chains in which they operate. Deterioration in the relationships between the KFS Group and retail chains or car dealers, or an inability to develop such relationships in new markets, may affect the businesses, financial condition, operational results or prospects of the KFS Group.

**Because of the absence of centralised credit information or the unreliable quality of such credit information, the KFS Group may not be able to accurately check creditworthiness of borrowers, which could lead to an increased credit risk exposure and affect the businesses, financial condition, operational results or prospects of the KFS Group**

Accurate upfront assessments of default risks under loans provided by the KFS Group in the financial services sector are difficult to make due to the lack of reliable credit databases in the markets in which the KFS Group operates, as well as the unpredictability of economic conditions in those markets. Even though the KFS Group undertakes scoring techniques and checks the creditworthiness of applicants, such checks may not always present a complete and accurate picture of each applicant's financial condition. The KFS Group's applicants do not typically have extensive or externally verified credit histories and in some cases the KFS Group must rely on the assessment of income from unofficial "grey market" sources, which are difficult to verify. In addition, the KFS Group is often unable to independently confirm information provided by credit applicants regarding the total credit extended to the applicant. As a result, customers may be overextended by virtue of other credit obligations about which the KFS Group has no knowledge. Therefore, in spite of credit risk evaluation procedures, the KFS Group may be unable to correctly evaluate the current financial condition of each prospective applicant and to accurately determine the ability of its applicants to repay their loans. This could lead to an increased credit risk exposure and affect the businesses, financial condition, operational results or prospects of the KFS Group.

**Some activities of the KFS Group involve operating risks that are specific for insurance activities and which may materially adversely affect the businesses, financial condition, operational results or prospects of the KFS Group**

The KFS Group operates in the financial services sector, which involves large volumes of transactions in many areas that exposes the KFS Group to certain operating risks, such as errors, defects in the computer systems, computer fraud and crimes. Actuarial errors in particular may have considerable implications on the correctness of tariffs and insurance reserves. There can be no assurance that the KFS Group will be able to fully mitigate such risks. If any of such risks materialise this may have a material adverse effect on the businesses, financial condition, operational results or prospects of the KFS Group.

**Success in the non-life insurance, life insurance and pension markets is conditioned, among other things, on an increase in the disposable income in the markets in which the KFS Group is active**

The insurance and pension products market in CEE and CIS countries can grow only if the disposable income of these markets' residents grows significantly. Because this might take a long time, the KFS Group may have to wait much longer than planned until its life insurance investments are profitable. Factors which contribute to financial success in the pension markets are achieving a critical number of clients and a growth in salaries. Investments in pension funds in countries where the salaries will not grow through time, or where the KFS Group will not be able to achieve a critical number of clients, may be lost.

## **INFRASTRUCTURE SECTOR**

### **Infrastructure development and construction projects are subject to various execution risks**

Infrastructure development and construction projects are subject to various execution risks including:

- inability to complete the project construction on time, within budget or to the specifications and standards that have been set in the contracts relating to such projects;
- delays in meeting project milestones or achieving commercial operation by the scheduled completion date resulting in increased financing costs, delayed payments from the client, the invocation of liquidated damages or penalty clauses by the client, or even in termination of the contract;
- inability to arrange for adequate working capital or other financing on favourable terms as and when required to complete such projects;
- inability to recover the targeted return on investment if the assumptions contained in the feasibility studies for these projects do not materialise;
- unforeseen site and geological conditions which may make the site unsuitable for the project; and
- delays associated with the inability of the clients to complete acquisition of private land or securing rights of way over private land for such projects.

The occurrence of any of the above mentioned risks could adversely affect the Tahal Group's businesses, results of operations and financial condition.

### **The Tahal Group's business is substantially dependent on infrastructure development and construction projects undertaken by a limited number of government entities. The Tahal Group derives a significant proportion of its revenues from its contracts with such entities**

The Tahal Group's business is substantially dependent on infrastructure development and construction projects undertaken by government entities and funded by governments or international and multi-lateral development finance institutions. The Tahal Group's business is also significantly dependent on the Tahal Group obtaining contracts from and maintaining relationships and strategic alliances with these clients. The Tahal Group's business and results of operations may be adversely affected if the Tahal Group is unable to maintain a continuing relationship with its significant clients. The loss of any significant clients could have a material adverse effect on the Tahal Group's business prospects and results of operations.

Infrastructure development and construction projects can become politicised, as the government is often responsible for facilitating the acquisition of private land or securing rights of way over private land. Any delay or inability to complete such acquisitions may result in cost increases in the price of construction materials from original estimates given by the Tahal Group. Such increase in prices, generally, cannot be passed on to clients and may also adversely affect the Tahal Group's ability to mobilise equipment and labour due to overlapping commitments. For infrastructure development projects, government delays may delay financial closure that may affect the Tahal Group's ability to meet scheduled completion dates.

### **The Tahal Group's ability to negotiate standard form government contracts may be limited**

Counterparties to most of the Tahal Group's infrastructure development and construction contracts are government entities and the Tahal Group only has a limited ability to negotiate



the standard terms of government contracts. Consequentially, many terms in the agreements entered into tend to favour the client. For example, it is not always clear whether design review and approval by a client releases the Tahal Group from design and engineering liability, in particular latent defects. There are generally no caps on the Tahal Group's liability as a contractor and it is not always clear whether the Tahal Group will be liable for consequential and/or economic loss to a client. Furthermore, infrastructure contracts may include provisions that enable the client to terminate the contract without cause after providing a notice of termination. Performance guarantees are also common in contracts entered into by the Tahal Group. Such performance guarantees are typically unconditional, payable on demand, and can be invoked by the client in accordance with the terms of the relevant contract(s).

Within the context of Tahal Group's Build, Operate and Transfer ("**BOT**")<sup>3</sup> business, the nature of Tahal Group's contracts with various government entities is such that the Tahal Group has limited control over the terms relating to collection of water fees. Generally, the government entity that has granted the relevant BOT concession to the Tahal Group unilaterally determines the terms on which the Tahal Group may collect water fees and the Tahal Group is not permitted to amend such water fees without the prior written consent of such government entity. The Tahal Group's inability to exercise control over the terms of water fee arrangements with government entities may adversely affect the Tahal Group's results of operations.

#### **The Tahal Group's revenues from its construction and infrastructure businesses depend upon the award of new contracts and payment terms under such contracts**

The Tahal Group's revenues are derived primarily from contracts awarded to it on a project-by-project basis. Generally, it is very difficult to predict whether or when the Tahal Group will be awarded a new contract since many potential contracts involve a lengthy and complex bidding and selection process that may be affected by a number of factors, including changes in existing or assumed market conditions, financing arrangements, governmental approvals and environmental matters. Because the Tahal Group's revenues are derived primarily from these contracts, the Tahal Group's results of operations and cash flows can fluctuate materially from time to time depending on the timing of the awarding of contract.

Because of the nature of the Tahal Group's contracts, it sometimes commits resources to projects prior to receiving advances or other payments from the client in amounts sufficient to cover expenditures on projects as they are incurred by the Tahal Group. Delays in client payments may require the Tahal Group to make a working capital investment. If a client defaults in making its payments on a project to which the Tahal Group has devoted significant resources, or if a project in which the Tahal Group has invested significant resources is delayed, cancelled or does not proceed to completion, this could have a material adverse effect on the Tahal Group's results of operations and financial condition.

#### **Infrastructure development projects have substantial capital requirements and the Tahal Group may not be able to raise the required capital for such projects**

Infrastructure projects are typically capital intensive and require high levels of debt financing. The Tahal Group intends to pursue a strategy of continued investment in infrastructure development projects. The Tahal Group's available financial resources for implementing these projects, based on its internal studies and estimates, may be inadequate and the project development may face cost overruns. The actual amount and timing of future capital requirements may differ from the Tahal Group's estimates. If the Tahal Group decides to meet

<sup>3</sup> A BOT (Build, Operate and Transfer) project is a project ordered by a public authority (country, municipality or government authority), whereby an enterprise 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 BOT project the entrepreneur's revenues are received from the ordering party or from the facility users.



these capital requirements through debt financing its interest obligations will increase and the Tahal Group may be subject to additional restrictive covenants that may affect its ability to undertake future infrastructure projects. The Tahal Group cannot assure that it will be able to raise adequate capital in a timely manner and on acceptable terms or at all. The Tahal Group's failure to obtain adequate financing may result in a delay, scaling back, or abandonment of existing or future projects.

**The Tahal Group has high working capital requirements. If the Tahal Group experiences insufficient cash flows to meet required payments on its debt and working capital requirements, this may have an adverse effect on the Tahal Group's financial condition and results of operations**

The Tahal Group's business requires a significant amount of working capital. In many cases, significant amounts of the Tahal Group's working capital are required to finance the purchase of materials and the performance of engineering, construction and other work on projects before payment is received from clients. In certain cases, the Tahal Group is contractually obligated to fund working capital for projects. The Tahal Group's working capital requirements may increase if, in certain contracts, payment terms include reduced advance payments or payment schedules that specify payment towards the end of a project or that are less favourable to the Tahal Group.

It is customary in the markets in which the Tahal Group operates to provide letters of credit, bank guarantees or performance bonds in favour of clients to secure obligations under contracts. If the Tahal Group is unable to provide sufficient collateral to secure the letters of credit, bank guarantees or performance bonds, the Tahal Group's ability to enter into new contracts could be limited. Providing security to obtain letters of credit, bank guarantees and performance bonds increases the Tahal Group's working capital needs and limits its ability to provide bonds, guarantees, letters of credit and to repatriate funds or pay dividends. The Tahal Group may not be able to continue obtaining new letters of credit, bank guarantees and performance bonds in sufficient amounts to match its business requirements.

**The Tahal Group's businesses face significant competition**

The Tahal Group operates in a competitive environment. The Tahal Group competes against international engineering and construction companies or their regional operating entities. Most infrastructure development and construction contracts and projects are awarded through competitive bidding processes and satisfaction of prescribed pre-qualification criteria. While service quality, technological capacity and performance, health and safety records, personnel, reputation and experience, are important considerations in client decisions, price is a major factor in most tender awards. Once prospective bidders clear the technical requirements of the tender, the contract is usually awarded to the most competitive financial bidder. There is intense price competition in the industry in which the Tahal Group operates. This competitive bidding process may have an adverse affect on the profit margins that the Tahal Group is able to attain.

The Tahal Group's ability to bid for and win major infrastructure development projects is also dependent on its ability to show experience in executing large projects, demonstrate that it has strong engineering capabilities in executing technically complex projects and that the Tahal Group has sufficient financial resources and/or ability to access funds. For many large construction contracts and infrastructure development projects, the Tahal Group may not always meet the pre-qualification criteria in its own right. Therefore, another key factor affecting the Tahal Group's financial results is its ability to partner and collaborate with other companies as joint venture partners or co-sponsors. The Tahal Group faces competition from other bidders in a similar position looking for suitable joint venture partners for pre-qualification requirements. If the Tahal Group is unable to partner with other companies or lacks the credentials to be the partner-of-choice for other companies, the Tahal Group may lose the opportunity to bid for and therefore fail to increase or maintain its volume of new construction contract orders or new infrastructure development projects.

Some of the Tahal Group's competitors are larger than the Tahal Group and have greater financial resources. They may also benefit from greater economies of scale and operating efficiencies. Competitors may, whether through consolidation or growth, present more credible integrated and/or lower cost solutions than the Tahal Group. Consequentially, the Tahal Group may win fewer tenders. The Tahal Group's competitors with greater financial resources and greater economies of scale may be able to pre-qualify in their own right and/or attract a joint venture partner more easily than the Tahal Group. There can be no assurance that the Tahal Group can continue to effectively compete with its competitors in the future. Failure to compete effectively may have an adverse effect on its business, financial condition and results of the Tahal Group's operations.

**Delays in the completion of current contracts or complying with the contract schedules could adversely affect the Tahal Group's financial condition and results of operations**

Typically, infrastructure development projects and construction contracts are subject to specific completion schedule requirements. Failure to adhere to contractually agreed timelines for reasons other than for *force majeure* events or other reasons specifically contemplated in such contracts could result in the Tahal Group being required to pay liquidated damages or penalty amounts, lead to forfeiture of security deposits, or performance guarantees being invoked. Delay in completing construction contracts could also result in the total cost of a construction contract to exceed the original estimates thereby resulting in reduced profits or losses.

While most of the Tahal Group's infrastructure development projects and other construction projects have been completed within the specified completion schedules, there can be no assurance that the Tahal Group will be able to complete its current and future projects within specified schedules or at all. The Tahal Group's infrastructure development projects are typically required to achieve commercial operation no later than the scheduled commercial operations date specified under the relevant agreement, subject to certain exceptions such as the occurrence and continuance of *force majeure* events that are not within the control of the Tahal Group. Timely completion of these projects is subject to various execution risks as well as other matters, including securing financing and government approvals for such projects. For infrastructure projects under development or in the award stage, the agreements or the letters of award also require that the Tahal Group achieves financial closure by a date specified in the relevant concession agreement or it may risk losing the project. Delays may also result in cost overruns, lower returns on capital and reduced revenue as well as failure to meet scheduled debt service payment dates.

**On projects that may be awarded to the Tahal Group on the basis of joint venture partnerships or co-sponsorships, the Tahal Group may be jointly and severally liable for the performance of obligations by its joint venture partners or co-sponsors**

In the Tahal Group's construction business, delay or failure on the part of a joint venture partner to timely perform its obligations could result in delayed payments to the Tahal Group, additional liabilities, or termination of a contract.

In the Tahal Group's infrastructure development business, lenders may require joint and several undertakings and guarantees by the Tahal Group and its co-sponsors. This may result in amongst other things:

- unpaid equity capital contributions;
- a shortfall in funds necessary to complete the project and/or project cost overruns;
- shortfalls from time to time in operation and maintenance expenses;
- shortfalls in the debt service reserve accounts or shortfalls in interest payments;

- shortfalls between the outstanding debt and a project termination payment on the occurrence of a termination event; and
- performances of work divided among joint venture partners under fixed-price, lump sum contracts.

The inability of a joint venture partner to continue with a project due to financial or legal difficulties could mean that, as a result of the Tahal Group's joint and several liabilities, the Tahal Group may be required to make additional investments and/or provide additional services to ensure the performance and delivery of the contracted services. With respect to BOT projects the Tahal Group may be required to draw funds from the operations of its construction business or from external resources in order to satisfy its joint and several obligations to lenders. Therefore, joint and several obligations could have an adverse effect on the Tahal Group's financial results and business prospects.

### **An inability to obtain or maintain approvals or licenses required for the Tahal Group's operations may adversely affect the Tahal Group's operations**

The Tahal Group requires certain statutory and regulatory approvals, licenses, registrations and permissions. Applications in relation thereto need to be made at the appropriate stages. In the Tahal Group's construction business government delays in obtaining approvals may result in cost increases in the price of construction materials from original estimates which cannot generally be passed on to clients and may also adversely affect its ability to mobilise equipment and labour due to overlapping commitments. There can be no assurance that the relevant authorities will issue these approvals or licenses, or renewals thereof in a timely manner or at all. Government delays may delay financial closure within prescribed time limits, delay in locking in interest rates under loan agreements, or compliance with prescribed time limits for achieving the scheduled completion date specified in project documents. As a result, the Tahal Group may not be able to execute its business plan. An inability to obtain or maintain approvals or licenses may adversely affect Tahal Group's operations.

Government approvals, licenses, clearances and consents are often also subject to numerous conditions, some of which are onerous and may require significant expenditure. Furthermore, approvals, licenses, clearances and consents covering the same subject matter are often required at both the state and the local government level. If the Tahal Group fails to comply, or a regulator claims that the Tahal Group has not complied with certain conditions, the Tahal Group may not be able to commence, continue or operate these projects.

### **During the execution of fixed price, turnkey, and one item-rate contracts, the Tahal Group is exposed to significant construction risks**

Some of the Tahal Group's construction projects are performed on a fixed-price or lump-sum basis. Under the terms and conditions of such fixed-price or lump-sum turnkey contracts the Tahal Group generally agrees a fixed price for providing engineering, procurement and construction services. The actual costs incurred by the Tahal Group in connection with the execution of a fixed-price or lump-sum turnkey contract may, however, vary from the assumptions underlying the Tahal Group's bid for several reasons including:

- unanticipated changes in engineering design of the project;
- inaccurate drawings and technical information provided by clients on which bids were based;
- unforeseen design and engineering construction conditions, site and geological conditions, resulting in delays and increased costs;
- inability by the client to obtain requisite environmental and other approvals;
- delays associated with the delivery of equipment and materials to the project site;
- unanticipated increases in equipment costs;

- delays caused by local and seasonal weather conditions; and
- suppliers' or sub-contractors' failure to perform their obligations in a timely manner.

Pursuant to certain contracts, the Tahal Group has agreed to provide construction activities at a rate specified in a so-called Bill of Quantity (“**BOQ**”). The BOQ is an estimate of the quantity of work involved in a project and this quantity may be changed by parties during the course of a project. Although the additional costs associated with additional work may not entirely be borne by the Tahal Group, the Tahal Group may bear the risks associated with actual costs for construction activities exceeding the costs agreed. Unanticipated costs or delays in performance can have compounding effects by increasing costs or performances in other parts of the project. These variations may result in reduced profitability or losses on projects, and depending on the size of a project, have a significant adverse effect on the Tahal Group's results of operations.

**The Tahal Group's insurance policies may not provide adequate protection against various risks associated with the Tahal Group's operations and some risks may not be able to be insured under economic viable terms**

Infrastructure development projects and construction contracts are subject to various risks including:

- political, regulatory and legal actions that may adversely affect a project's viability;
- changes in government and regulatory policies;
- delays in construction and operation of projects;
- the willingness and ability of consumers to pay for infrastructure services;
- shortages of or the rise of costs for construction materials;
- design and engineering defects;
- breakdown, failure or substandard performance of equipment;
- improper installation or operation of equipment;
- labour disturbances;
- terrorism and acts of war;
- inclement weather and natural disasters;
- environmental hazards, including earthquakes, flooding, tsunamis and landslides;
- industrial accidents; and
- adverse developments in the overall economic environment of the relevant country.

While the Tahal Group is insured against loss due to the occurrence of accidents during the course of its projects, there can be no assurance that all risks are adequately insured, that a particular claim will be paid out or that the Tahal Group will be able to procure adequate insurance coverage at commercially reasonable rates in the future. Natural disasters may cause significant disruption to the Tahal Group's operations, damage to the Tahal Group's property and the environment. Consequentially, natural disasters could have a material adverse affect on the Tahal Group's business and operations. In addition, not all of the above risks may be insurable on commercially reasonable terms or at all. Although the Tahal Group believes that it has obtained insurance coverage which is sufficient to its business requirements, such insurance may not provide adequate coverage in certain circumstances. Furthermore, insurance claims are generally subject to deductibles, exclusions and limited coverage. The Tahal Group may bear damages for which it is not insured. The proceeds of any insurance claim may also be insufficient to cover the rebuilding costs. The Tahal Group may suffer material losses in excess of insurance proceeds which in turn may adversely affect its financial results and operations.

### **The Tahal Group may be subject to various warranty and indemnity claims and other costs relating to its projects**

With respect to its construction projects the Tahal Group may be subject to claims resulting from defects arising from workmanship, procurement and/or construction services provided within warranty periods. Actual or claimed defects in equipment and construction could give rise to claims, liabilities, costs and expenses, relating to loss of life, personal injury, damage to property or equipment and suspension of operations.

In projects in which the Tahal Group is a party to the organisation of a financing package for customers, the Tahal Group may be financially exposed. A financing bank may be able to exercise a right of recourse towards the Tahal Group in the event of a breach of financing agreements. The customary exposure in respect of this risk is 5 per cent. to 10 per cent. of the financed project's total financing. There is no financial instrument to hedge this risk.

### **Due to projected increase in the number of projects, the Tahal Group may face performance risks**

In light of the projected increase in the number of projects and their scope, the Tahal Group may face performance risks that stem from any deviation or mistake in the pricing projects which may lead to larger financial losses than those obtained in the past. Such a deviation may 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. The aforementioned may lead the Tahal Group to fail to comply with timetables and deliver poor performance quality due to a lack of professional manpower in the countries where it operates.

## **AUTOMOTIVE AND CONSUMER GOODS SECTOR**

### **The KI Group's businesses in the automotive and consumer goods sector depend on distribution agreements which may not be renewed. Failure to renew contracts may have a material adverse effect on the businesses, financial condition, operational results or prospects of the KI Group**

The businesses of Kardan Israel and all KI Group Companies that are active in the automotive sector depend on agreements with vehicle manufacturers authorising it to import and distribute vehicles in Israel. There can be no assurance that such agreements will be renewed. If such agreements are not renewed this could have a material adverse effect on the businesses, financial condition, operational results or prospects of the KI Group.

### **The KI Group depends on governmental permits; should the KI Group lose such permits this could have a material adverse effect on its business, financial condition, operational results or prospects**

UMI operates under a permit to act as a motor vehicle importer in Israel and certain other permits. Although UMI's permits have been extended in the past and UMI has no reason to expect that the permits shall not be extended in the future, it is possible that unforeseen circumstances would result in the permits not being extended. This may have a material adverse effect on the businesses, financial condition, operational results or prospects of the KI Group. In addition, any unforeseen changes in the regulatory environment in which UMI operates may affect its competitiveness in the motor vehicle market or lead to changes in the structure of the market in which UMI operates.

### **The KI Group's dependence upon GM Group companies may have an adverse material effect on its businesses, financial condition, operational results or prospects**

UMI has a significant dependence upon the GM Group who is its main supplier. In the opinion of UMI's management any significant deterioration in the status of the operations of the GM Group may have an adverse material effect on the business, prospects, financial conditions and results of UMI and the KI Group as a whole.



**The KI Group's sales may be affected by government-imposed import duties or a change in regulations which could materially adversely affect its businesses, financial condition, operational results or prospects**

If there is a change in the Israeli governmental policy in respect of import duties or a change in policy regarding the classification of a motor vehicle as private or commercial for tax purposes, this could result in changes in the demand for motor vehicles, in general, and for motor vehicles of certain sizes and types or for motor vehicles which are manufactured in specific countries, which could materially adversely affect the businesses, financial condition, operational results or prospects of the KI Group.

**Fluctuations in the standard of living in Israel and a slowdown in the Israeli economy may have an adverse effect on sales of private motor vehicles**

Fluctuations in the standard of living in Israel and a slowdown in the Israeli economy may have an adverse effect on the quantity of private vehicles sold by UMI.

**The KI Group holds stocks in substantial amounts. Any decrease in sales may therefore affect the KI Group's business results**

UMI's activity of importing and selling vehicles involves maintaining large inventories. These inventories may depreciate in value for various reasons including model obsolescence (for example through the introduction of new models), technological improvements, changes in regulation or changes in the rates of exchange of foreign currencies.

## **COMMUNICATIONS AND TECHNOLOGIES SECTOR**

**The KI Group has invested in early-stage companies operating in the communications and technologies sector. Such investments are characterised by a high degree of risk and difficulties in assessing the value of such investments. The KI Group may have to write-off investments in unsuccessful companies which may materially adversely affect its businesses, financial condition, operational results or prospects**

In the communications and technologies sector, the KI Group has made several investments in early-stage companies. The businesses of these companies are characterised by one or more of the following risks: (i) limited operating history and therefore difficulties with evaluating their performance, (ii) unproven business models and products, (iii) dynamic and competitive industry characterised by rapid change and uncertainty relating to new and emerging technologies and markets, (iv) research and development may not result in successful products or products may not achieve market acceptance and may not compete effectively with products of competitors which may hinder growth, (v) lack of ownership protection for some products that are not or can not be subject to protection by patents or trademarks, as a result of which a company may lose its competitive position, (vi) difficulty of prediction of market developments and trends, (vii) inability to raise additional financing, (viii) additional financing may cause material dilution to existing shareholders and (ix) inability to realise an exit, through an initial public offering, trade sale or otherwise providing liquidity to the shareholders.

In addition, in situations where the KI Group does not have full control over such companies the KI Group may be dependent on the co-operation of the other shareholders in a particular company to implement its desired business strategy or to realise an exit strategy. It is therefore difficult to assess the future prospects of such businesses, to anticipate if and to what extent such businesses may be successful and to value these investments. Investments in unsuccessful companies may have to be written-off in whole or in part, which may materially affect the businesses, financial condition, operational results or prospects of the KI Group.



## **RISKS RELATED TO THE SHARES**

### **The Offering may be terminated**

In certain circumstances, the Merger will not be effectuated as a result whereof (amongst others) the Offering will be terminated. Upon termination of the Offering, the Shares will not be issued.

The Company and GTC RE are parties to several loan agreements which include de-facto approval rights for the respective counterparties in respect of the realisation of the Merger. This means that if a counterparty does not grant its approval to the Merger, it has the right to require immediate repayment of the loan outstanding under the agreement. Although the Management Board has no reason to believe that the approvals will not be obtained, should one or more of such approvals not be granted, the Management Board and the management board of GTC RE may decide not to effectuate the Merger.

### **The marketability of the Shares may decline and the market price of the Shares may fluctuate and represent a different value than the value of the Shares calculated on the basis of the Exchange Ratio**

There is no assurance that the marketability of the Shares will improve or remain consistent following the Offering. The market price of the Shares at the time of the Offering may not be indicative of the market price for the Shares after the Offering has been completed. The market price of the Company's shares has experienced significant volatility in the past, and may continue to fluctuate widely, depending upon many factors beyond the Company's control. The market price of the Shares may be significantly affected by, among others, the following factors: (i) the Company's actual or anticipated operational results, (ii) the level of the Company's debt (iii) future sales of shares and issues of shares, (iv) new services or products offered, or new relationships entered into or existing relationships lost, by the Company or its competitors (v) changes in, or the Company's failure to meet, securities analysts' expectations, (vi) legislative and regulatory developments affecting the Company's business (vii) material litigation in which the Company may become engaged (viii) developments and technological innovations in the Company's business, or (ix) general market conditions and other factors beyond the Company's control. The market price of the Shares is also subject to fluctuations in response to issues of shares by the Company, the liquidity of trading in the Company's shares and capital reduction or purchases of shares by the Company, as well as investor perception of the success and impact of the Offering. As a result of these or other factors, the Shares may trade at prices significantly below their market price. The Company cannot assure that the public trading market price of the Shares will not decline.

### **The Company has a limited free float, which may have a negative effect on the liquidity, marketability or value of its shares**

Before the Offering, the controlling group of shareholders collectively held a number of shares jointly representing approximately 54.4 per cent. of the currently outstanding shares of the Company. Consequently, the free float of the Company's shares held by the public is limited. Upon completion of the Offering, assuming the issuance of the maximum number of Shares in the Offering, the free float shall consist of 55.5 per cent. The Company lacks any agreement with the group of controlling shareholders that restricts them from increasing their holding in the Company's shares.

### **A controlling group of shareholders is able to determine all matters requiring shareholder approval with a normal majority and will after the effectuation of the Merger most likely remain able to do so due to shareholders absenteeism during the general meetings of shareholders.**

A majority of the shares of the Company is held by a small group of people who control the Company and who have agreed to act together with respect to their shareholdings.

Accordingly, these controlling shareholders are able to determine the matters requiring shareholder approval with an absolute majority. Upon effectuation of the Merger these controlling shareholders together will no longer hold an absolute majority of the shares but most likely will remain able to determine the matters requiring shareholder approval with an absolute majority due to shareholders absenteeism during the general meetings of shareholders. The existence of this controlling group of shareholders makes the Company impervious to takeovers, whether by tender offer or otherwise.

**The pre-emptive rights of holders of the Company's shares may be restricted or waived by the Management Board subject to the approval of the Supervisory Board**

The holders of the Shares will generally have pre-emptive rights to subscribe for a pro-rata amount of any new shares issued by the Company. These rights, however, are subject to certain provisions of the Articles of Association and may – for a period of five years and with respect to a yearly number of not more than 10 per cent. of the Company's issued capital – be restricted or even waived by a resolution of the Management Board, subject to the approval of the Supervisory Board.

**The holders of the Shares face potential dilution of their shareholdings in the future**

The Company may issue shares in connection with future acquisitions of other businesses, financings or the funding of its business objectives. Any such issuances of shares will dilute the shareholdings of the holders of Shares. The Company may also grant options to purchase shares to members of management and employees of the Kardan Group. Any such grant, or exercise of any stock option, may dilute the shareholdings of the then existing holders of Shares. This dilution can be caused by the exercise of options or by the conversion of convertible debentures in the Company, which are convertible into shares of the Company.

**The stock exchanges on which the Shares are traded are located in different time zones and have trading days that do not or not fully overlap**

As the trading days and trading times of Euronext Amsterdam and TASE differ to some extent, a holder of Shares may not always be able to trade at the same time on the two stock exchanges as a result of which different prices may arise.

## IMPORTANT INFORMATION

No person is or has been authorised to give any information or to make any representation in connection with the Offering, other than as contained in this Prospectus, and, if given or made, any other information or representation must not be relied upon as having been authorised by the Company. The delivery of this Prospectus at any time after the date hereof will not, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information set forth in this Prospectus is correct as at any time since its date.

This Prospectus is being published in connection with the Offering, solely for the purpose of enabling you to consider investing in the Shares described herein by way of voting in favour of the Merger. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Shares offered hereby is prohibited. Each recipient of this Prospectus, by accepting delivery of this Prospectus, agrees to the foregoing.

The Company accepts responsibility for the information contained in this Prospectus. The Company further declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Company's knowledge, in accordance with the facts and contains no omission likely to affect its import. You should not assume that the information in this Prospectus is accurate as at any other date than the date of this Prospectus.

Any references to the Company or Kardan refer to Kardan N.V. and where relevant to Kardan N.V. and one or more Kardan Group Companies.

### Notice to Investors

The distribution of this Prospectus in certain jurisdictions may be restricted by law. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to sell, or an invitation to purchase, any of the Shares offered hereby in any jurisdiction in which such offer or invitation would be unlawful.

### Documents Incorporated by Reference, Annexes and Further Information

The following documents are incorporated by reference into this Prospectus:

- The Company's audited financial statements for the twelve month periods ended 31 December 2005, 2006 and 2007, as included in the Company's annual reports 2005, 2006 and 2007 and the 2005, 2006 and 2007 auditor's reports; and
- The Company's unaudited financial statements for the six month period ended 30 June 2008 and the auditor's review report in respect of these financial statements;
- The Articles of Association as in force and effect on the date of the Prospectus;

The following documents are attached to the Prospectus as Annex 1, 2 and 3 respectively and form an integral part of this Prospectus:

- the Merger Proposal dated 16 October 2008 and, as attached thereto, the proposed amendment to the Articles of Association as will be proposed to the general meeting of shareholders of the Company on or about 11 December 2008 ("**New Articles of Association**") (Annex 1);
- the memorandum of the Management Board explaining the Merger and the reasons for the Merger dated 16 October 2008 ("**Explanatory Memorandum relating to the Company**"), the memorandum of the management board of GTC Holding explaining the Merger and the reasons for the Merger dated 16 October 2008 ("**Explanatory Memorandum relating to GTC Holding**") and the memorandum of the management

board of GTC RE explaining the Merger and the reasons for the Merger dated 16 October 2008 (“**Explanatory Memorandum relating to GTC RE**” and together the “**Explanatory Memoranda**”) (Annex 2); and

- the auditor’s statement (*accountsverklaring*) (“**Auditors Statement**”) and auditor’s report (*accountantsverslag*) (“**Auditors Report**”) as required by article 2:328 paragraphs 1 and 2 of the Dutch Civil Code (*Burgerlijk Wetboek*) (“**DCC**”) (Annex 3).

Please be referred to the Company’s website ([www.kardan.nl](http://www.kardan.nl)) for further information on the Company, the Kardan Group Companies and their businesses. However, please note that the information and statements contained in the Prospectus, except where explicitly stated otherwise, refer solely to information as of the date of the Prospectus and only as stated or incorporated in the Prospectus. No other existing or future document or information, including the contents of the Company’s website or of websites accessible from hyperlinks on the Company’s website, forms part of, or is incorporated by reference into, this Prospectus.

### **Forward-Looking Statements**

Forward-looking statements are included in this Prospectus, in particular in the sections headed “Business” and “Operating and Financial Review”. Such forward-looking statements are based on the Company’s beliefs and assumptions and on information currently available to the Company. Forward-looking statements include: information concerning the Company’s and the Kardan Group Companies’ expected future results of operations, cost synergies, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements and expected trends in the industries in which the Company and/or the Kardan Group Companies operate. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believe”, “expect”, “plan”, “intend”, “anticipate”, “estimate”, “seek”, “potential”, “continue”, “may”, “will”, “should”, “could” or similar expressions, or the negative of these terms.

The risk factors stated in “Risk Factors” as well as any cautionary language elsewhere in this Prospectus, identify certain important factors that could cause actual results to differ materially from those in forward-looking statements and from historical trends. Forward-looking statements involve risks, uncertainties and assumptions. Investors should not place undue reliance on any forward-looking statements. Other than as required by applicable law or the applicable rules of any exchange on which the Company’s securities may be listed, the Company has no intention or obligation to update forward-looking statements after the date of this Prospectus.

### **Third Party Information**

The Company confirms that the information in this Prospectus that has been obtained from a third party has been accurately reproduced and that as far as the Company is aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Unless otherwise stated, statements herein regarding market positions of companies (including ourselves) and market conditions are based on good faith estimates of revenue by our management which are derived from the Company’s review of internal surveys, as well as external sources. External sources relate to market data and other statistical information of independent industry publications, government publications, reports by market research firms or other published (independent) sources, press releases and various annual reports. Without prejudice to the statement in the previous paragraph, although it believes these sources are reliable, the Company cannot guarantee accuracy and completeness of such sources as it does not have access to the information, methodology and other bases for such information and has not independently verified the information.

## THE OFFERING

### General

As part of the Merger process, the Company is offering up to 31,072,066 Shares to be newly issued in its share capital, with a par value of €0.20 each to Shareholders of GTC RE.

The Company will not issue fractions of Shares and therefore the number of Shares to be issued will be rounded down to whole numbers. To the extent Shareholders of GTC RE may be entitled to fractional Shares as a result of the application of the Exchange Ratio, the shareholders will be entitled to a payment in cash. This cash payment (in Euro, rounded down to the nearest Euro cent) shall be equal to the product of the relevant fraction of Shares and the Kardan share price at the Effective Date. Shareholders of GTC RE whose shares are registered directly in GTC RE's shareholders register (including the Nominee Company of United Mizrahi Bank Ltd. (the "**Nominee Company**")) will receive the cash payment directly in accordance with the Company's procedure with respect to the payment of dividends. The Nominee Company holds the shares for all the Shareholders of GTC RE whose shares are registered indirectly through the Israeli book entry system ("**Beneficial Shareholders**"). The Beneficial Shareholders will be entitled to receive fractions of book-entry interests, from the Nominee Company, according to the system acceptable by TASE.

The Offering is governed by Netherlands law.

The Offering is subject to the Merger becoming effective. More information on the effectiveness of the Merger is provided under "The Merger – Conditions to effectiveness of the Merger". If the Merger does not become effective, the Offering will automatically be withdrawn.

Upon effectuation of the Merger, the Company will not receive shares in its own capital in exchange for the shares it currently holds in GTC RE as in accordance with Dutch law, shares that are being held by the merging companies in the capital of the disappearing company (in this case GTC RE) will be cancelled automatically upon effectuation of the merger in accordance with article 2:325 paragraph 4 of the DCC.

### Proceeds

There will be no 'proceeds' in the Offering in the strict sense. The consequence of the Offering being successful is that Shareholders of GTC RE will cease to be shareholders of GTC RE and that they will become shareholders of the Company.

### Corporate Resolutions

The proposed issuing of the Shares is expected to be approved, as part of the decision to merge as contemplated by the Merger Proposal and the Explanatory Memoranda, by a resolution of the extraordinary general meeting of shareholders of the Company on 11 December 2008.

### Listing and Trading

Admission to listing and trading of the Shares on Euronext Amsterdam is expected to occur on or about 09:00 am (CET) on 17 December 2008 or as soon as possible thereafter, barring unforeseen circumstances. Admission to listing and trading of the Shares on TASE is expected to occur on or about 09:45 am (Israeli time) on 17 December 2008 or as soon as possible thereafter, barring unforeseen circumstances. It is expected that delivery of the Shares will be made on or about 16 December 2008. ING Bank N.V. has been appointed by the Company to act as listing and paying agent for the listing of the Shares on Euronext Amsterdam.

## **Shares Trading Information**

The Company's shares are listed and traded on Euronext Amsterdam and TASE.

ISIN: NL0000113652

Common Code: 017263374

Euronext Amsterdam Symbol: KARD

TASE Symbol: KRVN

## **Alterations**

To the extent required by applicable law any material alteration to information included in the Prospectus will be published in a supplement to this Prospectus which has been approved by the AFM. The Company will publish the availability of any supplement to the Prospectus in an advertisement in the OPC and a Dutch national daily newspaper. The results of the Offering will be published in a pricing statement. Any further information which the Company deems important to communicate and for which the Company is not required by the applicable law to publish a supplement to the Prospectus, will be communicated to investors through a press release or an advertisement.

## **Results of the Offering**

The results of the Offering will be published in a pricing statement.



## **REASON FOR THE OFFERING AND USE OF PROCEEDS**

The Offering is being made in connection with the Merger. The Merger is intended to create a larger holding company with a strengthened financial and equity position. The Merger is necessary to further increase the transparency of the Kardan Group and to create value for shareholders. For more information see “The Merger” chapter on page 38.

There will be no ‘proceeds’ in the Offering in the strict sense. The consequence of the Offering being successful is that Shareholders of GTC RE will cease to be shareholders of GTC RE and that they will become shareholders of the Company.

The Company expects the costs in relation to the Offering to amount to approximately €900,000.

## THE MERGER

### The Merger

The Company, GTC Holding and GTC RE propose to merge GTC RE into the newly incorporated company GTC Holding, a 100 per cent. subsidiary of the Company, whereby at the same time the Shareholders of GTC RE will become shareholders of the Company, all as contemplated by the Merger Proposal dated 16 October 2008 and the Explanatory Memoranda of the same date, which provide for the terms and conditions of the Merger. The Company will not issue fractions of Shares and therefore the number of Shares to be issued by the Company will be rounded down to whole numbers. To the extent Shareholders of GTC RE may be entitled to fractional Shares as a result of the application of the Exchange Ratio, the shareholders will be entitled to a payment in cash.

The Merger Proposal contains offers to holders of debentures issued by GTC RE. GTC RE has both GTC RE Convertible Debentures and GTC RE Non-Convertible Debentures. The Company offers to the holders of GTC RE Convertible Debentures, under the condition precedent of the Merger becoming effective, to exchange their GTC RE Convertible Debentures for convertible debentures issued by Kardan pursuant to the Merger ("**New Kardan Convertible Debentures**"), on the terms and conditions as described in the Merger Proposal. The Company offers to the holders of GTC RE Non-Convertible Debentures, under the condition precedent of the Merger becoming effective, to exchange their GTC RE Non-Convertible Debentures for non-convertible debentures issued by Kardan pursuant to the Merger ("**New Kardan Non-Convertible Debentures**"), on the terms and conditions as described in the Merger Proposal (see further "Treatment of debentures" below).

The Merger is intended to create a larger holding company with a strengthened financial and equity position. The Merger is necessary to further increase the transparency of the Kardan Group and to create value for shareholders.

The Merger will be governed by the terms and conditions following from the applicable provisions of Netherlands law, the Articles of Association, the Merger Proposal and the Explanatory Memoranda. Shareholders of the Company, GTC Holding and GTC RE will be asked to vote on the decision to merge as contemplated by the Merger Proposal and the Explanatory Memoranda at the extraordinary general meetings of shareholders of the Company, GTC Holding and GTC RE, respectively.

Upon effectuation of the Merger, the Company will not receive shares in its own capital in exchange for the shares it currently holds in GTC RE as in accordance with Dutch law, shares that are being held by the merging companies in the capital of the disappearing company (in this case GTC RE) will be cancelled automatically upon effectuation of the merger in accordance with article 2:325 paragraph 4 of the DCC.

### Merger Consideration

In the Merger, a holder of GTC RE shares will receive 0.81 Shares for every one GTC RE share, which is referred to as the "**Exchange Ratio**". As a result of fractions of shares occurring due to the Exchange Ratio, additional consideration in cash will be paid by the Company to the Shareholders of GTC RE in connection with the Merger.

The Shares to be issued in the Merger will be created under Netherlands law and will have the same rights as the currently outstanding shares of the Company, provided however that the Shares shall be entitled only to dividends declared by the Company after the date on which the Merger becomes effective.

## Treatment of Debentures

The Merger will have the following consequences for holders of debentures issued by GTC RE. GTC RE has issued both GTC RE Convertible Debentures and GTC RE Non-Convertible Debentures.

Under Dutch law, the holders of GTC RE Convertible Debentures are regarded as persons having special rights against the issuing entity in the legal merger, being the Company, and therefore need to be granted equivalent rights or another form of compensation. For that reason, the Company offers to the holders of GTC RE Convertible Debentures, under the condition precedent of the Merger becoming effective, to exchange their GTC RE Convertible Debentures for New Kardan Convertible Debentures. The New Kardan Convertible Debentures will have identical terms and conditions as the terms and conditions applicable to the GTC RE Convertible Debentures with the exception that the New Kardan Convertible Debentures will entitle the holders thereof to convert an amount of NIS 17.88 nominal value of New Kardan Convertible Debentures for 1 share in the Company (the “**Conversion Rate**”). The Conversion Rate has been determined on the basis of the Binomial Model as described under “Exchange Ratio and Conversion Rate” on page 40.

The New Kardan Convertible Debentures shall be issued, under the condition precedent of the Merger becoming effective, to all holders of GTC RE Convertible Debentures, provided that this proposal has been accepted during a meeting of the holders of GTC RE Convertible Debentures at which at least 50 per cent. of the holders of such debentures is present or represented by (i) a majority of the holders present at such meeting and (ii) a 75 per cent. majority of the value of the GTC RE Convertible Debentures represented in the meeting, and provided that the Israeli court has formally certified such resolutions of holders of GTC RE Convertible Debentures. The meeting of holders of GTC RE Convertible Debentures during which the abovementioned proposal was accepted was held on 13 November 2008.

The Company offers to the holders of GTC RE Non-Convertible Debentures, under the condition precedent of the Merger becoming effective, to exchange their GTC RE Non-Convertible Debentures for New Kardan Non-Convertible Debentures. The New Kardan Non-Convertible Debentures will have identical terms and conditions as the terms and conditions applicable to the GTC RE Non-Convertible Debentures with this exception that unlike the GTC RE Non-Convertible Debentures, a security shall be granted in relation to the New Kardan Non-Convertible Debentures as described in the Merger Proposal.

The New Kardan Non-Convertible Debentures shall be issued, under the condition precedent of the Merger becoming effective, to all holders of GTC RE Non-Convertible Debentures, provided that this proposal has been accepted during a meeting of the holders of GTC RE Non-Convertible Debentures at which at least 50 per cent. of the holders of such debentures is present or represented by (i) a majority of the holders present at such meeting and (ii) a 75 per cent. majority of the value of the GTC RE Non-Convertible Debentures is represented in the meeting, and provided that the Israeli court has formally certified this resolution of holders of GTC RE Non-Convertible Debentures. The meeting of holders of GTC RE Non-Convertible Debentures during which the abovementioned proposal was accepted was held on 13 November 2008.

Considering the results of the meetings of holders of GTC RE Convertible Debentures and GTC RE Non-Convertible Debentures, on 16 November 2008 GTC RE filed a motion with the district court in Tel-Aviv, Israel, to approve the arrangements with the holders of GTC RE Convertible Debentures and GTC RE Non-Convertible Debentures as described above (the “**Arrangements**”). In addition, on the same day, GTC RE published an announcement in two daily Hebrew newspapers with respect to the said motion. Any holder of GTC RE Convertible Debentures and GTC RE Non-Convertible Debentures can object to the Arrangements by filing a petition to the district court in Tel-Aviv, Israel within ten days as of the publication of the announcement in the newspaper. The district court’s approval of the Arrangements was

given on 17 November 2008, however, this court approval is subject to the condition that no objections will be filed during the ten-days period above mentioned, which ten-days period will end on 26 November 2008 (inclusive 26 November 2008).

## **Exchange Ratio and Conversion Rate**

### *Method used for determining the Exchange Ratio*

The Management Board and GTC RE's management board engaged Kesselman Finance PricewaterhouseCoopers Limited ("**PWC**") to advise management on the Exchange Ratio.

The Management Board and GTC RE's management board concluded that the most suitable method to determine the Exchange Ratio would be the Volume Weighted Average Price of the shares in the capital of the Company and in the capital of GTC RE, being the ratio of the value traded in every transaction to total volume traded over a particular time interval (the "**VWAP-method**"). As the shares of both Kardan and GTC RE are listed and freely traded on TASE, their respective share prices reflect the fair market value of both companies. In order to reflect the most accurate fair market value based on share prices in the calculation of the Exchange Ratio, the VWAP-method was chosen since in the opinion of the Management Board and the management board of GTC RE this model reflects most suitably the fair value of the share prices by taking into account the volumes and prices of all transactions.

Within the chosen VWAP-method, the calculation date for the Exchange Ratio was determined to be 2 October 2008, being the last trading date on TASE prior to the determination of the Exchange Ratio by the Management Board and GTC RE's management board. In order to eliminate the effect of non-recurring events, calculations were based on stock market prices at TASE over both 30 and 90 trading day's average prices ending on and including 2 October 2008. Since both the Company and GTC RE are listed on TASE, prices were based on stock market prices at TASE to avoid that the comparison between the Company and GTC RE would be influenced by external factors such as difference in currency and different trading hours.

### *Exchange Ratio*

Based on the VWAP-method as described above, the ratio between prices of the Company's shares and GTC RE shares ranged between 0.76 (calculated over 30 trading days) and 0.81 (calculated over 90 trading days). In light of the long and relative turbulent trading period that has passed since the initial announcement of the Merger (10 April 2008) and the determination of the Exchange Ratio by the Management Board and GTC RE's management board (5 October 2008) both management boards have decided that the VWAP that is based on a 90 trading days reflects an appropriate Exchange Ratio. As a result thereof, for each GTC RE share, 0.81 Shares will be granted. The Company will not issue fractional Shares. Reference is made to the chapter "The Offering" under the heading "*General*" or in this chapter under the heading "*Timetable for the Merger*" for more information on cash payouts to shareholders who on the basis of the Exchange Ratio would otherwise be entitled to fractional Shares.

### *Method used for determining the Conversion Rate*

The Management Board and GTC RE's management board engaged PWC to advise management on the Conversion Rate.

The Management Board and GTC RE's management board concluded that a reasonable method to determine the Conversion Rate would be the binomial model, a widely-used option-pricing model. This model is based on the terms and conditions of the GTC RE Convertible Debentures and on other parameters identified as being relevant to the computation of the fair value of the conversion rate as further described in the Explanatory Memoranda (the "**Binomial Model**").

Furthermore, in order to determine the Conversion Rate, volatility of the Company's stock and the stock of GTC RE was taken into account. The volatility, as per 2 October 2008, is based on the historical volatility of a reference period of 30 days and amounts to 142 per cent. for GTC RE and 128 per cent. for the Company. As a result of the fact that following the Merger there will be a larger combined entity, a 10 per cent. lower volatility (of the calculated 128 per cent.) for the combined entity after the Merger was assumed, which equals 115 per cent.

#### *Conversion Rate*

Based on the above described Binomial Model and on the assumed volatility of the Company's stock and the stock of GTC RE, the Conversion Rate amounts to NIS 17.88. Therefore, it will entitle the holders of New Kardan Convertible Debentures to convert an amount of NIS 17.88 nominal value into one share in the Company.

### **Recommendation of the Management Boards and the Supervisory Boards of the Merging Entities**

On 16 October 2008, the Management Board and Supervisory Board of the Company, both by unanimous vote, approved the Merger by signing the Merger Proposal. Furthermore, the Explanatory Memorandum with respect to the Company was signed by the Management Board. Pursuant to the Articles of Association, the Company's general meeting of shareholders may adopt the decision to merge as contemplated by the Merger Proposal and the Explanatory Memoranda after this has been proposed by the Supervisory Board. During a meeting of the Supervisory Board held on 15 October 2008, the Supervisory Board unanimously resolved to recommend and propose to the Company's general meeting of shareholders to vote FOR the decision to merge as contemplated by the Merger Proposal and the Explanatory Memoranda.

On 16 October 2008, the management board and supervisory board of GTC RE, both by unanimous vote, approved the Merger by signing the Merger Proposal. Furthermore, GTC RE's management board signed the Explanatory Memorandum with respect to GTC RE. Pursuant to the articles of association of GTC RE, GTC RE's general meeting of shareholders may adopt the decision to merge as contemplated by the Merger Proposal and the Explanatory Memoranda after this has been proposed by the supervisory board of GTC RE. During a meeting of the supervisory board held on 15 October 2008, the supervisory board of GTC RE unanimously resolved to recommend and propose to GTC RE's general meeting of shareholders to vote FOR the decision to merge as contemplated by the Merger Proposal and the Explanatory Memoranda.

On 16 October 2008, the management board of GTC Holding, by unanimous vote, approved the Merger by signing the Merger Proposal and the Explanatory Memorandum with respect to GTC Holding. The management board of GTC Holding unanimously recommends and proposes to GTC Holdings' general meeting of shareholders to vote FOR the decision to merge as contemplated by the Merger Proposal and the Explanatory Memoranda.

Each of the Management Board, the management board of GTC RE and the management board of GTC Holding, considers the Exchange Ratio and the Conversion Rate contemplated with respect to the Merger to be reasonable vis-à-vis the respective shareholders and the holders of GTC RE Convertible Debentures.

### **Shareholders Entitled to Vote; Vote Required**

#### *GTC RE*

Holders of GTC RE shares whose ownership is directly recorded in GTC RE's shareholder register may vote at the GTC RE extraordinary general meeting of shareholders if they are registered in GTC RE's shareholder register on 27 November 2008 (the "**Record Date**"). Holders of GTC RE shares whose ownership is not directly recorded in GTC RE's



shareholder register may vote at the GTC RE extraordinary general meeting of shareholders if they own GTC RE shares at the Record Date, and follow the appropriate instructions for attending the extraordinary general meeting of shareholders and voting in person or voting by proxy, as applicable. Holders may cast one vote for each GTC RE share that they own at the Record Date.

In order to effect the Merger, GTC RE's general meeting shareholders must adopt the decision to merge GTC RE into GTC Holding as contemplated by the Merger Proposal and the Explanatory Memoranda. The decision to merge requires the approval of at least an absolute majority (50 per cent. + 1) of the votes cast at the GTC RE extraordinary general meeting of shareholders, provided that at least fifty per cent. of the issued capital of GTC RE is present or represented at that meeting, where either (i) such majority includes the affirmative votes of at least one third of all the votes of those shareholders who are present at the meeting and who, according to the information of the management board, do not have a Personal Interest (as defined in the articles of association of GTC RE), considering that in a count of all the votes of such shareholders abstentions shall not be taken into account, or (ii) the opposition votes of those shareholders who are present at the meeting and who, according to the information of the management board, do not have a Personal Interest (as defined in the articles of association of GTC RE), shall not constitute more than 1 per cent. of the total number of votes that can be cast in a general meeting of shareholders of GTC RE. However, if less than fifty per cent. of the issued share capital of GTC RE is present or represented at the extraordinary meeting of shareholders the decision to merge will require the approval of at least two thirds of the votes cast where either (i) such majority includes the affirmative votes of at least one third of all the votes of those shareholders who are present at the meeting and who, according to the information of the management board, do not have a Personal Interest (as defined in the articles of association of GTC RE), considering that in a count of all the votes of such shareholders abstentions shall not be taken into account, or (ii) the opposition votes of those shareholders who are present at the meeting and who, according to the information of the management board, do not have a Personal Interest (as defined in the articles of association of GTC RE), shall not constitute more than 1 per cent. of the total number of votes that can be cast in a general meeting of shareholders of GTC RE.

### *The Company*

Holders of the Company's shares whose ownership is directly recorded in the Company's shareholder register may vote at the Company's extraordinary general meeting of shareholders if they are registered in the Company's shareholder register at the Record Date. Holders of the Company's shares whose ownership is not directly recorded in the Company's shareholder register may vote at the Company's extraordinary general meeting of shareholders if they own the Company's shares at the Record Date, and follow the appropriate instructions for attending the extraordinary general meeting of shareholders and voting in person or voting by proxy, as applicable. Holders may cast one vote for each share in the Company that they own at the Record Date.

In order to effect the Merger, the Company's general meeting of shareholders must adopt the decision to merge GTC RE into GTC Holding as contemplated by the Merger Proposal and the Explanatory Memoranda. The decision to merge requires the approval of at least an absolute majority (50 per cent. + 1) of the votes cast at the Company's extraordinary general meeting of shareholders where at least fifty per cent. of the issued share capital of the Company is present or represented at the meeting. However, if less than fifty per cent. of the issued share capital of the Company is present or represented at the extraordinary meeting of shareholders the decision to merge will require the approval of at least two thirds of the votes cast.

### *GTC Holding*

Holders of shares in the capital of GTC Holding may, either in person or by proxy, attend and vote at GTC Holding's extraordinary general meeting of shareholders if they are recorded as

shareholders in GTC Holding's shareholder register on the date of the extraordinary meeting of shareholders. Holders may cast one vote for each share in GTC Holding that they own on the date of the extraordinary meeting of shareholders.

In order to effect the Merger, GTC Holding's general meeting of shareholders must adopt the decision to merge GTC RE into GTC Holding as contemplated by the Merger Proposal and the Explanatory Memoranda. The decision to merge requires the approval of at least an absolute majority (50 per cent. + 1) of the votes cast at GTC Holdings extraordinary general meeting of shareholders where at least fifty per cent. of the issued share capital of GTC Holding is present or represented at the meeting. However, if less than fifty per cent. of the issued share capital of GTC Holding is present or represented at the extraordinary meeting of shareholders the decision to merge will require the approval of at least two thirds of the votes cast.

### **Timetable for the Merger**

The Merger Proposal dated 16 October 2008 and the Explanatory Memoranda, each dated 16 October 2008, have been publicly available as of 24 October 2008 and are attached to this Prospectus as Annex 1 and 2.

The extraordinary general meeting of shareholders of GTC RE that will vote on the Merger will be held on 11 December 2008, at the offices of GTC RE. The extraordinary general meeting of shareholders of the Company that will vote on the Merger will be held on 11 December 2008, at Rosarium, Amstelpark 1, Europaboulevard, Amsterdam, the Netherlands. The extraordinary general meeting of shareholders of GTC Holding that will vote on the Merger will be held on 11 December 2008, at the Offices of GTC Holding.

If the proposal to merge is adopted by the requisite majority at the extraordinary general meetings of shareholders of the Company, GTC Holding and GTC RE and all other conditions precedent are satisfied or waived, the Merger is expected to become effective on or about 16 December 2008.

Upon effectiveness of the Merger, Shareholders of GTC RE will automatically receive Shares in accordance with the Exchange Ratio and on the basis of their respective holdings. The Company will not issue fractions of Shares and therefore the number of Shares to be issued will be rounded down to whole numbers. To the extent Shareholders of GTC RE may be entitled to fractional Shares as a result of the application of the Exchange Ratio, the shareholders will be entitled to a payment in cash. This cash payment (in Euro, rounded down to the nearest Euro cent) shall be equal to the product of the relevant fraction of Shares and the Kardan share price at the Effective Date. Shareholders of GTC RE whose shares are registered directly in GTC RE's shareholders register (including the Nominee Company) will receive the cash payment directly in accordance with the Company's procedure with respect to the payment of dividends. The Nominee Company holds the shares for all Beneficial Shareholders. The Beneficial Shareholders will be entitled to receive fractions of book-entry interests, from the Nominee Company, according to the system acceptable by TASE.

Shareholders of GTC RE, whose shares are registered directly in the GTC RE shareholder register, will automatically receive Shares through an entry in the shareholder register of the Company. Shareholders of GTC RE, whose shares are registered indirectly, that is through a book-entry system, in the GTC RE shareholder register, will automatically receive Shares through a credit to their respective securities accounts.

The meeting of holders of GTC RE Non-Convertible Debentures and the meeting of holders of GTC RE Convertible Debentures approved the Arrangements on 13 November 2008. The district court's approval of the Arrangements was given on 17 November 2008, however, this court approval is subject to the condition that no objections will be filed during the

ten-days period above mentioned, which ten-days period will end on 26 November 2008 (26 November 2008 inclusive). Holders of GTC RE Non-Convertible Debentures will automatically receive New Kardan Non-Convertible Debentures and holders of GTC RE Convertible Debentures will automatically receive New Kardan Convertible Debentures upon effectiveness of the Merger.

The first day of listing and trading of the Shares on TASE and on Euronext Amsterdam is expected to be on or about 17 December 2008, the second trading day after the Effective Date.

The GTC RE shares, which will automatically disappear in the Merger, will no longer be listed and traded on TASE. The last day of listing and trading of the GTC RE shares on TASE is expected to be on or about the Effective Date.

### **Conditions to Effectiveness of the Merger**

The decision to merge as contemplated by the Merger Proposal and the Explanatory Memoranda must be adopted with the required majorities, by the general meetings of shareholders of the Company, GTC Holding and GTC RE. In addition, the Merger can only be effected if none of the Company's, GTC RE's or GTC Holding's creditors have opposed the Merger by filing a petition with a relevant court. However, if all creditors' petitions have been withdrawn and the lifting of all oppositions to the Merger have become enforceable the Merger may be effectuated. If one or more of the conditions to effectiveness of the Merger is not satisfied, the Merger cannot be effectuated as a result whereof (amongst others) the Offering will be withdrawn.

### **Other circumstances surrounding the Merger**

The Company and GTC RE are parties to several loan agreements which include de-facto approval rights for the respective counterparties in respect of the realisation of the Merger. This means that if a counterparty does not grant its approval to the Merger, it has the right to require immediate repayment of the loan outstanding under the agreement. Although the Management Board has no reason to believe that the approvals will not be obtained, should one or more of such approvals not be granted, the Management Board and the management board of GTC RE may decide not to effectuate the Merger.

### **Accounting Treatment of the Merger**

For accounting purposes, the Merger shall be considered as an acquisition of minority interests as of 1 October 2008.

The difference between the cost of the acquisition, being the fair value of the shares issued by Kardan to the Shareholders of GTC RE which is, under IFRS 3, deemed to constitute the consideration for the minority interest acquired, and the minority interest acquired, i.e., the shares in GTC RE currently held by minority shareholders, will be accounted for as goodwill (or "bad will", as the case may be) in the books of Kardan (the parent-entity extension method).

Upon effectuation of the Merger, all the assets and liabilities of GTC RE, with the exception of the GTC RE Convertible Debentures and the GTC RE Non-Convertible Debentures (together "the net assets") will be acquired by GTC Holding by operation of law. GTC Holding will account for these assets and liabilities at the book value as accounted for by GTC RE prior to the effectuation of the Merger; the net of these assets and liabilities will be considered additional capitalisation of GTC Holding. Concurrently the GTC RE Convertible Debentures and the GTC RE Non-Convertible Debentures, under the conditions set forth in the Merger Proposal, shall be exchanged for New Kardan Convertible Debentures and New Kardan

Non-Convertible Debentures. Kardan will assume this debt against the issuance of a loan between Kardan and GTC Holding. Kardan will record these liabilities in its books as of the Merger becoming effective for the same amount GTC RE had in its books prior to the Merger becoming effective.

The financial data of GTC RE will be included in the financial statements of GTC Holding as of 1 October 2008.

For statutory purposes, the financial year of GTC RE will end on 30 September 2008.

## BUSINESS

### General

The Company is an international investment company based in the Netherlands, listed on Euronext Amsterdam and TASE. The Company's business is developing, managing and realising the value of its investments and activities in the markets in which it is present.

Focused on emerging markets mostly within CEE, CIS and China, the Company is primarily active in three sectors: real estate, financial services and infrastructure. The Company's activities are divided into seven fields of operation including: real estate, financial services – lending and retail banking, financial services – insurance and pension, infrastructure – assets and infrastructure – projects. In addition, the Company is active in the automotive & consumer goods and communications and technologies sectors through its subsidiary Kardan Israel.

The Company has a consistent track record of creating long-term shareholder value through active management of investments in its group companies and by leveraging on its business experience, financial resources and local and international network. The Company's businesses develop through organic growth and acquisitions. The Company provides capital and management resources to consolidate its businesses and accelerate the expansion of its activities. The Company reinforces its growth by forming strategic partnerships with local and international institutions, in order to add value to the business through brand recognition, operational expertise and international reputation.

The past several years have been years of growth for the Company. The Company has transferred the bulk of its business from Israel to CEE and subsequently to CIS and Asia as well. Activities initiated by the Company and developed gradually over the past decade have started to come to fruition, and express the Company's strategy and entrepreneurial abilities.

The current crisis in the financial markets could have negative consequences for (amongst others) the results of the Company, its growth opportunities, the value of its assets, the ability to materialise the value of its assets, its ability to raise financing as well as the terms of such financing.

The Company's strategy is to create value in the medium to long term, and its activities are based on the following principles:

- activities in markets and fields with significant growth potential;
- lean management level, combining entrepreneurial spirit with vast international business experience, capable of fast decision making;
- autonomic management of the Company's areas of business by a professional and experienced team supervised by the Company's headquarters;
- alignment of interests with leading individuals in the Kardan Group, as these individuals hold shares and options in certain Kardan Group Companies; and
- extensive cooperation, including partnerships, with large international entities and key local players.

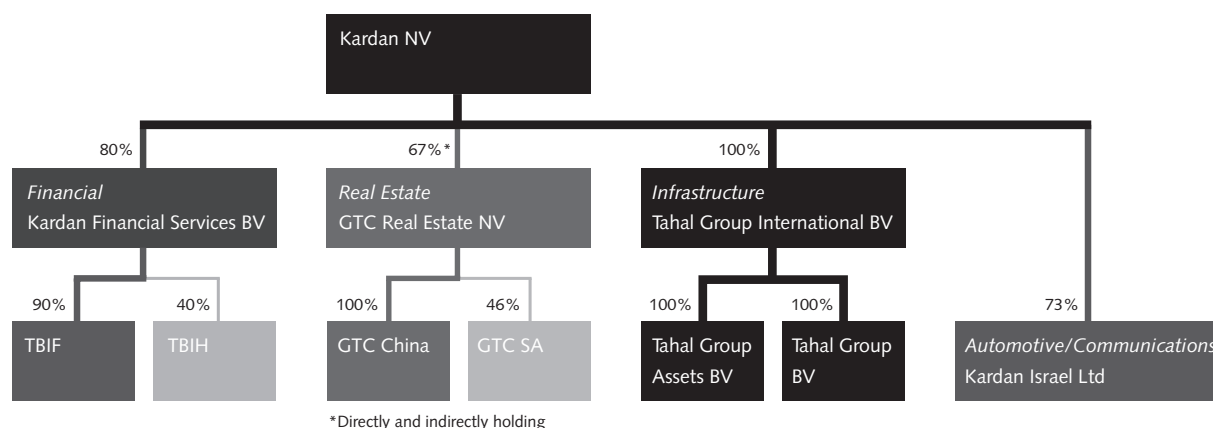
As per 30 June 2008, the Company's total assets amounted to approximately €5.0 billion, with revenues of €329 million in the first half of 2008 and 16,948 employees working for Kardan Group Companies.<sup>4</sup>

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<sup>4</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.



The Company's significant subsidiaries are KFS, GTC RE, Tahal Group International (which are all incorporated in the Netherlands) and Kardan Israel (incorporated in Israel). The following chart is a simplified presentation of the Kardan Group.



## I. REAL ESTATE

### General

The Company operates in the real estate segment mainly through its holdings in the GTC Group. The GTC Group is active in CEE, Russia and Ukraine through GTC SA, China through GTC China, India and Western Europe. The GTC Group operates in the field of location, initiation and development of residential housing and sales of housing units as well as in the field of location, initiation, development, leasing and management of office buildings and commerce centres.

The GTC Group's business and strategy are based upon principles with the following main characteristics:

- active in emerging markets;
- gradual spread to new markets;
- acting in each country via the establishment of a local company;
- focus on mainly large projects in central areas in important cities;
- project construction in stages;
- partnerships – mainly with property sellers, local real estate partners, international funding entities and strategic entities; and
- developing and retaining senior executives.

The Company is active on the real estate market in Israel mainly through its subsidiary Kardan RE.

### Key Drivers

#### GTC Group

The following factors are key drivers of the GTC Group's business:

- having a qualified local management team with vast experience in real estate;
- distribution of the GTC Group's real estate portfolio over various countries and cities and within several real estate fields (offices, commerce and residential housing);

- having an intelligent selection method for sites for construction of the GTC Group projects and suitability of the project type to the specific location;
- focus on a selection of large scale projects, constructed in stages, depending on demand;
- strict attention to conducting a due diligence investigation prior to entering every project; and
- adherence to predetermined project completion dates.

#### *Operations in CEE, Russia and Ukraine*

The following factors are key drivers of the GTC Group's business in CEE, Russia and Ukraine:

- a comprehensive understanding of and vast experience in the local real estate market;
- close working relationships with international financing organisations;
- engaging international marketers, with proven skills and a successful working experience record with GTC SA;
- the GTC Group's proven ability to enter into agreements with a wide range of international and local tenants for medium and long term periods; and
- the size of the GTC Group and the distribution of the GTC Group Companies throughout CEE.

#### *Operations in China*

The following factors are key drivers of the GTC Group's business in China:

- operating in developing areas in China's second tier cities and aiming to benefit from operation in regions with a considerable gap between real estate supply and demand and where the potential economic and real estate market growth is higher than the average in China;
- focus on the growing local middle class rather than on foreign investors and thus demonstrating higher and more stable growth; and
- acting jointly with local parties and combining the GTC Group's global experience and resources with the comprehensive experience of partners in the local market.

### **Overview of Activities**

#### *CEE*

In CEE, GTC RE is active via its 46.2 per cent. holding in GTC SA, a company incorporated in Poland, which has through its subsidiaries and related companies, since 1994 dealt in location, initiation, development, leasing, sale and management of office buildings, shopping centers and residential housing in CEE. GTC SA is one of the leading developers in CEE and CIS, developing real estate projects in CEE, while exploring CIS markets for further expansion. GTC SA's business strategy is to develop multi-phased large scale projects in prime locations.

GTC SA shares have been listed on the Warsaw, Poland Stock Exchange since May 2004 and are included in major indices such as WIG 20, MSCI and the GPR250 index which includes the 250 largest and most liquid companies in the world in the real estate sector. The WIG 20 list contains ratings of the twenty largest companies listed for trading in the Poland Stock Exchange, according to criteria such as market value, share trade volumes, number of shares held by the public (10 per cent. at least), share trade turnover (daily average should be 200,-300,000 shares) and the activity field of the company (GTC SA is classified as a real estate company). GTC SA's activities include the development and management of office

buildings and parks, shopping and leisure centers and residential projects. GTC SA has vast experience in the region in which it operates and is active in the following countries: Poland, Hungary, the Czech Republic, Romania, Serbia, Croatia, Slovakia, Bulgaria, Ukraine and Russia.

GTC SA's projects in CEE include office buildings, shopping centers and residential developments. The projects involve as per 1 October 2008, 905,009 square meters of office space in various stages of planning and development, 414,640 square meters of shopping centers in planning and under construction and 633,672 square meters of residential property in planning and under construction.

GTC SA's total portfolio of investments, completed, in development or planned comprises approximately 2.3 million square meters of net office, retail and residential space. GTC SA's strategy is to further diversify its property portfolio in terms of sector, geographical spread and maturity of assets.

In the last years, GTC SA sold selected assets from its investment property portfolio. Such transactions included, among others, the sale of Mokotów Business Park in Warsaw, 50 per cent. of Galeria Kazimierz in Kraków, the Lighthouse in Prague and the America House office building in Bucharest. In line with this strategy, GTC SA has entered into discussions on the sale of its 50 per cent. stake in Galeria Mokotów shopping centre ("**Galeria Mokotów**") in Warsaw, Poland. GTC SA owns 50 per cent. of the shares of Rodamco CH1 Sp. z o.o., the owner of Galeria Mokotów.

#### *Russia and Ukraine*

In May 2008, GTC Real Estate Investment Russia B.V. ("**GTC Russia**"), a 95 per cent. subsidiary of GTC SA, acquired a 50 per cent. stake in an office development project in Viborgsky, a district of St. Petersburg. GTC Russia intends to develop 110,000 square meters of net office space, to be completed in 2011-2013. In expanding its activity into Russia, GTC SA plans to capitalise on its close relationships with the world's largest corporate tenants and its track record of developing high quality office space that meets international standards. For a further description of this transaction, please refer to the section "*Recent developments*" in this chapter.

In July 2008, GTC Real Estate Investments Ukraine B.V. ("**GTC Ukraine**") purchased, through its subsidiaries, 10 per cent. of Europort Ltd. ("**Europort**"), a company active in real estate investments in the CIS region. Furthermore, GTC Ukraine acquired 49.99 per cent. of Europort Investment (Cyprus) 1 Limited ("**Europort Cyprus**"), a 100 per cent. subsidiary of Europort. Europort Cyprus is active in the Ukrainian real estate sector and is developing a combined offices and logistics project of 120,000 square meters in Odessa, Ukraine. For a further description of this transaction, please refer to "*Recent developments*" in this chapter.

#### *China and India*

In 2005, after the GTC Group gained vast experience and in-depth acquaintance with markets in CEE and established solid operations in that region, the GTC Group decided to expand its operations to another geographical region: China. The GTC Group identified China as a growth market for its real estate development activities given the strong economy, increasing purchasing power, the trend of massive migration from rural to urban areas (urbanisation) and government reforms of the housing sector. In 2006 and 2007, the GTC Group continued to expand its operations in China. The GTC Group operates in China through GTC China, a company incorporated in Hong Kong and fully owned by GTC RE.

The GTC Group has gradually expanded its activities in the Chinese market. The GTC Group studied the business environment, recruited local teams and opened offices in Chinese cities. In the last three years, GTC China has entered into seven agreements for the acquisition or

lease of land for real estate development. The planned real estate development concerns mainly residential development together with its partner Lucky Hope Holding Limited (“**Lucky Hope**”) and other partners in large-scale cities. GTC China has more than 2.7 million square meters of building rights under development in China and operates in the cities Shenyang, Xian/Xianyang, Chengdu, Changzhou and Hangzhou.

GTC China intends to continue its growth through investment and development of new residential and commercial property depending on the market conditions. In addition, GTC China plans to expand its activities to additional second and third tier cities in China.

The GTC Group expanded location, initiation and development of real estate projects to India as well in 2007. In November 2007, GTC RE entered into a first memorandum of understanding with D.S. Kulkarni Developers Ltd. (“**DSK**”), a registered public company in India whose stocks are traded in the Bombay stock exchange, to establish a joint venture in Pune, India, for the construction of a 1.5 to 2 million square meter residential and commercial multiservice special economic zone project. In July 2008, GTC RE and DSK signed a shareholders agreement further defining the proposed co-operation. Closing of that transaction is dependent on receiving final approvals and fulfilment of additional conditions. For a further description of this transaction, reference is made to the section “*Recent developments*” in this chapter.

#### *Israel*

In Israel, the Company conducts its real estate activities through Kardan Israel, in which the Company holds approximately 73 per cent. Kardan RE, 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.

In March 2008, Kardan Israel and Kardan RE undertook a transaction with Delek Real Estate Ltd. (“**Delek**”), whereby Kardan RE will buy all the issued share capital of Dankner Investments Ltd. (“**Dankner**”), a company dealing in the initiation, planning, development and construction of residential projects in Israel and fully owned by Delek, in return for the allocation of shares constituting 40 per cent. of Kardan RE’s issued share capital to Delek. This transaction is subject to the fulfilment of various conditions. Following this transaction Kardan RE will be jointly held by Kardan Israel (60 per cent.) and Delek (40 per cent.) and Kardan RE will become one of the largest residential property developers in Israel with a land bank of approximately 7,000 housing units of which 1,600 are already under construction. For a further description of this transaction, please refer to the section “*Recent developments*” in this chapter.

#### *Western Europe*

In Western Europe, the GTC Group conducts its limited activities through GTC Investments B.V. (“**GTC Investments**”).

Since the GTC RE management considers that the GTC Group’s main objective is to be a real estate developer in developing areas, the GTC Group does not intend to devote significant resources to other areas in the near future, including investments in fruitful assets in Western Europe, unless attractive business opportunities are created.

In November 2005, GTC RE and Property and Building International Investments (2005) Ltd. (“**PBC**”) entered into a joint venture agreement in relation to GTC Investments, with the intention of expanding operations of GTC RE to Western Europe. On the date of establishment of the joint venture, GTC RE and PBC each held approximately 49 per cent. of the issued capital of GTC Investments. At present, GTC RE holds 46.25 per cent. of the

issued capital of GTC Investments and PBC holds 50 per cent. of the issued capital of GTC Investments. The rest of GTC Investments' shares are held by two minority shareholders<sup>5</sup>. GTC RE granted put options to these two minority shareholders which entitle them to oblige GTC RE to buy their holdings in GTC Investments. According to the joint venture agreement GTC Investments will develop, construct, promote and manage real estate projects in Europe, other than CEE and CIS.

In November 2005, GTC Investments bought 85 per cent. of the shares of Blitz Portfolio GmbH ("**Blitz**") for €108 million. Blitz holds 94 per cent. of a portfolio which consists of seven German real estate companies. These companies own seven office buildings located in central German cities (Bonn, Hamburg, Munich, Mainz and Essen) with an overall area of approximately 55,000 square meters. Most of the property is leased to banks and governmental companies. The office buildings produce an annual income of €9.5 million for GTC Investments.

In April 2006, a transaction was completed through which GTC Investments acquired an 80 per cent. stake in Durango Switzerland B.V. ("**Durango Switzerland**") which subsequently purchased a real estate portfolio comprising nine office properties in Switzerland. The properties are quality office buildings situated in major cities throughout Switzerland, including Bern, Zurich, Fribourg, Neuchatel and others. The majority of the properties are let to Swisscom Immobilien AG ("**Swisscom**"). The total consideration for the real estate portfolio amounts to approximately CHF 96.4 million including acquisition costs. Approximately CHF 80 million of the total consideration was financed through a bank loan. The assets produce an annual income of €4.1 million for GTC Investments.

#### *Overview of projects*

The current real estate projects in which the Company is engaged as of 30 June 2008 are stated in the tables below:

Following are details of leased projects as of 30 June 2008:

Country	No. of properties	Gross area (sq. m.)	Net Rentable Area sq. m.	Rental revenues in 2007 (€'000)	Occupancy	Original cost (€'000)	Project Value in Financial Statements (€'000)	GTC SA share
<b>Poland</b> . .	12	288,500	213,160	21,280	96%	344,402	813,480	50%-100%
<b>Romania</b>	1	18,500	13,300	—	71.8%	18,700	40,464	47.3%
<b>Hungary</b> .	3	54,000	48,260	7,198	83%	57,400	128,800	97.5%
<b>Serbia</b> . . .	2	35,500	30,900	3,075	96%	46,500	94,050	97.5%
<b>Croatia</b> . .	1	44,421	33,500	3,682	100%	76,000	190,170	68.1%
<b>Russia</b> . .	1	37,694	30,719	—	95%	3,764	3,764	95.0%
<b>Total</b> . . . .	20	478,615	369,839	35,235		546,766	1,270,728	
<b>Associated Companies</b>								
<b>Czech Republic</b>	1	27,660	23,392	5,526	91%	8,593	18,970	29.7%

<sup>5</sup> The minority shareholders are Mr. Alain Ickovics, who hold 1.25 per cent. of GTC Investments' issued share capital, and Mr. Eli Alroy, a key member of the GTC Group, who holds 2.5 per cent. of GTC Investments' issued share capital.

Following are details of rental projects under construction and design as of 30 June 2008:

Country	No. of properties	Gross Built Area sq. m.	Net Rentable Area sq. m.	Total Estimated Costs	GTC SA share
<b>Poland</b> .....	20	535,598	394,830	848,740	100%
<b>Romania</b> .....	8	311,550	235,060	482,400	47.3%-94.6%
<b>Hungary</b> .....	11	369,113	314,018	471,300	48.8%-97.5%
<b>Serbia</b> .....	5	127,778	104,377	193,100	97.5%
<b>Croatia</b> .....	2	84,400	66,400	137,500	97.2%
<b>Bulgaria</b> .....	4	204,000	145,904	330,400	61.8%-95%
<b>Russia</b> .....	2	137,500	110,000	413,000	47.5%
<b>Ukraine</b> .....	1	103,000	90,500	108,700	56.9%
<b>Total</b> .....	53	1,872,939	1,461,089	2,985,140	
<b>Associated Companies</b>					
<b>Czech Republic</b> .....	9	252,637	199,061	341,000	29.7%



Valuation of investment properties:

Property name	Valuation method	Value (in thousands of Euro unless stated otherwise)		Average rent per sq. m. (in Euro unless stated otherwise)			Capitalisation rate (in percents)			Date of last valuation
		31 December 2006	31 December 2007	30 June 2006	31 December 2007	30 June 2008	31 December 2006	31 December 2007	30 June 2008	
Galeria Mokotow <sup>(*)</sup> .....	DCF	\$ 370,300 (€251,660)	\$ 466,300 (€316,890)	\$ 466,300 (€294,664)	\$ 33.8 (€25.7)	\$ 33.8 (€25.7)	6%	5.25%	5.25%	30 September 2007
Galeria Kazimierz <sup>(*)</sup> .....	DCF	147,600	169,000	174,300	22.0	22.0	6%	5.60%	5.60%	30 September 2007
Globis Poznan .....	DCF	23,000	34,100	34,100	12.2	12.6	8.20%	5.90%	5.90%	30 September 2007
Galileo .....	DCF	\$ 24,170 (€16,430)	\$ 30,460 (€20,700)	\$ 30,460 (€19,247)	14.3 (€9.7)	\$ 15.7 (€10.7)	7.40%	6.10%	6.10%	30 September 2007
Topaz .....	DCF	33,820	36,150	36,150	14.8	15.2	5.90%	5.60%	5.60%	30 September 2007
Newton .....	DCF	—	\$ 34,140 (€23,200)	\$ 34,140 (€21,509)	—	\$ 16.4 (€11.1)	—	6.0%	6.0%	30 September 2007
Edison .....	DCF	—	33,000	33,000	—	16.7	—	6.10%	6.10%	31 December 2007
Notus .....	DCF	—	28,900	28,950	—	17.1	—	6.20%	6.20%	31 December 2007
Platinum 1 .....	DCF	—	35,660	35,660	—	19.7	—	6.10%	6.10%	31 December 2007
Globis Wroclaw .....	DCF	—	—	46,700	—	—	—	—	6.20%	31 March 2008
Nefryt .....	DCF	—	—	58,500	—	—	—	—	6.20%	31 March 2008
Zephirus .....	DCF	—	—	30,700	—	—	—	—	6.25%	30 June 2008
Center Point 1 .....	DCF	50,100	54,000	54,000	14.3	14.3	6.59%	5.65%	5.65%	30 September 2007
Center Point 2 .....	DCF	59,400	64,300	64,300	12.4	13.0	6.59%	5.65%	5.65%	30 September 2007
Riverloft Office .....	DCF	—	10,500	10,500	—	12.0	—	7%	7%	30 September 2007
GTC House .....	DCF	35,500	40,050	40,050	20.0	21.3	9%	8.1%	8.1%	30 September 2007
Avenue 19 .....	DCF	—	54,000	54,000	—	19	—	7.40%	7.40%	31 December 2007
Avenue Mall <sup>(**)</sup> .....	DCF	—	190,170	190,170	—	31.8	—	6.25% Commercial 7% offices	6.25% Commercial 7% offices	30 September 2007
Sarka Business Park <sup>(***)</sup> .....	DCF	17,090	18,970	18,970	6.6	6.6	10.5%	9.5%	9.5%	30 September 2007
Galeria Buzau <sup>(*)</sup> .....	DCF	—	—	40,464	—	—	—	—	7.78	30 June 2008

(\*) Operated through joint venture (50 per cent.), represents the full project.

(\*\*) GTC Group part is 70 per cent. in the project.

(\*\*\*) GTC Group part is 31.6 per cent. in the project.

Following are details of residential projects as of 30 June 2008:

Country	No. of Projects	Gross Built Area sq. m.	Selling rights sq. m.	No. of units under construction	No. of housing units sold as of 30th June 2008	Total Estimated Costs	GTC SA share
Poland(*)	5	230,200	192,689	28	21	346,900	100%
Romania	6	512,528	487,511	1,626	1,075	600,000	47.4%-94.6%
Hungary	2	170,408	129,725	271	213	184,500	48.8%-97.5%
Serbia	1	19,685	16,600	181	181	24,100	97.5%
Croatia	1	23,600	23,600	—	—	79,800	77.85%
Bulgaria	1	65,000	61,750	—	—	62,000	63.4%
Slovakia	2	114,524	83,534	176	118	186,500	66.5%
<b>Total</b>	<b>18</b>	<b>1,225,945</b>	<b>995,409</b>	<b>2,282</b>	<b>1,608</b>	<b>1,483,800</b>	
<b>Associated Companies</b>							
<b>Czech Republic</b>	<b>4</b>	<b>326,362</b>	<b>258,170</b>	<b>773</b>	<b>430</b>	<b>495,600</b>	<b>29.7%</b>

(\*) The GTC Group is considering changing the use of some of the projects from residential to commercial.

### China

Following are details of rental projects under construction as of 30 June 2008:

City	No. of properties	Gross Built Area sq. m.	Net Rentable Area sq. m.	Total Estimated Costs	GTC China share
Chengdu	1	85,941	34,380	73,029	75%

Following are details of residential projects as of 30 June 2008:

City	No. of Projects	Gross Built Area sq. m.	Selling rights sq. m.	Number of units under construction	No. of housing units sold as of 30th June 2008	Total Estimated Costs	GTC China share
Shenyang	3	1,191,173	1,159,988	2,852	1,836	372,053	50%
Xi-an	1	856,138	812,973	4,055	2,128	250,457	50%
Changzhou	1	545,020	541,857	—	—	245,813	50%
<b>Total</b>	<b>5</b>	<b>2,592,331</b>	<b>2,514,818</b>	<b>6,907</b>	<b>3,964</b>	<b>868,323</b>	

## Recent Developments

### *Entering the Russian real estate market*

In May 2008, GTC Russia signed an agreement to acquire a 50 per cent. stake in an office development project in Viborgsky, a district of St. Petersburg, Russia. GTC Russia intends to develop 110,000 square meters of net office space, to be completed in 2011-13. The 4.3 hectare site is located in the north-west part of St. Petersburg, about 1.5 km from the city centre. St. Petersburg is the second largest city in Russia, with a population of 4.6 million people. The project is expected to generate approximately €53 million of net rental income upon its full completion.

### *Entering the Ukrainian real estate market*

In July 2008, GTC Ukraine signed an agreement to acquire a 10 per cent. stake in Europort, a company active in investing in real estate investments in the CIS region, for a total consideration of approximately €3.5 million. Furthermore, an agreement was signed to acquire 49.99 per cent. of Europort Cyprus, a 100 per cent. subsidiary of Europort. Europort Cyprus is active in the Ukrainian real estate sector and is developing a combined offices and logistics project of 120,000 square meters in Odessa, Ukraine. GTC Ukraine will pay the nominal value of the shares, amounting to €20,000. In addition, GTC Ukraine will grant Europort Cyprus a loan amounting to €7.9 million. The remainder of the Europort Cyprus shares will continue to be held by Europort. The costs for the development of the total project are estimated to amount to approximately €109 million. In case Europort acquires another land plot in Ukraine or Russia, GTC Ukraine will increase its stake in Europort to 20 per cent. for an additional consideration of €4.4 million.

### *Acquisition of building rights in Hangzhou, China*

In July 2008, GTC China won an auction to acquire a land plot of approximately 10,400 square meters with construction rights of approximately 109,000 square meters in the city of Hangzhou in China. GTC China will hold 50 per cent. in the project whereas its local partner Geely Group Co. Ltd. ("**Geely**") (the largest private automobile manufacturer in China) will hold 40 per cent. and the remaining 10 per cent. will be held by a third partner. The closing of this transaction is expected before the end of 2008. The project is a mixed use project and will be comprised of residential (84,000 square meters), retail and office space (25,000 square meters in total). The price for the land is to be paid in instalments and will amount to approximately €40 million. The costs for the development of the total project are estimated at approximately €155 million. Beginning of construction is expected to take place during 2009 and is expected to take approximately three years. Hangzhou, home to more than 6 million people, is located 175 km south west from Shanghai and is the capital of the Zhejiang province. This is one of China's wealthiest and most heavily populated provinces located within the Yangtze River Delta.

### *Acquisition of building rights in Changzhou, China*

During January-February 2008, GTC China won tenders for two adjacent plots in Changzhou, one with a total area of 104,000 square meters of land with up to approximately 290,000 square meters of building rights and one with a total area of 90,035 square meters of land with up to approximately 252,000 square meters of building rights. The project will be developed together with Lucky Hope and another partner from Hong Kong, Hong Kong Zhong Xin Group Limited ("**Zhong Xin**"). Zhong Xin has prior experience in Changzhou. GTC China and Lucky Hope will each have a 45 per cent. stake in the project and Zhong Xin will have a 10 per cent. stake. GTC China intends to develop a mixed use project on the land comprising of mainly residential but also including commercial space. The purchase price for the land amounts to approximately €36 million and GTC China estimates that the total cost of the project will amount to €185 million. The construction of the project has started and is estimated to take four years. Changzhou is centrally located in one of the richest provinces in China, Jiangsu province. This province has a population of 3.5 million and is located 162 km west of Shanghai and 103 km south of Nanjing.

### *Acquisition of building rights in Shenyang, China*

In February 2008 GTC China purchased land in Shenyang with a total area of 260,454 square meters of land with 650,000 square meters of building rights. The project will be developed together with Lucky Hope. GTC China and Lucky Hope will each have a 50 per cent. stake in the project. GTC China intends to develop a mixed use project consisting mainly of residential space which will, however, also include at least 50,000 square meters of commercial space.

The purchase price for the land amounts to €37 million and GTC China estimates that the total cost of the project will amount to €150 million. The construction of this project has started and is estimated to take four years.

Shenyang is the capital of the Liaoning province and is considered an important industrial center in China. Shenyang is the transportation and commercial center of China's Northeastern region and has a population of 7.2 million. In terms of urban population it is the largest city in the Northeastern region and among the top ten largest cities in China.

#### *Agreement with Delek on the merger with Dankner*

In March 2008, Kardan RE signed an agreement with Delek to merge Kardan RE's and Dankner's activities. Delek will transfer all of its shares in Dankner, a fully owned subsidiary of Delek, to Kardan RE. Delek will receive 40 per cent. of the shares of Kardan RE. The final agreement and the closing of the transaction are subject to certain conditions precedent, including antitrust and tax authority approvals.

Kardan Israel has granted Delek a put option to sell its shares in Kardan RE to Kardan Israel in case there will not be an initial public offering ("IPO") of the merged entity following the fourth anniversary of the closing of the transaction described in the previous paragraph. The consideration for this sale will be determined by an appraiser but will not be less than \$67.5 million. Under certain circumstances, the exercise period of the put option can be postponed by Kardan RE for an additional year.

#### *Agreement with DSK*

Further to the memorandum of understanding signed in November 2007, in July 2008, GTC RE and DSK signed a shareholders agreement further defining the proposed cooperation regarding the initiation and development of a residential and commercial project in the Indian city of Pune. In accordance with the agreement, the parties will establish a joint venture to be financed by GTC RE and DSK in equal amounts. DSK will transfer the land that it owns, which has an area of approximately 1 million square meters and is located in Pune, to the joint venture. The building rights that are linked to the land enable construction of approximately 1.5 million to 2 million square meters and the parties intend to gradually build a commercial project (on approximately half of the land) and a residential project (on approximately the other half of the land). In return for its rights in the joint venture, GTC RE shall transfer a sum equivalent to INR 38,364,547,000 to the joint venture. Approximately INR 1,950,000,000 shall be paid upon closing of the transaction and will be dependent on the fulfilment of certain conditions, including the receipt of a special economic zone approval (which grants significant tax benefits) and final determination of the exact building rights necessary for construction permits. The remaining amount is conditional and shall be paid in two equal sums which are dependent upon achieving certain goals to which the parties have agreed.

#### *Agreement with Ocif*

In September 2008, Kardan Israel entered into an agreement with Ocif Investments & Development Ltd ("Ocif"), a public company listed on TASE, for the purchase of 20 per cent. of the shares of Ocif Amad Assets Ltd. and rights in shareholders' loans in consideration for a sum of about NIS 11.7 million and release from a guarantee. The purchase of the shares was effectuated on 11 November 2008. Also in September 2008, Kardan Israel gave notice that another agreement had been executed between the parties, granting Kardan Israel an option to purchase another 10 per cent. of Ocif Amad Assets Ltd.<sup>6</sup> At the date of the Prospectus, Kardan Israel has exercised the said option, but completion of the share purchase is subject to the fulfilment of suspensory conditions that have not yet been fulfilled.

<sup>6</sup> As at the date of this Prospectus, Kardan Israel holds 50 per cent. of the shares of Ocif Amad Assets Ltd.

## **Certain Material Investments, Acquisitions and Agreements**

Further to the information included in this chapter, this paragraph describes certain other material investments, acquisitions and agreements.

### *GTC International*

In June 2005, GTC RE entered into an agreement with the Company specifying that the Company would transfer all its holdings in GTC International B.V. ("**GTC International**"), which comprised approximately 10.29 per cent. of GTC International's issued share capital. In return for the GTC International shares, GTC RE allocated 9,390,377 shares in the capital of GTC RE to the Company, comprising immediately after allocation approximately 15.3 per cent. of GTC RE's issued share capital. Additionally, GTC RE allocated to the Company NIS 28,582,453 nominal value GTC RE Convertible Debentures which are convertible into GTC RE shares which were issued under a prospectus published by GTC RE in Israel in August 2004. The transaction was closed in July 2005. Upon the closing of the transaction the holding of GTC RE in GTC International increased from approximately 57 per cent. to approximately 67.3 per cent. The Company's holding in GTC RE increased from approximately 49.7 per cent. to approximately 57.4 per cent.

In August and October 2005, GTC RE entered into a series of agreements to purchase additional shares of GTC International. Upon completion of these transactions in December 2005 and January 2006, GTC RE became the sole shareholder of GTC International. Pursuant to the first agreement, entered into in August 2005, GTC RE purchased pro-rata to its holdings in GTC International at that time, shares in GTC International from FIC Globe B.V. ("**FIC**"). The remaining shares held by FIC in GTC International were purchased by ADRI International B.V. ("**ADRI**"), a fully owned subsidiary of AZORIM Investment Company in Development and Construction Ltd. Pursuant to that transaction, GTC RE acquired approximately 3 per cent. of the shares in GTC International, in return for an amount of \$8.97 million. Under the second agreement, also entered into in August 2005, GTC RE purchased approximately 5.17 per cent. of the shares in GTC International from two minority shareholders in GTC International, pursuant to similar terms to the first acquisition agreement described above, in return for an amount of \$15.4 million. Pursuant to a third agreement, entered into in October 2005, GTC RE acquired, jointly with GTC International, all ADRI holdings in GTC International (approximately 24.5 per cent.) in return for a total amount of \$91.6 million.

Upon completion of the aforementioned transactions GTC RE held all shares in the capital of GTC International. Following that, GTC International was merged into GTC RE. This merger became legally effective on 27 April 2006. The result of this merger was that all assets and liabilities of GTC International (including but not limited to the shares held by GTC RE in the capital of GTC SA) were transferred by operation of law to GTC RE and GTC International ceased to exist.

### *Israel*

In 2006, Kardan RE and two other companies purchased (in equal shares) land totalling 135,000 square meters in a site near Bait Dagan meteorological station in Israel. The overall cost of the purchase was \$5.8 million. 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 jointly undertake to improve, design and develop 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.

On 1 February 2007, Kardan RE signed an agreement with a third party to buy its rights to the lot on 150 and 152 Menahem Begin St., Tel Aviv. The lot is located close to the offices of



Kardan in Tel Aviv on which Kardan RE has significant additional construction rights. The purchased lot is 5,000 square meters. The lot includes property rights according to a 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 obtaining the above rights, Kardan RE shall pay the seller a total purchase price of NIS 83.2 million of which NIS 31.3 million were remitted upon signing of the transaction. The remaining part of the purchase price shall be remitted on the date that the Israel Land Administration grants its approval for the project. The zoning plan that applies to the lot enables gross construction totalling 40,000 square meters for offices, commerce and housing. In order to realise all rights according to the new zoning plan, Kardan RE would have to pay additional costs required, among other things, for contracts with the Israel Land Administration and Tel Aviv municipality and signing of different development and/or purchase agreements. The abovementioned agreement determines a mechanism for adapting the purchase price, whereby if all the above mentioned additional costs borne by Kardan RE will in total be less than NIS 69 million, the difference shall be added to the purchase price paid to the seller. Should the total additional costs exceed NIS 69 million, 30 per cent. of the purchase price shall be deducted from the purchase price for any sum exceeding the above. Completion of the transaction is subject to the Israel Land Administration's approval to extend said development agreement and permission to transfer rights to Kardan RE. According to the agreement, the seller must act to obtain the said permission by April 2008. On 1 April 2008, the responsibility of the handling and obtaining of permits was transferred to Kardan RE for a period of up to ten months. In the beginning of September 2008, an assessment was received from the Israel Land Administration according to which, in order to capitalise and extend the development agreement, a payment of NIS 86.4 million is required. As a result hereof, the amount required can only be reduced if an objection is lodged against the assessment with the Israel Land Administration.

In July 2007, Kardan RE acquired 50 per cent. of El-Har Engineering and Construction Limited ("**El-Har**") 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 NIS 18 million.

On 23 September 2008, an agreement was signed between Kardan RE and Resido FIBI Ltd. ("**Recido**") in which Recido obliged to pay back Kardan RE an amount of NIS 12.3 million which has been paid by Kardan RE as an advance for the "Beer Yaakov" project. On 6 October 2008, the district court in Tel Aviv approved the request filed by Recido, its parent company Milomor Ltd. ("**Milomor**") and other related parties, to freeze the proceedings against Recido. To secure the above mentioned claim, Kardan RE has (i) a first degree pledge and an assignment of rights in a total amount of NIS 12.3 million on a claim of Milomor and Lendeko Israel Initiating and Managing LTD ("**Lendeko**") (Recido's related party) relating to the Beer – Yaakov project and (ii) a personal guarantee of Mr. Freddy Robinson – the controlling shareholder of Milomor. Kardan RE is examining the effect of the above mentioned proceedings.

#### *Other*

In January and December 2006, GTC RE signed agreements to receive loans in a sum of up to €100 million from Israel Discount Bank Ltd. ("**Discount Bank**").

In January 2007, GTC RE signed a trust note relating to the issuance of bonds to institutional investors of up to NIS 550 million. The trust note applies also to approximately NIS 784 million worth of bonds issued within the expansion of the series in November 2007.



## Competition

### *CEE*

In CEE, the 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 the GTC Group properties are located, such as IMMOEAST AG and TriGranit Development Corporation, which are active in the real estate market in CEE. The competition is mainly over the search for properties for initiation, development, construction and rental.

Some of the GTC Group's office buildings are located in developing areas which include some other office buildings. The increase of office buildings and commercial spaces in regions where the GTC Group properties are located can have a material adverse effect on the GTC Group's ability to rent out vacant buildings and 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 the GTC Group operates or intends to operate its own shopping malls, may lead to a decline in income from rent in the shopping malls operated by the GTC Group and to a decline in occupancy as well.

The 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 the GTC Group in a certain country, sometimes continue to contract with the group in other countries because of the advantages the GTC Group offers. Additionally, the reputation gained by the GTC Group helps the company to expand to other countries and market its projects to larger renters and anchor tenants.

Like in the rental market, in residential construction the GTC Group is also exposed to competition from a number of real estate developers, real estate companies and other real estate property owners in regions where the 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.

### *China and India*

The real estate market in China is a decentralised market, in which hundreds of large real estate companies operate, where large local companies specialise in construction of residential housing (e.g. China Vanke Co. Ltd, China Forte Land Co. Ltd and Guangzhou R&F Property Co. Ltd.) followed by companies from Hong Kong (e.g. China Resources Land Ltd., The Wharf Holdings Ltd.) and Singapore (e.g., CapitalLand Ltd.), which operate in the field of commercial real estate and prestigious residential housing in first and second tier cities. 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 first tier cities, many companies expand operations to additional second and third tier cities, resulting in a price increase in these regions for commercial land and residential real estate. Various regulations implemented 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 second tier cities since 2005 and established an organisational 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 in which local government promotes foreign investments, to avoid high land prices. GTC RE cannot estimate the share of GTC China in the Chinese real estate market.

The competition in the Indian real-estate market is diversified and fragmented. There are a large number of various players, ranging from small-local builders to large nationwide

developing corporations. Within this competitive environment the GTC Group's strategy in India is to cooperate with reputable local partner(s), to invest in projects in which the land is already approved for construction and to focus on residential and special economic zone projects.

### *Israel*

Israeli real estate projects are characterised by great diversity. The number of large construction companies, including Africa Israel Investments Ltd., Shikun Ovdim Ltd., Delek, Neveh Gad Building and Development Ltd. and Azorim Investment Dev. & Constr. Ltd., is limited. 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 the geographical proximity. Furthermore, in certain cases there is competition from the used housing on offer.

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 tenants for property. Plentiful office buildings and commercial spaces in regions where Kardan RE has fruitful property may have a material negative impact on Kardan RE's ability to rent out available space and on the rent it collects. Kardan RE cannot evaluate its market share.

## **General Environment and Impact of External Factors**

### *General macro economical environment*

The current crisis in the financial markets may affect the global credit market and the world economy. Financial institutions which finance real estate transactions and/or institutions involved in real estate transactions in general and houses and units purchase in particular, may be forced to apply a stricter policy of extending credit lines and mortgages, to increase the interest rate on credit and also to increase the interest rate on secured credit in mortgages extended to buyers of units and houses. Therefore, real estate projects in which the GTC Group participates and all financing issues relating thereto, may be affected by reduced financing sources, the ability to refinance existing projects, increased financing expenses and/or reduced customer demand. Currently, the GTC Group is not able to estimate the full impact of these factors and the effect on the GTC Group's activity.

### *CEE*

The CEE region experienced significant economical growth over the last fifteen years, following the downfall of the communist regimes. Nevertheless, the gap between eastern and western Europe is still wide but expected to decrease in the next few years. Countries in which GTC SA is active enjoyed a fast economic growth rate in recent years.

The development of modern office spaces has only begun to increase in CEE during the last 10 to 15 years. Therefore, even today, the ratio between the total area of modern office spaces in CEE central cities to the number of residents is significantly lower than in Western European cities. During recent years there was a growth in the scope of modern office spaces in CEE central cities. The accelerated construction activity in CEE 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 has begun to develop and these markets are expected to develop significantly during the next few years. The GTC

Group has a considerable scope of office space in CEE. The results of the GTC Group will be affected by the real estate market condition for office spaces in CEE during the next few years, and therefore a slow-down in the real estate market for office spaces will affect the group's activity and results.

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

The modern residential real estate market in some CEE countries 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 demand for modern apartments is 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. 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.

### *China*

China is considered to be the largest growing economy in the world, due to the fact that it has a 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 30 years from an economy controlled by the central government to a market economy, open to international markets. After years of increase in the Gross National Product ("**GNP**"), the GNP increased in China in 2006 by 11.1 per cent. and the GNP growth in 2007 was 11.4 per cent. The GNP per capita is approximately \$5,300. According to official data, unemployment in cities reached 4 per cent. at the end of 2007, while the unemployment rate in rural regions is significantly higher<sup>7</sup>.

In recent years, China has become a major source of attraction for the world's real estate investors for a number of reasons<sup>8</sup>:

- (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 per cent. and amounted to a total sum of \$350 billion;
- (b) The reform of China's economy which led to its gradual integration into the world's economy included joining the World Trade Organisation ("**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, which can be seen in terms of a 17.2 per cent. growth in the per capita disposable income in the main cities and a rise of more than 15 per cent. of the wage level; and
- (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.

<sup>7</sup> Data included in this section are quoted from CIA publications, the Chinese Bureau of Statistics and the Economist Magazine.

<sup>8</sup> 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 in January 2008.

During 2006, the Chinese government enacted new regulations in order to moderate the high price increase of real estate properties. The regulations impose limitations on the purchase of real estate properties by foreign residents and by real estate companies established by foreign residents (mainly by imposing the need for an advance approval). New regulations also limit the construction of apartments of more than 90 square meters. 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 government increased its supervision of the enforcement of the aforesaid regulations by Chinese local governments in order to moderate 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 by the selective granting of permits for investment in real estate projects in foreign currency in 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 was intensified. In view of the aforementioned policy of the Chinese government to restrict foreign investments in real estate, GTC RE prefers to operate in second and third tier cities, allowing some relief on the implementation of this policy by the Chinese government. On the other hand, the tax imposed on foreign companies operating in China was reduced from 33 per cent. to 25 per cent. (equal to the tax imposed on local companies). GTC RE estimates that these 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 cooperation with new local and international partners. In the second half of 2007, residential sales prices in China's first tier cities – Shanghai, Guangzhou, Shenzhen – decreased, followed by a decrease in residential sales volume in other large cities. This is mainly due to general lack of confidence following recent events in international financial markets and China's stock exchanges and due to the government policy to limit funding for residential purchases beyond the buyer's first apartment. In September 2008, China's central bank reduced its benchmark lending rate by 27 basis points to 7.2 per cent. The fundamental factors driving demand for residential property – urbanisation, growth in income and disposable income levels – remain unchanged.

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. Yet, the supply of modern, high level commercial centers of the type developed by GTC China, is still low in second and third tier cities,<sup>9</sup> where the retail market is mostly comprised of supermarkets, department stores and malls with a relatively low management and maintenance level. A report, published in December 2007 by Jones Lang LaSalle, indicates that approximately 51 per cent. of retail companies active in China plan to increase the number of their stores throughout the country and approximately 28 per cent. of those companies plan to increase the average store area. Approximately 77 per cent. of the retail companies operating in the larger China area (China, Hong Kong and Taiwan) also expect increased transaction volumes and 47 per cent. of those companies expect increased profits

<sup>9</sup> 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.

in 2008. In addition, according to said publication, approximately 57 per cent. 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 the quality of life and increased personal disposable income.<sup>10</sup> Retail sales volume increased in 2007 by 20 per cent. and the increase in the personal disposable income exceeded the GNP growth rate (over 10 per cent.).<sup>11</sup>

### *India*

India's population exceeds 1.1 billion people, with a GNP of less than \$1000 per capita, and with a growth rate (during the last 5 years) of 7-9 per cent. per year. The strongly upcoming middle class and the open and liberal approach of the Indian government, leading to reforms of rules and regulations, are important generators for this growth.

Although advance payments of buyers are a major source of financing used by real estate developers and there is an efficient mortgage banking system supporting the buyers in financing, a system guaranteeing payments before final delivery of the project is lacking. There is no common practice of providing bank guarantees. Furthermore, there is no effective land registration. Hence, much depends on the reputation and credibility of both the developer and the buyer.

To avoid speculation, new regulations relating to foreign direct investments in real estate were issued by the Indian government. These regulations, amongst others, specify the minimum financial investment, the minimum size of a project, the minimum amount of years that investments cannot be retracted from India and include major constraints on loans to be provided by Indian lenders to foreign investors.

### *Israel*

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

*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 in general and the real estate business in particular. Following the second Lebanon war, the housing business suffered a freeze throughout the summer of 2006 but returned to normal in October 2006. The years 2006 and 2007 were characterised by a selective rise in prices in the Tel Aviv housing and office market and luxury apartments in Jerusalem. In 2008 there has been a slowdown in the selling of residential units in Jerusalem mostly because of the decrease in foreign buyers.

*Regulatory requirements* – Activities in the industry are influenced by and subject to regulatory procedures and legal requirements regarding planning, construction and the modification thereof. Modified regulatory demands may have a negative influence on Kardan RE 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 puts a constraint on the company's operation in the industry.

*Manpower availability* – During 2007, the Israeli government continued to apply the "closed skies" policy in the foreign manpower field and to deport foreign workers living in the country without the appropriate visa. At the same time, application of a reform, focusing mainly on a structural change in all matters relating to the employment of foreign workers for construction through designated manpower corporations, which began in 2006, continued. As a result, an ongoing shortage of manpower was created in the construction industry due to the over-

<sup>10</sup> Data are based on official data of the Chinese government, as of January 2008.

<sup>11</sup> Data are based on World Bank data and data from Capital Economics, one of the leading economical research firms.



dependence on 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 expansion of Israeli companies engaging in real estate in 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. The year 2008 is to be characterised by the increase of the prices of raw materials and construction work.

*Government Policy* – Kardan RE'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.

*Fluctuations in the CPI and interest rate* – Kardan RE finances a large part of its commercial operation by loans linked to the CPI and non-annexed credit in NIS. Its revenue from rent is annexed to the CPI. Therefore, fluctuations in the CPI and interest rate influence Kardan RE's cash flow and financing expenses.

*Fluctuations in interest and rate of foreign currency* – Kardan RE does not have credit in US Dollars and does not owe for US 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 US Dollar and Euro. Also, 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 US Dollar and Euro) might affect expenses and the demand for real estate projects.

*Fluctuations in the construction input index* – Kardan RE's agreements with major contractors for project execution and construction is in NIS linked to the construction input index. The major part of Kardan RE's revenue is derived from the sale of apartments annexed to the construction input index (and the remainder annexed to the CPI). Changes in the construction input index directly influence the costs of housing project construction and revenues from sale of apartments thereby influencing cash flow and operational results. In the construction field, an increase in the price of construction input affects the costs of raw materials, the costs of manpower and the engagements with subcontractors.

*Israeli housing business* – The Israeli housing construction sector is characterised by stiff competition. A large number of companies deal in initiation, construction and sale of housing projects. Housing construction is subject to legal aspects 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 US 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 elapsed between purchasing rights to land and approval of zoning plans and construction permits may have a substantial influence on the project profitability, availability and the cost of financing sources.



*Israeli property rental business* – Israeli property rental business is characterised 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 recent 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 purchase prices have risen. In areas outside the Dan area rent and purchase prices have stabilised and risen slightly. This trend of increased demand and rising rent prices has continued in 2007 and stayed stable during 2008.

## **Environment**

The GTC Group surveys the plots of land which it acquires using environmental specialists in the various countries. The examination is conducted according to the environmental standards of the European Union. These examinations are usually carried out during a due diligence examination which takes place prior to the acquisition of land.

## **Regulatory**

In the regions within which the GTC Group operates it is subject to laws and regulations relating to planning and construction, land, municipal supervision and environmental regulations.

## **II. FINANCIAL SERVICES**

### **General**

The Company operates in the financial services sector through its 80 per cent. holding in KFS. KFS is a banking and insurance holding group, active in 11 countries in CEE and CIS with over thirty investments. The KFS Group, through its operational subsidiaries, has a loan portfolio of approximately €1.4 billion as of 30 June 2008, annual insurance premiums of €390 million, over 1.7 million members in its pension funds and assets under management of approximately €800 million as of 30 June 2008.<sup>12</sup> The countries in which the KFS Group operates have a total population exceeding 300 million inhabitants. This market is reached through a vast distribution network comprising approximately 10,200 branches and points of sale with over 14,000 employees.

KFS is the holding company of TBIF and TBIH. KFS holds 90.38 per cent. and 40 per cent. in TBIF and TBIH respectively. TBIF is a retail financial services provider (banking, consumer finance, leasing, mortgages and asset management) active in Russia, Ukraine, Romania, Bulgaria and Slovakia. TBIH is a provider of insurance (non life insurance and other insurances) and pension services in several CEE and CIS countries. TBIH is jointly controlled by KFS and VIG, a leading insurance group in CEE headquartered in Vienna, Austria, and listed on the Vienna Stock Exchange.

The KFS Group's objective is to expand its role as a provider of financial services in selected countries in CEE and CIS. TBIF focuses on the development of banking and lending operations in Ukraine, Russia, Bulgaria and Romania. All lending operations such as consumer finance, leasing and mortgages are intended to be provided by banks owned by TBIF. This structure will optimise TBIF's activities from an operational and funding point of view. In order to achieve this structure TBIF will further develop its Ukrainian and Russian banks and will try to attain holdings in other banks in the CEE region. With its strategic partner VIG, TBIH intends to continue to develop its current portfolio, which increased significantly in 2007 due to several acquisitions of insurance activities in Turkey, Ukraine, Russia, Albania, Macedonia and Kosovo.

<sup>12</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

The KFS Group's strategy is to generate value for shareholders through activity in the financial services sector of selected CEE and CIS countries. The KFS Group wishes to act as a financial services provider in the countries in which it is active and focuses on reaching significant growth in the medium-long term.

The following principles have guided and continue to strategically guide the KFS Group:

- early penetration into countries that the KFS Group has identified as having significant business potential. The early identification is essential for achieving the land grab effect and enables occupying a 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 a significant market share in the stages when competition is relatively limited, through creating strong brands and establishing a broad array of branches;
- development and expansion of the KFS Group's activity in the banking and retail credit field and the insurance and pension field in the countries in which the KFS Group currently operates and countries in which the KFS Group may operate in the future, while suiting the activity to the specific market through expanding activities of existing companies and through acquisition of new companies;
- establishing new ventures in the fields of activity in which the KFS Group is already active or acquiring controlling holdings in existing companies and taking an active part in their management, along with partnerships with local and international bodies (banks, professional unions, investment companies and local business people). In Russia and Ukraine, in certain cases, the KFS Group has adopted a business model which is based on partnership and joint control with local bodies. In these cases, the KFS Group is punctilious regarding shareholders agreements that define its rights in the joint management of the companies in which it is a shareholder, as well as in share transactions in each of the aforementioned companies;
- working with management, employees and suppliers from CEE and CIS. Management is performed with coordination and under the supervision of KFS, TBIH and TBIF headquarters situated in the Netherlands;
- at 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;
- establishing an extensive national marketing system in each country of operation, including, branches, sales points and agents;
- creating strong brands in the countries in which it is active. The KFS Group's entrance into markets in primary development stages creates a situation in which the local KFS Group brand is familiar, often more so than other the international brands, especially in cases in which veteran local companies with familiar brands were acquired;
- attaining resources for continuing the KFS Group's investment activity and support for continuing development of the scope of activity of subsidiaries; and
- assimilation of Western quality management tools and technology in the KFS Group's companies.

## **Key Drivers**

### *Retail banking and credit*

The following strategies have proven to be key drivers for the development of the KFS Group's businesses in the fields of retail banking and credit:

- early identification, at the stages in which the level of penetration of banking and lending products is low, of countries as having significant business potential;

- the establishment of a broad market network that includes branches, ATM machines and a presence through points of sale of retail products (electrical product market chains, furniture, malls, etc.);
- the existence of a proven loans underwriting system (debtor examination, “scoring”) 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 the client;
- recruitment and maintenance of professionals in countries in which operations are carried out; and
- all companies in which TBIF holds a direct or indirect interest are managed by local management which enjoys the support and accumulated experience of TBIF in the various fields of their activities.

### *Insurance and pensions*

The following strategies have proven to be key drivers for the development of TBIF's businesses in the fields of insurance and pensions:

- early identification of countries which have a significant business potential because pension reforms have not yet taken place, the insurance markets are still undeveloped, competition is limited and/or presence of international institutions is limited;
- setting up a marketing network, deploying branches and a wide network of agents throughout each country in which operations are carried out;
- establishing good relationships with employers;
- positioning a strong brand recognised by the general public;
- professional underwriting and asset management capabilities;
- efficient information technology systems; and
- emphasis on customer service.

## **Overview of Activities**

### *TBIF*

TBIF is active in the field of banking, consumer finance, leasing, mortgages and asset management, predominantly in Russia, Ukraine, Romania and Bulgaria. In Russia, TBIF is active via its 63.5 per cent. stake in Limited Liability Company Investment commercial bank SOVCOMBANK (“**Sovcom Bank**”), a retail bank specialising in the origination of consumer loans. Sovcom Bank was acquired by TBIF in 2007 and TBIF's existing consumer finance and banking operations in Russia were transferred to the Sovcom Bank. TBIF's Russian operation has a nationwide network with 1080 branches and outlets throughout Russia. It focuses on regional development. Furthermore, TBIF provides consumer credit to individuals to purchase consumer goods such as electrical appliances and furniture in retail outlets in Romania, Bulgaria and Ukraine.

In Ukraine, TBIF is active via its 49 per cent. shareholding in Vseukrainsky Akcionerny Bank (“**VAB Bank**”). This bank, which is active in the retail and SME sectors, focuses on developing retail services through its 171 branches. The TBIF group also extends credit under leasing arrangements (financial leases and operational leases), mostly for vehicles and equipment. Activities in the leasing field are carried out predominantly in Romania and

Bulgaria and are in the early stages of development in Russia. In 2008, TBIF completed the acquisition of a 59.4 per cent. stake in a Ukrainian operational leasing business, operating under the "AVIS" brand. TBIF is active in providing mortgages in Bulgaria through a non-banking company and in Ukraine and Russia through VAB Bank and Sovcom Bank respectively.

The TBIF companies which deal with asset management supply services to third parties as well as to some of the pension funds and insurance companies of the Kardan Group. Services provided include institutional asset management, asset management for high net worth individuals, management of mutual funds and brokerage services. TBIF's asset management activities are concentrated in Bulgaria, Slovakia and Ukraine.

### *TBIH*

KFS Group's operations in the field of insurance and pensions are concentrated under TBIH. TBIH operates in the fields of non life insurance and life insurance in Croatia. In the field of non life insurance, TBIH operates in Turkey since June 2007, since its acquisition of Ray Sigorta A.S. ("**Ray Sigorta**") and in Russia since December 2007. TBIH operates in the Ukraine in the fields of non life insurance, life insurance and reinsurance (of only local companies). In Georgia, TBIH operates in the fields of non life insurance, life insurance and health insurance. As of September 2007, TBIH operates in the field of non life insurance through an Albanian insurance company, which has a subsidiary company in Macedonia and a branch in Kosovo.

As in most western countries, in the countries in which all companies in which TBIH holds a direct or indirect interest ("**TBIH Group Companies**") operate, car insurance constitutes a significant portion of the non life insurance market. In all the countries in which TBIH is active, except Georgia, third party liability insurance is mandatory. TBIH products in the car insurance market include compulsory vehicle insurance, vehicle property insurance and vehicle insurance for motorists driving in foreign countries. In addition, TBIH offers life, property, household, marine, aviation, and transportation insurances.

TBIH is active in the pensions market through its holdings in pension fund management companies. The TBIH Group Companies manage pension funds in Bulgaria, Croatia, Georgia, Russia, Romania and Ukraine. TBIH first began its operations in Bulgaria with the establishment of the first pension fund in the country. As of the date of this Prospectus, TBIH is operating in both the voluntary and mandatory pension fields. In 1999, TBIH purchased, through a process of privatisation, the governmental insurance company Bulstrad Insurance and Reinsurance PLC ("**Bulstrad**") in Bulgaria, which operates in the field of non life insurance, life insurance and health insurance. TBIH also operates in Russia in the fields of voluntary and mandatory pensions and in the Ukraine and Georgia in the field of voluntary pensions. TBIH has a license to operate in the field of voluntary pension in Albania, however, these operations have not yet commenced. In Croatia, TBIH operates in the fields of mandatory pensions.

In May 2007, TBIH commenced operations in Romania in the field of mandatory pension funds which are expected to be sold by the end of 2008, please refer to the section "*Recent developments*" in this chapter. In Bulgaria, TBIH further holds a controlling interest in Pension Assurance Company Doverie A.D. ("**Doverie**"), which manages mandatory and voluntary pension funds in Bulgaria with €392 million assets under management as of 30 June 2008. Doverie is the largest pension fund in Bulgaria and has a market share of approximately 38 per cent.

TBIH Group Companies' pension funds are based on the defined contribution method, in which members' future pension payments will be based on contributions deposited and any returns accumulated on that amounts prior to the pension being taken.

## Recent Developments

### *Agreement with partners in Sovcom Bank*

On 17 June 2008, TBIF signed an agreement with Mr. Sergy Khotimsky in his personal capacity and on behalf of the parties that he represents (“**Khotimsky Group**”) and with Sovcom Capital Partners B.V. (“**Sovco**”) under which TBIF received the option to increase its stake in the share capital of Sovcom Bank to 75 per cent. minus one share. The exercise period for shares totalling 5 per cent. of the share capital is 30 days following adoption by Sovcom Bank of its financial statements as of each calendar quarter 30 June 2008 to 30 September 2009. The exercise period for the remaining 10 per cent. is 30 days following adoption by Sovcom Bank of its financial statements as of each calendar quarter from 31 December 2008 to 30 September 2009. If TBIF does not exercise the second call option, Sovco has the option to repurchase shares at amounts stipulated by the option agreement, such that the share of TBIF in Sovcom Bank following the transaction will amount to 50 per cent. In addition, Sovco has a put option to sell to TBIF shares totalling 1.5 per cent. of the share capital of Sovcom Bank with an exercise period of 30 days following the adoption by Sovcom Bank of its financial statements for each calendar quarter from 31 December 2008 to 30 September 2009.

### *Agreement on sale of Omniasig Pensii*

In May 2007, together with Omniasig Vienna Insurance Group S.A. (“**Omniasig**”), TBIH established a pension fund management company in Romania under the name Omniasig Pensii. TBIH invested a sum of €5 million in the management company and it holds 90 per cent. of its issued capital. The remaining shares are held by Omniasig. In September 2008, TBIH reached an agreement with the Romanian financial group Banca Comerciala Romania SA (part of Erste Group Bank AG) to sell its 90 per cent. holding in Omniasig Pensii for a total cash consideration of €12 million. This consideration corresponds with a value of €208 per member. TBIH is expected to recognise a capital gain of €11 million on the sale. The closing of the transaction is subject to the usual legal conditions (such as, but not limited to, the representations and warranties still being valid at closing, no material adverse change having happened between signing and closing and fulfilment of certain pre-closing covenants) and to approval of the Romanian pension authority.

## Certain Material Investments, Acquisitions and Agreements

Further to the information included in this chapter, this paragraph describes certain other material investments, acquisitions and agreements.

### *The acquisition of KFS shares from KFS minority shareholders*

In November 2005, an agreement was signed between the Company and the minority shareholders of KFS: Genesis Investments B.V (“**Genesis**”) and Ariel Holding Investment Ltd. (“**Ariel**”), pursuant to which the Company acquired from Genesis approximately 3.4 per cent. of KFS shares for a sum of approximately €3.1 million, and also the Company acquired from Ariel approximately 1.19 per cent. of the KFS shares for the sum of €1.1 million. Part of the compensation due to Ariel and Genesis was paid by an offset of loans granted to them by the Company. In total the Company acquired approximately 4.59 per cent. of shares in the capital of KFS in consideration of €4.2 million. Also, in the above mentioned agreement it was determined that if KFS signs an agreement with a strategic investor before 31 March 2006, the sellers will be entitled to receive an additional payment of 50 per cent. of the difference between the acquisition price of the shares and the value of the acquired shares in the strategic investment. Following an agreement with VIG in November 2005, pursuant to which VIG acquired a 40 per cent. stake in KFS as described below, Genesis and Ariel received a sum of €1.2 million and approximately €418,000, respectively. After the completion of the transaction with VIG, in November 2005, the Company held 55 per cent. of the KFS shares.



### *Strategic partnership agreement with VIG*

In November 2005, the Company signed an agreement with VIG pursuant to which VIG acquired 40 per cent. of the shares in the capital of KFS. The transaction was completed in April 2006. Pursuant to that agreement, VIG received shares in the capital of KFS in consideration of approximately €106 million. Furthermore, VIG paid €7 for an additional 4 per cent. of the issued share capital in KFS which was previously held by minority shareholders. After the abovementioned transaction, VIG held 40 per cent. of the issued capital of KFS and the Company held approximately 55 per cent. of KFS's issued capital. In addition, VIG received options to acquire additional shares in the capital of KFS, from KFS minority shareholders allowing VIG to obtain 50 per cent. of KFS' share capital. Also, it was agreed that the Company would receive the options to sell to VIG shares in the capital of KFS in a quantity equal to the holdings of Genesis and Ariel in the share capital of KFS. Concurrently, VIG was given an option to acquire from the Company shares in the capital of KFS up to the amount of the holdings of Genesis and Ariel in KFS at the time of the transaction. With the completion of the re-organisation transaction as described below, all the options described above expired.

The agreement between the Company and VIG, as detailed above, also determines that an approximate amount of €21.8 million would be used to repay loans granted to KFS (including approximately €3.7 million granted by the Company and approximately €4.7 million granted by TBIH and TBIF). It was determined that an additional sum of approximately €35 million will be used to increase KFS's holdings in TBIH.

The profit the Company recorded for this transaction was set-off with a cost surplus for the transaction.

In August 2006, an agreement, the reorganisation agreement, was signed between the Company and VIG pursuant to which the Company acquired all of VIG's holdings in KFS's issued capital (40 per cent. of KFS's issued share capital). Also, it was determined that TBIH would concurrently transfer all of its holdings in TBIF's issued capital to KFS (approximately 89.4 per cent. of TBIF's issued share capital). Pursuant to this agreement, VIG concurrently acquired from KFS 60 per cent. of TBIH's issued share capital. After this reorganisation transaction was completed KFS possesses the remaining 40 per cent. of TBIH's issued capital and TBIF has become a direct subsidiary of KFS.

In the framework of the acquisition of a 40 per cent. stake in KFS by VIG, it was decided that KFS would attempt to acquire TBIH shares which were held by minority shareholders. Prior to the transaction, MidOcean Partners (hereinafter "**MidOcean**") and Englefield Capital LLP (together: "**Minority Shareholders**") held approximately 42 per cent. 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, KFS acquired approximately 13.94 per cent. of the holdings in consideration of €47.4 million. After the completion of the first stage of the transaction and after the allocation of 9.57 per cent. of TBIH issued capital to KFS in consideration of €36 million, KFS held approximately 75 per cent. of TBIH's issued capital and the minority shareholders held the balance (approximately 25 per cent.) of TBIH's issued capital.

In February 2007, KFS acquired approximately 25 per cent. of the issued capital of TBIH from the minority shareholders in consideration of €99 million. After the completion of the transaction, KFS held 100 per cent. of TBIH's issued capital. Following the re-organisation transaction, KFS holds 40 per cent. of TBIH's issued capital.

After effectuation of this reorganisation transaction, the Company held approximately 89.5 per cent. of the issued capital of KFS and the remainder is held by management and employees of KFS and its subsidiaries (including Ariel and Genesis). Under the shareholders agreement



between KFS and TBIH, KFS has joint control together with VIG over TBIH until 2010 or, if this happens earlier, until two years after acquisitions of additional businesses by TBIH for a total sum of €226 million through self-financing or financing supplied or organised by VIG. In the event that at any time after 5 April 2011 shares of the TBIH are not listed for trading on a stock exchange, KFS shall have the option to sell to VIG up to all of its shares in TBIH.

Pursuant to the reorganisation transaction, the Company paid €9 million to VIG as a part of the compensation for its shares in KFS. Furthermore, KFS paid executives and employees of TBIH a sum of €7.3 million for cancelling the options in TBIH and those executives and employees acquired new shares in KFS for the sum of €5.1 million (including €667,000 received in non-recourse loans from the Company).

The reorganisation agreement states that in the event that on 31 December 2010, the value of TBIH businesses in Russia, Ukraine, Turkey and Georgia, will be higher than their agreed value for the purpose of the transaction plus TBIH's investments in those businesses after the transaction, then VIG will invest as share premium in TBIH share capital (without diluting KFS' holdings) a sum equal to the difference between the values multiplied by the rate of the VIG holdings in TBIH multiplied by 40 per cent.

#### *Agreement with Discount Bank*

On 31 December 2007, the Company announced that it signed an agreement with Discount Bank for the purchase of 11 per cent. in KFS through a capital increase of €55.6 million. In addition, Discount Bank has provided KFS with credit facilities of €225 million. As of the date of this Prospectus, the full facility has been drawn. The €55.6 million consideration for the shares in the capital of KFS reflects a post-transaction valuation of KFS of €505.6 million.

Discount Bank has provided KFS with various credit facilities of which €175 million have maturities ranging from 6 to 11 years and for which KFS has provided certain pledges and will maintain certain covenants. KFS has also received an additional facility of €50 million which will mature 11 years after this facility has been granted. The Company has guaranteed the €50 million facility, and provided a conditional guarantee of €50 million for the other facilities. At the date of this Prospectus, €42 million of the €50 million facility has been provided by Discount Bank to KFS.

The equity investment of Discount Bank in KFS reflects a significant increase in value of KFS and constituted a gain for the Company of €30 million at completion.

Discount Bank is the third largest bank and a leading financial group in Israel. In Israel, the Discount Bank group is comprised of commercial banks and financial services companies active in credit cards, investment banking, portfolio management, trustee services and leasing. Discount Bank operates internationally through a network of subsidiaries, branches and representative offices in North America, Europe and Latin America, with a focus primarily on private banking and commercial finance.

#### *Transactions with a management company of which the CEO of TBIF is the beneficiary*

In November 2007, KFS signed an agreement with a company of which the CEO of TBIF is the beneficiary ("**Management Company**"), pursuant to which in December 2007 the Management Company sold 1 per cent. of the issued capital of TBIF to KFS. It was determined that the acquisition would be carried out by offsetting outstanding loans which KFS granted to the Management Company for a sum of approximately €1.2 million and a cash payment of approximately €2.75 million. Following the said acquisition KFS's holdings of TBIF have risen to 90.38 per cent.

In March 2008 the capital of TBIF was increased by €40 million via an additional capital contribution from its shareholders. TBIF issued 6,441,800 ordinary shares, each having a par

value of €1. The shares were purchased by KFS (90.38 per cent.) and by the minority shareholder in TBIF, the Management Company (9.62 per cent.) in proportion to their holdings as of the date of issue. KFS funded its part of the share capital (approximately €36 million) by way of conversion of shareholder loans to equity. Additionally, KFS assigned approximately €4 million of shareholder loans from TBIF to the Management Company. KFS has granted the Management Company a put option, according to which the Management Company shall have the option to sell its stake in TBIF to KFS. The shares will vest in three equal portions on 30 June of each of the years 2008, 2009, and 2010. The exercise price will be determined in an agreement between KFS and the Management Company.

#### *Acquisition of a retail credit company in Russia*

In November 2005, TBIF acquired through a fully owned subsidiary TBIF RUS LLC, 50 per cent. of the retail credit company Arka Finance ("**Arka**") in consideration of €3.2 million. In addition, it was agreed that the subsidiary would grant Arka loans amounting to \$25 million, which would be used to grant loans to Arka's clients. In the fourth quarter of 2006 and during 2007, TBIF acquired through its subsidiary an additional 50 per cent. of Arka's issued capital in consideration of €7 million, resulting in the subsidiary holding the entirety of Arka's capital. After the reorganisation transaction with VIG, as referred to above was completed, holdings in Arka were transferred to TBIF at cost. With the completion of the retail banking and credit operations combined operation in Russia, Arka became a fully owned subsidiary of Sovcom Bank. TBIF holds 63.5 per cent. of the capital of Sovcom Bank.

#### *Acquisition of banking operations in Russia*

In the second quarter of 2006, TBIF acquired 56.82 per cent. of the share capital of a Russian bank, Credit Regional Bank ("**Credit Regional**") which operates in the field of retail credit for a consideration of approximately €4.1 million. Credit Regional 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 Credit Regional's shares from TBIF and Arka Insurance (proportionally to the holdings of TBIF and Arka Insurance (up to 42.64 per cent. from Arka and 6.82 per cent. 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, Credit Regional is an indirectly fully owned subsidiary of Sovcom Bank and the options were cancelled.

In September 2007, TBIF acquired 50 per cent. of the share capital of Sovcom Bank, for a total amount of approximately €40 million of which approximately €14 million in cash and approximately €26 million in a transfer of TBIF rights for payment of loans (receivables) from its activity in Russia and transfer of TBIF's entire holdings (100 per cent.) in Arka to that bank. In the framework of this acquisition transaction, TBIF's activities in the field of retail banking and credit in Russia were combined in the Sovcom Bank activity. The transaction granted the bank an amount equal to €52 million and around €104 million after the investment (including the holding in Arka). Sovcom 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 and collecting deposits while TBIF's activity focuses on origination of retail. Therefore, the activity of TBIF and the activity of Sovcom Bank 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 Sovcom Bank undertook to invest additional sums in the bank relative to their holdings, up to a total sum of \$40 million, 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 relating to 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 sale of the bank's shares to a third party, selling the bank, or an IPO after 4.5 years of the date of the transaction completion, each party would be entitled to facilitate a BMBY mechanism<sup>13</sup>. 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 TBIF's shares in Sovcom 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, TBIF completed a transaction with the rest of the shareholders in the bank, according to which TBIF invested approximately €29 million (including conversion of a shareholders loan in the amount of around €4 million into shares), in exchange for allocation of shares, which resulted, after the investment, in TBIF holding 59 per cent. of the bank's share capital.

In June 2008, TBIF purchased an additional 4.5 per cent. stake in Sovcom Bank, bringing its holdings in the bank to 63.5 per cent., from the rest of the shareholders of the bank, for a consideration of €9.6 million.

#### *Acquisition of VAB Bank*

In November 2005, TBIF signed a series of agreements with VAB Bank and with companies related to the persons controlling VAB Bank to acquire shares and invest in VAB Bank. VAB Bank 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 per cent. of VAB Bank's share capital. The investment in the bank shares, in a method of capital allocation, was for a total sum of approximately €62.1 million, which reflected a value for VAB Bank of approximately €128 million (post transaction). The goodwill created by the acquisition amounted to €22.5 million. TBIF has agreements with the other VAB Bank shareholders which regulate the joint control. Since then, TBIF increased its holdings in VAB Bank to 48.91 per cent. by contributing to capital increases.

#### *Acquisition of leasing operations in Ukraine*

In November 2007, TBIF together with Dan Rechev, signed agreements for the acquisition of 90 per cent. 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, which reflects a value for VIP of €11 million (post transaction). In February 2008, 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 Prospectus, 90 per cent. of VIP's issued capital, TBIF with 66 per cent. of the 90 per cent. and Dan Rechev with 34 per cent. of the 90 per cent. 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. 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 CEE and CIS and they also undertook to not compete with existing and future businesses of VIP in markets where it operated at the time the agreement was signed and in markets in which it will operate in the future.

<sup>13</sup> 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.

#### *Acquisition of Bulgarian partner's holdings in Bulgarian operations*

In December 2006, TBIH acquired the minority holdings (approximately 43.17 per cent.) in its subsidiary in Bulgaria – TBI Bulgaria AD (the “**TBIB**”), for an amount of €56 million and TBIB became a fully owned subsidiary of TBIH. TBIB held at that time the entire operations of the KFS Group's financial services in Bulgaria, which included, 97 per cent. of the company Bulstrad, approximately 92 per cent. of the management company of the pension fund Doverie – United Holding PLC, 50 per cent. of the mortgage warehouse Hypocredit PLC and mortgage originator Creditex LLC and a number of other subsidiaries in full ownership dealing in retail credit, leasing, and asset management. As part of the reorganisation transaction, described in more detail in the section ‘*Strategic partnership agreement with VIG*’, the retail credit, leasing, mortgages and asset management operations of TBIB were transferred to TBIF.

#### *Grant of options*

On 24 July 2008, TBIF granted members of its management board, and certain key managers, option rights in TBIF. A maximum of 1,930,820 ordinary shares, comprising 2.72 per cent. of the current issued share capital of TBIF, was allotted for this options grant. 1.42 per cent. of the share options have been granted to the management board and key managers, with the remainder as a future reserve.

#### *Acquisition of holdings in Romanian insurance company*

In November 2005, TBIH acquired approximately 49.99 per cent. of an Omniaisig subsidiary, Omniaisig Life S.A. (“**Omniaisig Life**”) a company dealing in life insurance, for a sum of €3.5 million, as agreed under the agreement for selling its holdings in Omniaisig.

#### *Acquisition of insurance activity in Albania, Macedonia, and Kosovo*

In September 2007, TBIH acquired approximately 75 per cent. of the issued capital of Sigma Albania SH (“**Sigma**”) in return of a sum of €16.2 million, which granted Sigma the value of €21.6 million (after the transaction). The remainder of Sigma's shares is held by local private bodies. As part of the acquisition, a put option was given to the local private bodies, allowing them to ask TBIH to acquire up to half of their remaining Sigma holdings within six months from the date of publication of Sigma's financial statements for 2010 and the remainder of all their holdings after the publication of the Sigma financial statements for 2011. The price of the acquisition of the remaining shares was set according to an agreed formula which reflects the development of the premiums and profits made by Sigma but will minimally be the price per share agreed upon in the acquisition of September 2007. Concurrently, TBIH received a call option to acquire shares under the same conditions. Sigma deals mainly in non life insurance and is ranked as the second largest insurance company in Albania. Sigma operates in Albania, Macedonia, and Kosovo.

#### *Acquisition of insurance operations in Turkey*

In June 2007, TBIH acquired 58.2 per cent. of the issued capital of Ray Sigorta from a Turkish company in consideration of €62 million. Ray Sigorta deals mainly in non life insurance and operates in Turkey. The Ray Sigorta shares are traded 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 for a sum of €17 million. TBIH holds 74.26 per cent. of Ray Sigorta's issued capital. As part of the acquisition, the Turkish seller was given the option of selling the remainder of its holdings (20 per cent.) in Ray Sigorta to TBIH during the years 2010-2011 for the price of the acquisition increased by an interest rate equal to the London Interbank Offered Rate (“**LIBOR**”) interest rate. 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 in Ray Sigorta by allocation. TBIH holds 74.26 per cent. of Ray Sigorta's issued capital.



### *Acquisition of insurance operations in Ukraine*

During February 2008, TBIH completed the purchase of 62 per cent. of Ukrainian Insurance Group (“**UIG**”), a Ukrainian insurance company, for a total consideration of \$46.5 million. The shareholders agreement includes a call option for TBIH to purchase and a put option for the sellers to sell the remaining 38 per cent. of UIG within five years under certain terms and conditions.

### *Acquisition of insurance operations in Russia*

In October 2007, Veskotir Enterprise Limited (“**Veskotir**”), a 100 per cent. subsidiary of KFS, acquired 100 per cent. of the shares of a Russian company which holds 74.6 per cent. of OJSC “Russian Insurance Company” (“**RIC**”), a Russian insurance company, for a total consideration of €29 million.

In June 2008, KFS, via fully owned subsidiaries, acquired an additional 25.2 per cent. stake in RIC, for a total consideration of €16 million.

The above-mentioned acquisitions were financed by a credit line that TBIH provided to Veskotir of up to €55 million. Under an option agreement, Veskotir has granted TBIH a call option to purchase the investments made in Russia for an exercise price equal to the outstanding balance of the loan (principal and interest). The call option is exercisable at any time up to 15 June 2009 and prior to the repayment of the loan in full. As a result of the transactions before-mentioned TBIH bears all the risks and benefits entailed with the investment in RIC.

## **Competition**

### *Banking*

The primary competitors in the banking field in CEE and CIS are international banks (primarily European banks) 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 CEE and CIS points to a relatively low rate of international ownership, as opposed to the higher rates in other CEE and CIS countries. In Russia, about 10 per cent. of total bank assets are owned by international entities while in Ukraine this figure is about 40 per cent., compared to over 90 per cent. in Romania and 84 per cent. in Bulgaria (source national banks’ statistics). Should the Russian and Ukrainian markets continue to develop in accordance with the market development trend in CEE and CIS, the estimate is that the number of international entities active in these markets will rise and the process of consolidation between large banks will increase.

### *Leasing and consumer finance*

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. Currently, TBIF leasing and consumer finance companies operate through a network of sales points in retailers and high street offices accounting respectively 175 points of sale for leasing and 8,330 points of sale for consumer finance.

### *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.



### *Insurance*

The primary competitors in the insurance sector in CEE and CIS are international groups (primarily EU based) which purchased insurance businesses in the region, as well as – to a lesser extent – locally held insurance companies. In certain countries, the state still holds a controlling stake in an insurance company (usually the previous monopolist). Most of the CEE markets including Turkey are dominated by international competitors who bought stakes in local companies over the previous years, while in countries like Ukraine or Russia there is still a considerable number of locally owned companies.

The trend towards international ownership is mainly driven, aside from the growth potential recognised in these markets, through (i) the need for know-how, professional expertise and strong brands in developing markets, (ii) market consolidation in countries with a large number of relatively small companies, and (iii) minimum capital requirements set and increased by local regulators in order to provide safety and stability for clients as well as the market in general.

### *Pension*

In parallel with the field of insurance, the primary competitors in the pension business in CEE and CIS are subsidiaries of international groups. The most competitive element includes attraction of new members after the second or, even more important, third pillar pension reform has been implemented in a given country. Initial attraction of a large number of new members during the pension reforms requires significant financial resources, which gives international groups an edge over local players. Another important factor is the capability in approaching local corporate and industrial clients for their employees to join the fund.

In more mature and stable markets, after the pension reforms have passed over the years, movement of members between the funds is less significant and competition focuses more on consolidation of existing businesses as well as increasing cost effectiveness.

## **General Environment and Impact of External Factors**

### *Macro economic factors – general*

Stability of the KFS' banking operations is highly dependent on stabilisation of the global markets. Due to a high degree of globalisation virtually all markets are influenced by the global financial crisis. Withdrawal of deposits may jeopardise the liquidity position of the Kardan Group Company's banks. In an environment where the interbank market malfunctions this may negatively affect banks' normal lending activities, curbing their business generation capacity. Maintaining the deposit base and liquidity position may require further increase of the interest rates on deposits, which will increase cost of funding for the banks. In an environment of deep financial crisis and dysfunctional interbank market, the role of the national banks is crucial in preventing the risk of a massive run on the banks in these markets which may have detrimental effect on the banking operations. The net results of the insurance and pension businesses of the KFS Group are partly dependent on investment results, which investment results may be negatively affected by the global financial crisis.

### *Economic growth*

KFS'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 countries in which KFS is active are characterised by the following features:

- continuous growth of GNP;
- changes in legislation based on European standards in order to enable future policy of integration with Western Europe. Slovakia was accepted into the EU in 2004. Bulgaria and Romania were accepted into the EU in 2007;
- ongoing privatisation processes;
- growth in foreign direct investments;
- capital market reforms; and
- rapid increase in wages and free incomes.

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.

#### *Lending and banking markets in CEE and CIS*

After the fall of the communist regimes the financing and banking markets in the countries of CEE and CIS underwent a period of instability.

As of the year 2000, the business environment stabilised 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 privatisation of government-owned banks and the entrance of international financial institutions into the banking field.

As a result of the entrance of international institutions and the increase in the power of local regulators, there was progress in the legislation of activities and the level of competition, professional expertise and information systems are on a constant rise.

Despite the aforesaid, the rate at which households use credit in CEE and CIS countries, especially in countries in which TBIF is active, are significantly lower compared to the penetration rates in the West.

Growth in the financing market has been especially high in the retail field where penetration levels of personal debt in the offset are extremely low.

Due to the market competition, there is a decreasing trend in the margins, although the margins are still higher than those in Western Europe.

In CEE and CIS markets there is significant growth potential stemming from the low levels of penetration of retail products and the low level of disposable income per person.

It is expected 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.

#### *Asset management markets in CEE*

In CEE countries, a high rate of the capital is still held in cash and money deposits. The experience in Western Europe shows a trend of development of investments in other financial instruments. A similar trend has commenced in CEE, but at this point in time, its scope is low. The trend of reallocation of capital in CEE from cash and simple cash deposits to other instruments such as bonds, shares, etc., is expected to benefit asset management companies both for private individuals and corporates. Furthermore, the development of financial institutions such as pension funds and insurance companies also contributes to the development of a corporate asset management market. Likewise, in the private field, the rise in disposable income per capita may also contribute to the development of the asset management market.

### *Insurance markets in CEE and CIS*

The insurance penetration rate (insurance premiums as a percentage of GNP) in CEE is substantially lower than insurance penetration rates in the West (Europe and the United States). The insurance penetration rate in CEE countries stands at less than 1 per cent.-4 per cent., as opposed to Western countries, where the insurance penetration rate ranges mostly between 7 per cent.-10 per cent.<sup>14</sup>. The low insurance penetration rate stems from, among other things, a culture of consumption that originates in communism, where government controlled the insurance markets and the disposable income was very low so that some consumers in CEE may still consider insurance a luxury, and consumption of insurance products is often commenced as a reaction to legislation.

Following are the insurance market trends in CEE and CIS:

- Consolidation in the insurance markets and in some cases the disappearance of small, local companies;
- Improvement of the macro-economic situation, increase in disposable income and consumption of insurance products at rates that are rising towards the levels of consumption in the West with a change in the consumer “insurance culture”;
- Changes in legislation that require mandatory insurance in certain cases: car insurance, construction, etc.
- Increase in awareness to voluntary insurance due to exposure to mandatory insurance products; and
- Increase in awareness of property insurance due to the development of the real estate markets and the mortgage market.

### *Pension reforms in CEE and CIS*

From the beginning of the 1990s, the economies of CEE and CIS countries that were part of the former communist bloc underwent significant change in their pension structures. The pension reforms were constructed in order to solve the problem of lack of sufficient sources of the social security system to support the need for pensions, due to the aging population. The pension reforms reflect a transition from social security as the only source of pension to pension systems that include two additional levels pillars:

- Mandatory pension: a pension structure that obligates members and their employers to deposit funds into privately managed pension funds.
- Voluntary pension: a pension structure that allows members and their employers to deposit funds into privately managed pension funds.

In accordance with the reforms, the pension funds that have been established after receiving the relevant licenses from the country, are defined contribution funds, in which members will be entitled to pension payments in accordance with the funds they deposited throughout the years and the returns on such funds that have accumulated as opposed to defined benefits pension funds which guarantee pensions at permanent amounts without any reliance on the returns attained or amounts deposited, and which are thus exposed to significant actuarial deficits. This structure reduces the exposure of pension funds and pension fund management companies' actuarial deficits.

## **Regulatory**

### *Banking*

The KFS Group's banking activities are subject to very extensive 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 levels. There is a trend of improvement and the quality of regulation is developing. Local legislation based on Western European legislation requires a receipt of a license for banking activities. In order to receive and keep the license, banks must comply with certain requirements concerning, among other issues, minimal

<sup>14</sup> Based on data from “World Insurance in 2007: Emerging Markets leading the way” published by Swiss Re in May 2008.

capital and liquidity. The banks which operate within the KFS Group hold all the required licenses and maintain the local regulatory requirements.

#### *Non- bank lending*

The TBIF leasing and consumer finance operations in Romania are regulated and controlled by the National Bank of Romania, which exercises a very strict supervision. In Bulgaria, the consumer finance operation is regulated by special law and both the consumer and leasing operations report financial numbers to the Bulgarian National Bank. It is expected that in the near future these operations will also be supervised by the Bulgarian National Bank.

#### *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. In both Bulgaria and Slovakia, the regulation is fully EU compliant.

#### *Insurance*

The insurance field is subject to 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 regulation 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 minimal capital and liquidity.

In most countries where TBIH operates, 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 must purchase professional liability insurance.

The 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.

#### *Pensions*

The countries in which TBIH is active vary with respect to legislation relating to pension, but in all countries the legislation relates to the following issues: the minimal capital required for establishing a pension fund or a pension management company, regulation relating to investing members' funds, collection of management 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 markets in each of the countries.

### **III. INFRASTRUCTURE**

#### **General**

The Tahal Group is active in the infrastructure business through its holdings in the Tahal Group. The Tahal Group is a leading international engineering company specialised in water-related infrastructure projects and water-related asset ownership. The Tahal Group has participated in the planning, development, design, construction and management of thousands of projects in over 50 countries across five continents. The Tahal Group's advanced technical resources include a staff of around 1,600 employees including engineers and scientists in a wide variety of disciplines.

The operations in the infrastructure field, which are held through Kardan's 100 per cent. subsidiary Tahal, are divided into two operational fields: the projects field through Tahal Group B.V. ("**Tahal BV**") and the assets and investments field through Tahal Group Assets B.V. ("**Tahal Assets**").<sup>15</sup> The operations in both fields are performed mainly in countries in Eastern Europe, Asia, Africa, and South America.

The Tahal Group's strategy includes the following principles:

- 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, that will join the Tahal Group's operations in the field of engineering and supervision services;
- the expansion of operations in the field of assets and investments through entering into investments in a number of additional countries in developing markets that the Tahal Group has identified, including countries in Central and South America, Eastern Europe and Asia, while continuing investments in countries in which the Tahal Group already operates in the framework of this field;
- the expansion of operations in the fields that relate to and complement the traditional fields of the Tahal Group's operations such as: activation of purifying machines, desalination, hydro-electro power stations and more; and
- creating the financial capacity that can serve as a mobilising tool for conducting the necessary investments in entrepreneurial projects in the Tahal Group's fields of business, through cooperating with financial entities and accessibility to bodies that raise and provide funding.

### **Key Drivers**

The following factors are key drivers for the Tahal Group's business:

- its knowledge and experience accumulated in the field of infrastructure over its years of activity;
- 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 the Tahal Group's abilities and its partners' abilities (foreign companies), derived from the years of the Tahal Group's activities in different parts of the world; and
- its constant and ongoing contact with banks and financing and insurance institutions in Israel and around the world in order to locate the financing sources for projects.

### **Overview of Activities**

#### *Overview of projects*

Within the projects field, the services provided by the Tahal Group BV can be sub-divided into execution projects and planning projects.

Execution projects usually include all the components of an infrastructure project, i.e. planning, acquisition and execution as well as organising 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 a Tahal Group Company or subcontractors on its behalf. 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.

Planning projects is the traditional field of operations of the Tahal Group and 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.

<sup>15</sup> The process of restructuring within the Tahal Group, realising the split between projects and assets activities, is almost finalised.



The current projects in which the Tahal Group is engaged are set forth below.

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	Project's Planned Completion Date	Project's Total Proceeds (in millions of Euros)
Saint Petersburg, Russia	Limited Liability Company Torgovy Dom Razvitiye	Equipment supply, supervision, installation and preliminary operation of equipment, as well as providing warranty for it and supply of spare parts for the water treatment factory	Tahal Consulting and Engineering Ltd ("TCE")	Equipment supply	100%	August 2007	April 2009	Approximately 18 (received in payments for phases of equipment supply)
Bialograd, Poland	Water and Waste-Water Disposal Company Ltd. in Bialograd	Contractual works related to water and sewage networks	Eko-Wark Sp. ZOO ("Ekowark")	Turn-Key	100%	June 2007	June 2009	Approximately 8.6
Kolobrzeg, Poland	Water and Waste-Water Disposal Company Ltd. in Kolobrzeg	Contractual works related to water and sewage networks	Ekowark	Turn-Key	100%	December 2007	December 2009	Approximately 9.8
Szczecine, Poland	Water and Waste-Water Disposal Company Ltd. in Szczecine	Contractual works related to water and sewage networks	Ekowark	Turn-Key	100%	September 2007	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 BV	Turn-Key	100%	With the fulfilment of certain suspending conditions according to the agreement signed by the parties	24 months after commencing	Approximately 9.5
Ghana	Ghana water company LTD	Rehabilitation / Expansion of the ATMA Rural water supply system – south of Kpong	Tahal BV	Turn-Key	100%	Has not yet commenced	36 months after commencing	41
Ghana	Ghana water company LTD	Rehabilitation / Expansion of the ATMA Rural water supply system – North of Kpong	TCE	Turn-Key	100%	Has not yet commenced	30 months after commencing	15
Luanda, Angola	EPAL	Building a 400 km water supply system	TCE	Turn-Key	100%	With the fulfilment of certain suspending conditions according to the agreement signed by the parties	18 months after commencing	Approximately 34

TCE is also engaged in a turn-key project in Obninsk, Russia. The projected proceeds of the project were approximately €19,700,000. However, with respect to this project TCE's client is in breach of contract due to budgetary problems. Currently, a settlement agreement is being negotiated for compensation to be paid to TCE as a consequence of the client's breach.

### *Assets*

The Tahal Group operates in the field of assets and investments through Tahal Assets, mainly in countries in Eastern Europe, Asia, Africa and South America. The Tahal Group invests in entities holding revenue yielding assets or initiates projects in the infrastructure field, such as 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 infrastructure, 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 for water desalination, operation of municipal water and sewage systems, operation of water supply systems, waste disposal and handling collection for local municipalities.

### **Recent Developments**

#### *Water supply infrastructure project in Angola*

In February 2008, TCE signed an agreement with the national water company of Angola, Empresa Publica de Agua ("EPAL") regarding the development of a water supply infrastructure project.

The agreement between TCE and EPAL involves the execution of a water supply network distribution system to seven neighbourhoods, located to the south of the capital city Luanda. The project further includes the design of the distribution system and the installation of about 400 km of PVC pipes and the installation of about 140 drinking fountains. The total project comprises an area of about 3,530 acres (approximately 1.43 million square meters).

The project size is approximately €34 million and will be financed by the government of Angola. The execution of the project is estimated to take 18 months.

#### *Upgrade of a water supply system in Ghana*

In July 2008, the Tahal Group was awarded a tender for rehabilitation and expansion of a water supply system serving rural areas in Ghana. The project is to be carried out on a turn-key basis, with the company responsible for its management and construction. On completion, the system will become the property of the state.

A part of the project concerns the expansion and replacement of water system components aimed to improve the water supply conditions to the communities located south of Kpong, along Akosombo-Tema Main Road and in Akwapim Ridge. The project layout comprises the existing water supply system and the new proposed components, such as a new treatment plant at Kpong, transmission mains from Kpong to the southern communities and new distribution networks in these communities. The execution of this project is estimated to take three years. In August 2008, Tahal BV successfully arranged the closing of the financing for this project in an amount of €41 million. The financing is comprised of a grant facility from the Dutch government, as well as a long-term loan to the Ministry of Finance and Economic Planning of Ghana, provided by a Dutch commercial bank, and supported by the Dutch export credit agency. The execution of this project is estimated to take 36 months.

In addition, in November 2008, TCE successfully arranged the closing of the financing for another project in Ghana, amounting to approximately €15 million. The financing is comprised of a long-term loan to the Ministry of Finance and Economic Planning of Ghana, provided by a

commercial bank, and supported by an Israeli export credit agency. This project in Ghana concerns a water supply system in the northern communities of Kpong, comprising a treatment plant and main transmission lines. The execution of this project is estimated to take thirty months.

#### *Hydraulic power plant in Panama*

Tahal indirectly owns 86.5 per cent. of the shares of Hydro Caisan S.A. ("**Hydro Caisan**"), a company in Panama, which has a 50 year franchise for the operation of a hydraulic power plant in the Chiriqui river in Panama. The construction of the power plant is planned to commence in 2009, with total estimated investment of approximately €112 million. On 17 October 2008, Hydro Caisan signed an agreement for the sale of electricity to two distribution companies. The agreement is concluded for a period of 10 years starting in 2013, when the power plant is expected to be operational.

#### *Grant of Options*

By agreement of 3 April 2008, Kardan (as sole shareholder of Tahal) and Tahal agreed to grant Mr. Kronenberg a maximum of 557 options Tahal for his role as chief executive officer of TCE. The options can be exercised into 557 newly issued ordinary shares of Tahal, which represent, after the allotment, 3 per cent of Tahal's issued and paid-up share capital. The options have not yet been granted at the date of this Prospectus.

### **Certain Material Investments, Acquisitions and Agreements**

Further to the information included in this chapter, this paragraph describes certain other material investments, acquisitions and agreements.

#### *Projects*

In January 2006, TCE acquired Bamag GmbH's part in a project of planning, building and setting up a waste water treatment facility in Arad, Romania. In return TCE paid Bamag GmbH a sum of about \$12.8 million.

In February 2007, an agreement was signed between Ekowark, a company registered in Poland, and Tahal BV pursuant to which Tahal BV was allocated 33 per cent. of Ekowark's issued capital in return for a sum of about €1.6 million. Ekowark operates in northwest Poland and deals in executing contractual work in the infrastructure sector (such as waterworks and sewage). In August 2007, Tahal BV granted a loan to Ekowark for the sum of €1.2 million. This sum was used by Ekowark to acquire its own shares, held by other Ekowark shareholders. After said acquisition of shares, Tahal BV acquired the same shares from Ekowark for their nominal value. As of that time, Tahal BV held 61 per cent. of Ekowark's issued capital. The acquisition was performed within the Tahal Group's strategy of penetrating additional countries in CEE as well as expanding the range of services the Tahal Group will provide in the projects field. In May 2008, Tahal BV provided a loan to Ekowark for an amount of PLN 3,141,000 for the purchase of 15.22 per cent. of Ekowark shares from other shareholders of Ekowark. After acquiring such shares, Tahal BV's ownership in Ekowark increased to 76.01 per cent.

#### *Assets and investments*

Task Su Kanalizasyon Yatiri, Yapim Ve Isletin A.S. ("**Task**") is a holding company with concessions for managing municipal water and wastewater corporations in Turkey – two 35-year concessions, one 49-year concession and a 29-year BOT agreement for a wastewater treatment plant. Tahal Assets through Task Water B.V. ("**Task Water**") holds 33.3 per cent. of Task's share capital. On 10 October 2008, Task Water and one of the other

shareholders in Task, Akfen Holding AS (“**Akfen**”) signed a share purchase agreement with the third shareholder in Task. As per the date of this Prospectus, each of Task Water and Akfen is holding 50 per cent. in Task. The purchase price which was paid by Task Water and Akfen for the sale and transfer of the shares is €7.8 million. The purchase price includes an amount of €4.5 million which was deposited by the buyers (50 per cent. each) into the seller’s account upon transfer of the shares and an additional payment in the amount of €3.3 million which payment is subject to the conditions related to the execution of the Corlu Concession Agreement, a 35 years BOT concession agreement for renewal and improvement of the local water and waste water system of a medium size municipality (with a population of 200,000) in the north of Turkey. The total project estimated capital expenses amount to €120 million.

Kardan Water International Group Ltd. (“**KWIG**”) is a joint enterprise, established in 2007, that invests, operates and manages water and wastewater infrastructure projects in China. Tahal Assets increased its holding in KWIG from 66 per cent. to 80 per cent. by an equity injection and allocation of shares in August 2008. In July 2008, KWIG signed a BOT contract with Dingzhou Municipal Government for 40,000 tonnes per day. In August 2008, a project company was established. The treated water will be sold to the local power station company. The government will ensure the volume sales of 100 per cent., as well as a RMB 1.1 per 1 m<sup>3</sup>. The total project investment is estimated to amount to €5 million. In addition, in September 2007, KWIG acquired 88.15 per cent. of Tianjin Hanke Water Development Ltd. (“**Tianjin Hanke**”), with a total investment of RMB 119 million. Tianjin Hanke owns BOT concession agreements for operating six waste water treatment plants in Tianjin and Shandong provinces in China. At present, three waste water treatment plants out of the six (Dagang, Boshan, Haantai) are in the process of being upgraded for the highest water standard: CLASS I A (improving water quality). The total required investment for the up grade of all three plants is expected to amount to RMB 41,000,000.

Milgam City Services Ltd. (“**Milgam**”) provides various services to over 100 municipalities in Israel, including billing management and operation of municipal water authorities. Tahal Assets, through Tahal Assets Israel Ltd, holds 91.5 per cent. of Milgam’s share capital.

Via Maris Desalination Ltd. (“**Via Maris**”) owns a 25-year concession for a 30 million MCM/year sea-water desalination plant in Palmachim, Israel, via a BOO<sup>16</sup> contract. The Tahal Group holds 27.9 per cent. of Via Maris via TCE<sup>17</sup>. Construction of the desalination facility was completed in May 2007. The investment cost was about €90 million. Expected revenues for 2008 are €16 million.

Tahal Water Energy Limited (“**Tahal Water**”) is engaged in the construction and operation of a pumped-storage power plant in Israel. Tahal Assets, through Tahal Assets Israel Ltd, holds 81 per cent. of Tahal Water’s share capital. The enterprise envisages penetration into a new part of the infrastructure sector. The facilities’ expected investment cost is approximately \$150 million.

## Competition

The 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 Tahal Group competes with international bodies investing in the infrastructure industry, such as Aqualia Gestion Integral del Agua S.A., Suez Environment S.A., Veolia Environments S.A. and others.

<sup>16</sup> 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

<sup>17</sup> The shares in Via Maris will be transferred from TCE to Tahal Assets in the current process of a reorganisation within the Tahal Group pursuant to which all projects related investments will be transferred to Tahal BV and all assets related projects to Tahal Assets.

The Tahal Group deals with its competitors by maximising its efficiency, using advanced and innovative technologies, active marketing through location and initiation of projects and investments, joining partners in different countries and has access to funding sources and programmes, which enable it to offer its clients funding solutions.

### **General Environment and Impact of External Factors**

The current crisis in the financial markets may affect the global credit market and the world economy. Infrastructure development projects have substantial capital requirements and the Tahal Group may not be able to raise the required capital for such projects.

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 shortage in drinking and irrigation water. According to UNESCO estimates, global water consumption shall rise and shall total approximately 2,764 billion square km in 2025, in comparison to the 2000 consumption totalling approximately 2,184 billion square km. 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 per cent. of the 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 per cent. of all drinking water is allocated to agriculture (approximately 95 per cent. in some developed countries).

#### *Urbanisation*

Demand for water grows with urbanisation, 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 difficulties in access to drinking water and water quality.

Improvement and investment in infrastructure in general and water infrastructure in particular, are mostly a requirement of international institutions (including – the World Bank and the EU), institutions that provide budgets to these countries for the purpose of executing projects in the infrastructure field.

The Tahal Group's 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.



## **Environment**

The operations of the Tahal Group are subject to environmental protection laws and regulations in the various countries in which it operates and the Tahal Group operates according to these aforesaid laws and regulations. In addition, the Tahal Group operates according to recognised environmental protection regulations and has an ISO 2000-9001 certification, which is an international standard.

## **Regulatory**

The operations of the Tahal Group are subject to regulations and standards in the various countries in which it operates regarding water-sewage, energy, gas and agriculture. The Tahal Group operates according to regulation related to the execution of projects in each of the countries in which each project is being carried out. The Tahal Group works according to engineering standards as required for executing planning projects and general projects and in accordance with all laws and regulations of the countries in which a project is being carried out.

## **IV. OTHER BUSINESSES**

### **General**

The Company is active in the automotive & consumer goods sector through its indirect holdings in the KI Group Companies such as UMI and SFDI. The Company mainly engages in the import and marketing of motor vehicles and electrical appliances.

In the communications and technologies sector the Company is mainly active through its holdings in the KI Group Companies such as Kardan Communications and Kardan Technologies. The Company's main activities in this sector include investments in companies which operate in the SME market section of the technologies sector and mainly in the fields of communications and media that have moved beyond the start-up stage and have strong growth potential.

### **Key Drivers**

#### *Automotive & consumer goods*

The management of UMI believes that the factors listed below are key drivers for its business:

- the extensive and varied products line offered by the GM Group, one of the world largest vehicles manufacturers;
- quality of the relations with the GM Group. UMI is the only Israeli vehicles importer that is held by the vehicles manufacturer. The said holding ensures adaptation of both vehicles and prices to market requirements;
- flexibility regarding currency – UMI's currency basket contains US Dollars, Japanese Yen and Euro. The ability to balance ratios provides UMI with a competitive edge and long term stability; and
- good marketing ability and high branding of vehicle models among customers.

#### *Communications and technologies*

The management of Kardan Communications and Kardan Technologies believes that the factors listed below are key drivers for its business:

- productive research and development processes by the companies held by Kardan Communications and Kardan Technologies;

- successful marketing channels build-up and cooperation by the companies held by Kardan Communications and Kardan Technologies and other leading companies in their sectors;
- maintaining and continued hiring of high quality personnel;
- innovating business models that would be acceptable to the clients of companies held by Kardan Communications and Kardan Technologies; and
- ability to foresee future technological trends and changes in the regulations in communications and technologies sectors.

## Overview of Activities

### *Automotive & consumer goods*

The KI Group is active in the automotive & consumer goods sector in Israel through Kardan Israel and KI Group Companies such as UMI and SFDI.

UMI is a private company, incorporated under the laws of Israel in 1993. Taldan Motors Ltd. (“**Taldan Motors**”), a company under the control of Kardan Israel, holds 45 per cent. in UMI. Kardan Motors Ltd., a fully owned subsidiary of Kardan Israel, holds 90 per cent. in Taldan Motors. UMI imports and markets vehicles made by GM Group companies. 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. UMI also holds 50 per cent. of the shares in Universal Trucks Israel Ltd. which imports and markets Isuzu trucks. The Company also holds, directly and indirectly, 13.92 per cent. of the shares in Dan Vehicle Ltd’s, an Israeli listed company mainly engaged in the field of car leasing services and which owns the “Avis” brand in Israel. The Company has signed an agreement through which, subject to closing, its holdings in Dan Vehicle Ltd. is to increase to up to 22.06 per cent.

Since as a result of the Merger the holdings of the current controlling shareholders of Kardan will fall below 50 per cent., it was necessary to obtain the consent to the Merger of the additional shareholders who hold UMI, together with Taldan Motors. Consent as aforesaid was given, provided that Taldan Motors shall remain under the effective control of the controlling shareholders of Kardan, the directors appointed by Taldan Motors to UMI’s board of directors will remain unchanged and the controlling shareholders of Kardan will resume holding control (50.01 per cent.) of Taldan Motors by no later than 31 October 2010. The controlling shareholders confirmed to Kardan that it will act to fulfil the aforesaid conditions.

UMI is a party to concession agreements with manufacturers for import and marketing of vehicles in Israel. These agreements are for periods of three to five years and can be renewed for additional periods with the approval of the parties (except the agreement with Saab Automobile AB which renews automatically at the end of each year). Accordingly the concession agreement between UMI and General Motors Overseas Distribution Corporation was extended until August 2013 on the same term and conditions.

UMI also engages in the import and marketing of spare parts and accessories for vehicles from different suppliers (which is the main additional field of activity of UMI), 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; non life insurance (mainly for vehicles sold by UMI) and research and development mainly in the automotive field. UMI aims to maintain its position as a leading car distributor in Israel by focusing on automobile sales to leasing companies and the private sector.

SFDI engages in import and marketing of a range of electrical appliances. SFDI holds about 70 per cent. of Kardan Trade Ltd., which imports and markets household electrical appliances (white goods and brown goods), mainly products of Bauknecht, Whirlpool and Sanyo and also 70 per cent. of ElectroDan Trade Ltd., which imports and markets household electrical appliances under the brand name “Bellers”. The activity of SFDI is not material to the Company’s business.

#### *Communications and technologies*

The KI Group operates in the communications and technologies markets, mainly through Kardan Communications and Kardan Technologies. The Company focuses its investments on SME companies in the technologies sector, mainly in the fields of communications and media that have moved beyond the start-up stage and have strong growth potential. The companies held by Kardan Technologies and Kardan Communications are not material for the Company’s businesses.

Kardan Israel fully owns its subsidiary, Kardan Communications, which coordinates the communication operations of Kardan Israel and holds the following material companies:

RR Sat Global Communications Network Ltd. (“**RRSat**”), a company which deals in satellite links in Israel and abroad, is held for 24.5 per cent. by Kardan Communications and is listed on the NASDAQ stock exchange. RRSat is represented in Kardan Communications financial statements and the Company’s financial statements on an equity basis.

Baby First TV LLC (“**BFTV**”), which operates a television channel for infants, is held for 29.94 per cent. by Kardan Communications. BFTV is represented in Kardan Communications’ financial statements and in the Company’s financial statements on an equity basis.

In addition, Kardan Communications is active through additional companies, which are not material companies for Kardan Israel and the Company. In the media and multi-channel television broadcast sector, Kardan Communications holds about 2.3 per cent. (indirectly, through Lidan Investment Agencies Ltd and about 2 per cent. if full dilution is taken into account) of the DBS Satellite Services (1998) Ltd., which is the DBS franchiser in Israel. Furthermore, Kardan Communications is active through its subsidiaries in the fields of software development and assimilation, innovative access products and communications exchange networks solutions, call center services in CEE, data provision and added value services for mobile phones and in the venture capital sector specialising in the technology.

Kardan Technologies was incorporated in Israel in 1994 and is a public company traded on the Tel-Aviv Stock Exchange. As of the date of this Prospectus, Kardan Israel holds 61 per cent. of Kardan Technologies’ issued capital. Kardan Technologies holds rights in the limited partnership Formula Vision Portfolio Holdings – Limited Partnership (the “**Partnership**”). These rights were acquired by Kardan Technologies in December 2006 for a sum of \$21 million. The Partnership holds a portfolio consisting of three companies operating in the technologies sector: FIS Software Ltd., which develops software solutions for companies working in the life insurance and pension sectors (27.27 per cent. of the capital (24.99 per cent. in full dilution)); Idit IDI Technologies Ltd., which develops and markets software solutions for management and full support of all business procedures of non-life insurance companies (58.05 per cent. of the capital (49.92 per cent. in full dilution)) and Giga Spaces Technology Ltd., which develops and markets unique grid-based technological solutions (sharing and using computer resources optimally) which allow processing, sharing and large scale data distribution in quick files (16.83 per cent. (13.27 per cent. in full dilution)). In December 2007, the Partnership sold its full holdings (21 per cent.) in Babylon Ltd in return to a sum of \$6.1 million.

In addition, Kardan Technologies holds minority interests in other technology companies which holdings are immaterial for the Kardan Group.

## **Competition**

### *Automotive & consumer goods*

The vehicles market in Israel is highly competitive in all vehicle types (mini models, family sedans, Sport Utility Vehicles, 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 2008, with a market share of about 8.7 per cent. for that year. UMI is expected to maintain its status.

The market share of UMI in 2008 and 2007 amounted to 8.7 per cent. and 7.2 per cent., 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 Chevrolet importer).

Primary methods employed by UMI to contend with competition are effective advertising, maintaining a positive image, continued monitoring of customers' changing preferences and adaptation of vehicle models and prices thereof imported to Israel by UMI to the requirements of the Israeli consumer.

UMI imports a wide range of products, thereby ensuring long term high competitiveness. UMI purchases products from different countries, in different currencies. This ensures currency versatility and flexibility versus other vehicles importers who depend on one primary currency only.

### *Communications and technologies*

The communications and technologies sectors are characterised by strong competition, rapid technological developments, variable market conditions, the need to make significant investments in research and development, and a short life span of products.

Most of the companies held by Kardan Communications and Kardan Technologies face strong competition, often from larger and better established companies, which makes penetration into the product market and obtaining a significant market share much more difficult.

## **General Environment and Impact of External Factors**

### *Automotive & consumer goods*

*Global economy* – UMI operations are affected by the global economical conditions and economical policy in general and specifically in countries from which UMI imports vehicles.

*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.

*Relationship with the GM Group* – UMI imports and markets vehicles made by GM Group companies. GM Group has indicated that the current adverse global economic conditions are materially affecting its operations. This might also affect UMI.

*The Israeli vehicles market* – The sales volumes of new vehicles in the Israeli vehicles market amounted in 2008 and in 2007 to about 200,000 and 191,000 new vehicles respectively. The Israeli vehicles market is one of the most competitive markets in the world (data is based on information published by the Vehicles Importers Association). High tax ranges (about 110 per cent. on vehicles from Europe and the United States and about 125 per cent. on vehicles from

Asia), relatively low purchasing power of customers, geographical isolation and absence of local manufacturers, which limits the competition, create a highly price sensitive market and cause fluctuations.

All leading vehicles manufacturers are represented in Israel, including, in most cases, the whole range of secondary brands. The standardisation issue is a main component that affects the supply of vehicles for 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 in North America that conform to the American standard and to several dedicated Israeli standardisation requirements. Vehicles which fail to conform to these standards are forbidden to be imported into Israel. The management of UMI estimates that several Chinese manufacturers will complete a standardisation process, at a similar level to the European standard<sup>18</sup> within the next few years. Achievement of this standardisation will enable import of Chinese vehicles to Israel. This will intensify the competition in this sector and may lead to price reductions.

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 cause 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: (1) private customers and small business customers, who buy single vehicles and (2) institutional customers, e.g., leasing companies, car rental companies and Government Vehicles Administration<sup>19</sup>.

*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 per cent. on private vehicles and 72 per cent. on commercial and cargo vehicles. The Israeli authorities implement a gradual reduction of the purchase tax rate on new vehicles, which upon completion in 2010 will apply a uniform 72 per cent. tax rate on vehicles with total weight of 4.5 tons. No purchase tax is applied to trucks, as of February 2005. As a rule, custom duties at the rate of 7 per cent. of the vehicle's value are charged on vehicles manufactured in foreign countries and imported to Israel. However, no custom duties are paid on vehicles imported to Israel which are manufactured in the United States, Canada, Mexico 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.

### *Communications & technologies*

The business environment of Kardan Communications and Kardan Technologies is comprised of several main factors: the strength of the capital markets in the United States and Europe, the status of the venture capital industry in the United States, Europe and Israel, and the relevant business environment of the companies in which Kardan Communications and Kardan Technologies directly or indirectly own holdings. As a rule, the communications and

<sup>18</sup> This estimate is based on statements of Chinese manufacturers.

<sup>19</sup> The Government Vehicles Administration is the entity responsible for vehicles purchase and maintenance for all government ministries and dependent departments.



technologies field is characterised by strong competition, rapid technology developments, variable market conditions, the need to make significant investments in research and development, and a short product lifespan.

The results of some of the companies' operations are dependent, 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 companies held 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 share much more difficult.

The companies in the advanced technology and software field are dependent 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 characterised by fluctuations, a fact which affects the ability of investors to gain capital profits from actualising their investments including the option to carry out private or public issuances of shares or finding alternative financing sources for these companies.

## **Environment**

Operations of the authorised garage owned by UMI and its commissioning and delivery centre are subject to requirements of the Israeli Ministry of Environment. Lubricants and other materials used at these sites (e.g. car wash detergents) require special treatment and arrangements as set forth by the requirements of the Israeli Ministry of the Environment, to prevent environmental pollution by such materials and waste created by using these substances. As at the date of this Prospectus, UMI complies with the aforementioned requirements.

## **Regulatory**

### *Automotive & consumer goods*

Under Israeli law, several obligations apply to a vehicles importer. Inter alia, 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 permit 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 permit 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 authorised by the importer. Israeli law sets conditions for granting a license to import vehicles (usually granted for a period of one year) and subjects the issuance of the 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.

Under Israeli law 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 authorised 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.

The Standardisation Department of the Israeli Vehicles Department at the Ministry of Transportation each year defines 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 standardisation and what are the special conformance to standards

requirements in Israel, based primarily on European and American standardisation requirements. Standardisation requirements focus on vehicle safety, passengers and pedestrians safety and air pollution.

UMI holds all the permits and certificates as referred to in this chapter, which are valid as at the Prospectus date.

#### *Communications and technologies*

The communications and technologies sectors are highly affected by rules and regulations and changes in the regulatory environment. The KI Group Companies are required to operate under the laws and regulations of each country they operate. Furthermore, some of the KI Group Companies require special licenses from different regulatory bodies in different countries in order to operate in different geographical areas and business fields. The depth of regulatory requirements changes among different countries, although some consolidation within the United States and within the European Union exists.

## OPERATING AND FINANCIAL REVIEW

The following is a discussion of Kardan's financial condition and results of Kardan's operations as of and for the years ended 31 December 2005, 2006 and 2007 and as of and for the six months' period ended 30 June 2007 and 2008 and of the material factors that Kardan believes are likely to affect Kardan's consolidated financial condition. This section should be read together with Kardan's audited consolidated financial statements for the years ended 31 December 2005, 2006 and 2007, including the notes thereto. Kardan's consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the Commission of the European Communities.

### Overview

Kardan is an international investment company based in the Netherlands. Kardan's main activities are developing, supporting, managing and realising the value of its investments. Focusing on emerging markets, mostly within Central and Eastern Europe and South East Asia. Kardan is primarily active in three sectors: real estate, financial services and infrastructure; which are divided into seven fields of operation including: real estate, financial services – lending and retail banking, financial services – insurance and pension, infrastructure – assets and infrastructure – projects. Kardan is also active in Israel in the fields of automotive and consumer goods and communications and technologies. For additional information and description of the activities the Kardan Group is involved in please refer to the chapter "Business".

The following table presents the main Kardan Group Companies per business segment:<sup>20</sup>

Business Segment	Company name	Holding Percentage <sup>(*)</sup>				
		30 June		31 December		
		2008	2007	2007	2006	2005
<b>Real Estate</b> .....	<b>GTC RE</b>	64.9	60.1	64.6	61.4	69.1
	<b>GTC SA</b>	46.1	46.1	46.1	46.4	50.7
	<b>GTC China</b>	100	100	100	100	100
<b>Financial Services</b> .....	<b>KFS</b>	80	80	80	55.1 <sup>(**)</sup>	88.2
	<b>TBIH</b>	40 <sup>(**)</sup>	40 <sup>(**)</sup>	40 <sup>(**)</sup>	74.8	58.2 <sup>(**)</sup>
	<b>TBIF</b>	90.4	89.4	90.4	89.4	100
<b>Infrastructure</b> .....	<b>Tahal / Tahal BV</b>	100	100	100	100	100
	<b>TCE</b>	100	100	100	100	100
<b>Automotive &amp; Consumer Goods</b> .....	<b>UMI<sup>(***)</sup></b>	45	45	45	45	45
<b>Communications &amp; Technologies</b> .....	<b>RRSat<sup>(***)</sup></b>	24.6	24.6	24.6	24.6	32.5
<b>Other</b> .....	<b>Kardan Israel</b>	71.4	71.9	71.4	78	80.5

(\*) Holding percentage of the relevant direct and indirect holding company.

(\*\*) The financial statements have been included in the consolidated financial statements of Kardan using proportionate consolidation.

(\*\*\*) The investment has been accounted for using the equity method.

<sup>20</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

The following table presents the revenues of the Kardan Group Companies per geographical markets (according to location of customers):

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

## **Major Factors Affecting the Company's Results and Financial Condition**

### *The effect of foreign exchange rates on the Company's financial statements*

Due to the diversity of the Company's activities in different markets and countries, the results of the Kardan Group can be influenced by changes in exchange rates of different currencies compared to the Euro, which is Kardan's measurement and reporting currency. The main items affected by such changes are explained below.

### *The balance of the Company's monetary assets and liabilities*

The Kardan Group Companies attempt to match the terms of their monetary assets and liabilities to their measurement currency in order to minimise foreign currency exposure. Nevertheless, due to several circumstances the monetary assets and liabilities do not always match the measurement currency. For example, GTC RE, Kardan Israel and the Company are partially financed by debentures denominated in NIS and GTC SA is partially financed by PLN denominated debentures. Changes in the exchange rates of these currencies compared to the Euro may increase or reduce the value of the asset or liability with respect to these items. The effect of changes in the balance of the debentures, loans or cash is recognised in profit and loss accounts as financing income or expenses.

### *Financial instruments*

In order to mitigate the currency exposure, Kardan, GTC RE and GTC SA have entered into cross-currency (and interest rate) swaps with respect to the above mentioned debentures. These cross-currency swaps were designated as a cash flow hedge of their exposure to changes in its functional currency equivalent cash flows on the debt. Accordingly, in accordance with IAS 39:

- the loans are converted at a spot rate (the rate that is quoted for immediate settlement). The conversion gains and losses on the foreign currency denominated debt are taken in to the income statement;
- the fair value of the cross currency swap is recorded in the balance sheet. The effective part of the hedge is recorded as a separate component of equity (a designated capital reserve) and a reclassification to income statement at the time the hedged risk affects profit or loss to off-set retranslation of the hedged debt and interest expense.

### *Results of foreign operations*

Some of the Kardan Group Companies operate in non-Euro environments and accordingly prepare their financial statements in currencies other than Euro. As the majority of the Company's activities are effectuated in Euro, the Company presents its financial statements in Euro. The Company's interest in the results of such Kardan Group Company is converted into Euro at the exchange rate existing in each reporting period. The exchange differences arising on the conversion are recorded directly in equity. A detailed description of the Kardan Group policy with respect to foreign currencies can be found in the notes to the Company's consolidated financial statements.

### *Change in measurement and presentation currency*

On 1 January 2007 the Company changed its measurement and presentation currency from the US Dollar to Euro, as the Company believes that, based on the relative amounts of cash flows denominated in Euro effective 1 January 2007, the Euro reflects in a more appropriate manner the Kardan Group's underlying events and transactions.

The Company applied the translation procedures applicable to the new functional currency prospectively from 1 January 2007. All assets and liabilities were translated using the exchange rate in effect at the date of the change. The resulting translated amounts for non monetary items are treated at their historic cost. A new currency translation adjustment has been calculated for subsidiaries with a functional currency different than Euro. For comparative figures, the presentation currency has also been changed. The comparable results and financial position of the Company was translated from US Dollar into Euro.

### *The effect of share prices on the Company's financial statements*

The Company's consolidated results are materially influenced by changes in the value of the shares it holds.

As of 1 January 2005, the Company applied revised IAS 32 and IAS 39 according to which a financial instrument now qualifies as an equity instrument when it is settled by exchanging a fixed amount of cash (or other financial asset) for a fixed number of equity instruments. Accordingly, an equity component of compounded financial instruments that does not meet these criteria will be considered as a financial liability. Changes in the fair value of financial liabilities should be recognised in the income statement. In addition, it was confirmed by the International Financial Reporting Interpretations Committee ("**IFRIC**") that the Israeli Consumer Price Index linked convertibles and convertibles denominated in a currency other than the functional currency of a reporting entity, by definition do not have an equity component but should be accounted for as a liability with a foreign currency derivative.

Following this interpretation the Company presents all the options that it issued to debt holders and some of the options issued by Kardan Group Companies (primarily GTC RE and Kardan Israel) and the equity components of the Company's convertible debentures as long-term liabilities and adjusts these liabilities to their fair value in each reporting period. The changes in the fair value of these instruments are recognised in the profit and loss accounts as financing income or expense.

In order to determine the fair values of these securities the Company uses common methods and models of valuations, all of which are based, *inter alia*, on market prices of the underlying shares and the volatility in share prices. Accordingly, higher share prices result in higher fair value of the related securities and consequently increases the Company's consolidated finance expense.

In the Company's acquisition strategy and management philosophy, options play an essential role. The option mechanism promotes the entrepreneurial spirit within the Kardan Group Companies the Company invests in.

### *Liquidity and capital resources*

The Kardan Group uses a variety of internal and external sources to finance its operations. In addition to net cash provided by operations, Kardan Group Companies use short and long-term borrowings to fund capital expenditures and strategic investments. Short and long term funding sources may change with time but currently primarily include debentures issued in the Israeli and Polish capital markets and credit facilities with international and local banks, denominated in Euro, US Dollars, NIS and other currencies, depending on the country of



operations of the particular Kardan Group Company. A detailed description of the Kardan Group's policy with respect to interest rates can be found in the notes to the Company's consolidated financial statements.

Each of the Company's business segments manages its own funding needs and arranges its own credit facilities according to common terms and covenants in its fields of business.

The Company, as well as the larger Kardan Group Companies, is a holding company with direct operations mostly limited to certain functions for the Kardan Group, including budgeting, corporate finance, strategic development and public relations. The ability of the Company and each of its intermediate holding companies to repay its debts depends primarily upon the receipts of dividends, distributions and other payments from other Kardan Group Companies, proceeds of the sale of Kardan Group Companies and from additional borrowings. The Company expects to be able to repay all long-term debts as they become due from its operating cash flow or through refinancing.

Dividends can be distributed according to legal and statutory requirements in each country of operation of the Kardan Group Companies. Certain Kardan Group Companies have limitations on dividend distribution as a result of shareholders' agreements or financial covenants that were concluded with banks or other lenders in connection with credit facilities. The ability of the Kardan Group to incur further indebtedness may be limited by the covenants in its outstanding borrowings.

A description of all other risks affecting the Kardan Group and information regarding risk management are described in the notes to the Company's consolidated financial statements.

#### *World credit crisis*

The world credit crisis has led to worsened market conditions in all segments. The global economic factors (as described in the chapter "Risk Factors") could possibly result in future value losses due to:

- potential increases of real estate yields and therefore decreases in value of investment properties and investment properties under construction;
- negative effect on the Kardan's Group banking operations in Russia and Ukraine, putting additional strain on their liquidity position and preventing normal inter-bank operations;
- stability of deposits remains subject to the market environment stabilising;
- impairment of goodwill and investments in associated companies;
- impairment of financial instruments and other assets; and
- lack of liquidity and inability to refinance current liabilities.

Description of the risks associated with the world credit crisis can be found in the chapters "Risk Factors" and "Business" in this Prospectus.

#### **Main Events Affecting the Company's Financial Statements**

During the years 2005, 2006 and 2007 and the first half year 2008 the Company concluded a number of transactions which have had a significant impact on the results of its operations and its financial condition. The Company consolidates revenues and expenses of newly acquired subsidiaries from the date of acquisition, being the date on which the Group obtains control.

*First half year 2008<sup>21</sup>*

### *Real estate*

In January 2008, following the expansion of the GTC RE Non-Convertible Debentures in November 2007 and for the purpose of matching the payments of the GTC RE undertakings to its cash flow resources that are stated in Euros, GTC RE engaged with Discount Bank in a swap transaction for NIS 193,430,049 nominal value in bonds, under which Discount Bank shall pay GTC RE the linked NIS cash flow required for repaying the bonds, and on the other hand GTC RE shall pay Discount Bank a corresponding cash flow in Euros with a fixed annual interest of 6.21 per cent. The hedged balance covers the total of NIS 1,333,967,977 nominal value of GTC RE Non-Convertible Debentures. For details regarding additional hedge transactions please refer to "Events subsequent to 30 June 2008" at the end of this section.

During January-February 2008, GTC China purchased land plots in different cities in China with a total size of 450,000 square meters for a purchase price of €69 million. GTC China intends to develop the land into residential and commercial projects.

In March 2008, Kardan Israel and Kardan RE signed an agreement with Delek for the merger of their activities. Delek will transfer all of its shares in Dankner, a fully owned subsidiary of Delek, to Kardan RE. Delek will receive 40 per cent. of the shares of Kardan RE. Following the transaction, Kardan RE will be held by Kardan Israel (60 per cent.) and Delek (40 per cent.). The final agreement and the closing of the transaction are subject to certain conditions precedent, including antitrust and tax authority approvals.

Kardan Israel has granted Delek a put option to sell its shares in Kardan RE to Kardan Israel in case there has not been an IPO of the merged entity following the fourth anniversary of the closing. The consideration for this sale will be determined by an appraiser but will not be less than \$67.5 million. The put option can be exercised during a period of 90 days, following the fourth anniversary of the closing (in certain circumstances the exercise period can be postponed by Kardan Israel for an additional year).

During the six months period ended on 30 June 2008, Kardan Israel acquired 750,518 shares of GTC RE for a purchase price of €6 million. Due to this acquisition the holding percentage of the Company in GTC RE increased to 65.2 per cent. The excess of the purchase price over the book value of the net assets of GTC RE amounted to €2.5 million and is allocated as general goodwill.

In May 2008, GTC Russia finalised an agreement to acquire a 50 per cent. stake in an office development project in Viborgsky, a district of St. Petersburg, Russia. GTC Russia intends to develop 110,000 square meters of office space, to be completed in 2011-2013. GTC Russia paid approximately €29 million for its share in the project. The costs for the development of the total project are estimated to amount to approximately €413 million.

In May 2008, GTC SA completed the issuance of debentures amounting to PLN 350 million. The debentures were issued to institutional investors in Poland and are not subject to any pledge or guarantee. The debentures bear fix interest of 6.63 per cent. denominated in PLN and will be repaid 5 years from the issuance date.

In March 2008, GTC SA successfully completed the Nefryt office building in Warsaw, Poland, and the Globis Wroclaw office building in Wroclaw, Poland. The adjustments to fair value amounted to €28 million and €23.2 million, respectively, out of which the net equity holders share amounts to €9 million.

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<sup>21</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

In June 2008, GTC SA successfully completed the Zephyrus office building in Warsaw, Poland, and a subsidiary of GTC Romania completed the Galleria Buzau shopping mall in Buzau, Romania. The adjustments to fair value amounted to €10.3 million and €21.2 million, respectively, out of which the net equity holders share amounts to €3 million.

#### *Financial services*

In February 2008, TBIF purchased an additional 9 per cent. of the shares of Sovcom Bank for a purchase price of €29 million (for details regarding the initial acquisition please refer to “2007 – Financial Services” later in this section). The goodwill created in the acquisition amounted to €7 million. In addition, in May 2008, TBIF purchased from the other shareholder of Sovcom Bank an additional 1 per cent. of the share capital of the bank for a purchase price of €1.7 million. Following these acquisitions TBIF holds a 63.5 per cent. stake in Sovcom Bank. TBIF continues to proportionally consolidate the financial statements of Sovcom Bank according to the shareholders’ agreement.

According to the agreement TBIF was granted options to increase its share in Sovcom Bank to 65 per cent., according to the first option, and to increase its share to 75 per cent., according to the second option. The exercise price of these options will be determined by a mutually agreed formula. The first and the second option will be valid for a period of 30 days after the approval of the financial statements of Sovcom Bank as of 30 June 2008 and 31 December 2008, respectively.

In case TBIF does not exercise the second option, the other shareholder in Sovcom Bank will have an option to purchase from TBIF shares that will reduce TBIF its interest in the Russian bank to 50 per cent. for the same price that TBIF paid for increasing its share in Sovcom Bank plus annual interest of LIBOR + 5 per cent. The exercise of the above mentioned options is subject to regulatory approvals.

In March 2008, TBIH completed the acquisition of 62 per cent. shares of the UIG for a total purchase price of €33 million (in which the Company’s consolidated share amounts to €13 million). The shareholders agreement includes a call option for TBIH to purchase and a put option for the sellers to sell the remaining 38 per cent. of UIG within five years, under certain terms and conditions. The excess of the purchase price over the net assets of UIG (including the financial liability to recognise the put option granted to the minority shareholder) amounted to €84 million (in which the Company’s consolidated share is €34 million). TBIH classified the excess of the purchase price over the net assets preliminary pending purchase price allocation as goodwill.

In May 2008, KFS acquired the minority share (approximately 25 per cent.) of RIC for a purchase price of €16 million. Following the closing of this transaction KFS will hold 100 per cent. RIC. The excess of the purchase price over the over the net asset value of RIC amounted to €3.3 million and was accounted for as goodwill.

#### *Infrastructure*

In February 2008, TCE signed an agreement with EPAL, the national water company of Angola, regarding the development of a water supply infrastructure project. The agreement between TCE and EPAL involves the execution of a water supply network distribution system to seven neighbourhoods, located to the south of the capital city Luanda. The project further includes the design of the distribution system and the installation of about 400 km of PVC pipes and the installation of about 140 drinking fountains. The total project comprises an area of about 3,530 acres (approximately 1.43 million square meters). The project size is approximately €34 million and will be financed by the government of Angola. The execution of the project is estimated to take 18 months.

2007

*Real estate*

In 2007, the Company acquired 1,522,613 shares of GTC RE for a purchase price of €17.5 million. As a result its shareholding increased to 61.7 per cent. and the goodwill resulted from the purchase amounted to €13.7 million. In addition, during 2007, the Company purchased NIS 24,875,568 nominal value GTC RE Convertible Debentures for a purchase price of €18.8 million. As a result the Company recognised a loss from early redemption of €1.5 million.

In November 2007, the Company converted NIS 143,183,170 nominal value of the GTC RE Convertible Debentures into 8,897,426 shares of GTC RE. As a result of this conversion, the Company increased its holding in GTC RE to 65.7 per cent. and the Company attributed an amount of €31 million to goodwill.

In January 2007, GTC RE issued debentures to institutional investors in Israel (GTC RE Non-Convertible Debentures) in consideration of NIS 550 million (issuance costs amounted to €500 thousand). The debentures are linked to the Israeli Consumer Price Index and bear an annual interest rate of 4.9 per cent. The principal amount is repayable in 7 equal instalments during the years 2014 to 2020. The interest payments will be made annually. The debentures are rated AA- by Ma'alot (Standard & Poor's subsidiary in Israel). In connection with the rating, GTC RE has committed to maintain certain financial covenants. In June 2007 the debentures were listed for trading on TASE. According to the terms of the debentures, GTC RE paid to the holders of the debentures additional interest until the date of listing at a rate of 0.1685 per cent.

Following the issuance of the debentures GTC RE entered into a swap transaction according to which GTC RE has converted the cash received in NIS into Euro, and effectively swapped the related liability into a Euro loan bearing a fixed interest rate of 5.94 per cent. per annum.

In November 2007, GTC RE expanded the GTC RE Non-Convertible Debentures with additional NIS 783,967,977 nominal value, through a private allocation to institutional investors in consideration for approximately NIS 805,919 thousand. The terms of the newly issued bonds are identical to the GTC RE Non-Convertible Debentures issued in January 2007.

In December 2007, GTC RE entered into a swap transaction with Discount Bank, with respect to debentures amounting to NIS 200 million nominal value. Under the terms of the swap Discount Bank shall pay GTC RE the linked NIS cash flow required for repaying the bonds, and on the other hand, GTC RE shall pay Discount Bank a corresponding cash flow in Euro, with a fixed annual interest of 6.44 per cent.

In April 2007, GTC SA successfully completed a PLN 800 million bond offering to Polish institutional investors. The bonds were issued in two series, the first series (90 per cent. of the proceeds) has a 7-year maturity and the second series has 5-year maturity. The bonds are denominated in PLN and bear a variable interest rate, to be paid every 6 months.

Following the bond issue, GTC SA converted the received cash into Euro and swapped the related liability by entering into a Euro-PLN cross-currency interest rate swap transaction, whereby the liability bears a fixed interest rate of 5.745 per cent. per year. The swap is deemed ineffective and accordingly all fair value gains and losses are taken into the income statements.

In September 2007, GTC Real Estate Investments Romania B.V. ("**GTC Romania**") sold its 100 per cent. interest in Complexul Multifunctional Victoria S.R.L. ("**CMV**"), a Romanian subsidiary of GTC Romania, owning the America House office building in Bucharest, Romania. The sale price, amounting to €120 million, was based on asset value of CMV. As a

result of the sale the Company has realised a revaluation gain amounting to €16.4 million, and released the deferred tax liability previously recorded in the accounts of CMV and accordingly income tax expenses reduced in the amount of €13.9 million.

In January 2007, a director of GTC SA exercised 1,341,450 subscription warrants into 1,341,450 shares of GTC SA for a purchase price of €124,000. As a result GTC RE's interest in GTC SA was diluted from 46.4 per cent. to 46.1 per cent., and the Company recorded a loss of approximately €1.2 million (after minority interests).

In February 2007, a GTC Group company signed a memorandum of understanding for the lease of a 460,000 square meters land in China for \$55 million, to be paid in advance for the full term of the lease. The land will be used for residential development.

In March 2007, GTC SA successfully completed the construction of the Newton office building in Krakow. The value of the Newton office building amounts to \$34.1 million according to an independent appraiser report. The revaluation gain amounts to approximately €11 million, of which the Company's share, after tax and minority interests, amounts to approximately €2.5 million.

In June 2007, a subsidiary of GTC SA completed the construction of Avenue Mall shopping center in Zagreb, Croatia. The value of Avenue Mall amounts to €190.2 million according to the independent appraiser report.

In July 2007, GTC RE, through its subsidiary GTC China, acquired 75 per cent. of the ownership of the 20,000 square meters new development site through an auction, in a 75 per cent./25 per cent. partnership with its local partner Lucky Hope. On the site, GTC China plans to develop a 40,000 square meters shopping mall over the next 3 years. The purchase price for the land amounts to approximately €26 million. The total investment in the project was estimated at approximately €57 million.

#### *Financial services*

In December 2007, a transaction was executed and closed with Discount Bank whereby KFS allocated 11 per cent. of the share capital for a purchase price of €55.6 million. The parties also agreed that Discount Bank will grant KFS a credit facility of up to €225 million, for periods ranging from 6 to 11 years. The agreement entitled Discount Bank to nominate up to 20 per cent. of the supervisory board of KFS. As a result, KFS has re-valued a put option granted to a minority shareholder in TBIF for a total amount of €19 million and attributed this revaluation as an expense in the profit and loss statement. Following the closing of the transaction, the Company recorded a gain of €30 million included in the consolidated income statement, under gains from share issue to third party section.

In February 2007, TBIF signed a term sheet with the shareholders of Sovcom Bank to merge TBIF's lending operations in Russia with the activities of Sovcom Bank under a joint holding company. In addition, TBIF will increase the capital of the holding company by \$39.5 million, through the contribution of cash and receivables from its Russian lending operations. Following the completion of the transaction, TBIF will have a 47 per cent. interest in Sovcom Bank (indirectly, through the joint holding company) and 50 per cent. of the voting rights. The transaction was completed in August 2007.

At the end of the third quarter of 2007, TBIF had effectively acquired 50 per cent. of the net assets of Sovcom Bank by combining 100 per cent. of its holdings in Arka Finance with the holdings of Sovcom Bank and making additional net payments in the amount of RUR 1,027 million (€30 million). TBIF consolidates the financial statements of Sovcom Bank as of 30 September 2007 proportionally with 50 per cent. holding. The effective disposal of 50 per cent. of Arka yielded a gain of €7 million.



In July 2007, TBIH signed a Share Purchase Agreement (“SPA”), according to which TBIH purchased 75 per cent. + 1 share of Sigma, an Albanian insurance company also operating in Macedonia (through a subsidiary) and Kosovo (through a branch), for a total purchase price of €16.6 million. The SPA included the option for the minority shareholders to sell the remaining 25 per cent. stake in Sigma within the next four years for a price depending on the development of Sigma during this period. The total liability due to the option was evaluated at €6.9 million and was classified as financial liability with any subsequent fair value movements being posted against goodwill. The transaction was completed in September 2007. The excess of the purchase price over the net assets of Sigma amounted to €20.5 million and was temporarily primarily allocated to goodwill.

In October 2007, KFS signed a SPA, according to which KFS purchased 100 per cent. in a fund holding 74.95 per cent. in an insurance company operating in Russia for a total purchase price of €24.4 million. The acquisition was financed through a loan granted from TBIH to KFS, which granted the right to TBIH to purchase the shares of the insurance company starting June 2009. The SPA included the option for the minority shareholders to sell the remaining 25.5 per cent. stake in the insurance in 2010 for a price determined in the SPA. Parallel an option was granted to KFS to purchase the minority share at the same conditions. The total liability due to the option amounts to €7.7 million and was classified as financial liability.

In April 2007, the Company completed a transaction in the financial services segment following agreements signed in August 2006. The transaction relates to the Company’s and VIG’s holdings in KFS in TBIH and in TBIF. Following the completion of the transaction the Company’s interest in KFS has increased from 55.12 per cent. to 92.3 per cent. The effect of the transaction in terms of Kardan’s holdings was an indirect increase in TBIF, from 49 per cent. to 80 per cent. Concurrently, the Company’s indirect interest in its insurance and pension activities through TBIH has decreased from 55 per cent. to 36 per cent. Following the completion of the transaction the Company recognised a gain of €19.7 million (of which €1.5 million as a result of release of capital reserves) as a result of the indirect decrease in its interest in TBIH. From the date of completion of the transaction the Company is consolidating the financial statements of TBIF (which were previously proportionately consolidated). The transaction was accounted for in accordance with IFRS 3.

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

Within the framework of the abovementioned reorganisation, KFS has acquired employee options which were granted to certain key employees in TBIH in exchange for shares in KFS and cash payments. Following the acquisition, the key employees, managers and other minority shareholders retained a 10.4 per cent. interest in KFS. The Company has granted the key employees, managers and other minority shareholders in KFS put options to sell their shares in KFS to the Company with an exercise price to the fair value of the shares at the date of sale. The put options are exercisable during a period of several years. Some of the put options include in the definition of the exercise price a minimum amount from which the shares can be sold. The Company has accounted for the put options granted to the minority shareholders according to IAS 39, IAS 32 and IFRS 3. The put options are included in the long-term liabilities of the Company at to their fair values.

In June 2007, TBIH completed the acquisition of a 58.2 per cent. stake in Ray Sigorta, a Turkish insurance company, listed on the Istanbul Stock Exchange, for a purchase price of €62 million. According to the agreement, during 2010 and 2011, the minority shareholder in Ray Sigorta will have the option to sell its remaining 20 per cent. holding in Ray Sigorta to TBIH for the proportionate part of the purchase price of €62 millions paid in 2007 plus interest. The liability included in TBIH financial statements for this option amounts to €20 million. In

addition, TBIH agreed to increase the capital of Ray Sigorta in the amounts necessary to meet the applicable regulatory requirements, which are estimated to range in between €13 million and €23 million. According to other regulatory requirements, TBIH had to make a tender offer to the holders of the remaining 21.8 per cent. of Ray Sigorta shares to acquire these shares. In August 2007, approximately 16 per cent. of the shareholders of Ray Sigorta responded to the tender offer and TBIH has paid €17 million. Accordingly, its interest in Ray Sigorta increased to 74 per cent. TBIH has accounted for the put option granted to the minority shareholders and its commitment to make a tender offer to the public as a liability. TBIH's investment in Ray Sigorta was therefore recorded for 94 per cent.

#### *Infrastructure*

In April 2007 Tahal signed an agreement for the establishment of a joint venture that will invest in and manage, operate and maintain water related infrastructure projects in China. Tahal holds a 66.6 per cent. interest in the joint venture, while the local partners hold the remaining 33.3 per cent. Upon incorporation of the joint venture Tahal has invested approximately €22 million in the capital of the joint venture, of which half against the issuance of preferred shares. In addition, Tahal has committed to provide the joint venture loans amounting up to approximately €41 million.

#### *Other businesses*

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

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

In April 2007, the Company sold 3.9 per cent. of Kardan Israel shares (a total of 2,987,000 shares) for a price of €10 million. The sale resulted in a gain of €5.5 million. As a result, the Company's interest in Kardan Israel decreased to 74.1 per cent. Furthermore, Kardan Israel raised €6 million by the issuance of 2 million new shares to institutional investors. After this transaction, Kardan's interest in Kardan Israel was diluted to 72.25 per cent. and the Company realised a gain of approximately €2.7 million.

In February 2007, the Company issued debentures to institutional investors in Israel in consideration of NIS 840 million. The debentures are linked to the Israeli CPI and bear an interest at a rate of 4.45 per cent. per annum. The principal is repayable in 4 equal instalments during the years 2013 to 2016. The interest payments will be made annually. In June 2007 the debentures were listed for trading on TASE. According to the terms of the debentures, the Company paid to the holders of the debentures additional interest until the date of listing at a rate of 0.8 per cent. per annum.

In July 2007, the Company issued additional NIS 350 million par value debentures. The proceeds from the issue amounted to NIS 357 million. The debentures have the same terms as the debentures issued in February 2007. The debentures were listed for trade on TASE as soon as they were issued.

Following the issuance of the debentures the Company entered into several swap transactions according to which the Company converted the cash received in NIS into Euro, and effectively swapped the related liability into a Euro loan bearing a fixed interest rate at the range of 5.38 per cent. - 5.64 per cent. per annum.

2006

### *Real estate*

In April 2006, GTC Investments signed an agreement for the acquisition of an 80 per cent. stake in Durango Switzerland which subsequently purchased a real estate portfolio comprising 9 office properties in Switzerland. The properties are quality office buildings situated in major cities throughout Switzerland: Bern, Zurich, Fribourg, Neuchatel and others. The majority of the properties are let to Swisscom. The total consideration for the real estate portfolio amounts to approximately CHF 96.4 million including acquisition costs. Approximately CHF 80 million of the total purchase price was financed through a bank loan. GTC Investments is consolidating the results of Durango Switzerland as of the date of acquisition, whereby goodwill paid is allocated to the fair value of the investment properties.

In May 2006, GTC RE and Mr. Alroy signed a consulting agreement according to which Mr. Alroy will provide GTC RE with services in relation with its investment in GTC Investments. In consideration for the consulting services the parties agreed as follows:

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

In addition GTC RE granted to Mr. Alroy a put option to sell to GTC RE any or all of his shares in GTC Investments. The put option can be exercised in whole or in part during a 12 months period commencing upon the later of five years from the effective date (being 29 November 2005) or the date Mr. Alroy ceased to provide consulting services to GTC RE. The exercise price of the option shall be the fair value of the shares transferred as of the date of exercise of the option, and shall be paid in cash or in shares at the discretion of GTC RE. In July 2006, the 450 shares have been transferred to Mr. Alroy. As a result GTC RE's interest in GTC Investments was reduced to 46.25 per cent.

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

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

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

During 2006, the Company and third parties exercised options and converted convertible debentures into shares of GTC RE. The exercise price paid by the Company amounted to

approximately €1 million. In addition the Company acquired on TASE approximately 654,000 shares GTC RE for a total purchase price of €3 million. As a result the Company's interest in GTC RE was reduced from 69.1 per cent. to 61.38 per cent. and the Company recognised a gain of approximately €6 million.

During 2006, the Company purchased NIS 89,725,149 nominal value GTC RE Convertible Debentures for a purchase price of approximately €29 million. As a result and in accordance with IAS 32, the Company recorded a loss from early redemption of €5 million. Through this purchase, the Company believes it will be able to increase its holding in GTC RE at an attractive price which will result in higher profits in the future.

In August 2006, GTC SA agreed on terms for the sale of its interest in the subsidiaries holding the office complex Mokotow Business Park in Warsaw, for a purchase price of approximately \$281.2 million. The transaction was completed on 1 December 2006.

#### *Financial services*

In April 2006, the Company completed a transaction according to which VIG purchased by way of allocation and acquisition approximately 40 per cent. of the share capital of KFS. Within five years from the date of the transaction, VIG may increase its percentage shareholding in KFS to 50 per cent. through the purchase of additional shares and through capital increases.

In January 2006, KFS signed an agreement with the Minority Shareholders in TBIH according to which KFS will purchase from the Minority Shareholders additional shares of TBIH, according to TBIH's value as reflected in the abovementioned transaction between KFS and VIG. According to the agreement KFS purchased, approximately 13.94 per cent. of TBIH's shares for a purchase price of approximately €47.4 million. The transaction was completed in April 2006. In addition, the agreement arranges for put and call options for the purchase of the remaining shares in TBIH over a period of two years. The exercise price for each option is €47.4 million, increased by 5 per cent. per annum. Following the completion of both transactions the Company holds approximately 55 per cent. of KFS's shares and KFS held approximately 75 per cent. of TBIH's shares. Upon exercise of the put and call options KFS will hold 100 per cent. of TBIH.

In July 2006, KFS signed a new agreement with the Minority Shareholders in TBIH according to which KFS will acquire their remaining shares in TBIH immediately upon receipt of all necessary regulatory approvals for a purchase price of approximately €96.3 million. The Company and KFS accounted for the put option granted to the Minority Shareholders as a financial liability which fair value equals to the agreed purchase price and accordingly the financial statements of TBIH are consolidated on a 100 per cent. basis, with no minority interest. As part of the transaction in KFS shares, the shareholders signed a joint control agreement. Accordingly and following the investment in KFS the Company consolidates the financial statements of KFS using the proportionate consolidation method starting from the second quarter of 2006.

As the indirect effective interest of the Company in TBIH did not change significantly following the completion of both transactions, the Company set-off the unrecognised gain from dilution of its holding in KFS of €31 million, against the excess of the cost over the carrying value of the investment in TBIH of €45 million and this is presented as goodwill.

In August 2006, the Company signed an agreement with VIG, its partner in KFS. According to the agreement, the Company will increase its interest in KFS from 55.1 per cent. to 89.5 per cent. by acquiring VIG's 40 per cent. stake in KFS. The remaining 10.5 per cent. is held by managers and employees. It was further agreed between the parties that VIG will acquire a 60 per cent. direct stake in TBIH, with the remaining 40 per cent. held by KFS. TBIH will focus exclusively on the insurance and pension business. TBIH will remain under the joint control of KFS and VIG (subject to certain conditions) until December 2010.



Following the completion of the transaction, KFS will initially hold 100 per cent. of TBIH, which will be diluted to 40 per cent. as a result of the above-mentioned transaction. TBIH holds both the pension and insurance businesses and an 89 per cent. interest in TBIF, which manages the retail lending and asset management activities. TBIF will be transferred from TBIH and put directly under KFS. The insurance and pension activities will remain within TBIH. The net effect of the transaction in terms of Kardan's holdings will be an increase in the retail lending activities from 49.3 per cent. to 80.0 per cent. and a decrease in its insurance and pension activities from 55.1 per cent. to 35.8 per cent.

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

In October 2005, TBIF signed a series of agreements for the purchase of up to 50 per cent. of VAB Bank, a Ukrainian bank. In March 2006 TBIF subscribed for newly issued shares in a capital increase, investing a total of €62 million as a result of which its stake in VAB Bank increased from 9.6 per cent. to 49 per cent. Following the receipt of all regulatory approvals, TBIF and the current controlling shareholders hold jointly approximately 98 per cent. of the shares of VAB Bank in equal parts.

In August 2006, TBIH signed an agreement to sell all of its holdings in two Russian insurance companies and in its Serbian pension fund for a purchase price of approximately €30 million. The transaction has generated an equity gain of €10 million for the Company.

#### *Communication and technologies*

In November 2006, the associated company RRSat completed the issuance and listing of 4,195,000 shares on the National Association of Securities Dealers Automated Quotations ("NASDAQ") stock exchange. The Company held a 26.1 per cent. indirect interest in RRSat through its subsidiary Kardan Communications. Following the share issuance, the Company's interest was reduced to 19.7 per cent., and the Company recognised a gain of approximately \$8 million.

#### *Other businesses*

In December 2006 Kardan Israel issued 2,076,125 ordinary shares to institutional investors in Israel in consideration of approximately NIS 30 million. As a result the Company's interest in Kardan Israel was reduced from 80.12 per cent. to 77.98 per cent. and the Company recognised a gain of approximately €3 million.

#### *2005*

##### *Real estate*

In July 2005, Kardan completed a transaction with GTC RE according to which Kardan transferred to GTC RE, by way of contribution-in-kind, its direct holdings in GTC International (approximately 10.3 per cent. of the issued and paid-in capital of GTC International), in consideration for newly issued shares in GTC RE, which constitute, following the issuance, 15.3 per cent. of the share capital of GTC RE and GTC RE Convertible Debentures having a total value of \$6.7 million. As a result of the completion of the transaction, GTC RE increased its direct holdings in the share capital of GTC International from approximately 57.0 per cent. to approximately 67.3 per cent. and Kardan increased its direct and indirect holdings in the share capital of GTC RE from approximately 68.9 per cent. to approximately 70.5 per cent.

In April 2005, pursuant to agreements signed in April 2000, FIC (a group company of Deutsche Bank and a shareholder in GTC International and some of the GTC Group



Companies) exercised an option to sell to GTC International and/or its shareholders GTC International's shares held by FIC (approximately 4.0 per cent.) at a price to be determined by an independent appraiser. FIC also exercised identical options in respect of its shares in its subsidiaries GTC Hungary Real Estate Development Company Limited ("**GTC Hungary**") (13.1 per cent.), GTC Real Estate Investments Serbia B.V. ("**GTC Serbia**") (13.1 per cent.) and GTC Romania (13.9 per cent.). In August 2005, it was agreed that FIC will sell its 4 per cent. interest in GTC International to GTC International's shareholders.

In addition, two other shareholders of GTC International – AYRAD Investments Ltd. ("**AYRAD**") and Tarata Investments N.V. ("**Tarata**") – signed agreements with GTC RE and with GTC RE and ADRI respectively, according to which GTC RE and ADRI purchased their holdings in GTC International. Following the completion of these transactions the shares of GTC International were held by GTC RE – 75.5 per cent. and by ADRI – 24.5 per cent. On 21 December 2005 GTC International's shares held by Tarata (3.0 per cent.) were purchased for \$8.9 million. The purchase of GTC International's shares held by AYRAD (approximately 2.9 per cent.) was completed on 6 January 2006.

In September 2005, pursuant to the options exercised by FIC as described above, GTC SA acquired approximately 9.9 per cent. of the shares of GTC Hungary for a purchase price of approximately \$3.5 million, 11.6 per cent. of the shares of GTC Romania for a purchase price of approximately €2.6 million and approximately 9.9 per cent. of the shares of GTC Serbia for a purchase price of approximately €0.8 million. GTC SA also extended shareholders' loans to these companies amounting to approximately \$4.0 million in order to repay loans in the same amount granted by FIC to those companies. Following the consummation of these transactions, GTC SA holds approximately 75.6 per cent. of the shares of GTC Hungary and GTC Serbia and approximately 60.3 per cent. of the shares of GTC Romania.

In October 2005, GTC RE entered into an agreement, pursuant to which GTC RE and GTC International acquired all of the shares of GTC International held by ADRI by 15 December 2005, following the consummation of the transactions described above, constituted 24.5 per cent. of GTC International's share capital. The consideration for the purchase of the shares amounted to \$91.6 million. The shares were purchased by both GTC International (treasury shares) and by GTC RE. The consideration for the shares purchased by GTC International itself amounted to \$84.0 million, which was reflected in GTC International's books as a capital reduction. GTC RE purchased approximately 2.0 per cent. of the shares for a cash payment of \$7.6 million.

In addition, an agreement was signed (the "**Subsidiaries' Agreement**"), pursuant to which GTC SA and the other shareholders of the subsidiaries have purchased ADRI's holdings in GTC Serbia, GTC Romania, GTC Real Estate Investments Croatia B.V. ("**GTC Croatia**") and GTC Hungary by 15 December 2005. The shares were purchased pro-rata to the holdings of the shareholders in the subsidiaries. According to the Subsidiaries' Agreement, GTC SA purchased approximately 21.9 per cent. of the shares of GTC Hungary, 20.8 per cent. of the shares of GTC Romania, 14.7 per cent. of the shares of GTC Croatia and 21.9 per cent. of the shares of GTC Serbia for a purchase price of approximately \$19.4 million. In addition, it was agreed that the shareholders of the subsidiaries will extend shareholders loans to the subsidiaries pro-rata to their holdings, in order to repay the shareholders loans that ADRI extended to the subsidiaries. GTC SA's share in the aforesaid shareholders loans amounted to approximately \$10.5 million. The Subsidiaries' Agreement was executed on 21 December 2005, following which GTC SA holds 97.5 per cent. of the shares of GTC Hungary and GTC Serbia, 94.5 per cent. of the shares of GTC Romania and 97.2 per cent. of the shares of GTC Croatia.

Until December 2005, GTC SA held a long term investment in Orbis S.A., a leading hotel group in Poland, whose shares are traded on the Warsaw Stock Exchange. In 2000 GTC SA purchased 2,303,853 shares, which represented 5.0 per cent. of the issued share capital of Orbis S.A. On 6 December 2005 GTC SA signed a sale agreement with Accor S.A.,

according to which Accor S.A. purchased the Orbis S.A. shares from GTC SA for a price of PLN 32 per share. The transaction was completed on 14 December 2005. The completion of the sale resulted in a profit of \$4.1 million to GTC SA.

In December 2005, GTC SA entered into a preliminary agreement with Quinlan Private for the sale of a 50.0 per cent. interest in its subsidiary owning Galeria Kazimierz shopping centre for a purchase price of €70 million (€48.7 million, after reducing assets and other liabilities). The consideration reflects a value of €140.0 million which was accounted for as an adjustment to fair value in the fourth quarter of 2005. According to the agreement, GTC SA will continue to manage the shopping centre. The transaction was completed on 28 April 2006.

On 29 April 2005, GTC SA entered into a heads of agreement with T.U. Allianz Polska Sp. zo.o (“Allianz”) for the sale of its subsidiary, GTC Alp Sp.zo.o, owning an office building under construction. The transaction was completed on 29 December 2005. The office building, which has been completed close to the date of the completion of the transaction, was pre-leased to Allianz. The consideration for the shares amounted to approximately \$26.5 million. As a result GTC SA recognised a revaluation gain of approximately \$20.9 million in the fourth quarter of 2005.

In October 2005 GTC China signed an agreement with Lucky Hope and another company related to Lucky Hope for the purchase of 50.0 per cent. of a project company engaged in residential development near Shenyang in north-east China. The purchase price for the 50.0 per cent. stake amounts to \$2.5 million and in addition GTC China granted a loan of approximately \$1.3 million to Lucky Hope and the company related to Lucky Hope. As a result, the financial statements of the project company are proportionately consolidated in the financial statements of GTC RE as of November 2005.

In November 2005, GTC RE signed an agreement to form a joint-venture with PBC, a leading Israeli real estate company. Pursuant to the joint venture, GTC Investments will engage in real estate investments in Western Europe. GTC RE’s stake in GTC Investments is approximately 48.8 per cent.

In November 2005 GTC Investments purchased 85.0 per cent. of the shares of the German company Blitz in consideration for their nominal value. In addition, GTC Investments granted Blitz shareholder’s loans amounting to approximately \$6.8 million. In December 2005 Blitz acquired a 94.0 per cent. interest in 7 companies owning investment properties. The properties are quality office buildings situated in major cities throughout Germany. The total consideration for the real estate portfolio amounted to approximately €101.8 million. €98.0 million of the total consideration was financed through a non-recourse bank loan.

#### *Financial services*

In December 2004, TBIH signed an agreement with a private investment fund (the “Fund”), according to which the Fund purchased newly issued shares of TBIH comprising approximately 17.2 per cent. of the shares of TBIH in consideration for a total investment amounting to \$40.4 million payable in instalments. In January 2005, the transaction was completed and the Fund transferred \$25.4 million to TBIH, being the first payment. In May and June 2005 the Fund transferred the remaining \$15.0 million. The transaction resulted in a capital gain of approximately \$9.5 million for Kardan. Following the share issuance KFS’s proportionate share in TBIH decreased from approximately 70.2 per cent. to 58.2 per cent. and Kardan’s indirect holdings in TBIH decreased from 58.7 per cent. to 48.6 per cent. In November 2005 Kardan increased its indirect stake in TBIH to approximately 51.3 per cent. following the purchase of approximately 4.6 per cent. of the share capital of KFS, as described below. Following the completion of additional transactions in the shares of TBIH and KFS in April 2006 (please refer to “2006- Financial Services” earlier in this section). Kardan’s indirect stake in TBIH decreased to approximately 41.2 per cent.

In May 2005, TBIH entered into an agreement with VIG, pursuant to which VIG purchased TBIH's holding in the Romanian insurance company Omniasig, for a purchase price of approximately €62.2 million. Concurrently, TBIH signed a heads of agreement in connection with the purchase of an interest of approximately 50.0 per cent. in Omniasig's life insurance subsidiary, Omniasig Life. The completion of the transaction in August 2005 resulted in a profit before tax to Kardan of approximately \$25.8 million. Prior to the transaction TBIH had a 66.9 per cent. stake in Omniasig. In December 2005, TBIH completed the acquisition of 49.99 per cent. of Omniasig Life for a purchase price of €3.5 million.

In June 2005, TBIH signed an agreement with ING Continental Europe Holdings B.V. for the sale of TBIH's holdings in VSP Tatry Sympatia ("**Tatry**"), the management company of a private pension fund in the Slovak Republic. ING purchased TBIH's 100 per cent. holding in Tatry for a purchase price of approximately €35.2 million. The transaction was completed in September 2005 after all conditions were fulfilled and regulatory approvals obtained. The completion of the transaction generated a gain of approximately \$15.8 million for Kardan.

In October 2005, TBIF signed an agreement with a third party for the purchase of up to 50 per cent. of VAB Bank, a Ukrainian bank. Pursuant to the agreement, TBIF initially purchased a 9.55 per cent. stake in VAB Bank by way of newly issued shares for a purchase price of approximately \$8.8 million and granted a \$16.3 million loan to VAB Bank. After receipt of the necessary regulatory approvals during the first quarter of 2006, TBIF increased its stake to 27.3 per cent. by converting the loan into equity. In addition, TBIF and the existing controlling shareholders agreed to invest a further \$50.0 million in VAB Bank during the first half of 2006. Following these investments, TBIF and the current controlling shareholders of VAB Bank hold at least 98.0 per cent. of the shares of VAB Bank in equal parts. Furthermore the parties committed to provide VAB Bank with additional financing, estimated at approximately \$60.0 million until 2010 in order for VAB Bank to meet its financial requirements.

In November 2005, Kardan signed an agreement with the minority shareholders of KFS for the purchase of a 4.59 per cent. stake in KFS for a purchase price of approximately \$5.5 million. Upon completion of this transaction, Kardan held 88.2 per cent. of the shares of KFS. The agreement provides for an adjustment mechanism of the purchase price in case an agreement for an investment in KFS or TBIH reflecting a higher valuation will be signed before 31 March 2006. Furthermore, Kardan and the minority shareholders of KFS have agreed to defer the exercise period for the put option Kardan had previously granted to the minority shareholders with respect to their remaining interest in KFS (after the abovementioned transaction 11.8 per cent.). The exercise price of the put option will be calculated according to the value of KFS, primarily based on its investment in TBIH at the time of exercise of each relevant portion. Kardan can decide to pay the exercise price in Kardan shares, in cash, or a combination of both.

In November 2005 Kardan signed an agreement with VIG for an equity investment in its subsidiary KFS. In April 2006 the transaction was completed. According to the agreement VIG acquired a 40 per cent. stake in KFS, for €112.6 million.

According to the agreement VIG injected €105.6 million of capital into KFS, in exchange for newly issued shares, and purchased a 4 per cent. interest in KFS (pre-issuance) from minority shareholders for a purchase price of €7.0 million. After the transaction, Kardan holds approximately 55.1 per cent. in KFS. Under the terms of the transaction, the parties used the proceeds from VIG's capital investment to (i) repay €21.8 million of KFS' debt, and to (ii) increase KFS' holdings in TBIH through a capital increase of €36.0 million. After the capital increase, TBIH shareholders' equity exceeds €200 million. In addition, VIG has committed to provide loans to KFS, under certain conditions, to enable KFS to acquire additional shares in TBIH.

Within five years from the date of the transaction, VIG may increase its shareholding in KFS to 50 per cent., through the purchase of additional shares and through capital increases.

### *Communications and technologies*

At the beginning of 2005, Kardan Technologies held 58.8 per cent. of the share capital of E-Trade Israel e-Commerce (1997) Ltd. ("**E-Trade**"). E-Trade was engaged in the provision of brokerage and electronic trading services in respect of securities for retail customers, through utilisation of know-how and a franchise acquired from E-Trade Group Inc. ("**E-Trade Global**"). During the fourth quarter of 2002, E-Trade became insolvent, and Kardan Technologies decided not to provide E-Trade with any financing in the future. As a result, the investment in E-Trade was written off.

In 2003, E-Trade Global submitted a request for arbitration in the framework of which it claimed \$0.1 million from E-Trade in respect of funds allegedly payable to it by E-Trade. E-Trade submitted a counter Global E-Trade's claim amounting to \$30 million in connection with a breach of the franchise agreement and failure to fulfil its obligations.

On 24 March 2005, E-Trade and E-Trade Global signed a settlement agreement in respect of the claims between the two companies, and according to which E-Trade Global paid E-Trade approximately \$14 million. This payment resulted in a gain of approximately \$9.5 million to Kardan Technologies of which Kardan's share amounts to approximately \$5.3 million.

In May 2005, Kardan Communications signed an agreement according to which TDN Networks Ltd. ("**Teledata**"), allocated preference shares to third parties, constituting 25.0 per cent. of the share capital of Teledata, in consideration of \$19.0 million. Following the share issuance, Kardan Communications' interest in Teledata was reduced from approximately 50.0 per cent. to 37.5 per cent. Due to the preferred rights connected to the issued shares, Kardan Communications ceased to include its stake in Teledata's losses from the second half year of 2005 and Kardan did not recognise a gain from this transaction.

### *Other businesses*

In May 2005, Kardan Israel published a prospectus in Israel according to which Kardan Israel issued shares, debentures and warrants to the public and concurrently, an exchange purchase offer ("**Purchase Offer**") to the shareholders of Kardan RE of which Kardan Israel held 62.5 per cent. at that time. The Purchase Offer was for 37.5 per cent. of the issued share capital of Kardan RE and for shares of Kardan RE which were to be issued as a result of the exercise or conversion of convertible securities. In June 2005, the Purchase Offer was successfully completed with a shareholding response of approximately 95.1 per cent. Under section 337(A) of the Israeli Companies Law of 1999, given the fact that the shareholdings of the shareholders who did not accept the Purchase Offer comprise less than 5.0 per cent. of the issued and paid-up capital of Kardan RE, a forced sale was accomplished and Kardan Israel became the sole shareholder of Kardan RE. As a result, Kardan RE shares were de-listed and concurrently the shares of Kardan Israel were listed for trade on TASE.

In exchange for Kardan RE's shares, Kardan Israel issued 10,854,384 shares having NIS 1 par value each to the shareholders of Kardan RE. Following the completion of the Purchase Offer, Kardan's holdings in Kardan Israel decreased from 100.0 per cent. to approximately 84.8 per cent. and Kardan recorded a gain of approximately \$3.4 million. In accordance with the prospectus, Kardan Israel issued to the public in Israel 4,000,000 shares having NIS 1 par value each, NIS 160.0 million par value convertible debentures, convertible into shares of Kardan Israel and 2 million warrants exercisable into ordinary shares of Kardan Israel. The total proceeds for the issuance (net of issuance expenses of approximately \$1.9 million), amounted to approximately \$41.8 million. As a result of the abovementioned issuance, Kardan's holding in Kardan Israel decreased to approximately 80.3 per cent. and Kardan recognised a gain of approximately \$1.5 million.

In total Kardan recognised a gain of almost \$5 million from both transactions.



### *Events subsequent to 30 June 2008*

In July 2008, Tahal was awarded a tender for rehabilitation and expansion of a water supply system serving rural areas in Ghana. For a further description of this and other projects, please refer to the chapter "Business" in this Prospectus. In August 2008, Tahal also closed the financing for a turn-key project in Ghana, which is one of the projects mentioned above. The project size is approximately €41 million and it is financed through a grant from the government of the Netherlands and a long-term loan that was made available to the ministry of treasury and finance in Ghana by a commercial bank. In November 2008, Tahal closed the financing for an additional turn-key project in Ghana amounting to approximately €15 million. The financing is comprised of a long-term loan to the Ministry of Finance and Economic Planning of Ghana, provided by a commercial bank, and supported by an Israeli export credit agency.

On 17 October 2008 Hydro Caisan signed an agreement for the sale of electricity to two distribution companies. The agreement is concluded for a period of 10 years starting in 2013, when the power plant is expected to be operational.

In July 2008, GTC Ukraine signed an agreement to acquire a 10 per cent. stake in Europort, a company active in investing in real estate investments in the CIS region for a purchase price of approximately €3.5 million. Furthermore, an agreement was signed to acquire 49.99 per cent. of Europort Cyprus, a 100 per cent. subsidiary of Europort. Europort Cyprus is active in the Ukrainian real estate sector and is developing a combined offices and logistics project of 120,000 square meters in Odessa, Ukraine. In addition, GTC Ukraine will grant Europort Cyprus a loan in the amount of €7.9 million. The remainder of the Europort Cyprus shares will continue to be held by Europort. The costs for the development of the total project are estimated to amount to approximately €109 million.

In July 2008, GTC China won an auction to acquire a land plot of approximately 10,400 square meters with construction rights of approximately 109,000 square meters in Hangzhou, China. GTC China will hold 50 per cent. in the project. The project is a mixed use project and will comprise of residential buildings (84,000 square meters) and retail and office spaces (25,000 square meters). The purchase price for the land will amount to approximately €40 million. The costs for the development of the total project are estimated to amount to approximately €155 million.

In July 2008, GTC RE signed a detailed agreement with a third party in India that concludes the understandings regarding the preliminary term sheet. According to the agreement, the third party will transfer a land to a joint venture company, which will be held equally by the parties and GTC RE will invest an amount of approximately \$95 million into the joint venture. The completion of the transaction is subject to certain conditions precedent including receiving a 'special economic zone' approval which grants significant tax benefits.

In September 2008, TBIH reached an agreement for the sale of its 90 per cent. stake in the Romanian pension fund Omniasig Pensii to the Romanian financial group BCR (part of Erste Group Bank AG). The anticipated cash consideration to TBIH is subject to valuation changes at closing of the transaction and is expected to amount to approximately €12 million. TBIH expects to recognise a capital gain of approximately €11 million on the sale. The contribution to Kardan amounts to approximately €3.5 million.

In September 2008, GTC RE entered into another swap transaction for the remaining NIS 423,797,795 nominal value GTC RE Non-Convertible Debentures at a fixed interest rate of 7.06 per cent. per annum.

Although the following event did not have a significant impact on the results of the Company's operations and its financial condition, investors should be aware that on 12 November 2008, the Company announced that Ma'alot, the Israeli subsidiary of Standard & Poor's, decided to



decrease the rating of the Kardan non-convertible debentures from AA- to A-, negative outlook, expressing that this new rating reflects the strong liquidity position of Kardan. Ma'a lot explained this decrease as a result of the slowdown of the economy in the geographical areas Kardan is active in. In addition, Ma'a lot mentions the increased loan to value, which is currently 40 per cent. compared to 25 per cent. at the time of the initial rating. According to the Management Board, the decrease of the rating does not have a significant impact on its financial covenants. Ma'alot indicated that they expect that the intended Merger will not have a negative impact on the rating of the debentures and that after the Merger the ratio of unpledged assets to secure debts under the New Kardan Non-Convertible Debentures will improve.

In September 2008, GTC SA successfully completed the Platinum 2 office building in Warsaw, Poland, and GTC Serbia completed the Block 41a office building in Belgrade, Serbia. The adjustments to fair value amounted to €14.5 million and €10.1 million, respectively, out of which the net equity holders share amounts to €6.2 million.

In addition to the valuations mentioned above, all investment properties of GTC SA and its subsidiaries were revaluated to their fair value as of 30 September 2008. Valuation gains on existing properties amounted to €41.2 million and primarily relate to Galleria Mokotów in Warsaw, Poland and Avenue Mall in Zagreb, Croatia.

In October - November 2008, Kardan Israel acquired additional 1,892,900 shares of GTC RE for a purchase price of approximately €6.5 million. Due to this acquisition the holding percentage of the Company in GTC RE (directly and indirectly) increased to 67.3%.

TCE is engaged in a turn-key project in Obninsk, Russia. The projected proceeds of the project were approximately €19.7 million however, TCE's client is in breach of the contract due to budgetary problems. Currently, a settlement agreement is being negotiated for compensation to be paid to TCE.

## Consolidated Financial Results Overview

The following table sets forth a summary of Kardan's financial results for the years ended 31 December 2005, 2006 and 2007. This financial information should be read in conjunction with Kardan's consolidated financial statements.

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

\* The Company's financial statements for the years 2005 and 2006 were expressed in US Dollar. The US Dollar-Euro translation was carried out in accordance with procedures and exchange rates as described in the notes to the Company's financial statements 2007.

*Year ended 31 December 2007 compared to year ended 31 December 2006 and to the year ended 31 December 2005*

All figures in this review of operations are presented before minority interest.

*(\*) Following the VIG transaction, Kardan fully consolidates in its financial statements the banking and retail lending activities as of 1 April 2007, compared to proportionate consolidation at a rate of 55.1 per cent. until that date. On the other hand, the proportionate consolidation of the insurance and pension activities decreased to a rate of 40 per cent. as of that date.*

#### *Sales and services*

Kardan's sales and services primarily include sales of residential units in the real estate segment (contributed by the GTC Group and Kardan RE) as well as fees from managing pension funds, sales of consumer goods (not including the automotive revenues) and other services. The increase in sales and services from €43 million in 2005 to €50 million in 2006 is a result of increase in revenues from the sale of apartments in residential projects of the GTC Group (mainly in Hungary, Poland and China) as well as increase in the revenues from the consumer goods activity. The increase to €61 million in 2007 compared to 2006 is primarily the result of increase in revenues from the sale of apartments in residential projects of the GTC Group (mainly in Poland and China).

#### *Contract revenues*

Kardan's contract revenues, which mainly consist the revenues of Kardan's infrastructure segment (via the Tahal Group) and are accounted for following the percentage of completion method, increased from €48 million in 2005 to €65 million in 2006 and further increased in 2007 to €86 million. Revenues from this business segment fluctuate from period to period due to the timing of and volumes of projects under contracts. Furthermore, the activities of Kardan's infrastructure segment are highly dependent on a limited number of relatively large scale projects. The process of participating in such projects (usually by winning tenders) can take a significant amount of time and accordingly it is difficult to compare the revenues between the years. Nevertheless the infrastructure business has experienced continuous growth and expansion during the reviewed years.

#### *Insurance and pension activities*

Kardan's revenues from insurance activities, which include the proportionately consolidated insurance revenues of TBIH, decreased from €87 million in 2005 to 61 million in 2006. The decrease is primarily the result of the sale of TBIH's interest in the Romanian insurance company Omiasig in August 2005. The revenues in 2007 increased to €66 million (from €61 million in 2006) mainly due to the increase in TBIH's insurance activities through organic growth as well as by the acquisition of Ray Sigorta, the Turkish insurance company in the third quarter of 2007. This increase was somewhat mitigated due to the sale of two Russian insurance companies in the third quarter of 2006 as well as a decrease in Kardan's stake in TBIH due to the VIG transaction<sup>22</sup> (please refer to the section "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

#### *Banking and retail lending activities*

Kardan's revenues from banking and retail lending activities which include the proportionately consolidated banking revenues of TBIF until the completion of VIG transaction (until 31 March 2007 and since then fully consolidated), increased from €9 million in 2005 to €25 million in 2006. The increase is mainly due to acquisition of VAB Bank, the Ukrainian banking activity of

<sup>22</sup> Following the VIG transaction, Kardan fully consolidates in its financial statements the banking and retail lending activities as of 1 April 2007, compared to proportionate consolidation at a rate of 55.1 per cent. until that date. On the other hand, the proportionate consolidation of the insurance and pension activities decreased to a rate of 40 per cent. as of that date.

TBIF in the third quarter of 2006. The sharp increase in the revenues from €25 million in 2006 to €72 million in 2007 is mainly due to the consolidation of VAB Banks' results for the entire year and the acquisition of Sovcom Bank, the Russian banking activity of TBIF in the fourth quarter of 2007 as well as increase in Kardan's stake in TBIF due to VIG transaction<sup>23</sup> (please refer to the section "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

#### *Rental revenues*

Kardan's rental revenues include revenues of the rental operations of Kardan's real estate segment. Rental revenues in 2005 amounted to €55 million and increased to €72 million in 2006. The increase in rental revenues is primarily the result of completion of new projects in Hungary (Center Point 2), Poland (Topaz) and Romania (America House). In 2007 the revenues decreased to €60 million compared to €72 million in 2006, mainly due to the sale of the "Mokotow Business Park" in Poland, close to the end of 2006.

#### *Equity in net earnings of associated companies*

Kardan's share in the results of associated companies (which are not consolidated) amounted to €7 million in 2005 and 2006 and to €6 million in 2007. This item primarily includes Kardan's share in UMI as well as the real estate activity in the Czech Republic.

#### *Management fees*

Management fees include fees paid by Kardan Group's associated and proportionately consolidated companies mainly in the automotive and consumer goods segment and in the communications and technologies segment.

#### *Gain on issuance of shares in associated companies and subsidiaries to third parties*

In 2005 this item amounted €14 million and primarily included a gain from the issuance of shares in TBIH and a gain resulting from the listing of Kardan Israel. In 2006 this item totalled to €52 million and primarily includes a gain resulting from the issue of shares in GTC SA, a gain resulting from exercise of options and convertible debentures into shares of GTC RE as well as a gain resulting from the IPO of RRSat in the communications and technologies segment. In 2007 this item amounted to €45 million and primarily includes a dilution gain resulting from a decrease in Kardan's stake in KFS due to the transaction between Discount Bank and KFS as well as a gain resulting from the exercise of options into shares of GTC RE (details regarding the described transactions can be found in the section "Main events affecting the Company's financial statements" in this chapter and in the chapter "Business").

#### *Net adjustment to fair value of investment properties*

Net adjustment to fair value of investment properties includes the revaluation of investment properties in the real estate segment. The adjustment to fair value of investment properties reflects the adjustment to fair value of rental properties (such as office buildings and shopping centres) of primarily GTC SA and its subsidiaries. Investment properties are initially adjusted to their fair value upon completion of construction and consequently revaluated on an annual basis. This item increased from €117 million in 2005 to €209 million in 2006 and to €287 million in 2007. In 2005 the revaluation gain included the fair value adjustments upon the completion of Galeria Kazimierz and GTC House, and revaluations of Allianz building and Galeria Kazimierz due to the sale of these projects. In 2006, the revaluation gain included a gain following the completion of Centre Point 2 office building in Hungary and America House in Romania as well as revaluation of Mokotow Business Park in Poland. In 2007 the

<sup>23</sup> Following the VIG transaction, Kardan fully consolidates in its financial statements the banking and retail lending activities as of 1 April 2007, compared to proportionate consolidation at a rate of 55.1 per cent. until that date. On the other hand, the proportionate consolidation of the insurance and pension activities decreased to a rate of 40 per cent. as of that date.

revaluation gain included a gain from revaluation of few rental buildings in Poland, Romania, Hungary and Serbia as well as revaluation of the Avenue Mall shopping centre in Croatia, following its completion (details describing these projects can be found in the section “Main events affecting the Company’s financial statements” in this chapter and in the chapter “Business”).

#### *Gain on disposal of assets and other income*

Gain on disposal of assets and other income includes realised gains from disposal of investments in subsidiaries, associates, fixed assets and other items which are not allocated to any other line of revenues. This item amounted to €51 million in 2005, €19 million in 2006, and €47 million in 2007. In 2005 these gains primarily included the gains resulting from the sale of the subsidiaries Omniasig and Tatry by TBIH and a gain resulting from the completion of the E-Trade arbitration. In 2006 these gains primarily included the gains resulting from the sale of two Russian insurance companies, Standard Reserve and Solidarity for Life, by TBIH. In 2007 these gains included mainly the gain from VIG transaction that was completed in the second quarter of 2007 as well as a gain resulting from a sale of Kardan Israel shares by Kardan (details describing these transactions can be found in the section “Main events affecting the Company’s financial statements” in this chapter and in the chapter “Business”).

#### *Other financial income*

Kardan’s financial income, which includes financial income of all the Kardan Group Companies, increased from €7 million in 2005 to €27 million in 2006 and to €42 million in 2007. In 2005 this item mainly included interest income on cash deposits in the Kardan Group. In 2006 this item included mainly interest on cash deposits as well as foreign currency exchange gains mainly related to the cash balances of GTC SA. This income was the result of the strengthening of the PLN versus the US Dollar (the reporting and measurement currency at the time) which had an impact on the cash proceeds GTC SA obtained during the shares issuance in the first quarter of 2006. In 2007 this item included mainly interest income from cash deposits, mainly due to the funds that were raised in Kardan, GTC RE and GTC SA during 2007.

#### *Cost of sales and services*

Kardan’s costs associated with the sale of residential units in the real estate segment (contributed by the GTC Group and Kardan RE), sale of consumer goods and other services, increased from €28 million in 2005 to €41 million in 2006 and further increased in 2007 to €46 million due to the increase in the related sales (see also explanation of the related revenue item “Consolidated financial results overview – Net adjustments to fair value of investment properties” in this chapter).

#### *Contract costs*

Kardan’s contract costs, which include the contract costs of the infrastructure segment, increased from €39 million in 2005 to €49 million in 2006 and to €68 million in 2007. As described in “Contract Revenues”, the results of the infrastructure segment fluctuate from year to year and therefore it is difficult to make a comparison (see also explanation of the related revenue item “Consolidated financial results overview – Net adjustments to fair value of investment properties” in this chapter).

#### *Operating expenses of insurance activities*

Kardan’s operating expenses from insurance activities, which include the proportionately consolidated insurance operating expenses of TBIH, decreased from €84 million in 2005 to €63 million in 2006. The decrease is primarily the result of the sale of TBIH’s interest in the Romanian insurance company Omniasig. The operating expenses in 2007 increased to



€64 million mainly due to the increase in TBIH's insurance activities through organic growth as well as by the acquisition of Ray Sigorta. This increase was mitigated mainly due to the sale of two Russian insurance companies as well as decrease in Kardan's stake in TBIH due to VIG transaction<sup>24</sup> (details describing these transactions can be found in the section "Main events affecting the Company's financial statements" in this chapter and in the chapter "Business").

#### *Costs of banking and lending activities*

Kardan's costs of banking and lending activities which include the proportionately consolidated banking revenues of TBIF until the completion of VIG transaction (until 31 March 2007 and since then fully consolidated), increased from €7 million in 2005 to €21 million in 2006. The increase is mainly due to acquisition of VAB Bank, the Ukrainian banking activity of TBIF, in the third quarter of 2006. The sharp increase in the costs of banking and retail lending to €65 million in 2007 is mainly due to consolidation of VAB Bank results for the entire year, the acquisition of Sovcom Bank, the Russian banking activity of TBIF, in the fourth quarter of 2007, as well as increase in Kardan's stake in TBIF due to VIG transaction<sup>25</sup> (details describing these transactions can be found in the section "Main events affecting the Company's financial statements" in this chapter and in the chapter "Business").

#### *Costs of rental operations*

Kardan's costs of rental operations include costs of the rental operations of Kardan's real estate segment. Rental costs in 2005 amounted to €16 million and increased to €20 million in 2006. The increase in rental costs is primarily the result of completion of new projects in Hungary, Poland and Romania. In 2007 the rental costs decreased to €12 million, primarily due to the sale of Mokotow Business Park in Poland, towards the end of 2006 (please refer to "Main events affecting the Company's financial statements" in this chapter and "Real Estate – Overview of activities" in the chapter "Business").

#### *Selling and marketing expenses*

Kardan's selling and marketing expenses, which include mainly selling and marketing expenses of Kardan's real estate and infrastructure segments as well as related costs of consumer goods (excluding the automotive costs), increased from €11 million in 2005 to €15 million in 2006 and further increased to €19 million in 2007. The increase over the years is mainly as a result of the development in the construction of real estate projects and the related marketing costs as well as increased marketing efforts of the infrastructure activities.

#### *General and administration expenses*

Kardan's general and administrative expenses include corporate general and administrative expenses of all Kardan Group Companies and its own headquarter. The increase from €24 million in 2005 to €44 million in 2006 is the result of (i) the increase in share-based payment in 2006 as a result of share options granted to directors and employees of Kardan, (ii) the increase in payroll and related expenses costs due to expansion of activities and (iii) the increase in professional fees due to growth of activities. The increase to €56 million in 2007 is primarily the result of increase in payroll and related expenses due to activities consistently growing and expending as well as the impact of the VIG transaction<sup>26</sup> (please refer to "Main events affecting the Company's financial statements" in this chapter).

24 Following the VIG transaction, Kardan fully consolidates in its financial statements the banking and retail lending activities as of 1 April 2007, compared to proportionate consolidation at a rate of 55.1 per cent. until that date. On the other hand, the proportionate consolidation of the insurance and pension activities decreased to a rate of 40 per cent. as of that date.

25 Following the VIG transaction, Kardan fully consolidates in its financial statements the banking and retail lending activities as of 1 April 2007, compared to proportionate consolidation at a rate of 55.1 per cent. until that date. On the other hand, the proportionate consolidation of the insurance and pension activities decreased to a rate of 40 per cent. as of that date.

26 Following the VIG transaction, Kardan fully consolidates in its financial statements the banking and retail lending activities as of 1 April 2007, compared to proportionate consolidation at a rate of 55.1 per cent. until that date. On the other hand, the proportionate consolidation of the insurance and pension activities decreased to a rate of 40 per cent. as of that date.

### *Other financing expenses*

Kardan's financing expenses, which include financing expenses of all the Kardan Group Companies, increased from €57 in 2005 to €126 million in 2006. The increase is primarily due to the measurement and accounting of financial instruments. Such financial instruments, including options, warrants and convertibles issued by the Kardan Group to the public and debt holders are presented at their fair value and changes in the fair values are recognised as profit or loss. These revaluations resulted in an increase of €41 million of financing expenses in 2006 compared to the expenses in 2005. In addition, due to increase in the total debt raised in 2006 compared to 2005, the total interest expenses increased with approximately €17 million in 2006 compared to 2005.

In 2007 the financing expenses were further increased to €148 million mainly due to a continuing increase in the interest expenses as a result of additional debt raised mainly by Kardan, GTC RE and GTC SA. In addition, foreign currency translation losses increased in 2007 due to strengthening of the Euro versus the US Dollar mainly in the second half of 2007. Since in 2007 Kardan held most of the GTC RE Convertible Debentures, the expenses associated with the revaluation of the equity component in those debentures were to a large part set-off against the same revaluation income in Kardan.

### *Other expenses*

Other expenses amounted to €7 million in 2005, €6 million in 2006 and €4 million in 2007. In 2005 these expenses primarily included expenses associated with impairment of investments in the financial services segment. In 2006 this item included a revaluation loss from investments in securities held for sale in the financial services segment. In 2007 this item included a number of immaterial other expenses in the Kardan Group.

### *Income taxes*

Kardan's consolidated income taxes expenses increased from €30 million in 2005 to €46 million in 2006 and decreased to €42 million in 2007. The taxes on income are mainly related to fair value adjustments of investment properties in the real estate segment and fluctuate according the tax rates in the relevant countries and the amount of the revaluation gains (see also explanation of the related revenue item "Consolidated financial results overview – Net adjustments to fair value of investment properties" in this chapter).

## **Net Profit by Segment**

The following table set forth a summary of Kardan's net profit attributable to equity holders by business segment for the years ended 31 December 2005, 2006 and 2007:

	<b>For the years ended 31 December*</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
<i>€ in millions</i>			
Real Estate .....	23	29	15
Financial services – banking and retail lending .....	6	(1)	—
Financial services – insurance and pensions .....	30	9	37
Infrastructure – projects .....	1	1	3
Infrastructure – assets .....	(8)	—	—
Automotive and Consumer Goods .....	6	3	6
Communications and Technologies .....	(5)	5	5
Other .....	37	(5)	(20)
<b>Total</b> .....	<b>90</b>	<b>41</b>	<b>46</b>

\* The Company's financial statements for the years 2005 and 2006 were expressed in US Dollar. The US Dollar-Euro translation was carried out in accordance with procedures and exchange rates as described in the notes to the Company's financial statements 2007.

The above table and the analysis below describe the net contribution of each of the business segments to the net result of Kardan. As profit attributable to minority shareholders has already been deducted, these figures do not represent 100 per cent. of the net profit of each segment, and can therefore not be compared to the figures presented in the consolidated financial results overview, earlier in this chapter.

*Year ended 31 December 2007 compared to year ended 31 December 2006 and to year ended 31 December 2005*

#### *Real estate*

In 2007, the real estate segment contributed a profit of approximately €23 million compared to a profit of €29 million in 2006 and a profit of €15 million in 2005. The profit in 2007 was generated mainly from fair value adjustments of investment properties. Kardan's share in these revaluations in the GTC Group amounted to approximately €59 million. During 2007 six projects were completed: 4 office buildings in Poland: Newton and Edison in Krakow, Platinum and Notus in Warsaw, Avenue Mall shopping center in Zagreb, Croatia, the Company's first project in that country and an office building in Belgrade, Serbia. The profit described above was partly set-off by financing expenses recorded by GTC RE, mainly following the revaluation of the equity component of the GTC RE Convertible Debentures (Kardan's share, after minority interests, in these financing expenses amounted to approximately €40 million). Further, during 2007 Kardan recognised a gain of approximately €9 million from the conversion of the GTC RE Convertible Debentures.

In 2006, the profit of this segment was primarily resulted from the issue of GTC SA shares to institutional investors on the Warsaw Stock Exchange (Kardan's share, after minority interests, in this profit amounted to approximately €22 million), as well as the fair value adjustment of investment properties in which Kardan's share amounted to approximately €47 million. Further, Kardan recorded a profit in the period of approximately €7 million from the exercise of options and the conversion of debentures into GTC RE shares. This profit was partially offset by financing expenses recorded by GTC RE, mainly relating to the revaluation of equity component of the GTC RE Convertible Debentures (Kardan's share, after minority interests, in these finance expenses amounted to approximately €46 million).

In 2005, the profit was generated mainly from fair value adjustment of investment properties (Kardan's share, after minority interests, in these revaluations amounted to approximately €13 million) and a €1 million gain resulting from the sale of Orbis S.A. shares (please refer to "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

#### *Financial services – banking and retail lending*

In 2007, this segment contributed a profit of approximately €6 million compared to a loss of €1 million in 2006 and a break even result in 2005.

Kardan's share in the operating results of TBIF in 2007 amounted to a profit of approximately €1 million. In the second quarter of 2007 TBIF recorded a profit of approximately €2 million resulting from the reorganisation of its holdings following the VIG transaction. In the third quarter of 2007 TBIF recorded an additional profit of approximately €7 million following the merger of TBIF's lending activities (retail credit, leasing and mortgages) in Russia with the activities of Sovcom Bank, which was offset by the revaluation of options granted to a manager in the financial services group, with Kardan's share in this expense amounting to approximately €22 million. This revaluation was carried out based on the value of these activities as reflected from the KFS and Discount Bank transaction. In the fourth quarter of 2007, the results of the banking and retail lending activities included Kardan's share in the profit from this transaction of approximately €20 million (please refer to "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

It should be noted that 2007 compared to the previous two years, was characterised by a significant increase in activity as a result of the expansion of banking and retail lending activities, mainly in Ukraine and Russia. The total operating revenues of TBIF in 2007 amounted to approximately €90 million compared to €31 million in 2006. The operations of this segment in 2005 were not significant and its results were immaterial.

#### *Financial services – insurance and pension*

In 2007, this segment contributed a profit of approximately €30 million compared to a profit of €9 million in 2006 and €37 million in 2005.

The profit in 2007 was generated mainly due to the VIG transaction, as a result of the decrease in the holdings in TBIH to approximately 40 per cent. (Kardan's share in this profit amounted to approximately €20 million). In addition Kardan's share in the profit from the KFS and Discount Bank transaction amounted to approximately €10 million. This profit was partially offset against the share of TBIH in the expenses of obtaining new members to the mandatory pension fund in Romania, and the interest expenses on the VIG loan that was granted to TBIH in order to expand its activities.

In 2006, the profit also includes a gain of approximately €8 million from the disposal of TBIH's holdings in two insurance companies in Russia, Standard Reserve Insurance Company and Solidarity for Life Health Insurance Company and a profit of approximately €3 million that Kardan realised following the cancellation of certain rights granted to the minority shareholders. The insurance and pension activities resulted in 2006 with an operational loss of €2 million.

In 2005, the results include capital gains from the sale of two subsidiaries, Tatty and Omnisig, which amounted to €13 million and €20 million, respectively, and an equity gain resulting from the private placement in TBIH of €8 million (please refer to "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

#### *Infrastructure – projects*

In 2007 and 2006, this segment contributed a profit of approximately €1 million, while in 2005 this segment contributed a profit of €3 million. The net result of the infrastructure projects activities in the Tahal Group is subject to the percentage of completion. Therefore differences in profitability between the years are likely to occur. Due to the continuous growth of this segment in the past three years it should be noted that revenues of the infrastructure projects in 2007 amounted to approximately €66 million (out of total revenues of the infrastructure sector of €75 million), compared to €65 million in 2006 and €48 million in 2005.

#### *Infrastructure – assets*

In 2007, this segment contributed a loss of approximately €8 million. In 2006 and 2005, there was no significant activity and its results were immaterial. The infrastructure assets activities were characterised mainly by the acquisition of investments in the field, whereas value creation from these investments is expected to be spread over several years. In order to expand investments and their geographical distribution, Tahal received a loan from Kardan that has resulted in financing expenses. In addition, the activity has generated staff costs for the aforementioned expansion.

#### *Automotive and consumer goods*

In 2007, the automotive and consumer goods segment (concentrated in the Israeli market) contributed a profit of approximately €6 million, compared to a profit of approximately €3 million in 2006 and a profit of €6 million in 2005. UMI, active in the field of import and sale of vehicles of General Motors, has recorded a profit of approximately €18 million in 2007,

compared to approximately €7 million in 2006 and €13 million in 2005. In 2007, UMI delivered 14,064 vehicles, compared to 10,833 in 2006 and 13,762 in 2005. UMI revenues in 2007 amounted to approximately €375 million, compared to approximately €306 million in 2006 and €311 million in 2005. UMI's growth was mainly the result of the increased attractiveness of its vehicles due to the drop in the US Dollar exchange rate compared to the NIS and its marketing efforts.

#### *Communications and technologies*

In 2007, the communications and technologies segment contributed a loss of approximately €5 million, compared to a profit of approximately €5 million in 2006 and in 2005. In 2007, the loss in this segment was mainly the result of finance expenses of approximately €4 million. In addition several provisions and write offs were made in connection with a loan granted to the associated company Teledata, the investment in Formula Vision Portfolio Holdings Limited Partnership and the investment in D.B.S. Satellite Services (1998) Limited. These losses were partially set off against the profit generated from the sale of Babylon Limited shares, of which Kardan's share was approximately €1 million.

In 2006, the results of this sector were mainly affected by a profit of approximately €6 million from the issue of RRSat shares on the NASDAQ in November 2006. This profit was partly offset by a provision for loss on the investment in D.B.S. Satellite Services (1998) Limited, and from losses of the first year of operations of BFTV.

The results in 2005 mainly derived from the settlement agreement between E-Trade and E-Trade Global that resulted in a gain of €4 million to Kardan. The profit in 2005 resulted also from Kardan's share in the results of RRSat, which contributed another €1 million (please refer to "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

#### *Other businesses*

Other businesses include the results of several individual, smaller investments that are not allocated to a specific business segment It also includes general & administrative expenses, finance costs and taxes of the headquarters of the Kardan Group, and extraordinary expenses and revenues which cannot be allocated to a business segment.

The profit in 2007 amounting to €37 million was mainly derived from financial income recorded by Kardan. This income was generated from the revaluation of the equity component of the GTC RE Convertible Debentures held by Kardan to its fair value. This profit was partially offset by the revaluation of the Phantom Options 2003 granted to the holders of debentures issued by Kardan Israel in 2003.

In 2006, the other businesses resulted with a loss of €5 million, primarily derived from foreign currency exchange losses due to the changes in the US Dollar/NIS exchange rate. The total impact on Kardan's results, net of setting off the hedging income of this exposure, was €4.6 million.

In 2005, the loss resulting from other business included €19 million of financing expenses primarily resulting from the revaluation of the phantom options for Kardan shares granted to the holders of debentures issued by Kardan Israel in 2003.



## Consolidated Balance Sheets Overview

The following table sets out a summary of Kardan's balance sheets as at 31 December 2005, 2006 and 2007. This financial information should be read in conjunction with Kardan's consolidated financial statements.

	For the years ended 31 December*		
	2007	2006	2005
<i>€ in millions</i>			
Non-current assets	2,343	1,333	1,057
Current assets	1,929	892	451
<b>Total</b>	<b>4,272</b>	<b>2,225</b>	<b>1,508</b>
Equity attributable to equity holders of the parent	343	267	137
Minority interest	730	491	300
Non-current liabilities	2,066	935	846
Current liabilities	1,133	532	225
<b>Total</b>	<b>4,272</b>	<b>2,225</b>	<b>1,508</b>

\* The Company's financial statements for the years 2005 and 2006 were expressed in US Dollar. The US Dollar-Euro translation was carried out in accordance with procedures and exchange rates as described in the notes to the Company's financial statements 2007.

### *Year ended 31 December 2007 compared to 31 December 2006 and to 31 December 2005*

#### *Non-current assets*

Non-current assets increased from €1,057 million as at 31 December 2005 to €1,333 million as at 31 December 2006, and to €2,343 million as at 31 December 2007. The increase from 2005 to 2006 was mainly the result of the increase in real estate projects under construction, as well as the purchase of land reserves in the GTC Group, and the expansion of the financial services operations, mainly due to the first time consolidation of VAB Bank activities. The increase in non-current assets from 2006 to 2007 mainly resulted from the increase in most of the balance sheet items due to the full consolidation of the banking and retail lending activities following the completion of the VIG transaction in the beginning of the second quarter, as well as acquisition of additional land plots in the real estate segment and further investments in projects under construction (please refer to "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

#### *Current assets*

Current assets increased from €451 million in 2005 to €892 million in 2006 and to €1,929 million in 2007. The increase in current assets from 2005 to 2006 was primarily the result of the increase in cash balances following the Second Public Offering ("SPO") of GTC SA, and the expansion of the financial services activities, mainly due to the first time consolidation of the VAB Bank activities. In addition, there was also an increase in the balance of building inventory in progress due to a significant progress in the construction of residential units and initiation of residential projects. The increase in the current assets from 2006 to 2007 mainly resulted from the increase in most of the balance sheet items due to the full consolidation of the banking and retail lending activities following the completion of the VIG transaction as of 1 April 2007. In addition, cash balances have increased following the issuance of debentures by Kardan, GTC RE and GTC SA in 2007.

#### *Equity attributable to equity holders of the parent*

As at 31 December 2007, equity attributable to the equity holders of the parent amounted to €343 million, an increase of 28 per cent. compared to €267 million at year-end 2006 and an increase of approximately 96 per cent. compared to €137 million as at 31 December 2005. The increase is a result of the net profit for the years 2007 (€90 million), 2006 (€41 million) and 2005 (€46 million), the issuance of shares in 2006 (in total €82 million), the exercise of options along those years and the changes in foreign currency translation reserve (in total €23 million).

### *Minority interests*

Minority interests increased from €300 million as at 31 December 2005 to €491 million as at 31 December 2006 and to €730 million as at 31 December 2007. The increase in 2006 compared to 2005 was mainly due to the SPO of GTC SA at the beginning of 2006, as well as increase in the minority stake in GTC RE due to the conversions of options and convertible debentures into shares of GTC RE. The increase in 2007 compared to 2006 was mainly due to the increase in the minority stake due to the dilution of Kardan indirect interest in GTC SA, exercise of options and debentures into shares of GTC RE and Kardan Israel, and the net profit attributable to minority interest holders.

### *Non-current liabilities*

Non-current liabilities, which mainly include loans and borrowings, debentures and convertible debentures, increased from €846 million as at 31 December 2005 to €935 million as at 31 December 2006 and to €2,066 million as at 31 December 2007. The increase is primarily the result of the increase in the fair value of options, equity components of convertibles and other derivatives that were issued by Kardan and Kardan Group Companies. This fair value has significantly increased in 2006 compared to 2005. The increase in 2007 compared to 2006 mainly results from the increase in most of the balance sheet items due to full consolidation of the banking and retail lending activities following the completion of the VIG transaction, issuance of debentures in Kardan, GTC RE and GTC SA during 2007 and additional loans granted to the Kardan Group Companies by banks and financial institution (please refer to “Main events affecting the Company’s financial statements” in this chapter and to the chapter “Business”).

### *Current liabilities*

Current liabilities increased from €225 million as at 31 December 2005 to €532 million as at 31 December 2006, and to €1,133 million as at 31 December 2007. The increase in 2006 compared to 2005 is primarily the result of an increase in the current portions of long-term loans and debentures in GTC Group that were repaid after the balance sheet date, as well as the expansion and growth of the financial services operations mainly due to the first time consolidation of the VAB Bank activities. The increase in 2007 compared to 2006 mainly results from the completion of VIG transaction and from the increase in the customers advances in the GTC Group due to the growth in the number of residential projects and marketing efforts related to such projects (please refer to “Main events affecting the Company’s financial statements” in this chapter and to the chapter “Business”).

## **Cash Flows**

<u>Cash Flow Data</u>	<u>2007</u>	<u>2006</u>	<u>2005*</u>
<i>(in millions of €)</i>			
• Net cash provided by (used in) operating activities .....	(100)	136	(17)
• Net cash used in investing activities .....	(539)	(132)	(265)
• Net cash provided by financing activities .....	1,135	263	253
• Net change in cash and cash equivalents .....	484	251	9

\* The Company’s financial statements for the years 2005 and 2006 were expressed in US Dollar. The US Dollar-Euro translation was carried out in accordance with procedures and exchange rates as described in the notes to the Company’s financial statements 2007.

Cash used in investing activities amounted to €539 million in 2007 compared to €132 million in 2006, and to €265 in 2005. In 2005 the cash flows from investing activities primarily include €110 million invested in property, plant and equipment and real estate under construction and €138 million invested in Kardan Group Companies and partnerships, and acquisitions of newly consolidated Kardan Group Companies, mainly resulting from the acquisition of shares from minority shareholders in GTC Group. In 2006 the cash flows from investing activities primarily include €137 million invested in property, plant and equipment and real estate under

construction. In 2007 the cash flows from investing activities primarily include €442 million used in granting of long term loans (in the financial services segment) and €113 million were used for granting credit to customers in the banking activities.

In 2007 Kardan generated €1,135 million from financing activities, compared to €263 million that were generated in 2006, and to €253 million in 2005. In 2005 and 2006 €260 million and €263 million, respectively, were generated mainly from the receipt of long term loans. In 2007, €545 million were generated mainly from the receipt of long term loans, €691 million were generated from issuance of debentures (mainly in Kardan, GTC RE and GTC SA), and €195 million that were generated from credit from customers in the banking activities. In addition, in 2007, €273 million was used for repayment of long term loans.

A breakdown of the net cash provided by or used in operating activities can be found in the consolidated cash flow statement as included in the consolidated financial statements.

## Consolidated Financial Results Overview

The following table sets forth a summary of Kardan's financial results for the period of six months ended on 30 June 2008<sup>27</sup> and 2007. This financial information should be read in conjunction with Kardan's (interim condensed) consolidated financial statements.

	Six months ended 30 June	
	2008	2007
<i>€ in millions</i>		
<b>Revenues</b>		
Sales and services .....	26	21
Contract revenues .....	72	35
Insurance activities .....	60	23
Banking and retail lending activities .....	56	30
Rental revenues .....	35	27
Equity in net earnings of associates .....	3	3
Management fees .....	1	1
Gain on issuance of shares in associates and subsidiaries to third parties .....	2	3
Adjustment to fair value of investment properties .....	71	102
Gain on disposal of assets and other income .....	3	30
Other financial income .....	85	16
	414	291
<b>Expenses</b>		
Cost of sales and services .....	21	16
Contract costs .....	59	26
Operating expenses of insurance activities .....	62	22
Costs of banking and lending activities .....	52	26
Costs of rental operations .....	8	6
Selling and marketing expenses .....	10	9
General and administration expenses .....	27	20
Financing expenses .....	90	51
Other expenses, net .....	1	2
	330	178
Net profit before income taxes .....	84	113
Income taxes .....	19	25
<b>Net profit for the period</b> .....	<b>65</b>	<b>88</b>
Attributable to:		
Equity holders .....	16	34
Minority interest holders .....	49	54
	<b>65</b>	<b>88</b>

<sup>27</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

*Six months ended on 30 June 2008<sup>28</sup> compared to six months ended on 30 June 2007*

All figures in this review of operations are presented before minority interests.

#### *Sales and services*

The increase in sales and services from €21 million in the first half of 2007 to €26 million in the first half of 2008 is the result of increase in revenues from the sale of apartments in residential projects of the GTC Group (mainly in Hungary, Poland and China).

#### *Contract revenues*

Kardan's contract revenues, which mainly consist of the revenues of Kardan's infrastructure segment increased from €35 million in the first half of 2007 to €72 million in the first half of 2008. Revenues from this business segment fluctuate from period to period due to timing differences in revenue recognition according to accounting principles.

#### *Insurance and pension activities*

Kardan's revenues from insurance activities, which include the proportionately consolidated insurance revenues of TBIH, increased from €23 million in the first half of 2007 to €60 million in the first half of 2008. The increase is a result of TBIH's organic growth as well as by the acquisitions of new subsidiaries and mainly due to the acquisition of Ray Sigorta, the Turkish insurance company, in the third quarter of 2007 (please refer to "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

#### *Banking and retail lending activities*

Kardan's revenues from banking and retail lending activities, which include the consolidated banking revenues of TBIF, increased from €30 million in the first half of 2007 to €56 million in the first half of 2008. The increase is mainly due to the acquisition of Sovcom Bank, the Russian banking activity of TBIF, in the fourth quarter of 2007 as well as increase in Kardan's stake in TBIF starting the second quarter of 2007, due to the VIG transaction (please refer to "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

#### *Rental revenues*

Rental revenues in the first half of 2007 amounted to €27 million and increased to €35 million in the first half of 2008. The increase in rental revenues is primarily the result of completion of new projects in the GTC Group during the second half of 2007 and the first half of 2008.

#### *Equity in net earnings of associated companies*

Kardan's share in the results of associated companies was €3 million in each of the first half of 2007 and 2008. This item primarily includes Kardan's share in UMI as well as the Czech real estate activity of the GTC Group.

#### *Management fees*

Management fees amounted to approximately €1 million in each of the reported periods.

#### *Gain on issuance of shares in associated companies and subsidiaries to third parties*

This item amounted to €3 million in the first half of 2007 and decreased to €2 million in the first half of 2008. In both periods under review these gains resulted mainly from exercise of options and conversion of GTC RE Convertible Debentures into shares of GTC RE.

<sup>28</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

#### *Adjustment to fair value of investment properties*

In the first half of 2007 total adjustments to fair value of investment properties amounted to €102 million and to €71 million in the first half of 2008. Revaluation gains in the first half of 2008 mainly include the revaluations of 4 office properties which were completed in Poland and a shopping mall in Romania. In the first half of 2007 an office building in Poland and a shopping mall in Croatia were completed and revaluated.

#### *Gain on disposal of assets and other income*

This item amounted to €30 million in the first half of 2007 and to €3 in the first half of 2008. In 2007 these gains includes mainly the gain from the VIG transaction that was completed in the second quarter of 2007 as well as a gain resulting from a sale of shares of Kardan Israel by the Company (please refer to “Main events affecting the Company’s financial statements” in this chapter and to the chapter “Business”).

#### *Other financial income*

Kardan’s financial income increased from €16 million in the first half of 2007 to €85 million in the first half of 2008. In the first half of 2008 this item mainly included income due to decrease in the value of the options in the GTC RE Convertible Debentures of GTC RE, Kardan Israel and Kardan following revaluation of these options. The decrease in value is mainly the result of decrease in the market price of the underlying shares. In addition, financial revenues include interest income from bank deposits as well as finance income due to the change in value of the derivatives in GTC SA (as hedge accounting does not apply). In the first half of 2007 this item included mainly interest income from bank deposits due to the funds raised by Kardan, GTC RE and GTC SA in that period.

#### *Cost of sales and services*

Kardan’s cost of sales and services increased from €16 million in the first half of 2007 to €21 million in the first half of 2008. The increase in this cost item is in line with the increase of the respective revenues (see also explanation of the related revenue item “Consolidated financial results overview – Net adjustments to fair value of investment properties” in this chapter).

#### *Contract costs*

Kardan’s contract costs, increased from €26 million in the first half of 2007 to €59 million in the first half of 2008. As described in the explanation under *Contract Revenues*, the results of the infrastructure segment fluctuate from period to period and therefore it is difficult to make a comparison.

#### *Operating expenses of insurance activities*

Kardan’s operating expenses from insurance activities, increased from €22 million in the first half of 2007 to €62 million in the first half of 2008. The increase is a result of TBIH’s organic growth as well as by acquisitions of new subsidiaries, mainly related to the acquisition of Ray Sigorta (please refer to “Main events affecting the Company’s financial statements” in this chapter and to the chapter “Business”).

#### *Costs of banking and lending activities*

Kardan’s costs of banking and lending activities increased from €26 million in the first half of 2007 to €52 million in the first half of 2008. The increase is mainly due to the acquisition of Sovcom Bank and the increase in Kardan’s stake in TBIF starting the second quarter of 2007, following the completion of the VIG transaction (please refer to “Main events affecting the Company’s financial statements” in this chapter and to the chapter “Business”).



### *Costs of rental operations*

Kardan's rental costs in the first half of 2007 amounted to €6 million and increased to €8 million in the first half of 2008. The increase in rental costs is primarily the result of completion of new projects in GTC Group during the second half of 2007 and the first half of 2008.

### *Selling and marketing expenses*

Kardan's selling and marketing expenses increased from €9 million in the first half of 2007 to €10 million in the first half of 2008. This increase is mainly as a result of the development in the construction of real estate projects and the related marketing costs as well as increased marketing efforts of the infrastructure activities.

### *General and administration expenses*

Kardan's general and administrative expenses increased from €20 million in the first half of 2007 to €27 million in the first half of 2008. The increase is the result of increase in all activities in the Kardan Group as well as acquisitions of new subsidiaries mainly in the financial services segment.

### *Other financing expenses*

Kardan's financing expenses, increased from €51 in the first half of 2007 to €90 million in the first half of 2008. The increase is primarily due to additional loans and debentures received during the period resulting in higher interest expenses as well as foreign currency exchange losses due to the strengthening of the Euro compared to the US Dollar.

### *Other expenses*

Other expenses amounted to €2 million in the first half of 2007 and €1 million in the first half of 2008. In both periods under review this item includes a number of insignificant other expenses in the Kardan Group.

### *Income taxes*

Kardan's consolidated income taxes expenses decreased from €25 million in the first half of 2007 to €19 in the first half of 2008. The taxes on income are mainly related to fair value adjustments of investment properties in the real estate segment and fluctuate according to the tax rates in the country where the assets are located as well as the amount of the revaluation gain.

## **Net Profit by Segment**

The following table set forth a summary of Kardan's net profit attributable to equity holders by business segment for the six months ended on 30 June 2008<sup>29</sup> and 2007:

	<u>Six months ended 30 June 2008</u>	<u>Six months ended 30 June 2007</u>
<i>€ in millions</i>		
Real Estate .....	19	(6)
Financial services – banking and retail lending .....	1	4
Financial services – insurance and pensions .....	(6)	20
Infrastructure – projects .....	—	2
Infrastructure – assets .....	(3)	(2)
Automotive and Consumer Goods .....	3	4
Communications and Technologies .....	(1)	(3)
Other .....	3	15
<b>Total</b> .....	<u>16</u>	<u>34</u>

<sup>29</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

*Six months ended on 30 June 2008<sup>30</sup> compared to six months ended on 30 June 2007*

The above table and the analysis below describe the net contribution of each of the businesses to the result of Kardan. As profit attributable to minority shareholders has already been deducted, these figures do not represent 100 per cent. of the net profit of each segment, and can therefore not be compared to the figures presented in the consolidated financial results overview.

*Real estate*

In the first half of 2008 the real estate segment contributed a profit of approximately €19 million compared to a loss of €6 million in the first half of 2007. The profit in the first half of 2008 was mainly generated from the fair value adjustments of the investment properties of five projects that were completed in GTC Group. Kardan's share in these revaluations amounted to approximately €18 million. In addition Kardan recorded a profit in the period of approximately €2 million from the exercise of options and the conversion of the GTC RE Convertible Debentures. In the first half of 2007 the loss of this segment was mainly resulted from financing expenses recorded by GTC RE, due to the revaluation of the equity component of the GTC RE Convertible Debentures (Kardan's share, after minority interests, in these financing expenses amounted to approximately €21 million). Part of those expenses were offset by the revaluation of investment properties in GTC Group, in which Kardan's share amounted to approximately €16 million.

*Financial services – banking and retail lending*

In the first half of 2008 this segment contributed a profit of approximately €1 million compared to a profit of €4 million in the first half of 2007. Kardan's share in the operating results of TBIF in the first half of 2008 came to a profit of €2 million. In the reviewed period the results include Kardan's share in the positive revaluation of a call option that TBIF has for increasing its share in Sovcom Bank. This profit was partly off-set against financing expenses, mainly foreign currency exchange losses on US Dollar loans granted by TBIF to finance the Ukrainian activities, as well as interest expenses on loans that were granted to TBIF in order to continue and expend its activity. Kardan's share in the operating results of TBIF in the first half of 2007 amounted to a profit of approximately €1 million. This includes a profit of approximately €2 million from a reorganisation of TBIF's holdings.

*Financial services – insurance and pension*

In the first half of 2008 this segment contributed a loss of approximately €6 million compared to a profit of €20 million in the first half of 2007. Kardan's share in the operating results of TBIH in the first half of 2008 came to a loss of €6 million. In the reported period the results include marketing and penetration costs to the Russian insurance market in which Kardan's share amounted to €3 million, as well as finance expenses on the loans granted by VIG in order to expand TBIH's activities (which includes among others an acquisition of new insurance and pension companies). The profit during the first half of 2007 was mainly generated following the VIG transaction, which resulted in a decrease in Kardan's holdings in TBIH to 40 per cent. Kardan's share in this profit amounted to approximately €20 million (please refer to "Main events affecting the Company's financial statements" in this chapter and to the chapter "Business").

*Infrastructure – projects*

In the first half of 2008 this segment's result was break even compared to a profit of €2 million in the first half of 2007. The net result of the projects activities is subject to the percentage of completion of the projects. The revenues of the infrastructure projects in the first half of 2008

<sup>30</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

amounted to approximately €43 million (out of total revenues of the infrastructure sector of €60 million), compared to €34 million in the first half of 2007.

#### *Infrastructure – assets*

In the first half of 2008 this segment contributed a loss of approximately €3 million compared to a loss of €2 million in the first half of 2007. In order to expand investments and their geographical distribution, the Tahal group received a loan from Kardan that has resulted in finance expenses. In addition, the activity has generated staff costs for the aforementioned expansion.

#### *Automotive and consumer goods*

In the first half of 2008 this segment contributed a profit of approximately €3 million compared to a profit of €4 million in the first half of 2007. From the import and sale of vehicles, UMI recorded a profit of approximately €11 million in the first half of 2008 and in the first half of 2007. In the first half of 2008, UMI delivered 10,310 vehicles, as compared with 6,833 in the first half of 2007. UMI sales revenues in the first half of 2008 were approximately €244 million, compared to approximately €186 million in the first half of 2007.

#### *Communications and technologies*

In the first half of 2008 this segment contributed a loss of approximately €1 million compared to a loss of €3 million in the first half of 2007. In both periods under review the loss in this segment was mainly the result of financing expenses.

#### *Other businesses*

In the first half of 2008, the result includes financial income mainly from the revaluation of the equity component of the convertible debentures of Kardan Israel to its fair value as well as revaluation of the options of 2003 Kardan Israel debentures into shares of Kardan. This income amounted to €10 million and was off set by interest and other financing expenses of the above mentioned companies. In the first half of 2007 the profit mainly derived from financial income recorded by Kardan, amounting to €15 million, which was generated from the revaluation of the equity component of the GTC RE Convertible Debentures held by Kardan to its fair value. This profit was partially offset by the revaluation of the phantom options for Kardan shares granted to the holders of debentures issued by Kardan Israel in 2003.

### **Consolidated Balance Sheets Overview**

The following table sets out a summary of Kardan's balance sheets as at 31 December 2007 and six months ended on 30 June 2008<sup>31</sup> and 2007. This financial information should be read in conjunction with Kardan's (interim condensed) consolidated financial statements.

	<u>30 June 2008</u>	<u>31 December 2007</u>
<i>€ in millions</i>		
Non-current assets .....	2,914	2,343
Current assets .....	2,071	1,929
<b>Total</b> .....	<b>4,985</b>	<b>4,272</b>
Equity attributable to equity holders of the parent .....	359	343
Minority interest .....	787	730
Non-current liabilities .....	2,680	2,066
Current liabilities .....	1,159	1,133
<b>Total</b> .....	<b>4,985</b>	<b>4,272</b>

<sup>31</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

*Period ended on 30 June 2008<sup>32</sup> compared with year ended 31 December 2007*

#### *Non-current assets*

Non-current assets increased from €2,343 million as at 31 December 2007 to €2,914 million as at 30 June 2008. The increase compared to 31 December 2007 is mainly the result of the completion and revaluation of five retail and commercial real estate projects, additional investments in real estate under construction in the GTC Group, new acquisitions in the financial services segment and increase in the value of derivatives in Kardan and GTC RE.

#### *Current assets*

Current assets increased from €1,929 million as at 31 December 2007 to €2,071 million as at 30 June 2008. The increase compared to 31 December 2007 is mainly the result of investments in new/existing residential projects in the GTC Group and increase in value of derivatives in Kardan and GTC RE.

#### *Equity attributable to equity holders of the parent*

As at 30 June 2008, equity attributable to equity holders of the Company amounted to €359 million compared to €343 million as at 31 December 2007. The increase is primarily the result of the net profit for the first half year of 2008 (€16 million) and an increase of €28 million in other capital reserves. That increase was offset by a decrease in the foreign currency translation reserve of €10 million as well as the declared dividend of €18 million.

#### *Minority interests*

Minority interests increased from €730 million as at 31 December 2007 to €787 million as at 30 June 2008. The increase in the reviewed period is mainly due to the dilution of Kardan's indirect interest in GTC RE and in Kardan Israel following the exercise of options and conversion of debentures into shares of these companies, and the net profit attributable to minority interest holders.

#### *Non-current liabilities*

Non-current liabilities, which mainly include loans and borrowings, debentures and convertible debentures, increased from €2,066 million as at 31 December 2007 to €2,680 million as at 30 June 2008. The increase is primarily contributed to the increase of long term loans and issuance of debentures in GTC SA, in order to finance the growing activity of the GTC Group.

#### *Current liabilities*

Current liabilities increased from €1,133 million as at 31 December 2007 to €1,159 million as at 30 June 2008. There was no significant change between the periods.

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<sup>32</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

## Cash Flows

<u>Cash Flow Data</u>	<u>Six months ended</u> <u>30 June 2008<sup>33</sup></u>	<u>Six months ended</u> <u>30 June 2007</u>
<i>(€ in millions)</i>		
• Net cash used in operating activities .....	(61)	(98)
• Net cash used in investing activities .....	(556)	(200)
• Net cash provided by financing activities .....	<u>421</u>	<u>668</u>
• Net change in cash and cash equivalents .....	<u>(194)</u>	<u>370</u>

Cash used in investing activities amounted to €556 million in the first half of 2008 compared to €200 million in the first half of 2007. In the first half of 2008 the cash flows from investing activities primarily included €221 million invested in property, plant and equipment and real estate under construction, €28 million invested in Kardan Group Companies and partnerships and used in acquisitions of newly consolidated Kardan Group Companies, €292 million used in granting of long term loans (in the financial services segment) and €30 million were used for granting credit to customers in the banking activities. In the first half of 2007 the cash flows from investing activities primarily included €91 million invested in property, plant and equipment and real estate under construction, €125 million used in granting of long term loans and €16 million were provided as proceeds from disposal of property, plant and equipment and investment properties.

In the first half of 2008 Kardan generated €421 million from financing activities compared to €668 million that were generated in the first half of 2007. In the first half of 2008, €466 million were generated from receipt of long term loans, €229 million were used for repayment of long term loans, €155 millions were generated from issuance of debentures and €26 millions were generated from customers deposits in the banking activity. In the first half of 2007 Kardan generated €466 from issuance of debentures, €320 million from receipt of long term loans and €137 were used for repayment of long term loans.

A breakdown of the net cash provided by or used in operating activities can be found in the consolidated cash flow statement in the consolidated financial statements.

### Working Capital Statement

The Company hereby declares that, in its opinion, having duly considered the nature of group banking arrangements and any restrictions on the transfer of funds between companies which are part of the Kardan Group, the working capital of the Kardan Group is sufficient for its present requirements for the next 12 months.

### No Significant Change

Since 30 June 2008, no significant change in the financial or trading position of the Kardan Group has occurred.

<sup>33</sup> The Company's figures for the six months period ended on and as of 30 June 2008 have been derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.



## CAPITALISATION

The following table sets forth the Company's consolidated capitalisation on an actual basis. The data set out below in relation to 2008 were derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

	<u>As at 30 June 2008</u>
<i>€ in millions</i>	
<b>Total Non-Current Debt</b>	
<b>(excluding current portion of long-term debt)</b>	
Guaranteed .....	79
Secured .....	887
Unguaranteed / Unsecured .....	165
<i>Shareholders' equity</i>	
Share capital .....	17
Share premium .....	176
Foreign currency translation reserve .....	(35)
Property revaluation reserve .....	124
Revaluation reserve, other .....	23
Retained earnings .....	54
<b>Total</b> .....	<b>359</b>

	<u>As at 30 June 2008</u>
<i>€ in millions</i>	
<b>Net Indebtedness</b>	
Cash .....	60
Cash equivalents (short-term deposits) .....	639
Trading securities .....	46
Short term investments .....	71
<b>Liquidity</b> .....	<b>816</b>
Current Financial Receivable .....	444
Current bank debt .....	84
Current portion of non-current debt .....	247
Other current financial debt .....	409
<b>Current financial debt</b> .....	<b>740</b>
<b>Net current financial indebtedness</b> .....	<b>(520)</b>
Non-current bank loans .....	1,131
Debentures issued .....	943
Convertible debentures issued .....	32
Other non-current loans .....	142
<b>Non current financial indebtedness</b> .....	<b>2,248</b>
<b>Net financial indebtedness</b> .....	<b>1,728</b>

### Changes Since 30 June 2008:

Since 30 June 2008 the Kardan Group Companies have drawn additional approximately €200 million from new loan agreements signed with banks and from existing credit facilities.

## **Capital Requirements**

The Kardan Group Companies need funding to finance the following:

- Capital expenditures, including the purchases of property, plant and equipment and real estate under construction;
- Expansion of activities and acquisitions;
- Repayment of debt; and
- Changes in working capital.

The Company anticipates that further development of the infrastructure business and the real estate activities, primarily in Asia, consolidation of existing business and continuous geographical expansion in emerging markets will represent the most significant uses of funds for several years to come.

The Company expects to continue to finance most of its capital expenditure needs through its operating cash flow, and to the extent required, to incur indebtedness through borrowings or additional capital raising activities. These activities require the Company to maintain financial covenants. The Kardan Group may continue to expand its business through acquisitions. The cash requirements relating to potential acquisitions can vary based on market opportunities.

## SELECTED FINANCIAL DATA

The data hereunder are taken from the financial statements of the Company. This information should be reviewed together with the comprehensive information that appears in the aforesaid financial statements, including in their notes. See "Index to Financial Statements" on page 200 of the Prospectus. The data set out below in relation to 2008 was derived from the Company's unaudited financial statements for the six month period ended 30 June 2008 on which an auditor's review report was issued.

### Profit and Loss Data

	Six months ended June 30		Year ended 31 December*		
	2008	2007	2007	2006	2005
<i>(€ in millions, except percentages, per share and share amounts)</i>					
<b>Revenues</b>					
Sales and Services .....	26	21	61	50	43
Contracts revenues .....	72	35	86	65	48
Insurance activities .....	60	23	66	61	87
Banking and retail lending activities .....	56	30	72	25	9
Rental revenues .....	35	27	60	72	55
Equity in net earnings of associated companies .....	3	3	6	7	7
Management fees .....	1	1	2	1	1
Gain on issuance of shares in associated companies and subsidiaries to third parties .....	2	3	45	52	14
Net adjustment to fair value of investment properties .....	71	102	287	209	117
Gain on disposal of assets and other income, net .....	3	30	47	19	51
Other financial income .....	85	16	42	27	7
	<u>414</u>	<u>291</u>	<u>774</u>	<u>588</u>	<u>439</u>
<b>Expenses</b>					
Cost of sales and services .....	21	16	46	41	28
Contracts costs .....	59	26	68	49	39
Operating expenses of insurance activities .....	62	22	64	63	84
Costs of banking and lending activities .....	52	26	65	21	7
Cost of rental operations .....	8	6	12	20	16
Selling and Marketing expenses .....	10	9	19	15	11
General and Administrative expenses .....	27	20	56	44	24
Financing expenses .....	90	51	148	126	57
Other expenses, net .....	1	2	4	6	7
	<u>330</u>	<u>178</u>	<u>482</u>	<u>385</u>	<u>273</u>
<b>Profit (loss) before income taxes</b> .....	<u>84</u>	<u>113</u>	<u>292</u>	<u>203</u>	<u>166</u>
Income tax .....	<u>19</u>	<u>25</u>	<u>42</u>	<u>46</u>	<u>30</u>
<b>Net profit (loss)</b> .....	<u>65</u>	<u>88</u>	<u>250</u>	<u>157</u>	<u>136</u>
Attributable to:					
Equity holders .....	16	34	90	41	46
Minority interest holders .....	49	54	160	116	90
	<u>65</u>	<u>88</u>	<u>250</u>	<u>157</u>	<u>136</u>
<b>Net profit (loss) per ordinary share (in €)</b>					
Basic .....	<u>0.20</u>	<u>0.42</u>	<u>1.11</u>	<u>0.55</u>	<u>0.72</u>
Fully diluted .....	<u>0.02</u>	<u>0.42</u>	<u>1.10</u>	<u>0.47</u>	<u>0.67</u>

\* The Company's financial statements for the years 2005 and 2006 were expressed in US Dollar. The US Dollar-Euro translation was carried out in accordance with procedures and exchange rates as described in the notes to the Company's financial statements 2007.

	30 June		31 December*		
	2008	2007	2007	2006	2005
<i>€in millions</i>					
<b>Balance Sheet Data</b>					
Total current assets	2,071	1,505	1,929	892	451
Total non-current assets	2,914	1,875	2,343	1,333	1,057
<b>Total assets</b>	<b>4,985</b>	<b>3,380</b>	<b>4,272</b>	<b>2,225</b>	<b>1,508</b>
Total current liabilities	1,159	681	1,133	532	225
Total non-current liabilities	2,680	1,839	2,066	935	846
Equity	359	299	343	267	137
Minority interests	787	561	730	491	300
<b>Total equity and liabilities</b>	<b>4,985</b>	<b>3,380</b>	<b>4,272</b>	<b>2,225</b>	<b>1,508</b>
<b>Cash Flow Data</b>					
Net cash provided by (used in) operating activities	(61)	(98)	(100)	136	(17)
Net cash provided by (used in) investing activities	(556)	(200)	(539)	(132)	(265)
Net cash provided by (used in) financing activities	421	668	1,135	263	253
Foreign exchange difference relating to cash and cash equivalents	2	—	(12)	(16)	38
Net increase/(decrease) in cash and cash equivalents	(194)	370	484	251	9
Cash and cash equivalents at the beginning of the period	893	409	409	158	149
Cash and cash equivalents at the end of the period	699	779	893	409	158
<b>Financial Ratio's</b>					
Solvency % (including minority) <sup>1</sup>	23.0%	25.4%	25.1%	34.1%	28.9%
Solvency % (excluding minority) <sup>2</sup>	7.2%	8.8%	8.0%	12.0%	9.0%
Return on equity % <sup>3</sup>	4.5%	11.4%	26.2%	14.4%	32.7%
Debt/equity <sup>4</sup>	7.5	6.2	6.0	3.5	6.2
Expenses / Revenues %	79.7%	61.2%	62.3%	65.5%	62.3%
Profit (loss) before income taxes / Revenues	20.3%	38.8%	37.7%	34.5%	37.8%
Net profit (loss) / Revenues	15.7%	30.2%	32.3%	26.7%	31.0%

1 The percentage of shareholders' equity and minority interests out of total assets.

2 The percentage of shareholders' equity out of total assets.

3 The percentage of the net profit or loss out of shareholders' equity.

4 The ratio between total long-term debt out of shareholders' equity.

\* The Company's financial statements for the years 2005 and 2006 were expressed in US Dollar. The US Dollar-Euro translation was carried out in accordance with procedures and exchange rates as described in the notes to the Company's financial statements 2007.

## MANAGEMENT BOARD AND SUPERVISORY BOARD

### Introduction

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

### Members of the Management Board

The business address of all the members of the Management Board is Claude Debussylaan 30, Viñoly Building, 13<sup>th</sup> floor, 1082 MD Amsterdam, The Netherlands (Telephone number: +31 (0)20 305 0010).

#### *Mr. Alain Ickovics (Chairman)*

Mr. Alain Ickovics is Chairman of the Management Board. He has the Israeli and the Belgian nationality. Mr. Alain Ickovics was appointed on 14 June 2006 and his current term of office ends in 2009. Mr. Alain Ickovics has an MBA in Finance from Columbia University and a BA in Industrial Engineering from the Technion Israeli Institute of Technology. Mr. Alain Ickovics joined the Kardan Group in 1994 as Chairman of the Management Board of GTC SA. From 2001 to 2006 he was director of international operations of the Company and managing director of GTC SA, and director of several of its operational subsidiaries. He is a director of various other companies within the Kardan Group including KFS, TBIF, TBIH, Tahal, GTC RE and GTC SA.

#### *Mr. Walter van Damme*

Mr. Walter van Damme is a member of the Management Board. He has the Dutch nationality. Mr. Walter van Damme was appointed on 13 June 2007 and his current term of office ends in 2010. He has a law degree from the University of Amsterdam. From 1996 to 2000 Mr. Walter van Damme was a lawyer at different law firms. From 2000 to 2006 he was a founding partner of First Dutch Capital. Mr. Walter van Damme joined the Kardan Group in January 2007. He is also a director of various other companies within the Kardan Group, including GTC RE, GTC SA, Tahal, Tahal Assets, KFS, and TBIF.

#### *Mrs. Einat Oz-Gabber*

Mrs. Einat Oz-Gabber is a member of the Management Board and CFO of the Company. She has the Israeli nationality. Mrs. Einat Oz-Gabber was appointed on 19 May 2005, reappointed on 19 June 2008 and her current term of office ends in 2011. She is a certified public accountant in Israel and has a B.A. in Economics and Accounting from Tel Aviv University, Israel. From 1997 to 2001, Mrs. Einat Oz-Gabber was an accountant and auditor in Israel with Luboshitz Kasierer (Arthur Andersen). From 2001 to 2003 she worked with Deloitte & Touche Accountants (formerly Arthur Andersen) in the Netherlands. Since mid 2003 she is controller of the Kardan Group and since May 2005 she is CFO of the Company. Mrs. Einat Oz-Gabber is also a director of various other companies within the Kardan Group, including GTC RE, KFS, TBIF, Tahal and Tahal Assets.

#### *Mr. Alon Y. Shlank*

Mr. Alon Shlank is a member of the Management Board. He has the Israeli nationality. Mr. Alon Shlank was appointed on 18 May 2004 and reappointed on 13 June 2007 and his current term of office ends in 2010. Mr. Alon Shlank has an LL.B. degree in law from Tel Aviv University, Israel. Until 1994, Mr. Alon Shlank was partner in a law firm in Israel, specialising in securities, mergers and acquisitions, investments and corporate law. From 1994 to 2000 he was CEO of Alriq S3R Ltd. and director of several companies within the Alriq group. Mr. Alon Shlank joined the Kardan Group in 2004. He is also a director of various other companies within the Kardan Group, including GTC RE, TBIH, KFS and GTC SA.



### *Mr. Jan Slootweg*

Mr. Jan Slootweg is a member of the Management Board. He has the Dutch nationality. Mr. Jan Slootweg was appointed on 19 June 2008 and his current term of office ends in 2011. Mr. Jan Slootweg had his education at NIVRA (C.P.A) in Amsterdam and is a RA (accountant registered in the register of accountants). Mr. Jan Slootweg started his career at Deloitte & Touche in 1975 where he worked until 1986 as assistant account and as of 1986 until 1992 as senior manager. As of 1992 until 2001, Mr. Jan Slootweg worked for Athlon Groep N.V. as concern controller and between 2001 and 2006 he was a member of the executive board of Athlon Holding N.V., a company listed on Euronext at that time, where he was responsible for finance, controlling and IT. Mr. Jan Slootweg became a member of the management board of Athlon Car Lease International B.V. where he was responsible for control, risk, tax, HR and legal. Currently, besides being a director of the Company, Mr. Jan Slootweg also serves as a director in various other companies within the Kardan Group, including GTC RE, KFS, Tahal and GTC SA.

## **Provisions of the Company's articles of association (the "Articles of Association") concerning members of the Management Board**

### *General*

The management of the Company shall be conducted by the Management Board.

### *The number of members of the Management Board*

The number of members of the Management Board shall be determined by the Supervisory Board. The Articles of Association contain no provision as to the Management Board's maximum or minimum number of members.

### *Selection of members of the Management Board*

The members of the Management Board are appointed by the general meeting of shareholders from a list of candidates to be drawn up by the Supervisory Board, by a majority of the votes of shareholders present at the general meeting of shareholders, unless otherwise noted in the Articles of Association. If the list of candidates contains the names of at least two persons it shall be binding. However, the general meeting of shareholders may at any time, by resolution passed with a majority of at least two-thirds of the votes cast representing more than half of the Company's issued capital, resolve that such list shall not be binding. If the Supervisory Board should fail to draw up a list of nominees within three months after the vacancy has occurred, the general meeting of shareholders may appoint a member of the Management Board at its own discretion. If the Supervisory Board has drawn up a non-binding nomination, the appointment of a person to the Management Board in contravention of the nomination shall require a resolution of the general meeting of shareholders adopted with a majority of two thirds of the votes cast representing more than half of the Company's issued capital. There is no restriction in the Articles of Association as to a corporation serving as a member of the Management Board and there is no provision as to the appointment of the corporation representative. The members of the Management Board shall be appointed for a period of three years, ending no later than at the end of the following general meeting of shareholders held in the third year after the year of their appointment. The members of the Management Board may be immediately re-appointed.

### *Suspension or removal from office*

Any member of the Management Board may be suspended or removed by the general meeting of shareholders at any time. Such a resolution, other than at the proposal of the Supervisory Board, shall only be adopted with a majority of two thirds of the votes cast representing more than half of the Company's issued capital.

The Supervisory Board may suspend any member of the Management Board at any time. A suspension by the Supervisory Board may be discontinued by the general meeting of shareholders at any time.

Any suspension may be extended one or more times, but may not last longer than three months in the aggregate. If at the end of that period no resolution has been taken on termination of the suspension, or on removal, the suspension shall cease. A Management Board membership shall end, other than by expiry of the term for which the appointment was made, if the Management Board member:

- is removed by the general meeting of shareholders as stated above;
- dies, or, in the event that a Management Board member is a legal entity, upon its liquidation; or
- resigns voluntarily, of which resignation the Management Board member shall notify the Management Board in writing.

#### *Remuneration*

The general meeting of shareholders shall determine, by a majority vote, on a proposal submitted by the Supervisory Board, the remuneration and further conditions of employment for each member of the Management Board. There is no provision in the Articles of Association with regard to determining the remuneration for a fixed period or for an indefinite period. The individual remuneration, including bonuses, was adopted by the general meeting of shareholders during the general meeting of shareholders held on 19 June 2008. The Supervisory Board prepares its remuneration proposal on the basis of a remuneration policy which aims to offer remuneration appropriate to attracting qualified directors to an international company, bearing in mind the nature and character of the Company. The policy is challenging in that it also motivates directors to achieve quality performances. The scope, design and composition of the remuneration package has been drawn up to support the Company's short- and long-term objectives. The Company believes that its senior management team is its major asset and applies incentive-based policies throughout the Company.

The determination of the remuneration of members of the Management Board may change due to the fact that a Remuneration, Selection and Appointment Committee was installed on 19 June 2008, which may determine a new remuneration policy.

A key element of the remuneration policy is the granting of share options or shares. The Company granted share options under the Company's stock option plan (the "**Stock Option Plan**") to members of its Management Board and certain key employees.

No members of the Management Board have entered into agreements with the Company or any Kardan Group Company pursuant to which they will receive benefits upon termination of their services to any Kardan Group Company.

#### *The duties of the Management Board, the process for adoption of resolutions, apportionment of duties*

Subject to the restrictions prescribed in the Articles of Association, the Management Board shall be entrusted with the management of the Company. The Supervisory Board shall elect a chairman from amongst the members of the Management Board and may elect a vice chairman from amongst the members of the Management Board who shall take the place of the chairman in the latter's absence. In the absence of the chairman and the vice chairman, if elected, at a meeting of the Management Board, the meeting shall itself designate a chairman for that particular meeting. The Management Board shall meet regularly and in all events

whenever the chairman or two other members of the Management Board, or the Supervisory Board deems such necessary. There is no provision in the Articles of Association that prescribes a duty to convene at a certain frequency. All resolutions of the Management Board shall be adopted by an absolute majority of the votes cast. In meetings of the Management Board each member of the Management Board shall be entitled to cast one vote. Save for the events described below, resolutions of the Management Board shall only be valid if taken at a meeting at which the majority of the members of the Management Board is present or represented.

Members of the Management Board may only be represented in meetings of the Management Board by another member of the Management Board pursuant to a written power of attorney. The expression “written” shall include any message transmitted by current means of communication and received in writing. The Management Board’s meetings may be held by means of a meeting of its members in person in a formal meeting or by conference call, video conference or by any other means of communication, provided that all members of the Management Board participating in such meeting are able to communicate with each other simultaneously. Participation in a meeting held in any of the above ways shall constitute presence at such meeting.

Resolutions of the Management Board may also be adopted without holding a formal meeting, in writing or otherwise, provided that the proposal concerned is submitted to all members of the Management Board then in office and none of them objects to the proposed manner of adopting resolutions. A report with respect to a resolution adopted other than in writing shall be prepared by a member of the Management Board. The report shall be signed by such member of the Management Board and presented to the Management Board for its information in the next meeting of the Management Board. Adoption of resolutions in writing shall be effected by written statements from all members of the Management Board then in office. The Management Board may draw up a set of rules governing the passing of resolutions by the Management Board in conformity with the provisions of the Articles of Association. The adoption, amendment, modification, replacement or suspension of the rules shall require the approval of the Supervisory Board. The Management Board may determine the duties with which each member of the Management Board will be charged in particular. The allocation of duties shall require the approval of the Supervisory Board. The Management Board may appoint officers and allocate certain of its duties to such officers. Such allocation shall not affect the ultimate responsibility of the Management Board for the duties thus allocated. There are no provisions in the Articles of Association that restrict delegating some of the duties and there is no restriction as to the delegate’s identity. An appointment as aforesaid shall not affect the Management Board’s ultimate responsibility for duties that were delegated as aforesaid.

#### *Representation of the Company*

The Management Board shall be authorised to represent the Company vis-à-vis third parties. Two members of the Management Board acting jointly shall also be authorised to represent the Company. The Management Board may grant to one or more of its members a power of attorney to represent the Company alone with due observance of the restrictions of the power of attorney. In the event of a conflict of interest between the Company and a member of the Management Board, the Company shall be represented by such member of the Management Board or of the Supervisory Board as the Supervisory Board shall designate for such purpose.

#### *Exemption, indemnity and insurance*

The Articles of Association stipulate that after the adoption of the Company’s annual financial statements by the Company’s general meeting of shareholders, the general meeting must adopt a resolution by a majority vote of those present at the general meeting, on whether to

release all or some of the members of the Management Board from liability vis-à-vis the Company, for legal acts accounted for in the annual accounts or otherwise brought to the attention of the shareholders. The scope of the release from liability shall be subject to the restrictions of Netherlands general law, such as a duty of care and principles of reasonableness and fairness.

#### *Vacating of position or inability to act*

If a seat on the Management Board is vacant (*'ontstentenis'*) or a member of the Management Board is unable to perform his duties (*'belet'*), the remaining members or member of the Management Board shall be temporarily entrusted with the entire management of the Company. If all seats in the Management Board are vacant or all members or the sole member of the Management Board, as the case may be, are unable to perform their duties, the management of the Company shall be temporarily entrusted to the Supervisory Board which shall then be authorised to temporarily entrust the management to one or more persons, whether or not from among its members.

#### *Approval of management board resolutions*

Without prejudice to other provisions of the Articles of Association, the Management Board shall require approval of the Supervisory Board for managerial decisions with respect to:

- A purchase or sale of assets outside the Kardan Group, the value of which exceeds an amount of €20 million (on the understanding that for the calculation of this amount the actual monetary commitment of the Company in such transaction will be the determining factor and not the actual value of the asset(s));
- Providing guarantees outside the Kardan Group for an amount exceeding €10 million.
- The performance of legal acts outside the Kardan Group, other than as stated above, implying an amount exceeding €10 million, for which purpose more than one action which pertains to the same transaction shall be deemed as a single legal action; and
- Other actions by the Management Board, as the Supervisory Board shall determine and inform the Management Board in writing. As of the date of the Prospectus, no such actions were determined.

The Supervisory Board may determine that certain decisions described above do not require the Supervisory Board's approval, in certain cases as the Supervisory Board shall determine and inform the Management Board hereof in writing. Furthermore, it should be noted that the Supervisory Board is permitted to change above mentioned amounts from time to time. The Supervisory Board should inform the Management Board hereof in writing.

Pursuant to article 2:107a DCC the Management Board shall require the general meeting of shareholders' approval of managerial decisions pertaining to important changes in the Company's identity, nature or business, including all of the following cases:

- a transfer of the business or practically the entire business to a third party;
- the entry into or termination of a long-term cooperation of the Company or a subsidiary with another legal person or partnership or as a fully liable partner in a limited partnership or general partnership, if such cooperation or termination is of a far-reaching significance for the Company;
- the acquisition or divestment by the Company or a subsidiary of a participating interest in the capital of a company having a value of at least one-third of the amount of the Company's assets according to its balance sheet and explanatory notes or, if the Company prepares a consolidated balance sheet, according to its consolidated balance sheet and explanatory notes in the last adopted annual accounts of the Company.

The lack of approval by the Supervisory Board or, alternatively, by the general meeting of shareholders, as set out in the paragraphs above, does not affect the authority of the Management Board or of its members to represent the Company vis-à-vis third parties.

### **Members of the Supervisory Board**

The business address of all the members of the Supervisory Board is Claude Debussylaan 30, Viñoly Building, 13<sup>th</sup> floor, 1082 MD Amsterdam, The Netherlands (Telephone number: +31 (0)20 305 0010).

#### *Mr. Joseph Krant*

Mr. Joseph Krant is the Chairman of the Supervisory Board and member of the Audit Committee and the Remuneration, Appointment and Selection Committee. He has the Dutch nationality. Mr. Joseph Krant was appointed on 9 July 2003, reappointed on 13 July 2007 and his current term of office ends in 2011. Mr. Joseph Krant has a degree in economics from ISW. Since 1973 Mr. Joseph Krant has held various positions including the position of managing director and CEO of Kempen & Co and CEO of Dexia Bank Nederland. He is currently a managing director of Catalyst Advisors B.V., a member of the supervisory board of Wereldhave N.V., a member of the supervisory board of Cyrte Investments B.V., a member of the investment committee of Cyrte Fund 1 C.V., Cyrte Fund 2 C.V. and Cyrte Fund 3 C.V., and Chairman of the board of the Jewish Historical Museum, Amsterdam.

#### *Mr. Hendrik Benjamins*

Mr. Hendrik Benjamins is a member of the Supervisory Board and the Chairman of the Remuneration, Appointment and Selection Committee. He has the Dutch nationality. Mr. Hendrik Benjamins was appointed on 1 November 2006 and his current term of office ends in 2010. He has a secondary school level education. Mr. Hendrik Benjamins retired in May 2005 from Koninklijke Frans Maas Groep. His last position was as CEO of that company. From 1986 to 1991 Mr. Hendrik Benjamins was transport manager for Akzo Nobel. Mr. Hendrik Benjamins is also a director of Vladimir Development B.V., Chairman of the supervisory board of Grondexploitatie maatschappij Californie B.V., Vos Logistics Nederland B.V., Munckhof Groep B.V. and CA F.N.Z. Holding B.V. and a supervisory board member of FloraHolland and Maastricht Academic Hospital. He is also the Chairman of the Limburg Entrepreneurs Association.

#### *Mr. Israel Fink*

Mr. Israel Fink is a member of the Supervisory Board. He has the Belgian nationality. Mr. Israel Fink was appointed on 2 May 2003, reappointed on 13 June 2007 and his current term of office ends in 2011. He has a degree in civil engineering from Brussels University. Mr. Israel Fink is sales and marketing manager and co-director of Fancy Diamonds International B.V.B.A., a company incorporated in Belgium. Since 1970 he has held various positions in the construction management and diamond industries.

#### *Mr. Max I. Groen*

Mr. Max Groen is a member of the Supervisory Board and Chairman of the Audit Committee. He has the Dutch nationality. Mr. Max Groen was appointed on 1 July 2005 and his current term of office ends in 2009. He has an M.A. in economics and accounting from the University of Amsterdam, a degree in economics (Drs.) and a postgraduate degree in accountancy (accountant registered in the register of accountants). Mr. Max Groen is a retired partner of KPMG Business Advisory Services/KPMG Accountants, Amsterdam, after working with KPMG for more than thirty years. He is a member of the Netherlands Institute of Certified Accountants. Mr. Max Groen is also a supervisory board member of the Sinaï Centrum and a



board member of the Foundation Carel Abas, the Foundation Netherlands Sephardi Inheritance and the Netherlands Synagogue Community. He is also a member of the Appeals Committee of the Dutch Jewish Humanitarian Fund.

*Mr. Jay L. Pomrenze*

Mr. Jay Pomrenze is a member of the Supervisory Board and of the Remuneration, Appointment and Selection Committee. He has the American nationality. Mr. Jay Pomrenze was appointed on 18 May 2004, reappointed on 19 June 2008 and his current term of office ends in 2012. He has a B.A in chemistry and an M.A. in philosophy from Yeshiva University, New York and an MBA in finance and economics from New York University. Mr. Jay Pomrenze also attended the Rabbinical Ordination Programme at Yeshiva University, New York. He is a partner at Cayman Partners and serves as director of Bank Hapoalim Ltd., Poalim Capital Markets Ltd., and KCPS & Company.

*Mrs. Karnina Rechter*

Mrs. Karnina Rechter is a member of the Supervisory Board and a member of the Audit Committee. She has the Israeli nationality. Mrs. Karnina Rechter was appointed on 2 May 2003, reappointed on 13 June 2007 and her current term of office ends in 2011. Mrs. Karnina Rechter has a B.A. in social work from Bar Ilan University and a B.A. and a degree in law from London University. Mrs. Karnina Rechter is partner in the Israeli law firm Bash-Rechter, Advocates, working as a lawyer and as a mediator. She regularly lectures university students on mediation and for the past four years she has written a weekly column on legal and mediation matters in Maariv, Israel's second largest daily newspaper. Mrs. Karnina Rechter is also a director of the Israeli holding company Shamait Ltd.

*Mr. Avner A. Schnur*

Mr. Avner Schnur is a member of the Supervisory Board. He has the Israeli nationality. Mr. Avner Schnur was appointed on 9 July 2003, reappointed on 13 June 2007 and his current term of office ends in 2011. Mr. Avner Schnur has a secondary school degree. Since 1986 Mr. Avner Schnur has been President of Astra Diamonds Manufacturers Ltd. He has also served as a director of Kardan Israel, since August 1994, as well as of various Israeli companies within and related to the Kardan Group, including Talladium Holdings (1997) Ltd., Talladium Ltd., Kardan Technologies, Teledata Networks Ltd. and Taldan Motors Ltd. Furthermore, Mr. Avner Schnur serves as a director of Guadalup Trading & Investments Ltd., Raitalon Ltd., I.G.C. International Gemological Laboratories (2004) Ltd., PDD Diamonds Ltd., AP Diamonds Ltd., Asta-Michlin Diamonds Ltd., Rachminov Diamonds (Israel) 1891 Ltd., Rachminov Jewellery 1891 Ltd., Dalior Diamonds Ltd., Taltalon Investments Ltd.

**Provisions of the Articles of Association concerning members of the Supervisory Board**

*Number of Supervisory Board members*

The Company shall have a Supervisory Board that shall be comprised of individuals only. The number of Supervisory Board members shall be at least three. Subject to this minimum, the number of supervisory directors shall be determined by the Supervisory Board. If less than three members of the Supervisory Board are in office, the Supervisory Board shall still be validly constituted, but shall proceed without delay to make up its number.

*Appointment*

The Supervisory Board's members shall be appointed by the general meeting of shareholders by a majority vote of shareholders present at the general meeting of shareholders, from a list of candidates to be drawn up by the Supervisory Board. The Supervisory Board's members

shall be appointed for a term of four years, and they may be reappointed no more than two times. The members of the Supervisory Board will step down in accordance with their terms of appointment and will do so at the end of the annual meeting shareholders of the relevant financial year. When a person is proposed for appointment as a supervisory director, particulars shall be stated in respect of his age, his profession, the number of shares in the capital of the Company he holds and his present and past functions, in so far as such functions are of interest in connection with the performance of the duties of a supervisory director. Legal entities of which he is already a supervisory director shall also be mentioned; if there are companies among those which belong to the same group, it shall be sufficient to name that group. The proposal for appointment must state the reasons on which it is based.

#### *Suspension or removal from office; retirement*

Each member of the Supervisory Board may be suspended or removed by the general meeting of shareholders at any time. The provisions of section “– *Suspension or removal from office*” concerning members of the Management Board shall apply *mutatis mutandis* to the suspension and removal from office of members of the Supervisory Board. Membership of the Supervisory Board shall end, other than by way of expiration of the appointment period, if the member of the Supervisory Board:

- is removed from his office by the general meeting of shareholders as aforesaid;
- dies; or
- voluntarily resigns and the member of the Supervisory Board gives written notice thereof to the Supervisory Board.

#### *Remuneration*

The general meeting of shareholders shall determine, by a majority vote, the remuneration for every member of the Supervisory Board. There is no provision in the Articles of Association with regard to determining the remuneration for a fixed or indefinite period. No members of the Supervisory Board have entered into agreements with the Company or any Kardan Group Company pursuant to which they will receive benefits upon termination of their services to any Kardan Group Company.

#### *Exemption, Indemnity and Insurance*

The Articles of Association stipulate that after the adoption of the Company's annual financial statements by the Company's general meeting of shareholders, the general meeting of shareholders must adopt a resolution by a majority of votes cast by those present at the general meeting of shareholders, on whether to release all or some of the members of the Supervisory Board from liability *vis-à-vis* the Company, for legal acts accounted for in the annual accounts or otherwise brought to the attention of the shareholders. The scope of the release from liability shall be subject to the restrictions of general Netherlands law, such as a duty of care and principles of reasonableness and fairness.

#### *Functions and authorities*

It shall be the duty of the Supervisory Board to supervise the management of the Management Board and the general course of the Company's affairs and the businesses connected with the Company. The Supervisory Board shall advise the Management Board. In performing their duties, members of the Supervisory Board shall act in the best interests of the Company and in that of the businesses connected to it. The Management Board shall promptly supply the Supervisory Board with the information required for the performance of its duties. The Supervisory Board shall have access to the Company's buildings and premises and shall be authorised to inspect the Company's books and records. The Supervisory Board may designate one or more of its members or an expert to exercise these powers. The

Supervisory Board may be assisted by experts in other cases as well. The Supervisory Board may appoint from amongst its members a delegate supervisory director who will especially be charged with the day-to-day contact with and supervision of the Management Board in all matters related to the Company. The Supervisory Board may also delegate, under its own responsibility, certain of its powers to the delegate supervisory director. The Supervisory Board may as well appoint one or more vice delegate supervisory directors for the purpose of substituting the delegate supervisory director in case of his absence or incapability to act. The Management Board shall contact and consult, to the extent possible, with the delegate supervisory director on all important matters. In the Articles of Association there are no provisions relating to the Supervisory Board's members duties of fidelity and duties of care.

#### *Procedure for passing resolutions and minutes*

The Supervisory Board may elect a chairman from amongst its members, and a vice chairman who shall take the chairman's place in the event of his absence. In the event that a chairman is not elected or a vice chairman is not elected by the Supervisory Board, those present at the meeting shall designate a chairman for each and every meeting. In the event of the absence of the chairman and the vice chairman from a general meeting of shareholders, the Supervisory Board members present at the meeting shall determine the chairman of the general meeting of shareholders for the purposes of that particular meeting. The Supervisory Board shall appoint a secretary who does not have to be a member of the Supervisory Board. Furthermore, it shall ensure that there is a substitute for the secretary in the event of the latter's absence. The Supervisory Board shall convene at least four times a year and on every occasion when the chairman (if one is appointed) or two other members of the Supervisory Board or the Management Board shall determine it is necessary to convene a meeting. The secretary of the Supervisory Board shall record the minutes of the Supervisory Board's meeting. The minutes shall be adopted in the same meeting or at the next meeting of the Supervisory Board and shall be signed by the chairman and the secretary as evidence thereof. The Supervisory Board's resolutions shall be adopted by a majority of the votes cast.

Each member of the Supervisory Board shall be permitted one vote. Except for the event set forth below, the Supervisory Board's resolutions shall only be valid if at the meeting at which they were passed a majority of the Supervisory Board's members are present or represented. The members of the Supervisory Board may only be represented at a meeting of the Supervisory Board by other members of the Supervisory Board and pursuant to a written proxy. The term "written" means also each message that has been sent and received in writing through the current known channels of communication, provided that all members of the Supervisory Board who are participating in the meeting can communicate with each other simultaneously. Participation in the meeting that shall be conducted in any one of the forms mentioned above shall be considered as attendance at the said meeting. It shall also be possible to adopt resolutions by the Supervisory Board without conducting a formal meeting, in writing or other manner, provided that the resolution under discussion shall be submitted to all Supervisory Board members who are serving at that time, and none of them is opposed to the manner of the proposed resolutions' passage. A report regarding the resolution that was passed in another manner that is not in writing shall be made by a member of the Supervisory Board, be signed by him and be submitted before the Supervisory Board at its next meeting, for its information. Passage of a resolution in writing without a meeting shall be done via a written document signed by all Supervisory Board members who are serving at that time. The Supervisory Board shall meet with the Management Board at such frequency as the Supervisory Board or the Management Board shall deem necessary.

## Supervisory Board Committees

### *Audit committee*

The Supervisory Board has appointed an Audit Committee from amongst its members. Currently, the Audit Committee comprises three members: Mr. Groen (Chairman), Mr. Krant and Mrs. Rechter. The Audit Committee met six times in 2007 and paid special attention to the following subjects during these meetings:

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

Most of the meetings were attended by the full Audit Committee. None of the members of the Audit Committee was frequently absent. The Company's external auditor attended a number of Audit Committee meetings and the Company's internal auditor attended the meeting during which the internal audit report was discussed. In addition to the formal meetings, informal discussions were held frequently between the Chairman of the Audit Committee and the Chief Financial Officer and controller, and/or the external auditor.

### *Remuneration, Selection and Appointment Committee*

In view of the considerable growth of the Company, especially during the last year, the Supervisory Board has decided to install a Remuneration, Selection and Appointment Committee in accordance with the Dutch Corporate Governance Code ("**Tabaksblat Code**"). The committee was installed on 19 June 2008. Currently, the Remuneration, Selection and Appointment Committee comprises three members: Mr. Benjamins (Chairman), Mr. Krant and Mr. Pomrenze. The committee will start drafting a new remuneration policy, which policy will be submitted for approval during a general meeting of shareholders once the policy has been finalised by the committee.

### *Option plan for employees and members of the Management Board*

The Supervisory Board and the Management Board adopted a Stock Option Plan, under which up to 1,444,875 options may be allocated, which may be exercised and converted to 1,444,875 ordinary shares of €0.20 nominal value each of the Company, to members of the Company's Management Board and to several employees of the Company and its subsidiaries (together "**Offerees**" and each an "**Offeree**").

The options shall be allocated to the Offerees without any consideration and the exercise price will be between 90 per cent. and 100 per cent. of the closing price of the Company's shares on Euronext Amsterdam or TASE (for Offerees who are Israeli residents on the date that the options are granted) ("**Exercise Price**"). Subject to the Articles of Association, in the event of a share split, reverse share split, any capitalisation issue, distribution of dividend, or other distribution of cash, rights issue, issue of benefit shares, or rights offer or any reduction, sub-division, consolidation or other variation of the capital of the Company (including any change in the currency in which shares are denominated) the number of options subject to any grant or the Exercise Price, may be adjusted by the Company without prejudice (including retrospective adjustments where appropriate) in such manner as the Company considers to be fair and reasonable. The Company may also take what ever other reasonable steps the Supervisory Board considers appropriate. Such steps may include an additional grant of rights and/or securities, under the same conditions as offered in such issue, provided that in case of distribution of dividend in cash or any other distribution of cash only the Exercise Price can be adjusted. With respect to all adjustments as described above an announcement

regarding the manner of adjustment will be made to TASE and to Euronext Amsterdam, as the case may be, before the record date of such adjustment. Notice of any adjustment shall be given by the Company to those members of the Management Board and employees who participate in the Stock Option Plan and who are affected by the adjustment. The notice shall be received within one month following the date that the amendment has been made.

Pursuant to the Stock Option Plan, and unless otherwise provided for in respect of a specific grant, the Offerees shall be entitled to exercise one third of the number of options allocated to them at the end of the first year from the date of acceptance, one third of the number of options at the end of the second year from the date of acceptance and a third of the number of options at the end of the third year from the date of acceptance. With respect to the Stock Option Plan as set out above, by way of exception, Mr. Slootweg, will only be able to exercise for the first time up to one third of his options on the second anniversary of the date of acceptance. Furthermore, Mr. Slootweg can exercise up to two thirds of his options for the first time only after the third anniversary of the date of acceptance and the last third of his options after the fourth anniversary of the date of acceptance.

The options shall expire at the earlier date of the end of five years from the date on which the option was granted or within 15 days from the date of the termination of employment of the Offeree at the Company. The foregoing is subject to the provisions of the Stock Option Plan, in respect of the exercise of the options in the event of the termination of employment of the Offeree at the Company under special circumstances.

Within 15 days from the date of giving notice of the exercise of options by an Offeree, the Supervisory Board, or as the case may be any committee to which the Supervisory Board has granted its rights under the Stock Option Plan, shall decide, at its discretion, the manner in which the options may be exercised from one of the following methods: (1) allocation or transfer of the full number of shares deriving from the options which were exercised in return for payment of the Exercise Price for each of the options; (2) allocation or transfer of shares at the value of the difference between the market value of the Company's shares on the exercise date and the Exercise Price multiplied by the number of options exercised by the Offeree; (3) cash payment of the value of the difference between the market value of the Company's shares on the exercise date and the Exercise Price multiplied by the number of options exercised by the Offeree.

Netherlands law is applicable to the Stock Option Plan.

In October 2006, the Supervisory Board and Management Board approved the grant of 716,927 options to members of the Management Board<sup>34</sup> and 382,400 options to ten of the employees of the Company and its subsidiaries. In 2007, 11,933 options were exercised by one of the Offerees in return for approximately €58,000, and also, 35,900 options granted to two employees expired when their employment with the Company terminated prior to the exercise date of the options held by them. In 2008, 31,866 options granted to an employee expired when her employment with the Company terminated prior to the exercise date of the options held by her. Furthermore, in 2008 Mr. Z. Rubin, a former member of the Management Board, waived 104,103 options out of the 209,103 options which were granted to him in November 2006.

On 1 April 2008 the Management Board approved the granting to Mr. Van Damme of 150,000 option rights in order to acquire in total a maximum of 150,000 ordinary shares in the capital of the Company at a rate of €6.615, being 90 per cent. of the closing price of the Company's shares on 1 April 2008. On 22 May 2008 the Management Board approved the granting to Mr. Slootweg of 175,000 option rights in order to acquire in total a maximum of 175,000 ordinary shares in the capital of the Company at a rate of €9.216, being 90 per cent. of the

<sup>34</sup> The allocation of the options to members Management Board was approved by the general meeting of the Company's shareholders on October 26, 2006.



closing price of the Company's shares on 30 May 2008, under the terms and conditions laid down in the Stock Option Plan with the exception of conditions relating to the vesting period, the moment of exercise and the moment upon which the outstanding options will elapse immediately and automatically. Both approvals of the Management Board to grant options to Mr. Van Damme and Mr. Slootweg as mentioned in this paragraph were subject to the condition subsequent of the Company's general meeting of shareholders denying approval to the granting of such options. The general meeting of shareholders approved the granting of the options on 19 June 2008. In accordance with the determination of the Exchange Ratio on 5 October 2008 and calculated pursuant to the NIS-Euro exchange rate (as published on the website of the Bank of Israel) on 2 October 2008, the Shares will be offered at a rate of €8.27.

At the date of this Prospectus, a total of 1,240,525 options are outstanding of which 832,824 are outstanding with the Management Board members and 407,701 with employees of the Kardan Group. As the general meeting of shareholders approved an allocation of up to 1,444,875 options under the Stock Option Plan, a further 204,350 options are available for future purposes.

### **Remuneration and Shareholdings of Members of the Management Board**

The general meeting of shareholders directly determines the remuneration amount and composition of the remuneration of members of the Management Board.

In the year 2007 the following salaries were paid by the Company to members of the Management Board for their services to the Company. €80,200 to Mr. Shlank, €124,200 to Mrs. Oz-Gabber, €123,100 to Mr. Ickovics, and €76,000 to Mr. Van Damme, who is a member of the Management Board since June 2007. For Mr. Shlank and Mr. Ickovics the Kardan Group remuneration is higher than the amounts mentioned above because of remuneration received from other companies within the Kardan Group. Furthermore, the following bonuses were paid by the Company to members of the Management Board for their services to the Company in 2007. €32,000 to Mr. Shlank, €24,000 to Mrs. Oz-Gabber, €30,000 to Mr. Ickovics and €28,000 to Mr. Van Damme.

Over the year 2007 the Company set aside €24,538 collectively towards the pensions of Mr. Van Damme and Mrs. Oz-Gabber. Over the year 2007, no other members of the Management Board were entitled to pension payments from the Company or any Kardan Group Company. In the year 2008, Mr. Slootweg will also become entitled to a pension payment from the Company.

Over the year 2008 the following salaries will be paid by the Company to members of the Management Board for their services rendered to the Company. €72,000 to Mr. Shlank, €149,688 to Mrs. Oz-Gabber, €162,000 to Mr. Ickovics, €171,072 to Mr. Van Damme and €170,500 to Mr. Slootweg. For Mr. Shlank and Mr. Ickovics the Kardan Group remuneration is higher than the amounts mentioned above because of remuneration received from other companies within the Kardan Group.

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

The only members of the Management Board who hold shares in the capital of the Company are Mr. Ickovics, who currently holds 3,248,842 shares in the capital of the Company, and Mr. Shlank, who currently holds (directly and indirectly through his company Teonim-Shlank Ltd.) 21,600 shares in the capital of the Company and Mrs. Oz-Gabber, who currently holds 1,000 shares in the capital of the Company. Furthermore, the following members of the Management Board hold shares in the following companies that are part of the Kardan Group:

- Mr. Ickovics holds 79,176 shares in the capital of GTC RE, 61,904 shares in Kardan Israel, and 225 shares in GTC Investments;

- Mr. Shlank holds 23,550 shares in GTC RE; and
- Mrs. Oz-Gabber holds 2,827 shares in GTC RE.

The Company granted the following number of options of shares in the Company to the following members of the Management Board under the terms and conditions as laid down in the Stock Option Plan:

- 179,232 options to Mr. Ickovics;
- 179,232 options to Mr. Shlank;
- 149,360 options to Ms. Oz-Gabber;
- 150,000 options to Mr. Van Damme; and
- 175,000 options to Mr. Slootweg.

The Company believes that its senior management team is a major asset. In order to minimise the risk of management changes, the Company considers it to be in the best interest of the Company that incentive-based policies be applied throughout the Kardan Group. A key element of these policies is the granting of share options or shares. The granting and vesting of options is not subject to fulfillment of certain performance criteria. This is a deviation from the Tabaksblat Code. The allocation of options to members of the Management Board is based on their current achievements, the need for further continuation, and the build-in incentive to focus on further value creation for the Company. Furthermore, the allocation to members of the Management Board under the Stock Option Plan is not considered best practice under the Tabaksblat Code as the options will vest in three equal annual installments, commencing on the first anniversary of the date of grant and the exercise price of options can be set lower than the closing share price at the date of grant. The Company believes that it is not necessary to completely adhere to these provisions of the Tabaksblat Code for the reasons as mentioned above and because (i) the same Stock Option Plan rules apply to the other employees and, therefore, for the sake of unity, clarity and ease of administration, no differences are applied between members of the Management Board and the other employees, (ii) annual vesting of options is appropriate and market practice in an international environment, and (iii) the discounting exercise price reflects the depreciating effect of the fact that the participant cannot sell nor exercise the options during the vesting period. Until now, none of the aforementioned options that were granted to members of the Management Board have been exercised. The members of the Management Board are subject to the insider trading policy of the Company which, among other stipulations, contains rules of conduct to prevent trading in the Company's securities when holding inside information.

### **Remuneration and Shareholdings of Members of the Supervisory Board**

In the year 2007 the following salaries were paid to members of the Supervisory Board. €30,000 to Mr. Krant, €18,000 to Mr. Fink, €18,000 to Mr. Pomrenze, €22,000 to Mr. Groen, €18,000 to Mr. Schnur, €22,000 to Mrs. Rechter and €18,000 to Mr. Benjamins. No members of the Supervisory Board are entitled to pension payments from the Company or any Kardan Group Company.

Over the year 2008, the following salaries will be paid to members of the Supervisory Board. €35,500 to Mr. Krant, €25,000 to Mr. Groen, €25,000 to Mr. Pomrenze, €21,000 to Mr. Fink, €21,000 to Mr. Schnur, €25,000 to Mrs. Rechter and €25,000 to Mr. Benjamins.

Mr. Schnur indirectly holds 17,940,251 shares in the capital of the Company. Mrs. Rechter indirectly holds 4,273,319 shares in the capital of the Company. Mr. Pomrenze, owns directly 150,052 of the Company's shares. No other members of the Supervisory Board hold shares in the Company or its subsidiaries. Currently no member of the Supervisory Board has been granted a loan, guarantee or shares in the capital of the Company by way of remuneration.

## **Other Information Relating to Members of the Management Board and the Supervisory Board**

In relation to each of the other members of the Management Board and the Supervisory Board, the Company is not aware of (i) any convictions in relation to fraudulent offences in the last five years, (ii) any bankruptcies, receiverships or liquidations of any entities in which such members held any office, directorships or senior management positions in the last five years, or (iii) any official public incrimination and/or sanctions of such person by statutory or regulatory authorities (including designated professional bodies), or disqualification by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years. The Company has carried out a reasonable investigation of the items under (i), (ii) and (iii).

## **Potential Conflicts of Interest of Members of the Management Board and Members of the Supervisory Board**

Other than indicated in this paragraph, the Company is not aware of any potential conflicts of interests between the private interests or other duties of members of the Management Board or the Supervisory Board and their duties and responsibilities towards the Company. The Company has carried out a reasonable investigation of any such potential conflicts of interests. Two Supervisory Board members are not independent in accordance with the Dutch Corporate Governance Code provisions. Mr. Schnur holds more than ten per cent. of the Company's issued share capital, while Mrs. Rechter is related by marriage to one of the Company's principal shareholders.

Certain members of the Management Board, as provided in the overview on page 150 hold shares in the capital of the Company.

Under the Stock Option Plan, all members of the Management Board have been granted options to acquire shares in the capital of the Company.

### *Supervisory Board regulations*

The Supervisory Board regulations in combination with the Company's Articles of Association aim to avoid any conflict of interest or apparent conflict of interest between the Company and members of the Supervisory Board that are Holders of Control (Holders of Control as defined in the Articles of Association). Unless article 7, 8 and 9 of the Articles of Association are applicable, the Supervisory Board shall act in accordance with article 10 of the Supervisory Board regulations in order to avoid any further conflict of interest or apparent conflict of interest between the Company and members of the Supervisory Board. A member of the Supervisory Board shall immediately report any conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, to the chairman of the Supervisory Board and shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. If the chairman of the Supervisory Board has a conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, he shall report this immediately to the vice chairman of the Supervisory Board, when elected, and in absence of a vice-chairman, to the other members of the Supervisory Board, and shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. The member of the Supervisory Board concerned shall not take part in the assessment by the Supervisory Board of whether a conflict of interest exists. A member of the Supervisory Board shall not take part in the decision on a subject or transaction in relation to which he has a conflict of interest with the Company. For a full description of the conflict of interest regulation, please refer to the Company's website (under "Corporate Governance-Supervisory Board") which contains a link to the Supervisory Board regulations.

### *Management Board regulations*

The Management Board regulations in combination with the Company's Articles of Association aim to avoid any conflict of interest or apparent conflict of interest between the Company and members of the Management Board that are Holders of Control (Holders of Control as defined in the Articles of Association). Unless article 7, 8 and 9 of the Articles of Association are applicable, the Management Board shall act in accordance with article 7 of the Management Board regulations in order to avoid any further conflict of interest or apparent conflict of interest between the Company and members of the Management Board. A member of the Management Board shall immediately report any conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, to the chairman of the Supervisory Board and to the other members of the Management Board. That member of the Management Board shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. The member of the Management Board concerned shall not take part or be present at the assessment by the Supervisory Board of whether a conflict of interest exists. A member of the Management Board shall not take part in the decision on a subject or transaction in relation to which he has a conflict of interest with the Company. For a full description of the conflict of interest regulation, please refer to the Company's website (under "Corporate Governance-Management Board") which contains a link to the Management Board regulations.

For a description of the relevant provisions of the Articles of Association on conflicts of interest please see "Description of the share capital and corporate governance – The general meeting of shareholders – *Articles of Association: Holders of Control – current provisions*".

## PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Shareholders

Below are detailed, to the Company's knowledge, the securities that each holder of a substantial interest (5 per cent. or more), each member of the Management Board and each member of the Supervisory Board holds in the Company (i) at the date of the Prospectus and (ii) after the Merger in full dilution<sup>35</sup>.

Name	At the date of the Prospectus		After the Merger, in full dilution		
	Quantity of ordinary shares of the Company	% of the capital and of the votes of the Company	Quantity of ordinary shares of the Company	% of the capital of the Company	% of the voting rights
Yosef Grunfeld <sup>36</sup> . . . . .	21,954,517	27.03	22,432,513	19.56	21.51
Avner Schnur <sup>37</sup> . . . . .	17,940,251	22.08	19,818,466	17.28	19.01
Eytan Rechter <sup>38</sup> . . . . .	4,273,319	5.26	4,273,319	3.73	4.1
Alain Ickovics <sup>39</sup> . . . . .	3,248,842	4.00	3,492,207	3.04	3.35
Alon Shlank <sup>40</sup> . . . . .	21,600	0.03	219,908	0.19	0.21
Jay Pomrenze <sup>41</sup> . . . . .	150,052	0.18	150,052	0.13	0.14
Einat Oz-Gabber <sup>42</sup> . . . . .	1,000	0.01	152,650	0.13	0.15
Jan Slootweg <sup>43</sup> . . . . .	0	0.00	175,000	0.15	0.17
Walter van Damme <sup>44</sup> . . . . .	0	0.00	150,000	0.13	0.14
Kardan Israel . . . . .	0	0.00	10,279,789	9.1	0.00
<b>Total</b> . . . . .	<b>47,589,581</b>	<b>58.58</b>	<b>61,143,903</b>	<b>53.44</b>	<b>48.78</b>

35 Full dilution means on the assumption that (i) all the options granted to the employees of the Company and to members of the Management Board will be exercised in full into ordinary shares of the Company and (ii) all Phantom Options are exercised into ordinary shares of the Company and (iii) all GTC RE Convertible Debentures have been converted into GTC RE shares prior to the Merger becomes effective. On the basis of these assumptions, the outstanding share capital of Kardan in full dilution would be 114,713,757. In case none of the GTC RE Convertible Debentures will be converted prior to the Merger becomes effective and all New Kardan Convertible Debentures will be converted into ordinary shares of the Company, the share capital of Kardan in full dilution would be slightly higher, 114,802,739. This would have a minimal impact on the percentages set forth in the table.

36 Direct holding and via Talromit Financial Holdings (1995) Ltd., a company fully owned by Mr. Grunfeld.

37 Indirect holding via Raitalon Ltd., a private company incorporated in Israel, fully owned by Mr. Schnur. Mr. Schnur is a member of the Supervisory Board.

38 Indirect holding via Shamait Ltd, a private company incorporated in Israel, fully owned by Mr. Eytan Rechter and his wife. Mr. Eytan Rechters' wife, Mrs. Karnina Rechter, is a member of the Supervisory Board.

39 Mr. Alain Ickovics is a member of the Management Board.

40 Direct holding and via Teomim-Shlank Ltd., a company controlled by Mr. Alon Shlank. Mr. Alon Shlank is a member of the Management Board.

41 Mr. Pomrenze is a member of the Supervisory Board.

42 Mrs. Einat Oz-Gabber is a member of the Management Board.

43 Mr. Jan Slootweg is a member of the Management Board.

44 Mr. Van Damme is a member of the Management Board.

### Controlling Shareholders in the Company

The Company is controlled by Messrs Grunfeld, Schnur and Rechter. Together they hold a majority of the shares in the capital of the Company and they have signed an agreement to vote in concert with respect to decisions taken in the Company's general meetings of shareholders. Upon effectuation of the Merger these shareholders together will no longer hold an absolute majority of the shares but most likely will remain able to determine the matters requiring shareholder approval with an absolute majority due to shareholders absenteeism during the general meeting of shareholders. These principal shareholders do not have different voting rights.

### Dilution

As a result of the Offering, the Company will issue up to 31,072,066 Shares, which will result in dilution for the existing controlling shareholders from 54.4 per cent. to 41.4 per cent. assuming the issuance of the maximum number of Shares in the Offering.



## Agreements Concerning the Company's Shares

To the best of the Company's knowledge, with the exception of the shareholders agreement described hereunder, as of the date of the Prospectus, there are no other agreements between the Company and its shareholders or between shareholders of the Company relating to the Company's shares.

In April 2004, a shareholders agreement was signed between Talromit Financial Holdings (1995) Ltd., Mr. Grunfeld, Raitalon Ltd., Mr. Schnur, Shamait Ltd. and Mr. Rechter concerning their holdings in the Company ("**Shareholders Agreement**"), which includes amongst other things:

- Limitations on the transfer of shares: it was agreed that as of the date of signing of the Shareholders Agreement and until December 2010, or any shorter period that may be agreed upon by a decision of holders of at least 75 per cent. of the shares which form the controlling nucleus of the Company ("**voluntary lock-up period**") the parties to the Shareholders Agreement shall not be entitled to transfer or sell shares which are part of the controlling nucleus of the Company to a third party, and that after the voluntary lock-up period, any transfer or sale of Company shares by any of the parties to the Shareholders Agreement to a third party or to another party to the Shareholders Agreement, shall be subject to a right of first offer and tag along rights that are given to the parties to the Shareholders Agreement, all as set forth in the Shareholders Agreement. The limitation on the transfer of shares following the voluntary lock-up period shall not be applicable to Company shares which are part of Stock Exchange trading in the extent of up to 50,000 shares per sale transaction and which do not exceed 1 per cent. of the Company's issued share capital during any calendar month;
- Provisions relating to the appointment of Company directors: the parties to the Shareholders Agreement undertook to exercise all their voting power by virtue of the Company's shares held by them from time to time, to appoint members to the Supervisory Board of the Company and its subsidiaries, proportionately to their holdings of Company shares which form the controlling nucleus;
- Provisions relating to the manner of voting at the general meeting of the Company's shareholders: the Shareholders Agreement stipulates that prior to the convening of each general meeting of shareholders, a preliminary meeting shall be convened at which a unanimous decision shall be taken on the manner in which the parties shall vote on the topics on the agenda and in the event that a unanimous decision is not reached, the majority of the participating shareholders of the shares forming the controlling nucleus shall decide.

Pursuant to the said Shareholders Agreement, the shareholders who signed this agreement are deemed as joint holders of all the Company's shares held by them and that are part of the controlling nucleus.

## Related Party Transactions

For a description of the related party transactions as defined in IAS 24 (International Accounting Standards) entered into by the Company in the financial years 2005, 2006 and 2007, please refer to the Company's 2005, 2006 and 2007 financial statements.

Additional information regarding those transactions and descriptions of other transactions with related parties the Company has entered into in the financial years 2005, 2006, 2007 and 2008 until the date of this Prospectus are described below. Any loans, financing, liens or guarantees provided within the Company's group in this period, but which in the meantime have been repaid, terminated, ended or lifted, are not described.

#### *Transactions related to rights to the Company's shares*

On 16 March 2005 Kardan Israel issued debentures to institutional investors against a loan of NIS 100,000,000. Under the agreement, Kardan Israel agreed to take steps for the Company to allocate phantom options to institutional investors under the debenture terms. In July 2005, phantom options exercisable into the Company's shares were allocated to the institutional investors. As of the date of this Prospectus, all such options have been exercised or have expired.

Under an unsigned agreement between the Company and Kardan Israel, shortly before listing its shares for trading under the May 2005 prospectus, Kardan Israel paid the Company \$15.6 million (by reducing part of the Company's debt to Kardan Israel), for the conversion rights, option warrants and phantom options for the Company's shares offered by the Company.

#### *Transactions related to Company's debentures*

During November 2008, and up until 19 November 2008, Tahal purchased, in several transactions via the trustee under the Company's non-convertible debentures, about 104 million par value of non-convertible debentures issued by the Company in a total consideration of about €12.2 million. The Company granted a loan for this purpose to Tahal against an interest rate of Euribor +3%, which loan is repayable on selling or otherwise transferring the debentures so purchased.

#### *Transfer of holdings from Kardan Israel or its group companies*

In April 2005, Kardan Israel transferred its 100 per cent. holding in Holdanco International Investments B.V. ("**Holdanco**") to the Company. In June 2005, Holdanco merged with the Company. On 31 March 2005, Kardan Israel transferred its holding in Water Planning For Israel Limited ("**WPI**") to a Kardan Group Company. On 15 September 2005, Kardan Services (1993) Ltd., a fully-owned group company of Kardan Israel, sold its 3.5 per cent. holding in Milgam Urban Services Ltd. to TCE for approximately \$0.3 million. All these transactions were made in consideration for a debt to Kardan Israel.

#### *Agreements between the Company and companies which are part of the Kardan Group*

In May 2005, Kardan Israel and the Company agreed on the terms of the loans Kardan Israel granted to the Company. Kardan Israel paid \$0.3 million to the Company, as a final indemnification for lawsuits which were brought against Bug Multisystems Distribution (1997) Ltd. ("**Bug Distribution**"), a company which is part of the Kardan Group, relating to the period when Bug Distribution was held by Kardan Israel. In addition, at the end of May 2005, Kardan Israel waived approximately \$1.8 million of debt owed by Bug Distribution. Kardan Telecom International B.V., a company registered in the Netherlands and fully owned by Kardan Communications, owed approximately \$3.6 million to Holdanco. In May 2005, the Company acquired all of Holdanco's rights in respect of the claim against Kardan Telecom International B.V. for \$1.

Under an agreement between the Company and Kardan Israel entered into on 8 February 2008 but effective as of 1 May 2005, Kardan Israel provided and will provide the Company with services in the manner and scope requested by the Company. Services will include, inter alia, legal counseling regarding Israeli law, financial counseling, including preparing financial statements and financial reports, day to day and accountant services regarding the bank accounts of the Company in Israel, day to day communication with the capital markets and the financial institutions in Israel, representing the Company in the Israeli press and support, consultation and assistance with all aspects relating to raising equity and debt financing for the Company and its group companies in the Israeli market. The Company paid an annual consulting fee to Kardan Israel under the agreement of \$180,000 until 1 January 2007 and as of 1 January 2007, the annual consulting fee to be paid by the Company to Kardan Israel under the agreement amounts to \$250,000. Furthermore, on 31 March 2005, the Company

paid an additional consulting fee to Kardan Israel under the agreement of \$300,000 for the services provided to the Company between July 2003 and March 2005. In addition, with respect to investment banking services and the initiating of financing or debentures in the Israeli market, Kardan Israel will be entitled under the agreement to receive from the Company a fee of 0.25 per cent. of the total net amount that will be raised.

Under an agreement between the Company and GTC RE entered into on 21 November 2007 but effective as of 1 January 2007, the Company has provided and will provide GTC RE with management services, business management, human resources and information services (such as public announcements and web management), legal and accounting services and with offices and office and maintenance services. The annual consulting fee to be paid by GTC RE to the Company under the agreement amounts to €250,000.

Under an agreement between the Company and GTC SA entered into on 1 September 2008 but effective as of 1 May 2006, the Company has provided and will provide GTC SA with services, including consulting on the business development and financial analysis of projects, consulting on the administrative organisation of GTC SA, setting guidelines and consulting on preparation of financial data of GTC SA's group and advising GTC SA on stock exchange reporting. GTC SA shall pay the Company under the agreement a monthly consulting fee of \$8,000.

#### *Guarantees provided by the Company for financial obligations of group companies*

To provide security for the Kardan Group Companies' obligations under various facilities and loan agreements, the Company acts as guarantor. The general descriptions of such current outstanding guarantees are outlined below. The Company has also provided other guarantees to Kardan Group Companies in the past, which have expired.

On 16 March 2005 the Company guaranteed the nominal amount of NIS 100,000,000 (NIS 112,900,000 including interest as of 31 August 2008) due under a debenture agreement by Kardan Israel. The guarantee will expire on 16 March 2009.

In August 2006, the Company guaranteed the nominal amount of €12,000,000 (€13,660,000 including interest as of 31 August 2008) for financing that Foodyard, a Kardan Group Company, raised in connection with the establishment of a tomato and fruit puree production plant in Bulgaria and Greece. The guarantee will expire on 31 August 2013.

In December 2007, the Company guaranteed the nominal value of NIS 16,800,000 (NIS 17,015,000 including interest as of 31 August 2008) for all amounts due by TCE to a bank under a loan granted by the bank on 11 December 2007. The guarantee was renewed on 11 March 2008 and will expire on 11 December 2008.

In September 2007, the Company extended a guarantee provided on 6 July 2005 for the nominal amount of NIS 5,100,000 linked to the CPI (NIS 5,358,000 including interest as of 31 August 2008) due by TCE in connection with the Via Maris project in Palmachim. The guarantee will expire in 2028.

In February 2008, the Company guaranteed the maximum nominal amount of RMB 91,000,000 in connection with a loan granted by a bank to Tianjin Huanke, a Kardan Group Company. The guarantee will expire in February 2009.

In February 2008, the Company provided a guarantee up to the nominal amount of €50,000,000 under a facility agreement between KFS and a bank. An additional nominal guarantee of €50,000,000 was required for another facility agreement between KFS and a bank.

In September 2008, the Company guaranteed the nominal amount of \$3,000,000 for all amounts due by TCE under a loan granted by a bank. The guarantee will expire in December 2008.

In September 2008, the Company undertook to provide a guarantee in the maximum amount of €23,000,000 for loans to be made available by one or more banks to two subsidiaries of KWIG. The guarantee has not yet been provided.

#### *Fee agreements between the Company and its subsidiaries for the provision of guarantees*

For providing guarantees to Kardan Group Companies, the Company generally charges a flat fee of 0.5 per cent. per annum of either 1) the outstanding amount under the facility or 2) the nominal amount guaranteed. All fees must be paid quarterly within 15 days of the receipt of an invoice by the subsidiaries and the fees expire along with the guarantees. The subsidiaries undertake to report to the Company the balance of the facility each month and if any changes take place in the terms of the relevant agreements. The Company charges fees in the manner outlined above in respect to the following guarantees, which are described in the previous paragraph:

- the guarantee provided for Foodyard in the amount of €12,000,000 (€13,660,000 including interest, as of 31 August 2008);
- the guarantees provided for TCE in the amounts of (i) NIS 16,800,000 (NIS 17,015,000 including interest as of 31 August 2008), (ii) \$3,000,000 (with no interest accrued as of 31 August, 2008) and (iii) NIS 5,100,000 (NIS 5,358,000 including interest as of 31 August, 2008);
- the guarantee provided for Tianjin Huanke in the amount of RMB 91,000,000; and
- the guarantee provided for Kardan Israel in the amount of NIS 100,000,000 (NIS 112,900,000 including interest as of 31 August 2008). It is noted that the fee agreement between the Company and Kardan Israel is on a mutual basis, but that as of the date of this Prospectus, Kardan Israel does not guarantee any debt of the Company.

Differing slightly from the normal fee arrangements, the KFS facility was charged at 0.45 per cent. per annum of the nominal amount of €50,000,000 and the additional guarantee of €50,000,000 was charged at 0.25 per cent. per annum.

#### *Support letter to Kardan Israel*

On 19 November 2008, and in connection with the publication of the third quarter 2008 financial statements of Kardan Israel, the Company provided Kardan Israel with a letter of support, pursuant to which it will support Kardan Israel in the repayment of its obligations if such support would be required. According to the letter the Company is not obliged towards third parties.

#### *Offering of options within the Kardan Group*

In a private offering in October 2005, GTC RE issued 280,000 options, exercisable to up to 280,000 ordinary shares of GTC RE to eight employees of the Kardan Group. Furthermore, in July 2006, 40,000 options were allocated to Mr. Bremer, chairman of the supervisory board of GTC RE, under the same terms and conditions as the grant to the employees in 2005. As of the date of this Prospectus, all these options have been exercised.

In October and November 2006, 1,099,327 options were allocated to members of the Management Board and to ten Kardan employees, including Kardan Israel employees, after approval of the relevant organs of Kardan. In 2007, 11,933 options were exercised by one of the Offerees in return for approximately €58,000, and also, 35,900 options granted to two employees expired when their employment with the Company terminated prior to the exercise date of the options held by them. In 2008, 31,866 options granted to an employee expired when her employment with the Company terminated prior to the exercise date of the options held by her. Furthermore, in 2008 Mr. Z. Rubin, a former member of the Management Board, waived 104,103 options out of the 209,103 options which were granted to him in November 2006. On 19 June, 2008 the general meeting of shareholders approved the grant to Mr. Van Damme and Mr. Slootweg of 150,000 and 175,000 options under the Stock Option Plan



respectively. At the date of this Prospectus, a total of 1,240,525 options are outstanding of which 832,824 are outstanding with the Management Board members and 407,701 with employees of the Company and its subsidiaries. As the general meeting of shareholders approved an allocation of up to 1,444,875 options under the Stock Option Plan, a further 204,350 options are available for future purposes.

#### *Kardan insurance and indemnification*

a. The members of the Management Board and office holders of Kardan are insured within the framework of an insurance policy for liability of office holders and directors. The policyholders are Kardan, Kardan Israel, Kardan RE, GTC RE and two other Kardan Group Companies (the “insured companies”). The limits of liability are €25 million per case, compounded for the period and the policy is valid worldwide. The policy is valid until 15 September 2009 and is valid retroactively, from the day the relevant company was incorporated. In consideration for the policy until 15 September 2008, Kardan paid €154,000 annually (including fees, stamp tax or other similar taxes). The division of the premium among the Kardan Group Companies was set by the insurer, based on the volume and level of risk of their operations. Kardan’s share of the insurance costs for the insurance policies of directors and office holders in 2006 and 2007 was \$20,000 and €15,400 respectively. The premium and the allocation for the policy that was recently renewed have not yet been determined but it is most likely to be in line with the previous year.

The general meeting of shareholders has renewed the above policy for a period of 12 months starting 15 September 2008, with a total aggregate coverage for the whole Kardan group between €20,000,000 and €40,000,000 for a total annual premium of between €150,000 and €300,000 (not including taxes) (for all of the insured companies).

b. Kardan undertook an obligation to members of the Management Board and the Supervisory Board to grant indemnification, in the context of its Articles of Association.

The required majority for the resolution to include the provisions of the indemnification as aforesaid in the Articles of Association was an absolute majority of the votes cast during the relevant general meeting of shareholders of Kardan. However, it was prescribed that if an indemnification is (in fact) granted to members of the Management Board or of the Supervisory Board who are Holders of Control of Kardan (as defined in the Articles of Association) or if the grant of indemnification to them constitutes a transaction in which a holder of control has a personal interest, the matter shall be submitted for approval once again under a special approval process. (See “Description of Share Capital and Corporate Governance – *Articles of Association: Holders of Control*”).

#### *Mr. Rechter*

(i) Pursuant to an agreement between Mr. Rechter and Kardan Israel, Mr. Rechter, who is a controlling shareholder of Kardan, is entitled to receive, for his position as CEO of Kardan Israel (as of the date of the Prospectus, a part time position), a salary of NIS 80,000 per month including reasonable expenses, social benefits, vehicle, mobile telephone and reimbursement of expenses connected to their use. In addition, under an agreement between Mr. Rechter and two wholly owned subsidiaries of Kardan Israel (in this section: the “subsidiaries”), Mr. Rechter is entitled to a quarterly fee for consultancy services to the subsidiaries of NIS 36,000 per month. In August 2007, the general meeting of shareholders of Kardan Israel approved the increase of the consultation fee paid to Mr. Rechter by the subsidiaries retroactively as of 1 January 2007 to a total amount of NIS 68,500 per month. In addition, the general meeting of shareholders of Kardan Israel approved a resolution to increase the consultation fees paid to Mr. Rechter by the subsidiaries as of 1 January 2008, to a total amount of NIS 98,500 per month.

In 2006 and 2007, Mr. Rechter received, directly through Shamait Ltd., a company wholly owned by Mr. Rechter and his wife, for his position as CEO of Kardan Israel and for the



abovementioned consultation services, a salary and consultation fees amounting to NIS 1.425 million and NIS 1.685 million, respectively. In the period from 1 January 2008 to 30 June 2008, Mr. Rechter received, directly and through Shamait Ltd. for his position as CEO of Kardan Israel and for additional consultation services, a salary and consultation fees amounting to NIS 1,116,263.

(ii) Kardan Communications, a wholly owned subsidiary of Kardan Israel, holds approximately 29.94 per cent. of the shares in the capital of BFTV. Kardan Communications invested in BFTV a total of \$4.9 million (not including the sum raised in April 2007 and described below). Mr. Rechter has a personal interest in BFTV as his daughter and son-in-law exploit BFTV and own BFTV shares. In addition, in April 2007 Mr. Rechter participated in a round of raising capital conducted by BFTV and invested \$833,000 against allocation of 2.52 per cent. of shares in the capital of BFTV. In April 2008 there was another round of capital raising in which Kardan Communications and Mr. Rechter (amongst others) participated. Kardan Communications invested \$1.17 million in order to retain its current shareholding in BFTV and Mr. Rechter invested \$1.582 million and increased his holding in BFTV's share capital from 2.48 per cent. to 8.42 per cent. Furthermore, if Mr. Rechter were to exercise all options which he owns in BFTV his holding in BFTV would increase to 10.3 per cent.

(iii) Mr. Rechter's wife, Mrs. Karnina Rechter, is a member of the Supervisory Board and is, as of June 2008, eligible to an annual fee of €25,000. In each of the years 2006 and 2007 Mrs. Rechter received €22,000.

#### *Mr. Grunfeld*

Under an employment agreement signed in February 2000 between Kardan Israel and Mr. Grunfeld, chairman of Kardan Israel's management board and one of the controlling shareholders of Kardan, Mr. Grunfeld is entitled to a gross monthly salary of NIS 48,300, including reasonable expenses, social benefits, a vehicle (in practice, as of the date of the Prospectus, Kardan Israel does not provide Mr. Grunfeld with a vehicle), mobile telephone and reimbursement of expenses connected to their use. In addition, under an agreement between Talromit Ltd., a company wholly owned by Mr. Grunfeld, and UMI, Talromit Ltd. is entitled to consultation fees as reimbursement of consultation services provided by Mr. Grunfeld to UMI for a fixed number of hours, amounting to NIS 253,000 per quarter and for payment of expenses related to his position and a vehicle for purposes of work and personal use. The aforementioned amount payable to Talromit Ltd. for services to UMI is offset against the amount due to Kardan Israel under an agreement between Kardan Israel and UMI. In 2006 and 2007, Mr. Grunfeld received, directly and through Talromit Ltd., a salary and consultation fees amounting to NIS 1.630 million and NIS 1.73 million, respectively. In the period from 1 January 2008 to 30 June 2008, Mr. Grunfeld was entitled to receive, directly and through Talromit Ltd., a salary and consultation fees amounting to NIS 864,963.

#### *Holdings of members of the Management Board in the Kardan Group Companies*

Under an agreement between GTC China, a subsidiary of GTC RE and Mr. Shlank, a director in GTC China and member of the Management Board and the management board of GTC RE, Mr. Shlank will receive options that are exercisable to up to 5 per cent. of GTC China's shares. The terms of the allocation were not finalised and the options have yet to be allocated.

Furthermore the following members of the Company's management board hold shares in Kardan Group Companies:

- Mr. Ickovics holds 79,176 shares in the capital of GTC RE, 61,904 shares in Kardan Israel, and 225 shares in GTC Investments;
- Mr. Shlank holds 23,550 shares in GTC RE; and
- Mrs. Oz-Gabber holds 2,827 shares in GTC RE.

## DESCRIPTION OF SHARE CAPITAL AND CORPORATE GOVERNANCE

### General

Kardan N.V., a limited liability company (*naamloze vennootschap*), was incorporated under the laws of The Netherlands on 2 May 2003. The Company is registered with the Trade Register of the Chamber of Commerce and Industries for Amsterdam under number 34189974. The Company's corporate seat is in Amsterdam, The Netherlands. The Company's business address is Claude Debussylaan 30, Viñoly Building, 13<sup>th</sup> floor, 1082 MD Amsterdam, The Netherlands (Telephone number: +31 (0)20 305 0010).

Set out below is a summary of certain relevant information concerning the Company's share capital, certain significant provisions of Netherlands corporate law and a brief summary of certain provisions of the Articles of Association. This summary does not purport to give a complete overview and should be read in conjunction with, and is qualified in its entirety by reference to, the Articles of Association and the relevant provisions of Netherlands law as in force on the date of this Prospectus. The Articles of Association are available at the Company's registered offices in Amsterdam during regular business hours. The Articles of Association are also available on the Company's website [www.kardan.nl](http://www.kardan.nl).

### Corporate Purpose

The objects of the Company, as set out in article 3 of the Articles of Association are:

- to carry on business as a holding company and to acquire and hold shares, stocks, debenture stocks, bonds, mortgages, obligations and securities of any kind, and to vary, transpose, dispose of or otherwise deal with from time to time as may be considered expedient any of the Company's investments for the time being;
- to acquire any such shares and other securities as are mentioned in the preceding paragraph by subscription, syndicate participation, tender, purchase, exchange or otherwise, and to guarantee the subscription thereof and to exercise and enforce all rights and powers conferred by or incident to the ownership thereof;
- to finance other persons including providing financing and financial investment, management and advisory services to such persons, granting or providing credit and financial accommodation, lending and making advances and lending to or depositing with any bank or financial institution funds or other assets to provide security (by way of mortgage, charge, pledge, lien or otherwise) for loans or other forms of financing granted to such person by such bank or such financial institution;
- to take up loans, lend and invest moneys and acquire, transfer and dispose of claims and assets in general;
- in accordance with the provisions of the Articles of Association and the law, to issue and allot securities of the Company for cash or in payment or part payment for any real or personal property purchased or otherwise acquired by the Company or as security for any obligation or amount or for any other purpose and to purchase its own shares;
- to provide guarantees, to bind the Company and to encumber the assets of the Company for the benefit of both companies within the group and third parties;
- to provide services to companies within the Company's group and to third parties, to coordinate the administration, policies, management, supervision, control, research, planning, trading and any and all other activities of, and to act as financial advisers and consultants to, any company or companies now or hereafter incorporated or acquired with which the Company may be or become associated;
- to exploit patents, trade mark rights, trade names, licenses, patents, industrial property rights, designs and the like;

- to buy, own, hold, lease, develop, sell and manage real estate situated in the Netherlands and elsewhere;
- to provide any kind of financial services;
- to engage in any kind of trade including importing and exporting of any kind, distribution, marketing, repair services and warranty services;
- to engage in the field of infrastructure including engineering, consultancy and planning in the Netherlands and elsewhere;
- when properly authorised to do so, to sell, lease, exchange or otherwise dispose of the undertaking of the Company or any part thereof as an entirety or substantially as an entirety for such consideration as the Company deems fit; and
- to carry out other financial or industrial activities, as well as to participate in, to manage and to finance other enterprises and companies, to provide security for the debts of third parties and to do all that is connected therewith or which may be conducive thereto, all to be interpreted in the broadest sense.

## **The Company's Shares**

Following is a description of the main provisions of the Articles of Association regarding the Company's shares. Shares in the Company's capital are listed and traded on Euronext Amsterdam and TASE.

### *Authorised capital*

The Company's authorised capital amounts to forty-five million Euro (€45,000,000), divided into two hundred twenty-five million (225,000,000) shares, with a nominal value of twenty Eurocent (€0.20) each. The shares shall be registered shares. The Company may not cooperate in the issuance of depositary receipts for its shares. If shares or the right to shares are jointly held, the joint shareholders may only be represented by a single person holding a written proxy signed by them all.

### *Register of shareholders*

The Management Board shall keep a register containing the names and addresses of all holders of shares (not being holders of book-entry interests), holders of a right of usufruct<sup>45</sup> and holders of a right of pledge on shares. The register may, in whole or in part, be kept in more than one copy and at more than one address. Part of the register may be kept outside of the Netherlands in order to comply with applicable foreign laws or applicable rules and regulations of a foreign market on which shares in the Company are traded, listed for trading or quoted. The Management Board may delegate its duty to keep the register to one or more agents. Every holder of one or more shares (not being holders of book-entry interests) and any person<sup>46</sup> having a right of usufruct or a right of pledge over one or more of such shares shall be obliged to provide the Company in writing with their address and each amendment thereof. All entries and notes in the register of shareholders shall be signed by a member of the Management Board or another person authorised to do so by the Management Board. Upon request and free of charge, the Management Board shall provide all holders of shares (not being holders of book-entry interests), and any person having a right of usufruct or a right of pledge over one or more of such shares with an extract from the register of shareholders in respect of their rights.

<sup>45</sup> A right of usufruct is a limited right that confers on its holder the right to use property that belongs to another and to benefit from the proceeds thereof.

<sup>46</sup> "Person" is defined in the Articles of Association as any individual, partnership, corporation, unincorporated organisation or association, limited liability company, trust or other natural person or legal entity, unless the contrary is apparent from the context. All references to a "Person" shall include such Person's successors and assigns, unless the contrary is apparent from the context.

### *Body competent to issue shares in the capital of the Company*

Shares shall be issued pursuant to a resolution of the Management Board. The resolution to issue shares is subject to the approval of the Supervisory Board. The authority of the Management Board to issue shares relates to all non-issued shares of the Company's authorised capital, as applicable now or at any time in the future. The duration of this authority has been established by a resolution of the general meeting of shareholders on 19 June 2008 for a period of maximum five years. The authority is given for a yearly number of ten per cent. of the Company's issued share capital.

Designation of the Management Board as the body competent to issue shares may be extended by amending the Articles of Association or by a resolution of the general meeting of shareholders for a period not exceeding five years in aggregate. The resolution of the general meeting of shareholders shall be subject to the approval of the Supervisory Board. The number of shares which may be issued shall be determined at the time of this designation. Designation by resolution of the general meeting of shareholders cannot be revoked unless determined otherwise at the time of designation.

Upon termination of the authority of the Management Board, the issue of shares shall thenceforth require a resolution of the general meeting of shareholders, save where another corporate body has been designated by the general meeting of shareholders. The resolution of the general meeting of shareholders to issue shares or to designate another corporate body shall be subject to the approval of the Supervisory Board.

The provisions described in this section "*Body Competent to Issue share in the capital of the Company*" shall be equally applicable to the granting of rights to subscribe for shares but shall not be applicable to the issue of shares to persons exercising a previously granted right to subscribe for shares.

### *Conditions of issuance; rights of pre-emption*

The price and further conditions of issuance shall be determined in the resolution to issue shares. The issue price of each share may not be lower than the nominal value of such share. Persons who are professionally engaged in the placing of shares for their own account may be permitted, by agreement, to pay less than the nominal value for the shares subscribed by them, provided that not less than ninety-four per cent. of such value is paid in cash on subscription for the shares, at the latest.

Upon the issuance of shares every holder of shares shall have a right of pre-emption.<sup>47</sup> The same applies to the granting of rights to subscribe for shares. Subject to the stipulations in the DCC, each shareholder shall have a pre-emption right on any issue of shares pro rata to the aggregate nominal value of his shares. He shall have no pre-emption right in respect of:

- (i) shares issued for a non-cash contribution;
- (ii) shares issued to employees of the Company or of a company within the group as defined hereafter.

Netherlands law provides that an announcement is issued of an intended issue of shares, indicating the period during which pre-emptive rights can be exercised.

The rights of pre-emption may be restricted or excluded by a resolution of the Management Board. The resolution shall be subject to the approval of the Supervisory Board. The authority

<sup>47</sup> A right of pre-emption is a statutory right that confers on the shareholders the right to subscribe for new shares that will be issued, of the type that they hold, in a manner proportionate to the size of their holding of shares. The priority right is conferred on shareholders only, and is given in the event of the issue of shares and in the event of the issue of rights to receive shares.

to restrict or exclude pre-emption rights, shall terminate on the date of termination of the authority of the Management Board to issue shares. The section "*Body competent to issue shares*" shall apply by analogy, for the avoidance of doubt it being understood that a resolution to restrict or exclude the rights of pre-emption shall at all times be subject to the approval of the Supervisory Board. On 19 June 2008 the general meeting of shareholders adopted the decision to authorise the Management Board, for a period of five years, to exclude pre-emption rights when issuing shares or granting rights to subscribe for shares with respect to a yearly number of not more than ten per cent. of the Company's issued share capital.

Furthermore, the conditions of issuance and rights of pre-emption shall be subject to the provisions of the DCC. In accordance with the provisions of Netherlands law, the general meeting of shareholders is permitted to decide in the matter of a restriction or exclusion of the pre-emptive rights (if such authority has not been delegated to another body of the Company), or of authorising an organ of the Company to restrict or exclude the pre-emptive rights as stated, by an ordinary majority of votes. However, if less than one half of the Company's paid-up share capital is represented at the meeting, the resolutions of the general meeting of shareholders (with regard to restricting or exclusion or authorising an organ at the Company to restrict or exclude the pre-emptive rights as stated) will require a majority of at least two thirds of the votes cast. The Articles of Association further stipulate that any decision to restrict or exclude the pre-emptive rights will be, at all times, subject to the approval of the Supervisory Board.

#### *Acquisition of own shares and depositary receipts*

Pursuant to the Articles of Association the Company shall be entitled to acquire fully paid-up shares in its own capital or depositary receipts thereof, provided either no valuable consideration is given or provided that:

- (i) the distributable part of the capital and reserves is at least equal to the purchase price;
- (ii) the nominal value of the shares or the depositary receipts thereof which the Company acquires, holds or holds in pledge or which are held by a Kardan Group Company does not exceed one tenth of the Company's issued share capital.

Pursuant to a resolution of the general meeting of shareholders of 19 June 2008, the Management Board is authorised to resolve for the Company to acquire up to 10 per cent. of its issued share capital.

The extraordinary general meeting of shareholders to be held in connection with the Merger will be asked to approve the New Articles of Association pursuant to which the Company shall be entitled to acquire paid-up shares in its own capital or depositary receipts thereof, under the conditions that:

- (i) the distributable part of the capital and reserves is at least equal to the purchase price; and
- (ii) the nominal value of the shares or the depositary receipts thereof which the Company acquires, holds or holds in pledge or which are held by a Kardan Group Company does not exceed half of the Company's issued capital.

Pursuant to the resolution of the general meeting of shareholders of 19 June 2008, the Management Board is authorised, subject to the approval of the Supervisory Board, and within the limits of the law and the Articles of Association to resolve for the Company to acquire, on the stock exchange or otherwise in return for payment, shares up to a maximum of 10 per cent. of the Company's issued share capital at a price lying between the par value of such shares and 110 per cent. of the market value, whereby market value has the following meaning: the average of the highest price per share on each of the last five trading days on



Euronext Amsterdam prior to the date of acquisition, as published in the Daily Official List of Euronext Amsterdam. In view hereof, even if the New Articles of Association have been approved, shareholders approval remains required for a repurchase above 10 per cent. of the Company's issued share capital.

The Company may acquire its own shares or depositary receipts thereof in order to transfer them, pursuant to an employee stock option or stock purchase plan, to staff employed by the Company or by a company within the Kardan Group.

The acquisition or alienation by the Company of its own shares shall take place pursuant to a resolution of the Management Board. Such a resolution shall be subject to the approval of the Supervisory Board.

In the general meeting of shareholders, no voting rights may be exercised for any share held by the Company or a subsidiary of the Company, nor for any share for which the Company or a subsidiary of the Company holds the depositary receipts.

On shares held by the Company, or for which the Company holds the depositary receipts thereof no distributions shall be made for the benefit of the Company. Shares or depositary receipts thereof on which no distribution shall be made for the benefit of the Company shall not be counted when calculating allocation and entitlements to profits.

***The prohibition on financial assistance for engaging in an underwriting agreement or the purchase of shares***

Pursuant to the Articles of Association the Company may not grant loans, provide collateral, guarantee the price, otherwise guarantee or otherwise bind itself jointly and severally with or on behalf of third parties, for the purpose of subscription to or acquisition of shares in its own capital, or of depositary receipts issued in respect thereof. The extraordinary general meeting of shareholders to be held in connection with the Merger will be asked to approve the New Articles of Association pursuant to which the Company shall be entitled to grant loans on the condition that the general meeting of shareholders approves this with a majority of 95 per cent. of the votes cast (as long as the Company is a listed company) and the following conditions have been met:

- the loan, including any interest which the Company may receive and the securities which are granted to the Company, are granted pursuant to equitable market conditions;
- the equity of the Company, less the amount of the loan, is not a smaller amount than the paid up and called up capital of the Company, including the reserves which the Company must take into account pursuant to the Articles of Association and the Dutch law;
- the creditworthiness of the party or parties to whom the loan has been granted has been carefully examined; and
- if the loan is granted for the purpose of subscribing to shares in order to enlarge the amount of capital issued by the Company, or for the purpose of subscribing to shares which the Company owns, the price of the shares to which the third party will subscribe is equitable.

The prohibition of the previous subsection shall not apply if shares or depositary receipts are acquired by or on behalf of employees of the Company or a Group Company.

***Reduction of the Company's issued capital***

The general meeting of shareholders may decide to reduce the Company's issued capital, but only at the proposal of the Management Board and with the approval of the Supervisory Board:

- by cancelling shares; or

- by reducing the nominal value of shares by amending the Articles of Association.

A resolution of the general meeting of shareholders to reduce the Company's issued capital must specify the shares to which the resolution relates and must include provisions for the implementation of the resolution. A resolution, as stated, by the general meeting of shareholders is adopted with a majority of at least two thirds of the votes cast, if less than one half of the Company's paid up share capital is represented at the meeting. If at least one half of the Company's paid up share capital is represented at the meeting, the resolution is adopted with a majority of votes.

A resolution to cancel shares may only involve shares held by the Company itself or the depositary receipts of which (if any) are held by the Company itself.

Partial repayment of shares is only possible in order to implement a resolution to reduce the nominal value of the shares. Such repayment shall take place with regard to all shares.

#### *Transfer of shares*

The transfer of Shares shall be effected by means of a deed and, except where the Company itself is a party to the transaction, acknowledgement in writing of the transfer by the Company. Acknowledgement is effected in the deed, or by a dated declaration of acknowledgement either on the deed or on a copy or extract thereof which is certified by a civil law notary or by the transferor. Official service of that deed or that copy or extract on the Company shall rank as acknowledgement. The foregoing shall apply by analogy to the creation or transfer of a right of usufruct or a right of pledge over a share.

A right of pledge over shares may also be created without acknowledgement or official service of notice to the Company. In such case, the provisions in the DCC relating to an undisclosed pledge on registered claims shall apply by analogy, on the understanding that the notification of the right of pledge referred to in those provisions of the DCC, shall then be replaced by acknowledgement by or official service on the Company.

The acknowledgement shall be signed by a member of the Management Board or another person authorised to do so by the Management Board.

The above in this section "Transfer of Shares" shall apply by analogy to the allocation of shares (excluding deposit shares) on the division of jointly held property.

The shareholder shall have voting rights in respect of a share over which a right of usufruct or a right of pledge is created. However, the voting rights with respect to the shares shall accrue to the usufructuary or the pledgee in the event that it was so stipulated at the creation of the right of usufruct or the right of pledge and the Management Board has approved of the creation of the right of usufruct or the right of pledge. The shareholder who holds no voting rights and the usufructuary or pledgee who does hold voting rights with respect to shares shall have the rights which the law attributes to holders of depositary receipts issued for shares in a company which are issued with that company's cooperation. A usufructuary or a pledgee who hold no voting rights shall not have the rights referred to in the preceding sentence.

The rights deriving from a share over which a right of usufruct is created, relating to the acquisition of shares shall accrue to the shareholder. However, the shareholder shall compensate the usufructuary for the value thereof to the extent that the latter is entitled thereto by virtue of his right of usufruct.

Transfers of Book-Entry Interests will be effected in accordance with the rules and procedures of Euroclear Nederland (*Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V.*) ("**Euroclear Nederland**") and any applicable clearing rules. For additional information, see the section "Book-Entry System".

*Profits; dividends, distribution in Shares or other securities and distributions at the charge of reserves, date, place, currency and manner of payment*

Annually, the Management Board shall, subject to the approval of the Supervisory Board, determine which part of the profit shall be allocated to the reserves. Any part of the profit remaining shall be at the disposal of the general meeting of shareholders.

Distributions may be made only up to an amount which does not exceed the amount of the distributable equity, in other words, the said part of the Company's capital that exceeds the aggregate sum of the issued and paid-up share capital and the reserves that must be maintained by the power of the law or by the power of the Articles of Association. The provisions of the Articles of Association do not require the creation of reserves that are not distributable. Additionally, there are reserves that are classified in accordance with the Netherlands accounting rules as "reserves that must be maintained according to law." A reserve for the revaluation of assets, a reserve for setup expenses, a reserve for research and development expenses, a reserve for currency and translation differentials and a reserve for the revaluation of disposable assets for sale, which, when created, cannot be used for the distribution of a dividend.

The Management Board, at the proposal of the Supervisory Board, may resolve to make interim distributions.

The provisions set out under "*Articles of Association: Holders of control – current regulations*" on page 168 are not applicable with respect to a resolution to make a(n) (interim) distribution.

The general meeting of shareholders may, at the proposal of the Management Board which has been approved by the Supervisory Board, resolve that a payment of dividend on shares be wholly or partly paid by a distribution of shares or any other securities in the Company or any other Person.

The general meeting of shareholders may, at the proposal of the Management Board which has been approved by the Supervisory Board, resolve that distributions to holders of shares be made at the charge of one or more of the Company's reserves. Such distributions may be wholly or partly paid by a distribution of shares or any other securities in the Company or any other Person. Dividends and other distributions shall be made payable on such date or dates, at such place or places, in such currency or currencies (in the case of a cash distribution) and in such manner as will be determined by the Management Board. The date, the currency or currencies and the manner of payment may differ depending on the place where the distribution is made payable. Pursuant to article 3:308 DCC a shareholder's entitlement to a dividend payment will lapse five years and a day after the shareholder's entitlement to the dividend payment was created. If an entitlement to a dividend payment lapses, the lapse will be in favour of the Company.

*The general meeting of shareholders*

*Annual general meeting*

The annual general meeting of shareholders shall convene each year within six months of the end of the financial year, unless an extension has been granted by the general meeting of shareholders for submitting the financial statements in consequence of special circumstances. The annual general meeting of shareholders' agenda shall inter alia include the following subjects: the annual report, adoption of the statutory financial statements drawn up according to Netherlands accepted accounting rules, the proposal to pay dividend on shares, if applicable, release of members of the Management Board and members of the Supervisory Board from liability for legal acts accounted for in the annual accounts or

otherwise brought to the attention of the shareholders, filling vacant positions, retaining services of an expert, the language and currency of the items that shall be included in the next financial statements and the annual report and also any other proposal that shall be submitted by the Management Board or the Supervisory Board, including a resolution to appoint a competent organ of the Company to issue shares and to issue rights to subscribe for shares and including the Management Board's authorisation to effect a purchase of the Company's own shares.

#### *Additional general meetings of the shareholders*

Additional general meetings of shareholders shall be convened insofar as the Management Board or the Supervisory Board shall believe necessary, whether or not at the request of one or more shareholders representing at least 10 per cent. of the issued capital, without prejudice to the provisions of the Netherlands law pursuant whereto one or more of the shareholders together representing at least 10 per cent. of the issued capital shall be entitled, upon their application, to receive authority from a judge to convene a general meeting. The judge shall dismiss the application if it emerges that the applicants did not previously make a written request to the Management Board and to the Supervisory Board to convene a general meeting of shareholders and/or that one of the said organs had convened the meeting within six weeks of the request. The judge shall only decide on the application after the Company's standpoint has been put to him. The judge shall determine the manner of convening the meeting and its date and he shall be entitled to appoint a chairman for the meeting.

#### *Invitations, agenda*

The general meeting of shareholders shall be convened by the Supervisory Board or the Management Board. The Management Board or the Supervisory Board must convene the general meeting of shareholders if (i) two members of the Management Board, or (ii) two members of the Supervisory Board, or (iii) shareholders, together holding, in accumulation, at least 10 per cent. of the issued share capital or of the voting rights in the general meeting of shareholders make a written request to that effect to the Management Board or to the Supervisory Board. Such application must specify the subjects that shall be on the meeting's agenda. If no member of the Management Board or the Supervisory Board convenes a meeting for six weeks from the date of receiving a request as aforesaid, then any one of those making the request may convene the meeting, as stated under "*Additional general meetings of the shareholders*" above.

A notice of convening the meeting shall be given no later than 15 days prior to the date of the meeting. The notice shall include the subjects that shall be on the agenda or alternatively it shall be stated in the notice that the particulars relating to the meeting's subjects shall be available for the shareholders' inspection at the offices of the Company in the Netherlands and at the offices of the Company or its subsidiary in Israel. Shareholders together holding, in accumulation, at least 1 per cent. of the issued share capital or of the voting rights in the general meeting of shareholders or representing shares with an aggregate market value of at least €50 million, may apply in writing to the Management Board or to the Supervisory Board in order to add subjects to the meeting's agenda. Such application must be made at least 14 days prior to giving the notice of the meeting.<sup>48</sup> If the Management Board or the Supervisory Board believes that the said subjects are appropriate to be included in the general meeting of shareholders, the said subjects shall be added to the list of subjects on the general meeting of shareholders' agenda.

The convening notice shall include the eligibility requirements for participating in the meeting (as set forth below). Further notice may be given of matters not detailed in the notice of the meeting, in the manner provided above and within the time restrictions applicable to convening meetings (that is to say, no later than 15 days prior to the date of convening the meeting). The expression "shareholders" in this section includes owners of a usufruct and pledge of shares in whose favour voting rights are attributed.

<sup>48</sup> The Company state the estimated date on which the invitation to the general meeting shall be issued.

Documents, the contents whereof are not included in the notice of the meeting, and which, pursuant to Netherlands law and pursuant to the Articles of Association, must be made available to the shareholders in connection with the meeting that shall be convened, shall be made available to the shareholders free of charge at the offices of the Company in Amsterdam and at the offices of the Company or its subsidiary in Israel.

For the purpose of this section, the holding of voting rights in the general meeting of shareholders is construed to include also the indirect holdings of voting rights of shareholders whose shares are held through a bank or another member of the exchange in Israel and registered in the register of shareholders of the Company in the name of the Depositary Trust Company.

#### *Place of the meeting*

The general meetings of shareholders shall take place in Amsterdam, Haarlemmermeer (including Schiphol and the Schiphol Airport), Rotterdam or The Hague. The shareholders shall be entitled to participate in a meeting that shall be held at one of the places enumerated above via a conference call, videoconference or other means of communications, provided that all the participants at the meeting can communicate with each other simultaneously. The Company will exert itself to enable participation by the above means, also from Israel. Shareholders who are participating in a meeting by any of the above means shall be considered to be present at such meeting. In order to avoid any doubt as to whether the shareholders participating in the meeting via one of the foregoing means, are deemed to be present at the meeting in accordance with Netherlands law, the shareholders will instruct the chairman of that meeting how to vote.

#### *Chairman*

General meetings of shareholders shall be chaired by the chairman of the Supervisory Board. In his absence, or where no such chairman has been elected, the deputy chairman of the Supervisory Board shall serve as the general meeting of shareholders' chairman; in the event that the deputy chairman of the Supervisory Board is also absent or where no deputy chairman has been appointed, members of the Supervisory Board present shall choose a chairman from amongst them. The Supervisory Board may appoint another person to act as chairman of the shareholders' general meeting. In the event that the meeting's chairman is not appointed in accordance with the foregoing, the general meeting of shareholders shall itself elect a chairman. Until a chairman has been elected, a member of the Management Board decided upon for such purpose by the Management Board shall act as the meeting's chairman.

#### *Minutes*

At every general meeting of shareholders minutes shall be kept by a secretary who shall be appointed by the chairman of the meeting. The minutes shall be adopted by the chairman and the secretary and be signed by them as witness thereof. The Supervisory Board and/or the chairman of the meeting shall be entitled to determine that notarised minutes of the discussion should be drawn up, which shall also be signed by the chairman.

#### *The rights at a meeting*

Every shareholder is entitled to vote and every holder of a right of usufruct or pledge in whose favour voting rights are attributed is entitled to participate, speak and vote at the general meeting of shareholders. The shareholders must give written<sup>49</sup> notice to the Management Board of their intention to participate at the general meeting of shareholders. Such notice

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<sup>49</sup> Writing includes any message that is relayed by current means of communication and is received in writing.



must reach the Management Board no later than the date specified in the notice convening the meeting. The date specified in the notice convening the general meeting of shareholders mentioned above shall not be earlier than seven (7) days from the date of convening the meeting. A proxy may be given to another to have the right to participate, speak and vote at a meeting as aforesaid. Such proxy shall be in writing and delivered to the Management Board not later than the date stipulated in the announcement approximately the venue of the meeting. In case the voting rights resulting from a share are held by the holder of a special benefit or holder of an attachment, and not held by the owner of the share, the owner of the share shall also be entitled to be present in the general meeting of shareholders and speak in it (but not exercise his voting rights), and he must inform in writing as above approximately his intention to participate in the general meeting of shareholders.

Any shareholder whose shares are held through a bank or another member of the exchange in Israel and registered in the register of shareholders of the Company in the name of the Depository Trust Company shall be entitled, through the presentation of a written "certificate of ownership" that shall be given by the Depository Trust Company, to participate in the general meeting of shareholders of the Company and also vote on the shares he holds through a bank or another member of the exchange.

Pursuant to a resolution of the Management Board, a "record date" can be determined for a general meeting of shareholders.<sup>50</sup> The said record date shall not be earlier than the thirtieth (30<sup>th</sup>) day prior to the date of the meeting. If a record date is determined as aforesaid, the right to participate at the meeting and the voting rights shall be attributed in favour of the holders of such rights who are registered in a register, which shall be determined for such purpose by the Management Board, on the said record date. The notice of the meeting shall specify the record date and also the manner in which the holders of voting rights and rights to participate at the meeting can be registered in order to exercise their rights.

Each share confers a right to cast one vote.

Each person entitled to vote, or the proxy on his behalf, shall sign attendance lists.

Members of the Supervisory Board and members of the Management Board shall have a right to give advice during the shareholders' general meeting.

The chairman of the meeting shall decide whether others, apart from those who are qualified, shall be entitled to participate in the meeting.

#### *Adoption of resolutions and voting*

A resolution of the general meeting of shareholders shall only be valid if passed at a general meeting of shareholders of which notice was given in accordance with the provisions of the Articles of Association and the provisions of Netherlands law. Unless otherwise provided in the Articles of Association or Netherlands law, every resolution of the general meeting of shareholders shall be passed by an absolute majority of the votes cast.<sup>51</sup> If the Articles of Association render the validity of any resolution at the general meeting of shareholders conditional upon the participation of shareholders representing a minimum capital amount and such representation is not achieved, an adjourned meeting shall be convened at which the validity of the resolutions shall not be conditional upon representation as aforesaid. Notice of

<sup>50</sup> In a case in which a record date has not been determined, the determining date with regard to the rights is the date of the meeting.

<sup>51</sup> There are provisions in the Articles of Association that require a special majority of two thirds of those voting, for example in the event of restricting or denying the pre-emptive right. A resolution adopted in breach of the law or the articles of association of a company regarding adoption of resolutions, may be declared void by a court ruling, pursuant to the request of the company itself or any person that has reasonable interest in the resolution, with the exception of an event in which a resolution was unanimously adopted in the shareholders meeting in which all the share capital of the company is represented.

an adjourned meeting as aforesaid shall include the reason therefore and shall note that resolutions may be passed at the meeting independent of the representation of any capital amount at the meeting.

If there is a tied vote in a ballot that is not a ballot to elect officers, the proposal shall fail. The voting shall be viva voce; however, the chairman may decide to hold a secret ballot in a ballot box. Abstentions and disqualified votes shall not count as votes. Voting may be viva voce if none of those present and entitled to vote objects to a ballot in this manner.

Shareholders may participate in general meetings of shareholders held in one of the places mentioned under "Place of the meeting" above, by means of a conference call, video conference or by any other means of communication, provided that all shareholders participating in such meeting are able to communicate with each other simultaneously. The Company will exert itself to enable participation by the above means, also from Israel. Participation in a meeting by any of the above means shall constitute presence at such meeting. The chairman of the meeting may appoint a person who will check the identity of the shareholders who are participating in a meeting in any of the above ways.

Pursuant to the provisions of Netherlands law, a resolution that shall be declared by the chairman of the meeting with regard to the results of the vote shall be decisive, unless in the event that the voting was not held in writing and immediately after the declaration there is a doubt as to its correctness in which event a further vote can be taken.

At general meetings of shareholders where there is representation of all the issued capital, resolutions that were passed unanimously and are valid under Netherlands law, shall be valid even though the requirements as to the convening and conduct of the meeting were not fulfilled.

#### *Appointment of members of the Management Board or Supervisory Board*

If the majority votes for the election of such members are not achieved, a second ballot shall take place. If at this ballot a majority is also not achieved, then additional ballots shall take place until one of the candidates achieves a majority or until the election is between only two candidates, both of whom received an equal number of votes. In the event of additional elections as aforesaid (not including the second ballot) every election round as aforesaid shall be held between the candidates who participated in the first round except for the candidate who received the smallest number of votes in the previous election round. If in the previous election round more than one candidate received the smallest number of votes, lots shall be drawn to decide which of the two candidates who received the smallest number of votes will not participate in the new election round. If there shall be a tied vote in elections that shall be held between two candidates, lots shall be drawn to decide who shall be elected, save in the case of a tied vote in elections between candidates according to a list of candidates issued by the Supervisory Board and then the candidate whose name appeared first in the list shall be elected. Where the voting at the general meeting of shareholders relates to the election of members of the Management Board or Supervisory Board, a person who is present and entitled to vote at the meeting, is also entitled to demand the holding of a secret ballot by means of a ballot box. The remaining rules governing the adoption of resolutions and voting at the general meeting of shareholders, shall apply, accordingly, to voting in relation to the election of such members.

*Articles of Association: Holders of control-current regulations*

Articles 7, 8 and 9 of the Articles of Association contain rules on the corporate resolution process in the case of dealings between the Company and one or more Holders of Control, as defined in the Articles of Association<sup>52</sup>.

In accordance with Article 7.1 and 7.2 of the Articles of Association, the following transactions under a-e of the Company shall require the approval of the following bodies, in the following order:

- the Management Board;
- the Supervisory Board, with due observance of the other provisions set out in the Articles of Association; and
- the general meeting of shareholders, with due observance of the other provisions set out in the Articles of Association.

In the approvals mentioned above to be granted by the Management Board, the Supervisory Board and the general meeting of shareholders, it should be specified that the Transaction which requires the afore-mentioned approvals does not harm the best interests of the Company.

- a. an Extraordinary Transaction<sup>53</sup>, including a Private Offer<sup>54</sup> if that offer can be qualified as an Extraordinary Transaction, of the Company with a Holder of Control;
- b. an Extraordinary Transaction, including a Private Offer if that offer can be qualified as an Extraordinary Transaction, of the Company with another Person<sup>55</sup>, in which Transaction a Holder of Control has a Personal Interest, according to the information of the Management Board;
- c. the entry into a contract by the Company with a Holder of Control with respect to the Terms of his Office and Employment if the Holder of Control is a member of the Management Board or of the Supervisory Board;
- d. the entry into a contract by the Company with a Holder of Control with respect to his employment by the Company if the Holder of Control is an employee of the Company but not a member of the Management Board or of the Supervisory Board; and

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52 Holder of Control is defined in the Articles of Association as a holder of Control in the Company, including a Person who holds twenty-five per cent. (25 per cent.) or more of the voting rights in the general meeting of shareholders if there is no other Person who holds more than fifty per cent. (50 per cent.) of the voting rights in the general meeting of shareholders. For the purpose of this definition, two or more Persons holding voting rights in the general meeting of shareholders, each of which has according to the information of the Management Board a Personal Interest in the approval of the Transaction being brought for approval of the Company, shall be considered to be joint holders, meaning their respective voting rights shall be attributed to each other as if they are one shareholder. For the purpose of this definition, the holding of voting rights in the general meeting of shareholders is construed to include also (i) the indirect holding of voting rights through a trustee, trust companies, a depositary trust company or in any other manner, (ii) when dealing with holding of voting rights by a company, the holding of voting rights by the subsidiaries of that company or a company affiliated to that company, and (iii) when dealing with holding of voting rights by an individual, the holding of voting rights by the members of the family of that individual, who live with that individual or who support or are supported by that individual. Personal Interest is defined in the Articles of Association as a personal interest of any Person in any act or Transaction of the Company, including a personal interest of a relative of such Person or of a legal entity in which such Person or his relative has an interest, but excluding a personal interest stemming only from the fact of a shareholding in the Company.

53 Extraordinary transaction is defined in the Articles of Association as a Transaction which is (i) not in the ordinary course of business of the Company, or (ii) not undertaken in market conditions, or (iii) likely to materially influence the profitability of the Company, its property or liabilities. "Transaction" means a contract or agreement as well as a unilateral resolution on the part of the Company with respect to the granting of a right or other benefit.

54 Private Offer is defined in the Articles of Association as an offer to issue securities of the Company that is not a public offering.

55 references to a "Person" shall include such Person's successors and assigns, unless the contrary is apparent from the context.

- e. an Extraordinary Transaction of the Company, as mentioned under a. and b. above, made by a company over which company the Company has Control<sup>56</sup>.

A resolution of the Supervisory Board to grant the approval as mentioned shall be adopted with a Special SB Majority<sup>57</sup>. Before the Supervisory Board will adopt a resolution which requires a Special SB Majority, in a formal meeting or without holding a formal meeting, the Supervisory Board will first decide which of the supervisory directors (who are present at the meeting) are Independent Supervisory Directors. Such a decision of the Supervisory Board cannot be reconsidered or revoked.

A resolution of the general meeting of shareholders to grant the approval as mentioned shall be adopted with a Special GM Majority<sup>58</sup>.

The absence of one or more of the approvals above does not prejudice the authority of the Management Board and its members to represent the Company towards third parties.

A Holder of Control who knows he has a Personal Interest in an existing or proposed transaction of the Company shall inform the Company, without delay, and not later than the meeting of the Management Board where the transaction is to be discussed for the first time, approximately the nature of his Personal Interest, including any substantial fact or document.

Nevertheless, an Extraordinary Transaction shall in accordance with article 8.1 of the Articles of Association not require the approval of the general meeting of shareholders as mentioned, if any of the following applies to it:

1. the Transaction extends an existing Transaction (“**Additional Transaction**”) provided that (i) the existing Transaction between the same parties has been lawfully approved and (ii) the Supervisory Board has approved the Additional Transaction in the way as mentioned in the Articles of Association and (iii) the Supervisory Board has adopted a resolution with a Special SB Majority, in which it determines that there has been no substantive change in the terms of the Additional Transaction and the other necessary circumstances vis-à-vis the existing Transaction; for the purpose of this subparagraph, Transactions between the Holders of Control and Kardan Limited, a company organised under the laws of Israel, which Transactions were lawfully approved by Kardan Limited prior to the eighteenth day of June two thousand three, shall be considered existing Transactions of the Company to which this subparagraph shall apply;
2. the Supervisory Board has adopted a resolution with a Special SB Majority, in which it confirms that the Transaction can only benefit the Company;
3. it is a Transaction of the Company with a Holder of Control or with another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Management Board, provided that the Supervisory Board has (i) approved the Transaction in the way as mentioned and (ii) determined that the Transaction complies with the terms set out in a Framework Agreement. Framework Agreement is defined in the Articles of Association as an agreement that permits to enter

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<sup>56</sup> All references to “Control” mean the ability to direct the activities of a company, but not an ability that arises only from fulfilling the position of a member of the board of management or of the supervisory board of that company or any other position in that company, and a Person is presumed to control a company if he whether or not pursuant to an agreement with other Persons who are entitled to vote, is able to (i) exercise more than half of the voting rights in the general meeting of shareholders of that company, or (ii) appoint or remove more than half of the number of members of the board of management or of the supervisory board of that company, in either case even if all the Persons who are entitled to vote cast their votes.

<sup>57</sup> Special SB Majority is defined in the Articles of Association as an absolute majority of the votes cast including the affirmative vote of at least one Independent Supervisory Director as defined in the Articles of Association.

<sup>58</sup> Special GM Majority is defined in the Articles of Association as an absolute majority of the votes cast where either (i) such majority includes the affirmative votes of at least one third of all the votes of those shareholders who are present at the meeting and who, according to the information of the Management Board, do not have a Personal Interest, considering that in a count of all the votes of such shareholders abstentions shall not be taken into account, or (ii) the opposition votes of those shareholders who are present at the meeting and who, according to the information of the Management Board, do not have a Personal Interest, shall not constitute more than one per cent. (1 per cent.) of the total number of votes that can be cast in a general meeting of shareholders.

into, in the ordinary course of business, Transactions of the type set out in that agreement, which sets out in advance the period of time and other conditions of such Transactions and which has been approved in the way as mentioned;

4. it is a Transaction of the Company together with a Holder of Control or together with another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Management Board, for the purpose of entering into a Transaction between them and another entity or for the purpose of submitting a joint proposal for such Transaction, provided that the Supervisory Board has (i) approved the Transaction in the way as mentioned and (ii) determined that the terms of that Transaction with respect to the Company are not materially different from the ones with respect to the Holder of Control or from the ones with respect to the other Person, considering their relative portions in the Transaction;
5. it is a Transaction between (i) the Company and another company under the Control of a Holder of Control, or (ii) the Company and a Holder of Control, or (iii) the Company and another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Management Board, provided that the Supervisory Board has adopted a resolution with a special SB Majority, in which it determines that the Transaction is on market terms and in the ordinary course of business and does not harm the best interests of the Company.

The dispositions described above do not apply if one or more shareholders holding at least one per cent. (1 per cent.) of the issued share capital or of the voting rights in the general meeting of shareholders, gave notice of his (their) objection(s) to the approval of the Transactions under 1 through 5 above, provided that the objection was presented to the Company in writing no later than seven days from the day on which the Company published (via the stock exchanges upon which shares are traded) the adoption of the resolution. If an objection is presented as said, the Transaction will require approval of the general meeting of shareholders as mentioned.

#### *Proposed changes to the holders of control provisions*

During the extraordinary general meeting of shareholders to be held in connection with the Merger, the general meeting of shareholders will be asked to approve the New Articles of Association through which the scope of Article 7.2 of the Articles of Association will be broadened. Upon approval of the New Articles of Association, a through e of Article 7.2 will read as follows:

“The approvals as mentioned in paragraph 1 of this Article 7 are required with respect to:

- a. an Extraordinary Transaction, including a Private Offer, of the Company with a Holder of Control;
- b. an Extraordinary Transaction, including a Private Offer, of the Company with another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Board of Management;
- c. the entry into a contract by the Company with a Holder of Control or a Relative of such Holder of Control with respect to the Terms of Office and Employment of the Holder of Control or the Relative of such Holder of Control if the Holder of Control or the Relative of such Holder of Control is a member of the Board of Management or of the Supervisory Board;
- d. the entry into a contract by the Company with a Holder of Control or a Relative of such Holder of Control with respect to the Terms of Office and Employment of the Holder of Control or the Relative of such Holder of Control if the Holder of Control or the Relative of the Holder of Control is an employee of the Company but not a member of the Board of Management or of the Supervisory Board; and



- e. an Extraordinary Transaction of the Company, as mentioned under a. and b. above, made by a company over which company the Company has Control.”

During the extraordinary general meeting of shareholders to be held in connection with the Merger, the general meeting of shareholders will be asked to approve the New Articles of Association, pursuant to which article 8.1 of the Articles of Association will be broadened with the following cases when an Extraordinary Transaction shall not require the approval of the general meeting of shareholders as mentioned:

1. with respect to the entry into a contract by the Company with a Holder of Control or a Relative<sup>59</sup> of such Holder of Control with respect to the Terms of his Office and Employment of the Holder of Control or the Relative of such Holder of Control if the Holder of Control or the Relative of the Holder of Control is a member of the Management Board or of the Supervisory Board and the proposed remuneration as a member of the Management Board or Supervisory Board member does not exceed the lowest remuneration paid to any other member of the relevant corporate body;
2. with respect to the entry into a contract by the Company with a Holder of Control or a Relative of such Holder of Control with respect to the Terms of Office and Employment of the Holder of Control or the Relative of such Holder of Control if the Holder of Control or the Relative of the Holder of Control is an employee of the Company but not a member of the Management Board or the Supervisory Board and the proposed salary shall not exceed the Dutch standard income (*modaal inkomen*) as used by ‘*Centraal Plan Bureau*’ if the Supervisory Board decides with a Special SB Majority that the said salary is reasonable in view of the nature of the position and qualifications of the relevant person, provided that not more than two persons at the same time can have a position within the Company on the basis of this exception;
3. with respect to the entry into a contract by the Company with a Holder of Control or a Relative of such Holder of Control with respect to the Terms of his Office and Employment of the Holder of Control or the Relative of such Holder of Control if the Holder of Control or the Relative of the Holder of Control is a member of the Management Board or of the Supervisory Board and the transaction concerns conditions of the directors’ and officers’ insurance approved by the Supervisory Board with a Special SB Majority which are identical or less onerous or expensive for the Company than the conditions applying to the other members of the Management Board or the Supervisory Board and, according to the decision of the Supervisory Board, are conform market conditions and not likely to materially affect the profitability of the Company, its assets or its obligations.

It is hereby clarified that if the general meeting of shareholders does not approve the New Articles of Association as aforesaid, this shall not prevent the Company from effecting an offering of shares in the future. If in the future, classes of other transactions are included in section 270(4) of the Israeli Companies Law, the Company shall submit a resolution to amend the Articles of Association for the approval of the general meeting of shareholders so that the Articles of Association might include all other such kinds of transactions, provided that such amendments do not contradict the provisions of Netherlands law. It is clarified that if in parallel to inclusion of additional kinds of transactions in section 270(4) of the Companies Law as aforesaid, the relief regulations also include other forms of relief in transactions with interested parties, a proposal to amend the Articles of Association such that a special majority be required to approve such transactions shall also be integrated into a proposal to include additional relief as aforesaid and these shall be submitted for approval of the general meeting of shareholders as a single resolution. Likewise, it is clarified that if the general meeting does not approve the proposals to amend the Articles of Association as aforesaid, this shall not prevent the Company from making an offering of shares in the future. In this context, it should

<sup>59</sup> Relative is defined in the Articles of Association as a spouse, brother, sister, parent, grandparent, descendant, spouse's descendant or the spouse of any of these.

be noted that the controlling shareholders of the Company as at the date of publication of the Prospectus have undertaken to support proposals as set out in the New Articles of Association, which shall be submitted to the general meeting of shareholders for approval.

#### *Notifications and means of communication*

All notices of general meetings of shareholders, all announcements concerning dividends and other payments and all other communications to shareholders (as defined in the Articles of Association) shall be effected by means of a notice in a Netherlands national daily paper, in two Israeli papers of broad distribution, in the Euronext Amsterdam Official Price List and via TASE without prejudice to the provisions of section 2:96a, subsection 4, of the DCC.

Simultaneously with the issuance of the notice, the Company shall provide Euronext Amsterdam, if so required, with the information included in the notice, announcement or other communication as well as with the documents which by law, the Articles of Association or agreement must be available to or for inspection by shareholders or other persons entitled to such information.

#### *Amendment of the Articles of Association; dissolution; statutory merger or demerger, liquidation.*

A resolution of the general meeting of shareholders to amend the Articles of Association<sup>60</sup>, to dissolve the Company or to merge or demerge the Company within the meaning of the DCC, shall only be adopted on a proposal of the Supervisory Board. Before proposing an amendment of the Articles of Association to the general meeting of shareholders, the Company shall, if so required, consult with Euronext Amsterdam and the AFM<sup>61</sup> as to the contents of such amendment.

When a proposal to amend the Articles of Association or to dissolve the Company is to be submitted to the general meeting of shareholders, such must be mentioned in the notice of the general meeting of shareholders and, if an amendment to the Articles of Association is to be discussed, a copy of the proposal, setting forth the text of the proposed amendment verbatim, shall at the same time be deposited for inspection at the Company's office and, for as long as shares are listed on TASE, at the offices of the Company or its subsidiary in Israel, and in Amsterdam at the office of a paying agent (*'betaalkantoor'*) as referred to in the Euronext General Rules, such paying agent to be designated in the notice of the meeting, and shall be held available for shareholders as well as for usufructuaries and pledgees to which the voting rights on shares accrue, free of charge until the end of the meeting.

In the event of dissolution of the Company by virtue of a resolution of the general meeting of shareholders, the Management Board shall be charged with the liquidation of the business of the Company and the Supervisory Board with the supervision thereof.

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60 A resolution, as stated, pertaining to a change in the provisions of the Company's Articles of Association with regard to the approval of extraordinary transactions on the part of the Company, as stated under "Articles of Association: Holders of Control", requires approvals as follows: (1) Approval from the Management Board; (2) approval from the Supervisory Board (by a majority of votes, where at least one Independent Supervisory Director voted in favour of the approval); and approval of the general meeting of shareholders, provided one of the following holds true: [A] A majority count of the affirmative votes at the general meeting of shareholders must include at least one third of all the votes of shareholders who do not have a Personal Interest in the approval of the transaction, who are present or represented at the meeting; when the votes of the said shareholders are counted, the votes of those who abstained will not be taken into account; [B] The total number of those opposed from among the said shareholders in subparagraph [A] did not exceed one per cent. of all the voting rights in the Company.

61 The Company is currently not required to inform the AFM of proposed changes to its Articles of Association. However, when the Transparency Directive comes into effect, as currently expected in 2009, the Company will be obligated to inform the AFM of proposed changes to its Articles of Association as referred to in this Prospectus in the section "Implementation of the Transparency Directive".

During liquidation, the provisions of the Articles of Association shall remain in force as far as possible. The liquidation surplus shall be distributed to shareholders and other parties entitled thereto in proportion to their respective rights. The liquidation shall otherwise be subject to the provisions of the DCC.

It is clarified that a decision with regard to a change in the Articles of Association will be brought before the general meeting of shareholders for approval, in accordance with a proposal of the Supervisory Board and must be approved by an ordinary majority of the votes cast, apart from a change in the provisions of the Articles of Association on the subject of the approval of a transaction between the Company and a controlling shareholder, as detailed under “Articles of Association: Holders of Control-current regulations” on page 168, in which case the said resolution must be approved by the general meeting of shareholders by a special majority, as detailed in “Articles of Association: Holders of control-current regulations” under a-e.

*Release of members of the Management Board and the Supervisory Board from liability towards the Company*

The Articles of Association state that after approval by the general meeting of shareholders of the Company of the financial statements of the Company, the general meeting of shareholders must adopt a resolution by a majority, on whether to release all or some of the members of the Management Board and the Supervisory Board, from liability towards the Company for legal acts accounted for in the Statutory Annual Financial Statements or otherwise brought to the attention of the shareholders. The extent of the release from liability is subject to the limitations of Netherlands general law, such as the duty of care and reasonableness and fairness.

**History of Share Capital**

	<u>Authorised Capital in €</u>	<u>Authorised Capital Number of shares</u>	<u>Issued and paid up capital in €</u>	<u>Issued and paid up capital Number of shares</u>
Balance on 12 January 2005	45,000,000	225,000,000	12,422,867.20	62,114,336
Issuance 24 January 2005 (employee option)	45,000,000	225,000,000	12,482,867.20	62,414,336
Issuance 27 June, 2005 (2003 options Mizrahi)	45,000,000	225,000,000	12,666,193.20	63,330,966
Issuance 18 July 2005 (2001 Series B debentures)	45,000,000	225,000,000	12,699,526.60	63,497,633
Issuance 11 October 2005 (2001 Series B debentures)	45,000,000	225,000,000	12,946,191.80	64,730,959
Issuance 8 November 2005 (2001 Series B debentures)	45,000,000	225,000,000	12,983,224.60	64,916,123
Issuance 9 November 2005 (Phantom Options 2003)	45,000,000	225,000,000	13,234,676.80	66,173,384
Issuance 14 December 2005 (Phantom Options 2003)	45,000,000	225,000,000	13,235,530.60	66,177,653
Issuance 22 December 2005 (Phantom Options 2003)	45,000,000	225,000,000	13,238,800.80	66,194,004
Issuance 22 December 2005 (2001 Series B debentures)	45,000,000	225,000,000	13,321,300.40	66,606,502

	<u>Authorised Capital in €</u>	<u>Authorised Capital Number of shares</u>	<u>Issued and paid up capital in €</u>	<u>Issued and paid up capital Number of shares</u>
Issuance 27 December 2005 (Phantom Options 2003) . . .	45,000,000	225,000,000	13,323,095.40	66,615,477
Issuance 3 January 2006 (Phantom Options 2003) . . .	45,000,000	225,000,000	13,377,616.20	66,888,081
Issuance 15 February 2006 (Phantom Options 2003) . . .	45,000,000	225,000,000	13,486,069.60	67,430,348
Issuance 24 February 2006 (Mercantile options) . . . . .	45,000,000	225,000,000	13,509,914.00	67,549,570
Issuance 4 May 2006 (Offering; prospectus was issued) . . . . .	45,000,000	225,000,000	15,589,914.00	77,949,570
Issuance 5 May 2006 (over-allotment option) . . . . .	45,000,000	225,000,000	15,800,914.00	79,004,570
Issuance 15 May 2006 (Phantom Options 2003) . . .	45,000,000	225,000,000	15,813,655.60	79,068,278
Issuance 6 June 2006 (Gmulot options) . . . . .	45,000,000	225,000,000	15,912,804.20	79,564,021
Issuance 14 August 2006 (Phantom Options 2003) . . .	45,000,000	225,000,000	15,931,652.60	79,658,263
Issuance 10 January 2007 (Phantom Options 2003) . . .	45,000,000	225,000,000	15,997,549.80	79,987,749
Issuance 31 January 2007 (Phantom Options 2003) . . .	45,000,000	225,000,000	16,012,882.20	80,064,411
Issuance 15 February 2007 (Phantom Options 2003) . . .	45,000,000	225,000,000	16,044,984.00	80,224,920
Issuance 10 April 2007 (Phantom Options 2003) . . .	45,000,000	225,000,000	16,053,113.40	80,265,567
Issuance 2 May 2007 (Phantom Options 2003) . . .	45,000,000	225,000,000	16,174,236.60	80,871,183
Issuance 20 February 2008 (Phantom Options 2003) . . .	45,000,000	225,000,000	16,180,959.40	80,904,797
Issuance 30 October 2008 (Phantom Options 2003) . . .	45,000,000	225,000,000	16,214,993.20	81,074,966
Issuance 4 November 2008 (Phantom Options 2003) . . .	45,000,000	225,000,000	16,246,909.20	81,234,546

### Share Capital 2007

Issued share capital on 1 January 2007: 79,658,263

Issued share capital on 31 December 2007: 80,871,183

### Total Shareholders' Equity as at the Date of Publication of the Prospectus

Authorised capital (€, nominal value): 45,000,000

Issued capital (€, nominal value): 16,246,909.20

Authorised capital (quantity of shares): 225,000,000

Issued capital (quantity of shares): 81,234,546

The above numbers concern paid-up share capital. There is no share capital which has not been paid up.

All Shares have a par value of €0.20 each.

## **The Company's Convertible Securities**

In November 2003, the Company allotted 8,333,000 nominally registered and non-negotiable warrants 1 (the "**Phantom Options 2003**") at the same time as the issue of debentures 2003 (Track 1 and 2) of Kardan Israel, whereby for every NIS 100,000 par value debentures 2003 (Track 1) or debentures 2003 (Track 2), 8,333 Phantom Options 2003 were issued. These Phantom Options 2003 may be exchanged for 8,333 ordinary shares in the capital of the Company at the exercise price of NIS 12 per share, linked to the CPI of October 2003 and subject to adjustments. In July 2005 the 8,333,000 Phantom Options 2003 of the Company were modified so that upon exercise, the Phantom Options 2003 shall grant their holders the number of shares that will reflect the benefit component only (with the addition of grossing up the par value of the allotted shares) against payment of the par value only. It was also determined that the Phantom Options 2003 will be exercisable until the redemption date of the debentures 2003 (Track 1 and 2), *i.e.* up until 27 November 2008. The balance of Phantom Options 2003, is 1,166,620.

## **Corporate Governance**

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

### *The best practice provisions relating to principle II.2*

Remuneration of members of the Management Board: the general meeting of shareholders of the Company directly determines the remuneration amount and composition of the remuneration of members of the Management Board. Accordingly, the Company believes that the provisions relating to principle II.2 of the Tabaksblat Code have already been properly dealt with although it does not strictly follow these provisions. Further, in view of the considerable growth of the Company, especially during the last year, the Supervisory Board has decided to install a Remuneration, Selection and Appointment Committee in accordance with the Tabaksblat Code as from 2008.

### *Best practice provisions II.2.6 and III.7.3.*

Adoption of regulations containing rules governing ownership of and transactions by Management Board members or Supervisory Board members in securities in Netherlands listed companies other than their 'own' company: with respect to the notification by members of the Supervisory Board or members of the Management Board of all changes in stockholdings in Netherlands listed companies other than the Company. The Company has investigated the consequences of the implementation of these provisions. The conclusion of this investigation was that the Company will not implement these provisions, perceiving that this is a private matter and is already adequately regulated by the current regulations on insider trading and conflict of interest. Naturally, should ownership of securities constitute a material conflict of interest, the relevant member of the Management Board or Supervisory Board will have to comply with the rules on conflicts.



#### *Best practice provision II.2.7*

Maximum remuneration in the event of dismissal of the Management Board members: none of the agreements between the Company and members of the Management Board includes provisions relating to severance payments in case of dismissal as this is not believed to be in the interest of the Company.

#### *Best practice provisions III.2.1 and III.2.2*

Independency of the Supervisory Board members: five members of the Supervisory Board can be regarded as independent under the criteria laid down in the Tabaksblat Code. These are Mr. Krant, Mr. Fink, Mr. Pomrenze, Mr. Groen, and Mr. Benjamins. The other members, being Mr. Schnur and Mrs. Rechter, are not independent under these criteria. Mr. Schnur is holding more than ten per cent. of the issued share capital of the Company and Mrs. Rechter is related by marriage to a shareholder that holds more than ten per cent. of the issued share capital of the Company. The Company will not follow provisions III.2.1 and III.2.2 because it regards a long-term alliance with these shareholders as vitally important to all the stakeholders involved in the Company. Given the extensive provisions on conflict of interest in its Articles of Association and the Supervisory Board Regulations, the Company feels that there are – without jeopardising the corporate governance system – good grounds for not following these provisions.

#### *Best practice provisions III.3.3 and III.4.1 (a) and (f)*

Introductions and education or training programme and the election of a vice chairman by the Supervisory Board: the Company does not consider it necessary to make an introduction programme mandatory for each newly appointed Supervisory Board member. If a newly appointed Supervisory Board member considers it necessary or desirable, he or she may follow an introduction programme, that covers general financial and legal matters, financial reporting by the Company, any specific aspects that are unique to the Company and its business activities and the responsibilities of a Supervisory Board member. Furthermore, the Company did not appoint a vice chairman in deviation from best practice provision III.4.1 (f) as it does not consider it necessary to have a vice chairman.

#### *Best practice provision III.4.2*

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

#### *Best practice provision III.5.6*

The Chairman of the Audit Committee shall not be a former member of the Management Board: although the Company is currently in compliance with the Tabaksblat Code, it considers it in the interest of the Company not to exclude this situation for the future and has therefore enforced this vision in the terms of reference of the Audit Committee.

#### *Best practice provision IV.1.1*

The adoption of a resolution to cancel the binding nature of a nomination for the appointment of a member of the Management Board or of the Supervisory Board and/or a resolution to dismiss a member of the Management Board or of the Supervisory Board. The Company considers it in its own interest that the Supervisory Board's right of nomination shall be binding, unless the general meeting of shareholders deprives the binding character, by a resolution passed with a majority of two-thirds of the votes cast representing more than half of the Company's issued capital.

Each important change to the Company's corporate governance structure and any alterations in the compliance to the Tabaksblat Code will be submitted to the general meeting of shareholders for discussion as a separate agenda item. During the general meeting of shareholders held on 18 May 2004, the Company's Corporate Governance and deviations from the Tabaksblat Code were discussed for the first time. At the latest general meeting of shareholders, which took place on 19 June 2008 'corporate governance' was also discussed.

## **Applicable Netherlands Law Matters Relating to Shares Traded on Euronext Amsterdam**

### *ISIN code*

The ISIN code of the Company's shares is NL0000113652

### *Liquidity provider*

Amsterdams Effectenkantoor B.V. ("**AEK**") acts as a liquidity provider for the Company's shares listed on Euronext Amsterdam.

### *Inside information*

Netherlands law contains the prohibition of any person to make use of inside information by conducting or effecting a transaction, in or from the Netherlands, in financial instruments that have been admitted to trading on Euronext Amsterdam. It is also prohibited for any person with inside information at its disposal to disclose the information to which the inside information relates to a third party or to recommend or induce another person to perform transactions in those financial instruments.

Inside information is defined as "awareness of concrete information that relates directly or indirectly to the legal entity, company or institution to which the financial instruments pertain, or to the trade in these financial instruments, which information has not been publicly disclosed and whose disclosure might have a significant influence on the price of the financial instruments or on the price of the financial instruments derived from those financial instruments".

In addition, the Company is required to apply a code of conduct in respect of the applicable insider trading rules and reporting obligations in respect of transactions in financial instruments issued by the Company by employees and members of the Management Board and members of the Supervisory Board and to draw up a list of persons working for the Company, as employees or otherwise, who could have access to inside information on a regular or incidental basis, to regularly update this list of persons and to inform persons on this list about the relevant prohibitions and sanctions in respect of insider information and market abuse. The Company has complied with these rules by drawing up an insider list and adopting the "Kardan N.V. Insider Regulations", which are available on the Company's website.

### *Obligations to disclose capital interest and voting rights*

Holders of securities may be subject to reporting obligations under Netherlands law. An ultimate beneficial owner of securities is required to notify the AFM of its capital interest or voting rights forthwith if such person holds a capital interest or voting rights amounting to at least 5 per cent. of the aggregate share capital or voting rights of the Company, provided that such person is aware that its capital interest or voting rights meet this threshold (or is deemed to be aware thereof). For details regarding reporting duties, their scope and the procedures for reporting under Netherlands law, the Company advises that you seek appropriate advice and an opinion, from local legal counsel.

Furthermore, an ultimate beneficial owner of securities is required to notify the AFM forthwith if it acquires or disposes of an interest in the Company's capital or voting rights and, as a result thereof, the percentage of capital interest or voting rights held by such person meets, exceeds, or falls below any of the following thresholds: 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 30 per cent., 40 per cent., 50 per cent., 60 per cent., 75 per cent. and 95 per cent.

A notification obligation shall also apply if a person's capital interest or voting rights meets, exceeds or falls below one of the above thresholds as a consequence of a change in the Company's share capital or voting rights. Such notification shall have to be made forthwith and in any event no later than on the fourth trading day after the AFM's publication of the Company's notification of such event.

Notification to the AFM must be made by means of a standard form, in writing or electronically. The AFM keeps a public register of all notifications made.

#### *Delisting securities listed on Euronext Amsterdam*

The Euronext Amsterdam rules contain inter alia provisions about delisting of securities listed on Euronext Amsterdam. Euronext Amsterdam may delist securities in the following circumstances:

- at the written request of the relevant issuer in the event that this is allowed by national law; or
- on initiative of Euronext Amsterdam on appropriate grounds including (without limitation):
- the issuer does not comply with the obligations and requirements of the Euronext Amsterdam rules and the listing agreement;
- dissolution of the issuer or any insolvency proceeding under national law or foreign law against the issuer;
- in the opinion of Euronext Amsterdam less than 5 per cent. of the securities remain available for trading;
- in the opinion of Euronext Amsterdam, facts or developments that occur or have occurred with regard to the securities which prevent the continued listing of that security or which cause Euronext Amsterdam to believe that a fair, orderly and efficient market cannot be maintained.

### **Book-Entry System**

#### *General*

The following descriptions of the operations and procedures of Euroclear Nederland are provided solely as a matter of convenience. These operations and procedures are solely within the control of Euroclear Nederland and are subject to change. The Company takes no responsibility for these operations and procedures and advises investors to contact their bank or broker to discuss these matters.

The Shares offered in this Offering will be held in registered form in the name of Euroclear Nederland. Ownership of interests in Shares held by the shareholders included in the book-entry custody and settlement system operated by Euroclear Nederland (the "**Book-Entry Interests**") will be limited to persons that hold interests through participants of Euroclear Nederland (the "**Admitted Institutions**"). Investors in Shares will hold interests in these securities through their accounts with Admitted Institutions.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by Euroclear Nederland and the Admitted Institutions.

Except in limited circumstances, definitive certificates representing individual ordinary shares will not be issued. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. These limitations may impair the ability to own, transfer or pledge Book-Entry Interests. The Company will not have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

Transfers of Book-Entry Interests between investors holding securities accounts with Admitted Institutions or their participants will be affected in accordance with the rules and procedures of Euroclear Nederland, Herengracht 459-469, 1017 BS Amsterdam, the Netherlands, and any applicable clearing rules and will be settled in immediately available funds.

#### *Settlement under the Book-Entry System*

The Shares offered in this Offering are expected to be admitted to listing and trading on Euronext Amsterdam. Any permitted secondary market trading activity in such securities will, therefore, be required by Euroclear Nederland to be settled in immediately available funds. The Company will not be responsible for the performance by Euroclear Nederland, the Admitted Institutions, or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

#### **Implementation of the Transparency Directive**

A bill implementing a part of EU Directive 2004/109 of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (the “**Transparency Directive**”) was adopted on 23 September 2008. The requirements pursuant to the Transparency Directive are applicable to issuers whose securities are admitted to trading on Euronext Amsterdam. It is expected that the act implementing the Transparency Directive will enter into force in 2009. In the following paragraphs the expected changes to the requirements under Dutch law are described.

Pursuant to the expected amendments to Dutch law as a result of the implementation of the Transparency Directive an issuer will be required to make its annual financial report available to the public at the latest four months after the end of each financial year (instead of the current five months) and to file the annual financial report with the AFM. In addition, the Dutch law will contain additional disclosure requirements as well as the requirement to include statements of responsible persons within the company relating to the correctness and fairness of certain elements of the report.

In addition, pursuant to the expected amendments to Dutch law, an issuer will be obliged to make public immediately any changes in the rights attached to the various classes of securities of that issuer (including changes in statutory rights). In addition, simultaneously with the publication of the documents through which changes to rights attached to securities are made public, a copy of these documents must be sent to the AFM.

Where an issuer proposes to amend its articles of association, it will have to communicate the subject of the amendment to the AFM and Euronext Amsterdam. Such communications must be effected at the latest on the date of convening the general meeting of shareholders which is to vote on the amendment.

## **DIVIDENDS AND DIVIDEND POLICY**

### **Dividend Policy**

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

### **Dividend History**

The Company did not distribute any dividend per share relating to the year 2005. The Company has distributed a dividend of approximately €0.11 per share relating to the year 2006. The Company has distributed a dividend of approximately €0.22 per share relating to the year 2007.



## TAXATION

### Netherlands Tax Considerations

The following is a summary of certain material Netherlands tax consequences that are likely to be relevant to holders of shares in GTC RE as a consequence of the exchange of GTC RE shares for Shares as a result of the proposed Merger. This summary also addresses certain material Netherlands tax consequences that are likely to be relevant to holders of Shares in respect of the ownership and disposition of the Shares received in the Merger (under “Ownership and disposition of the Shares” below).

This summary does not purport to address all material tax considerations that may be relevant to an exchange of GTC RE shares for the Company’s Shares as a result of the Merger and the right to receive dividends, liquidation proceeds and/or other distributions with respect to the Shares and capital gains derived from the Shares. This summary does not discuss every aspect of taxation that may be relevant to a particular taxpayer under special circumstances.

This summary is based on the laws, regulations as in effect on the date hereof in the Netherlands, all of which are subject to change, possibly with retroactive effect. Holders of GTC RE shares and/or the Company’s Shares should consult their own tax advisers as to the particular tax consequences, under the tax laws of the country of which they are residents for tax purposes, of a disposition of GTC RE shares pursuant to the Merger and/or of the ownership or disposition of the Company’s Shares.

This summary does not describe the tax considerations for holders of shares in GTC RE and/or the Shares if such holders, and in the case of individuals, his or her partner or certain of their relatives by blood or marriage in the direct line (including foster children), have a substantial interest or deemed substantial interest (in Dutch: *aanmerkelijk belang*) in GTC RE and/or the Company within the meaning of the 2001 Netherlands Income Tax Act (*Wet inkomstenbelasting 2001*). Generally, a holder of securities in a company is considered to hold a substantial interest in such company, if such holder alone or, in the case of individuals, together with his or her partner (statutorily defined term), directly or indirectly, holds an interest of 5 per cent. or more of the total issued and outstanding capital of that company, or 5 per cent. or more of the issued and outstanding capital of a class of shares of that company. Furthermore, this summary does not describe the tax considerations for holders of shares in GTC RE and/or the Shares who have an interest that qualifies as a participation (in Dutch: *deelneming*) within the meaning of the 1969 Netherlands Corporate Income Tax Act (*Wet op de vennootschapsbelasting 1969*). Generally, a taxpayer’s shareholding of 5 per cent. or more in a company’s nominal paid-up share capital qualifies as a participation.

This summary does not address the possible tax and social security implications of the Merger for the holders of stock options or other comparable instruments (including shares acquired under employee share ownership programmes), nor does it address under which conditions these options or other instruments are or may become exercisable prior to the Merger. These holders are therefore urged to consult their own tax advisers as to the potential tax and social security implications of an exercise of their options or other instruments and/or an exchange of the GTC RE shares resulting there from for Shares (which, in certain circumstances and/or certain jurisdictions, may result in adverse tax and social security consequences).

For the purposes of this summary, a holder of Shares is considered a Netherlands resident individual if such holder is an individual that is resident or deemed to be resident in the Netherlands for Netherlands tax purposes (including an individual who has made an election for the application of the rules of the 2001 Netherlands Income Tax Act, as they apply to

residents of the Netherlands). A holder of Shares is considered a Netherlands resident entity if such holder is an entity (including an association that is taxable as an entity) that is a resident or deemed to be resident in the Netherlands for Netherlands tax purposes.

## **The Merger**

### *Taxes on income and capital gains*

#### *Netherlands resident individuals*

If a holder of shares in GTC RE is a Netherlands resident individual, capital gains or other benefits derived or deemed to be derived in connection with the Merger are taxable at the progressive income tax rates with a maximum of 52 per cent., if:

- the GTC RE shares are attributable to an enterprise from which the Netherlands resident individual derives a share of the profit, whether as an entrepreneur (in Dutch: *ondernemer*) or as a person who has a co-entitlement to the net worth of such enterprise, without being an entrepreneur or a shareholder, within the meaning of the 2001 Netherlands Income Tax Act; or
- the holder of the GTC RE shares is considered to perform activities with respect to the shares that go beyond ordinary active asset management (in Dutch: *normaal vermogensbeheer*) or derives benefits from the shares in GTC RE that are otherwise taxable as benefits from other activities (in Dutch: *resultaat uit overige werkzaamheden*).

Provided that the conditions of article 3.57 of the 2001 Netherlands Income Tax Act are met, roll-over relief is available for capital gains derived from the exchange of the GTC RE shares for Shares.

If the two above situations do not apply, the Netherlands resident individual will be taxed annually over income that is deemed to be 4 per cent. of the aggregate amount of his or her net investment assets for that year at a flat income tax rate of 30 per cent. The shares in GTC RE are recognised as investment assets and are included as such in the net investment asset base. The aggregate amount of the net investment assets for the year is the average of (i) the fair market value of the investment assets less liabilities at the beginning of that year, and (ii) the fair market value of the investment assets less liabilities at the end of that year. A tax free allowance may be available. Capital gains or other actual benefits derived in connection with the Merger are as such not subject to Netherlands income tax.

#### *Netherlands resident entities*

If a holder of shares in GTC RE is a Netherlands resident entity, capital gains or other benefits derived or deemed to be derived in connection with the Merger will be subject to Netherlands corporate income tax at a rate of 25.5 per cent., except that a rate of 20 per cent. applies with respect to taxable profits up to €40,000, and a rate of 23 per cent. rate applies with respect to taxable profits between €40,000 and €160,000 (the first two brackets for 2008).

Provided that the conditions of article 3.57 of the 2001 Netherlands Income Tax Act are met, roll-over relief is available for capital gains derived from the exchange of the GTC RE shares for Shares.

A Netherlands qualifying pension fund (in Dutch: *pensioenfond*s) and a Netherlands qualifying tax exempt investment fund (in Dutch: *vrijgestelde beleggingsinstelling*) are in principle not subject to Netherlands corporate income tax. A qualifying Netherlands investment fund (in Dutch: *fiscale beleggingsinstelling*) is subject to corporate income tax at a special rate of zero per cent.

### *Non-resident holders*

A holder of GTC RE shares that is neither a resident nor deemed to be resident in the Netherlands for Netherlands tax purposes will not be subject to Netherlands taxes on income or capital gains in connection with the Merger, provided that:

- if such holder is an individual, he or she has not made an election for the application of the rules of the 2001 Netherlands Income Tax Act, as they apply to residents of the Netherlands;
- such holder does not have an interest in an enterprise or a deemed enterprise which, in whole or in part, is either effectively managed in the Netherlands or is carried out through a permanent establishment, a deemed permanent establishment (in Dutch: *vaste inrichting*) or a permanent representative (in Dutch: *vaste vertegenwoordiger*) in the Netherlands and to which enterprise or part of an enterprise the GTC RE shares are attributable; and
- in the event such holder is an individual, such holder does not carry out any activities in the Netherlands with respect to the GTC RE shares that go beyond ordinary active asset management (in Dutch: *normaal vermogensbeheer*) and does not derive benefits from the shares in GTC RE that are otherwise taxable as benefits from other activities in the Netherlands (in Dutch: *resultaat uit overige werkzaamheden*).

### *Other taxes and duties*

No Netherlands registration tax, customs duty, stamp duty or any other similar documentary tax or duty will be payable by a holder of shares in GTC RE in connection with the Merger.

## **Ownership and Disposition of the Shares**

### *Withholding tax*

Dividends distributed on the Company's Shares generally are subject to Netherlands dividend withholding tax at a rate of 15 per cent. The expression "dividends distributed" includes, among others:

- distributions in cash or in kind;
- liquidation proceeds, proceeds of redemption of the Company's Shares, or proceeds of the repurchase of the Company's Shares by the Company or one of its subsidiaries or other affiliated entities to the extent such proceeds exceed the average paid-in capital of those Shares as recognised for the purposes of Netherlands dividend withholding tax;
- an amount equal to the par value of the Company's Shares issued or an increase of the par value of the shares, to the extent that it does not appear that a contribution, recognised for the purposes of Netherlands dividend withholding tax, has been made or will be made; and
- partial repayment of the paid-in capital, recognised for the purposes of Netherlands dividend withholding tax, if and to the extent that the Company has net profits (in Dutch: *zuivere winst*), unless the holders of Shares in the Company have resolved in advance at a general meeting to make such repayment and the par value of the Company's Shares concerned has been reduced by an equal amount by way of an amendment of our articles of association.

If a holder of the Company's Shares is resident in a country other than the Netherlands and if a double taxation convention is in effect between the Netherlands and such other country, such holder of the Company's Shares may, depending on the terms of that double taxation convention, be eligible for a full or partial exemption from, or refund of, Netherlands dividend withholding tax.

Netherlands resident individuals and Netherlands resident entities can generally credit the Netherlands dividend withholding tax against their income tax or corporate income tax liability. The same generally applies to holders of the Company's Shares that are neither resident nor deemed to be resident of the Netherlands if the Company's Shares are attributable to a Netherlands permanent establishment of such non-resident holder.

In general, the Company will be required to remit all amounts withheld as Netherlands dividend withholding tax to the Netherlands tax authorities. However, under certain circumstances, the Company will be allowed to reduce the amount to be remitted to the Netherlands tax authorities by the lesser of:

- 3 per cent. of the portion of the distribution paid by the Company that is subject to Netherlands dividend withholding tax; and,
- 3 per cent. of the dividends and profit distributions, before deduction of foreign withholding taxes, received by the Company from qualifying foreign subsidiaries in the current calendar year (up to the date of the distribution by the Company) and the 2 preceding calendar years, as far as such dividends and profit distributions have not yet been taken into account for purposes of establishing the above mentioned deductions.

Although this reduction reduces the amount of Netherlands dividend withholding tax that the Company is required to pay to the Netherlands tax authorities, it does not reduce the amount of tax that the Company is required to withhold from dividends.

Pursuant to legislation to counteract "dividend stripping", a reduction, exemption, credit or refund of Netherlands dividend withholding tax is denied if the recipient of the dividend is not the beneficial owner. This legislation generally targets situations in which shareholders retain their economic interest in shares but reduce the withholding tax cost on dividends by a transaction with another party. For application of these rules it is not a requirement that the recipient of the dividends is aware that a dividend stripping transaction took place. The Netherlands State Secretary of Finance takes the position that the definition of beneficial ownership introduced by this legislation will also be applied in the context of a double taxation convention.

### *Taxes on income and capital gains*

#### *Netherlands resident individuals*

If a holder of Shares is a Netherlands resident individual, capital gains, dividends or other benefits derived or deemed to be derived from the Shares are taxable at the progressive income tax rates with a maximum of 52 per cent., if:

- the Company's Shares are attributable to an enterprise from which the Netherlands resident individual derives a share of the profit, whether as an entrepreneur or as a person who has a co-entitlement to the net worth of such enterprise, without being an entrepreneur or a shareholder, within the meaning of the 2001 Netherlands Income Tax Act; or
- the holder of the Company's Shares is considered to perform activities with respect to the Shares that go beyond ordinary active asset management or derives benefits from the Shares that are otherwise taxable as benefits from other activities.

If the two above situations do not apply, the Netherlands resident individual will be taxed annually over income that is deemed to be 4 per cent. of the aggregate amount of his or her net investment assets for that year at a flat income tax rate of 30 per cent. The Shares are recognised as investment assets and included as such in the net investment asset base. The aggregate amount of the net investment assets for the year is the average of (i) the fair market value of the investment assets less liabilities at the beginning of that year, and (ii) the

fair market value of the investment assets less liabilities at the end of that year. A tax free allowance may be available. Capital gains or other actual benefits derived in connection with the Shares are as such not subject to Netherlands income tax.

#### *Netherlands resident entities*

If a holder of Shares is a Netherlands resident entity, capital gains, dividends or other benefits derived or deemed to be derived from the Shares, including any capital gains realised on the disposal thereof, will generally be subject to Netherlands corporate income tax at a rate of 25.5 per cent., except that a rate of 20 per cent. applies with respect to taxable profits up to €40,000, and a rate of 23 per cent. rate applies with respect to taxable profits between €40,000 and €160,000 (the first two brackets for 2008).

A Netherlands qualifying pension fund (in Dutch: *pensioenfond*s) and a Netherlands qualifying tax exempt investment fund (in Dutch: *vrijgestelde beleggingsinstelling*) are in principle not subject to Netherlands corporate income tax. A qualifying Netherlands investment fund (in Dutch: *fiscale beleggingsinstelling*) is subject to corporate income tax at a special rate of zero per cent.

#### *Non-resident holders*

A holder of Shares that is neither a resident nor deemed to be resident in the Netherlands for Netherlands tax purposes will not be subject to Netherlands taxes on income or on capital gains in respect of any distributions on the Shares or any gain realised on the disposal or deemed disposal of the Shares, provided that:

- if such holder is an individual, he or she has not made an election for the application of the rules of the 2001 Netherlands Income Tax Act, as they apply to residents of the Netherlands;
- in the event such holder is an individual, such holder does not carry out any activities in the Netherlands with respect to the Shares that go beyond ordinary active asset management (*normaal vermogensbeheer*) and does not derive benefits from the Shares that are otherwise taxable as benefits from other activities in the Netherlands (*resultaat uit overige werkzaamheden*); and
- such holder does not have an interest in an enterprise or a deemed enterprise which, in whole or in part, is either effectively managed in the Netherlands or is carried out through a permanent establishment, a deemed permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Shares are attributable.

#### *Gift, estate and inheritance taxes*

##### *Non-residents of the Netherlands*

No Netherlands gift, estate or inheritance taxes will arise on the transfer of the Shares by way of a gift by, or on the death of, a holder of Shares who is neither resident nor deemed to be resident in the Netherlands, unless:

- such holder at the time of the gift has or at the time of his or her death had an enterprise or an interest in an enterprise that, in whole or in part, is or was either effectively managed in the Netherlands or carried out through a permanent establishment or a permanent representative in the Netherlands and to which enterprise or part of an enterprise the Shares are or were attributable; or
- in the case of a gift of the Shares by an individual who at the date of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands.



### *Residents of the Netherlands*

Gift, estate and inheritance taxes will arise in the Netherlands with respect to a transfer of the Shares by way of a gift by, or, on the death of, a holder of Shares who is resident or deemed to be resident in the Netherlands at the time of the gift or his or her death.

For purposes of Netherlands gift, estate and inheritance taxes, amongst others, a person that holds the Netherlands nationality will be deemed to be resident in the Netherlands if such person has been resident in the Netherlands at any time during the ten years preceding the date of the gift or the death of such person. Additionally, for purposes of Netherlands gift tax, amongst others, a person not holding the Netherlands nationality will be deemed to be resident in the Netherlands if such person has been resident in the Netherlands at any time during the 12 months preceding the date of the gift. Applicable tax treaties may override deemed residency.

### *Other taxes and duties*

No Netherlands registration tax, customs duty, stamp duty or any other similar documentary tax or duty will be payable by a holder of Shares in the Company in respect of the ownership or disposal of the Shares.

## SELLING AND TRANSFER RESTRICTIONS

### European Economic Area

In a Member State of the European Economic Area which has implemented the Prospectus Directive (“**Relevant Member State**”), an offer to the public of any Shares may not be made (other than the offers contemplated in this Prospectus in The Netherlands once the Prospectus has been approved by the competent authority in the Relevant Member State and published in accordance with the Prospectus Directive as implemented in The Netherlands) except for the following offers of Shares in a Relevant Member State which may be made at any time under the following exemptions under the Prospectus Directive, if these exemptions have been implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43 million and (3) an annual net turnover of more than €50 million as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable a subscriber to Shares to decide to purchase any Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. For the purpose of this chapter the expression “Prospectus Directive” includes any relevant implementing measure in each Relevant Member State.

## INDEPENDENT AUDITORS' REPORT

The audited financial statements as of and for the years ended 31 December 2005, 31 December 2006 and 31 December 2007 which are incorporated by reference in this Prospectus, have been audited by Ernst & Young LLP, independent accountants, as stated in their audit reports which are incorporated by reference in this Prospectus. The address of Ernst & Young LLP is P.O. Box 652, 7300 AR Apeldoorn, the Netherlands. The partner of Ernst & Young LLP who has signed the aforementioned auditors' reports is a member of the Royal Netherlands Institute of Chartered Accountants (*Koninklijk Nederlands Instituut voor Registeraccountants*). The unaudited financial statements for the first half year of 2008, which are incorporated by reference in this Prospectus, have been reviewed by Ernst & Young LLP as stated in the review report included in this Prospectus.

Ernst & Young LLP has given, and not withdrawn, its consent to incorporate by reference its audit and review reports in this Prospectus in the form and context in which they have been referred to.

The Auditors Statement and Auditors Report in respect of the Merger Proposal and Explanatory Memoranda as required by article 2:328 paragraphs 1 and 2 of the DCC of Mazars Paardekooper Hoffman N.V. ("**Mazars**"), independent accountants, are attached to this Prospectus as Annex 3. The address of Mazars is Queens Towers, Delflandlaan 1, P.O. Box 7266, 1007 JG Amsterdam, the Netherlands.

Mazars has given, and not withdrawn, its consent to include as an Annex to this Prospectus its Auditors Statement and Auditors Report.

## GENERAL INFORMATION

### Available Information

Subject to applicable laws, the following documents (or copies thereof), where applicable, may be obtained free of charge from the Company's website ([www.kardan.nl](http://www.kardan.nl)):

- a. this Prospectus;
- b. the Articles of Association and the New Articles of Association;
- c. the audited consolidated financial statements, including the notes thereto, for the financial years ended 31 December 2005, 2006 and 2007;
- d. the unaudited financial statements for the six month period ended 30 June 2008 and the auditor's review report in respect of these financial statements and the unaudited financial statements for the six month period ended 30 June 2007;
- e. all reports, letters, valuations and statements and other documents prepared by any expert at our request, any part of which is included or referred to in this Prospectus.

This Prospectus may also be inspected through the website of the AFM ([www.afm.nl](http://www.afm.nl)).

In addition, the following documents (or copies thereof), where applicable, will be available at the offices of the listing and paying agent, ING Van Heenvlietlaan 220, 1083 CN Amsterdam, The Netherlands, fax: + 31 20 797 9607, e-mail: [iss.pas@mail.ing.nl](mailto:iss.pas@mail.ing.nl):

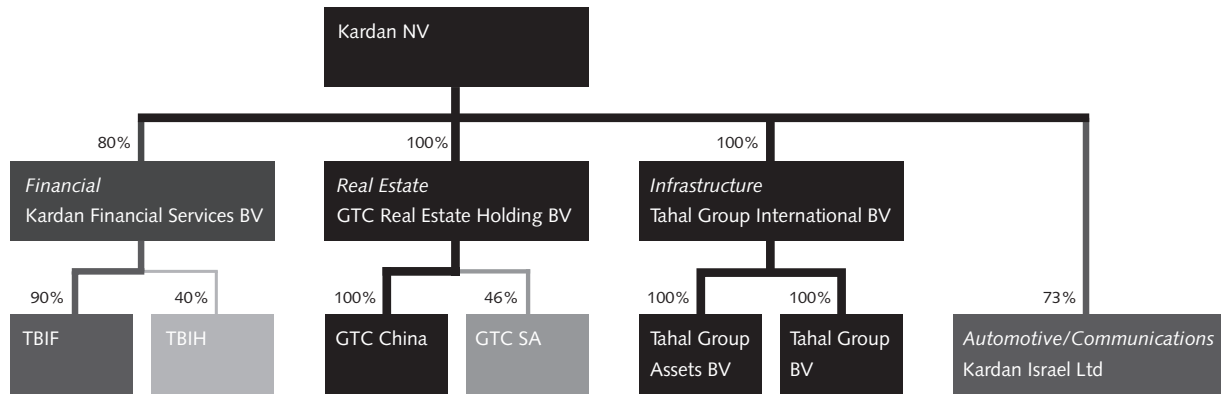
The Prospectus, the Articles of Association, the New Articles of Association and all reports, letters, valuations and statements and other documents, prepared by any expert at our request, any part of which is included or referred to in this Prospectus.

### Legal Proceedings

There are no and there have not been any governmental, legal or arbitration proceedings that may have or have had in the 12 months prior to the date of this Prospectus significant effects on the Company's financial position or profitability nor is the Company aware of any such proceedings that are pending or threatened.

## Organisational Structure

The Company is a holding company of a number of operating companies. The Company's most significant subsidiaries and significant holdings after the Merger are included in the following chart:





## DEFINITIONS

€	Euro
\$	US Dollar
Additional Transaction	A Transaction extending an existing Transaction, as defined in the Articles of Association
Admitted Institution	Each participant in Euroclear Nederland
AEK	Amsterdams Effectenkantoor B.V.
ADRI	ADRI International B.V.
AFM	Netherlands Authority for the Financial Markets ( <i>Stichting Autoriteit Financiële Markten</i> )
Akfen	Akfen Holding AS
Allianz	T.U. Allianz Polska Sp. zo.o
Articles of Association	The Company's amended and restated Articles of Association currently in effect and dated 20 June 2007
Ariel	Ariel Holding Investment Limited
Arka	Arka Finance
Arrangements	The arrangements concerning the consequences of the Merger with the holders of GTC RE Convertible Debentures and GTC RE Non-Convertible Debentures
Auditors Report	The auditor's report ( <i>accountantsverslag</i> ) from Mazars in accordance with Article 2:328 subsection 2 of the DCC
Auditors Statement	The auditor's statement ( <i>accountsverklaring</i> ) from Mazars in accordance with Article 2:328 subsection 1 of the DCC
AYRAD	AYRAD Investments Limited
Beneficial Shareholders	The shareholders of Kardan and GTC RE whose shares are registered indirectly through the Israeli book entry system
BFTV	Baby First TV LLC
Blitz	Blitz Portfolio GmbH
Binomial Model	Method to determine the Conversion Rate, based on the terms and conditions of the GTC RE Convertible Debentures and on other parameters identified as being relevant to the computation of the fair value of the conversion rate as further described in the Explanatory Memoranda

Book-Entry Interest	Ownership interests in the Shares that have been included in the book-entry custody and settlement system operated by Euroclear Nederland
BOT	Build, Operate and Transfer
BOQ	Bill of Quantity
Bug Distribution	Bug Multisystems Distribution (1997) Limited
Bulstrad	Bulstrad Insurance and Reinsurance PLC
CEE	Central Eastern Europe
CIS	Commonwealth of Independent States
CHF	Swiss Franks
CMV	Complexul Multifunctional Victoria S.R.L.
Company	Kardan N.V. and where relevant including the Kardan Group Companies
Conversion Rate	The rate against which holders of New Convertible Kardan Debentures can convert such security into one share in the Company's share capital
CPI	Consumer Price Index
Credit Regional	Credit Regional Bank
DCC	Dutch Civil Code ( <i>Burgerlijk Wetboek</i> )
Discount Bank	Israel Discount Bank Limited
Dankner	Dankner Investments Limited
Doverie	Pension Assurance Company Doverie A.D.
Delek	Delek Real Estate Limited
DSK	D.S. Kulkarni Developers Limited
Durango Switzerland	Durango Switzerland B.V.
Effective Date	The date on which, after close of business, the Merger Deed will be executed, which is expected to be on or about 15 December 2008
El-Har	El-Har Engineering and Construction Limited
Ekowark	Eko-Wark Sp. ZOO
EPAL	Empresa Publica de Agua
E-Trade	E-Trade Israel e-Commerce (1997) Limited
E-Trade Global	E-Trade Group Inc.

Euribor .....	Euro Interbank Offered Rate
Euroclear Nederland .....	Euroclear Nederland ( <i>Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V.</i> )
Euronext Amsterdam .....	Euronext Amsterdam by NYSE Euronext
Europort .....	Europort Limited
Europort Cyprus .....	Europort Investment (Cyprus) 1 Limited
Exchange Ratio .....	Shares which will be received for every one GTC RE share as held by a holder of GTC RE shares at the Effective Date
Explanatory Memoranda .....	The Explanatory Memorandum relating to GTC RE the Explanatory Memorandum relating to the Company and the Explanatory Memorandum relating to GTC Holding
Explanatory Memorandum relating to the Company .....	The memorandum of the Management Board explaining the Merger and the reasons for the Merger dated 16 October 2008
Explanatory Memorandum relating to GTC Holding .....	The memorandum of the management board of GTC Holding explaining the Merger and the reasons for the Merger dated 16 October 2008
Explanatory Memorandum relating to GTC RE .....	The memorandum of the management board of GTC RE explaining the Merger and the reasons for the Merger dated 16 October 2008
Exercise Price .....	Relates to the exercise price of options granted under the Stock Option Plan and being a price between 90 per cent. and 100 per cent. of the closing price of the Company's shares on Euronext Amsterdam or TASE
FIC .....	FIC Globe B.V.
Fund .....	a private investment fund with which TBIH signed an agreement in December 2004
Galeria Mokotów .....	Galeria Mokotów shopping centre
Geely .....	Geely Group Co. Limited
Genesis .....	Genesis Investments B.V.
GM Group .....	General Motors and its related companies
GNP .....	Gross National Product
GTC China .....	GTC Real Estate China Limited
GTC Croatia .....	GTC Real Estate Investments Croatia B.V.
GTC Group .....	GTC RE and all GTC Group Companies
GTC Group Companies .....	All companies in which GTC RE has a direct or indirect interest

GTC International	GTC International B.V.
GTC Investments	GTC Investments B.V.
GTC Holding	GTC Real Estate Holding B.V.
GTC Hungary	GTC Hungary Real Estate Development Company Limited
GTC Romania	GTC Real Estate Investments Romania B.V.
GTC Serbia	GTC Real Estate Investments Serbia B.V.
GTC RE	GTC Real Estate N.V.
GTC RE Convertible Debentures	Convertible debentures issued by GTC RE
GTC RE Non-Convertible Debentures	Non-Convertible debentures issued by GTC RE
GTC Russia	GTC Real Estate Investment Russia B.V.
GTC SA	Globe Trade Centre S.A. where relevant including its subsidiaries
GTC Ukraine	GTC Real Estate Investments Ukraine B.V.
Holdanco	Holdanco International Investments B.V.
Hydro Caisan	Hydro Caisan SA
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
INR	Indian Rupee
IPO	Initial public offering
Kardan	Kardan N.V.
Kardan Communications	Kardan Communications Limited
Kardan Group	The Company and Kardan Group Companies
Kardan Group Companies	All companies in which Kardan holds a direct or indirect interest
Kardan Israel	Kardan Israel Limited
KI Group	Kardan Israel and the KI Group Companies
KI Group Companies	All companies in which Kardan Israel holds a direct or indirect interest
Kardan RE	Kardan Real Estate Enterprise and Development Limited

Kardan Technologies	Kardan Technologies Limited
KFS	Kardan Financial Services B.V.
KFS Group	KFS and all KFS Group Companies
KFS Group Companies	All companies in which KFS holds a direct or indirect interest
Khotimsky Group	Companies represented by Mr. Sergy Khotimsky
KWIG	Kardan Water International Group Limited
Lendeko	Lendeko Israel Initiating and Managing Limited
LIBOR	London Interbank Offered Rate
Lucky Hope	Lucky Hope Holding Limited
Management Board	The management board of Kardan
Mazars	Mazars Paardekooper Hoffman N.V.
Management Company	A company of which the CEO of TBIF is the beneficiary
Merger	The triangular merger, in which GTC RE will merge into GTC Holding, a 100 per cent. subsidiary of the Company, and Shareholders of GTC RE will become shareholders of Kardan
Merger Deed	The notarial deed through which the Merger will be executed on or about 15 December 2008
Merger Proposal	The proposal through which the Merger is proposed dated 16 October 2008
MidOcean	MidOcean Partners
Milomor	Milomor Limited
Milgam	Milgam City Services Limited
Minority Shareholders	MidOcean and Englefield Capital LLP
NASDAQ	National Association of Securities Dealers Automated Quotations
New Articles of Association	The proposed amendment to the Articles of Association as will be proposed to the general meeting of shareholders of the Company on or about 11 December 2008
New Kardan Convertible Debentures	Convertible debentures issued by Kardan pursuant to the Merger
New Kardan Non-Convertible Debentures	Non-convertible debentures issued by Kardan pursuant to the Merger



NIS .....	New Israeli Shekel
Nominee Company .....	The Nominee Company of United Mizrachi Bank Limited
Ocif .....	Ocif Investments & Development Limited
Offerees .....	Members of the Management Board and several employees of the Company and its subsidiaries
Offering .....	This offering of Shares to Shareholders of GTC RE
Omniasig .....	Omniasig Vienna Insurance Group S.A.
Omniasig Life .....	Omniasig Life SA
OPC .....	Officiële Prijscourant
Partnership .....	Formula Vision Portfolio Holdings – Limited Partnership
PBC .....	Property and Building International Investments (2005) Limited
Phantom Options 2003 .....	8,333,000 nominally registered and non-negotiable warrants 1 allotted by the Company in November 2003
PLN .....	Polish Zloty
Prospectus .....	This document produced in connection with the Offering of Shares as described herein, including any supplement(s) thereto and any documents included in this document by reference
Prospectus Directive .....	Directive 2003/71/EC
Purchase Offer .....	An exchange purchase offer in May 2005 to the shareholders of Kardan RE
PWC .....	Kesselman Finance PricewaterhouseCoopers Limited
Ray Sigorta .....	Ray Sigorta A.S
Recido .....	Recido PB Limited Co.
Record Date .....	The date relevant for determining the ownership of shares in connection with the extraordinary meetings of shareholders of the Company and GTC RE, being 27 November 2008
RIC .....	OJSC “Russian Insurance Company”
RMB .....	The Chinese Renimbi
Relevant Member State .....	Member State of the European Economic Area which has implemented the Prospectus Directive

RRSat .....	RR Satellite Global Communications Network Limited
SFDI .....	S.F.D.I. Limited
Shareholders Agreement .....	an agreement between Talromit Financial Holdings (1995) Limited, Mr. Grunfeld, Raitalon Limited, Mr. Schnur, Shamait Limited and Mr. Rechter signed in April 2004, concerning their holdings in the Company
Shares .....	Ordinary shares in the capital of the Company with a par value of €0.20 each which are being offered in this Offering.
Shareholders of GTC RE .....	The current shareholders of GTC RE other than the Company and GTC RE
Sigma .....	Sigma Albania SH
SME .....	Small and medium sized enterprises
Sovco .....	Sovcom Capital Partners B.V.
Sovcom Bank .....	Limited Liability Company Investment commercial bank SOVCOMBANK
SPA .....	Share Purchase Agreement
SPO .....	Second Public Offering
Stock Option Plan .....	The Company's stock option plan
Subsidiaries' Agreement .....	An agreement, pursuant to which GTC SA and the other shareholders of the subsidiaries have purchased ADRI's holdings in GTC Serbia, GTC Romania, GTC Croatia and GTC Hungary by 15 December 2005
Supervisory Board .....	The supervisory board of Kardan
Swisscom .....	Swisscom Immobilien AG
Tabaksblat Code .....	Dutch Corporate Governance Code
Tahal .....	Tahal Group International B.V.
Tahal Assets .....	Tahal Group Assets B.V.
Tahal BV .....	Tahal Group BV
Tahal Group .....	Tahal and all Tahal Group Companies
Tahal Group Companies .....	All companies in which Tahal has a direct or indirect interest
Tahal Water .....	Tahal Water Energy Limited

Taldan Motors	Taldan Motors Limited
Tarata	Tarata Investments N.V.
TASE	The Tel Aviv Stock Exchange Limited
Task	Task Su Kanalizatyon Yatiri, Yapim Ve Isletin A.S.
Task Water	Task Water B.V.
Tatry	VSP Tatry Sympatia
TBIB	TBI Bulgaria AD
TBIF	TBIF Financial Services B.V.
TBIH	TBIH Financial Services Group N.V.
TBIH Group Companies	All companies in which TBIH holds a direct or indirect interest
TCE	Tahal Consulting Engineers Limited
Teledata	TDN Networks Limited
Tianjin Hanke	Tianjin Hanke Water Development Limited
Transparency Directive	EU Directive 2004/109 of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market
UIG	Ukrainian Insurance Group
UMI	Universal Motors Israel Limited
VAB Bank	Vseukrainsky Aksionerny Bank
Via Maris	Via Maris Desalination Limited
Veskotir	Veskotir Enterprise Limited
VIG	Wiener Städtische Versicherung AG Vienna Insurance Group
VIP	VIP Enterprise Rent Foreign
voluntary lock-up period	Period between the date of signing of the Shareholders Agreement and December 2010, or any shorter period that may be agreed upon by a decision of holders of at least 75 per cent. of the shares which form the controlling nucleus of the Company, during which the parties to the Shareholders Agreement shall not be entitled to transfer or sell shares which are part of the controlling nucleus of the Company to a third party

VWAP-method .....	The Volume Weighted Average Price of the shares in the capital of the Company and in the capital of GTC RE, being the ratio of the value traded in every transaction to total volume traded over a particular time interval
WPI .....	Water Planning For Israel Limited
WTO .....	World Trade Organisation
Zhong Xin .....	Hong Kong Zhong Xin Group Limited

## INDEX TO FINANCIAL STATEMENTS

The Company's audited financial statements for the twelve month periods ended 31 December 2005, 2006 and 2007, as included in the Company's annual reports of 2005, 2006 and 2007 and the 2005, 2006 and 2007 auditor's reports are incorporated by reference into this Prospectus. The Company's unaudited results for the first half year of 2008, and the review statement of Ernst & Young LLP pertaining thereto, all as published on its website ([www.kardan.nl](http://www.kardan.nl)) are incorporated by reference into this Prospectus.

Copies of all documents mentioned above can be obtained on the Company's website: [www.kardan.nl](http://www.kardan.nl).



**ANNEX 1**

**Merger Proposal including the New Articles of Association**

## PROPOSAL OF LEGAL MERGER

Informal translation

The management boards of:

- I. the private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*): **GTC Real Estate Holding B.V.**, with corporate seat in Amsterdam, having its place of business at (1082 MD) Amsterdam, Claude Debussylaan 30, Viñoly building 13th floor, The Netherlands ("**Acquiring Company**");
- II. the limited liability company (*naamloze vennootschap*): **GTC Real Estate N.V.**, with corporate seat in Amsterdam, having its place of business at (1082 MD) Amsterdam, Claude Debussylaan 30, Viñoly building 13th floor, The Netherlands ("**Disappearing Company**"); and
- III. the limited liability company (*naamloze vennootschap*): **Kardan N.V.** with corporate seat in Amsterdam, having its place of business at (1082 MD) Amsterdam, Claude Debussylaan 30, Viñoly building 13th floor, The Netherlands ("**Issuing Group Entity**"),

### taking into consideration that:

- no depositary receipts for shares in the capital of the Disappearing Company have been issued with the cooperation of the Disappearing Company and that the shareholders' register of the Disappearing Company does not show, nor has the management board of the Disappearing Company otherwise knowledge of, a right of usufruct or pledge vested on shares in the capital of the Disappearing Company as a result of which a usufructuary or pledgee has the rights which, pursuant to provisions in the law, are due to holders of depositary receipts of shares issued with the cooperation of a company; and
- the supervisory board of the Disappearing Company and the Issuing Group Entity have approved this proposal of legal merger and the Acquiring Company has no supervisory board,

**propose to effect a legal merger** in accordance with Book 2 Title 7 of the Dutch Civil Code, whereby the Disappearing Company will cease to exist and the Acquiring Company will acquire the assets and liabilities of the Disappearing Company by operation of law, except for those liabilities as described in this proposal, whereby the shareholders of the Disappearing Company, in compliance with the law, are being granted shares in the capital of the Issuing Group Entity.

### a. **Legal entity, name and seat of the merging companies.**

1. the private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*): GTC Real Estate Holding B.V., with

corporate seat in Amsterdam.

2. the limited liability company (*naamloze vennootschap*): GTC Real Estate N.V., with corporate seat in Amsterdam.
3. the limited liability company (*naamloze vennootschap*): Kardan N.V. with corporate seat in Amsterdam.

**b. Articles of association of the Issuing Group Entity.**

The articles of association of the Issuing Group Entity were last amended by notarial deed executed on 20 June 2007 before M. Bijkerk, a civil-law notary in Amsterdam. The consecutive text of the articles as they read now and will read immediately after the legal merger is attached to this proposal as Annex A.

Prior to the legal merger becoming effective, the Management Board and the Supervisory Board of the Issuing Group Entity will propose to the general meeting of shareholders of the Issuing Group Entity to amend the articles of association of the Issuing Group Entity, materially in accordance with the document which is attached to this proposal as Annex B.

**c. Rights and allowances due to article 2:320 of the Dutch Civil Code, at the expense of the Issuing Group Entity.**

No rights and allowances due to article 2:320 of the Dutch Civil Code will be granted at the expense of the Issuing Group Entity, other than the holders of convertible debentures, issued by the Disappearing Company and traded at the Tel Aviv Stock Exchange in Israel ("**TASE**") as GTC.C1, ISIN NL0000414514 and governed by the laws of Israel ("**Convertible GTC Debentures**"), which entitle the holders thereof to convert an amount of New Israeli Shekel ("**NIS**") 16.1 nominal value of Convertible GTC Debentures for 1 share in the Disappearing Company,

who are according to Dutch law entitled to receive an equivalent right in the Issuing Group Entity and who shall be offered:

to exchange their Convertible GTC Debentures for convertible debentures to be issued by the Issuing Group Entity (the "**Convertible Kardan Debentures**"), the terms and conditions of which will be identical to the terms and conditions applicable to the Convertible GTC Debentures, with this exception that the Convertible Kardan Debentures will entitle the holders thereof to convert an amount of NIS 17.88 nominal value of Convertible Kardan Debentures for 1 share in the Issuing Group Entity. This conversion rate is based on the binomial model, a widely-used option-pricing model. This model was based on the terms and conditions of the Convertible GTC Debentures and on other parameters identified as being relevant to the computation of the fair value of the conversion option.

According to the laws of Israel if:

- a meeting of holders of a certain class and type of debentures is convened for the purpose of resolving to exchange that particular class and type of debentures for debentures of a different class and type; and
  - in that meeting of holders of that certain class and type of debentures at least 50% of the nominal value of the relevant class and type of debentures is represented and (i) a majority of the holders present at the meeting vote in favor of the proposed exchange and (ii) a majority of at least 75% of the value of the relevant debentures represented in the meeting votes in favor of the proposed exchange, taking into account that in case the quorum of 50% is not met, a second meeting may be held where the resolution can be adopted if at least 10% of the nominal value of the relevant debentures is represented and (i) a majority of the holders present at the meeting vote in favor of the proposed exchange and (ii) a majority of at least 75% of the value of the relevant debentures represented in the meeting votes in favor of the proposed exchange,
- each of the relevant debentures of the certain class and type is exchanged for debentures of the different class and type in accordance with the proposal.

With respect to the Convertible GTC Debentures one or more meetings of holders thereof shall be convened for the purpose of resolving on the proposal to, under the condition precedent (*opschortende voorwaarde*) of the legal merger as proposed in this merger proposal becoming effective (the "**Condition Precedent**"), exchange their Convertible GTC Debentures for Convertible Kardan Debentures, the terms and conditions of which will be identical to the terms and conditions applicable to the Convertible GTC Debentures, with this exception that the Convertible Kardan Debentures will entitle the holders thereof to convert an amount of NIS 17.88 nominal value of Convertible Kardan Debentures for 1 share in the Issuing Group Entity, as set out in the first paragraph of this item c.

**d. Offer to the holders of non-convertible debentures issued by the Disappearing Company.**

The Issuing Group Entity hereby offers, under the Condition Precedent, the holders of non-convertible debentures issued by the Disappearing Company and traded at TASE as GTC.B2, ISIN IL0011052383 and governed by the laws of Israel (the "**Non-convertible GTC Debentures**"), to exchange their Non-convertible GTC Debentures for non-convertible debentures to be issued by the Issuing Group Entity (the "**Non-convertible Kardan Debentures**"), the

terms and conditions of which will be identical to the terms and conditions applicable to the Non-convertible GTC Debentures, with this exception that unlike the Non-convertible GTC Debentures a security shall be granted in relation to the Non-convertible Kardan Debentures, in accordance with the security granted in relation to the existing non-convertible debentures issued by the Issuing Group Entity and traded at TASE as KRDV.B1, ISIN IL0011055352 (the "**Existing Non-convertible Kardan Debentures**"), with the amendments thereto as described below, whereby as a security the Issuing Group Entity has undertaken the following (the "**Security**"):

- *As long as the debentures are valid, the Company [which is the Issuing Group Entity] will hold Listed Securities (as defined below), free from all encumbrances and attachments (the "**Free Securities**"), whose market value (as described below) will be equal to 200% of the Company's Financial Debt (as defined below), that is not secured with a permanent encumbrance (the "**Unsecured Debts**").*
- *Should the market value of the Free Securities become lower than 180% of the Company's Unsecured Debts, and this for a period of 5 (five) consecutive trading days, the Company undertakes to establish a permanent primary encumbrance in favor of the debenture holders on listed shares of GTC Real Estate N.V. [which is the Disappearing Company] (the "**Pledge Shares**") whose market value on the date of establishing the pledge will be equal to 125% of the debenture principal (Series A) as it shall be at that time. The Pledge Shares will be deposited in a bank account on the name of the trustee.*
- *If the Company will pledge the Pledge Shares – at the end of each calendar quarter – the trustee will check the market value of the Pledge Shares and accordingly the Company will add more shares or will release shares in order to reach the 125%.*
- *The Company's undertaking, as stated above, will be cancelled in the event that Ma'alot (or another securities rating company that will be rating debentures at that time), shall decide that the Company no longer needs to include this undertaking and commitment within the debenture framework, in order to preserve the debentures' rating, as it will be at the time the rating organization makes the aforementioned decision.*
- *"**Listed Securities**" means – any type of securities whatsoever that are traded on a stock exchange. "**Market Value**" means – the average value of the securities, on the stock exchange on which they are traded, for the 90 (ninety) trading days preceding the date on which their market value was determined. "**The Company's Financial Debt**" means: credit from banks and institutional investors and debentures.*

The following changes shall be proposed to be made to the provisions set out



in italics above to the holders of the Existing Non-convertible Kardan Debentures (the "**Amended Security**"):

- the definition of the term: the "Pledge Shares" will be changed as follows:
  - GTC Real Estate N.V. shares and after the contemplated merger as set out in this merger proposal Globe Trade Centre S.A. shares, and/or
  - shares in Kardan Israel Ltd, and/or
  - any tradable securities held or which will be held by the Company or by a subsidiary of the Company (in which the Company holds at least 95% of the shares);
- instead of the Pledge Shares or any part of it, the Company will be entitled to pledge a cash deposit in the amount equal to the difference between the value of the pledged Pledge Shares and 100% of the debentures principal which are secured by it;
- if after pledging the Pledge Shares the ratio set out above will be more than 200% during 14 consecutive trading days, the Company will be allowed to release all the Pledge Shares and the deposits which have been pledged to the benefit of the debenture holders, without derogation from its obligation to pledge them again, if the ratio will be less than 180%, for the set period in the debenture terms. For the avoidance of doubt, it is clarified that if the Company will pledge shares which are listed in a few different stock exchanges, the condition to their release will be that the ratio set out above will be above 200% for a period of 14 consecutive trading days in each of the stock exchanges where the shares are listed.
- the definition of "Listed Securities" will be amended in a way that will allow to take into account, for the calculation of the ratio set out above, all the Free Securities and also the balanced cash held by the Company.

The exact wording of the provisions that will be amended will be determined by the trustee in coordination with the Company in a way which depicts the changes that were authorized in accordance with this paragraph.

According to the laws of Israel if:

- a meeting of holders of a certain class and type of debentures is convened for the purpose of resolving to exchange that particular class and type of debentures for debentures of a different class and type; and
- in that meeting of holders of that certain class and type of debentures at least 50% of the nominal value of the relevant class and type of debentures is represented and (i) a majority of the holders present at the

meeting vote in favor of the proposed exchange and (ii) a majority of at least 75% of the value of the relevant debentures represented in the meeting votes in favor of the proposed exchange, taking into account that in case the quorum of 50% is not met, a second meeting may be held where the resolution can be adopted if at least 10% of the nominal value of the relevant debentures is represented and (i) a majority of the holders present at the meeting vote in favor of the proposed exchange and (ii) a majority of at least 75% of the value of the relevant debentures represented in the meeting votes in favor of the proposed exchange, each of the relevant debentures of the certain class and type is exchanged for debentures of the different class and type, in accordance with the proposal.

With respect to the Non-convertible GTC Debentures a meeting of holders thereof shall be convened for the purpose of resolving on the proposal to, under the Condition Precedent, exchange the Non-convertible GTC Debentures for Non-convertible Kardan Debentures with the Amended Security, regardless of whether this Amended Security has been or will be approved by the holders of the Existing Non-convertible Kardan Debentures.

- e. **Benefits, which will be attributed in connection with the legal merger to managing directors or supervisory directors of the merging companies or third parties.**

There are no benefits, which will be attributed in connection with the legal merger to managing directors or supervisory directors of the merging companies or third parties.

- f. **Current intentions concerning the composition of the managing board and the supervisory board of the Acquiring Company and the Issuing Group Entity after the legal merger.**

It is the intention not to change the current composition of the management board and the supervisory board of the Issuing Group Entity after the legal merger.

The present composition is:

**Issuing Group Entity**

**Management Board**

- A.Y. Shlank
- E. Oz-Gabber
- J. Slootweg

- A. Ickovics
- W. van Damme

**Supervisory Board**

- J. Krant
- K. Rechter
- A.A. Schnur
- I. Fink
- J.L. Pomrenze
- M.I. Groen
- H. Benjamins

It is the intention not to change the current composition of the management board of the Acquiring Company after the legal merger. There is a possibility that, after the legal merger has become effective, the general meeting of shareholders of the Acquiring Company will decide to establish a supervisory board at the level of the Acquiring Company.

**Acquiring Company  
Management Board**

- W. van Damme
- A.Y. Shlank
- E. Oz-Gabber

- g. Date as per which the financial data of the Disappearing Company will be accounted for in the annual accounts of the Acquiring Company.**

1 October 2008.

- h. Intended measures in respect of the change of shareholder of the Disappearing Company.**

The shareholders of the Disappearing Company will be granted shares in the capital of the Issuing Group Entity, with due observance of article 2:333a of the Dutch Civil Code.

- i. Propositions concerning continuation or termination of activities.**

The activities of the Disappearing Company will be continued by the Acquiring Company.

- j. Approval resolution to merge.**

With respect to the Disappearing Company, the resolution to merge must be

approved by the management board, supervisory board and general meeting of shareholders in accordance with article 6.1 of the articles of association of the Disappearing Company.

**k. Effect of the merger on the amount of goodwill and the distributable reserves of the Acquiring Company.**

At the time the legal merger becomes effective, the amount of goodwill and distributable reserves of the Acquiring Company will be increased by the amount of goodwill and distributable reserves of the Disappearing Company at that time.

**l. The exchange ratio of the shares.**

The shares in the capital of the Disappearing Company are admitted to the trade at TASE. The shares in the capital of the Issuing Group Entity are admitted to the trade at the NYSE Euronext Amsterdam N.V. in the Netherlands and at TASE.

The exchange ratio is based on the volume weighted average price (VWAP), meaning the ratio of the value traded on TASE in every transaction in shares of the Disappearing Company and the Issuing Group Entity to a total volume traded, over a time interval of ninety trading days ending on 2 October 2008 (the last trading day on TASE prior to the determination of the exchange ratio by the management board of the Disappearing Company and the Issuing Group Entity), resulting in an exchange rate of 0.81 as a result of which for each share in the Disappearing Company 0.81 shares in the Issuing Group Entity will be granted. The number of shares that will be granted to the shareholders of the Disappearing Company will be rounded down to whole numbers. The difference that can arise will be paid in cash by the Issuing Group Entity.

**m. Date as per which and to what extent the shareholders of the Disappearing Company will participate in the profits of the Issuing Group Entity.**

1 January 2008, to the same extent as the shareholders of the Issuing Group Entity excluding any dividend declared prior to the legal merger as proposed in this merger proposal becoming effective.

**n. Number of shares to be cancelled pursuant to article 2:325, paragraph 3, of the Dutch Civil Code.**

No shares will be cancelled.

**ANNEX A**





**The undersigned:**

Martine Bijkerk, civil-law notary, practising at Amsterdam,  
declares that the attached document is an informal English translation of the Articles  
of Association of Kardan N.V., registered at Amsterdam, in force as of the twentieth  
day of June two thousand and seven.

In this translation an attempt has been made to be as literal as possible without  
jeopardizing the overall continuity. Inevitably differences may occur in translation,  
and if so the Dutch text will by law govern.

Signed at Amsterdam  
on 20 June 2007

A handwritten signature in black ink is positioned to the right of the text 'Signed at Amsterdam on 20 June 2007'. The signature is cursive and appears to read 'Martine Bijkerk'.



Informal Translation of the  
Articles of Association of  
**Kardan N.V.**  
established at Amsterdam  
in force as of 20 June 2007.

## Chapter I. Definitions.

### Article 1.

- 1.1. In these Articles of Association the following terms shall have the following meanings:
- "**AGM**" means the General Meeting of Shareholders held for the purpose of dealing with the annual accounts and the annual report.
  - "**Board of Management**" means the management board of the Company.
  - "**Company**" means the company the internal organisation of which is governed by these Articles of Association.
  - "**Control**" means the ability to direct the activities of a company, but not an ability that arises only from fulfilling the position of a member of the board of management or of the supervisory board of that company or any other position in that company, and a Person is presumed to control a company if he whether or not pursuant to an agreement with other Persons who are entitled to vote, is able to (i) exercise more than half of the voting rights in the general meeting of shareholders of that company, or (ii) appoint or remove more than half of the number of members of the board of management or of the supervisory board of that company, in either case even if all the Persons who are entitled to vote cast their votes.
  - "**Deposit Shares**" (*'girale aandelen'*) means Shares which are included in the deposit system of the Securities Giro Act.
  - "**Distributable Equity**" means that part of the Company's equity which exceeds the aggregate of the part of the capital which has been paid-up and called and the reserves which must be maintained by virtue of the law or these Articles of Association.
  - "**Euronext General Rules**" means Book II of the General Rules for the Euronext Amsterdam Stock Market, including any changes thereto from time to time.
  - "**Euronext Official Price List**" means the Official Price List (*'Officiële Prijscourant'*) of Euronext Amsterdam N.V. or any publication replacing such Official Price List.
  - "**Extraordinary Transaction**" means a Transaction which is (i) not in the ordinary course of business of the Company, or (ii) not undertaken in market conditions, or (iii) likely to materially influence the profitability of the Company, its property or liabilities.
  - "**Framework Agreement**" means an agreement that permits to enter into, in the ordinary course of business, Transactions of the type set out in that agreement, which sets out in advance the period of time and other conditions of such Transactions and which has been approved in the way as mentioned in paragraph 1 of Article 7 of these Articles of Association

in conjunction with paragraph 3 and 4 of that Article.

- **"General Meeting"** or **"General Meeting of Shareholders"** means the body of the Company consisting of the Shareholders or (as the case may be) a meeting of Shareholders (or their representatives) and other persons entitled to attend such meetings.
- **"Group Company"** means a legal entity or company with which the Company is connected in a group within the meaning of Section 2:24b of the Dutch Civil Code.
- **"Holder of Control"** means a holder of Control in the Company, including a Person who holds twenty-five percent (25%) or more of the voting rights in the General Meeting of Shareholders if there is no other Person who holds more than fifty percent (50%) of the voting rights in the General Meeting of Shareholders. For the purpose of this definition, two or more Persons holding voting rights in the General Meeting of Shareholders, each of which has according to the information of the Board of Management a Personal Interest in the approval of the Transaction being brought for approval of the Company, shall be considered to be joint holders, meaning their respective voting rights shall be attributed to each other as if they are one shareholder.  
For the purpose of this definition, the holding of voting rights in the General Meeting of Shareholders is construed to include also (i) the indirect holding of voting rights through a trustee, trust companies, a registration company or in any other manner, (ii) when dealing with holding of voting rights by a company, the holding of voting rights by the Subsidiaries of that company or a company affiliated to that company, and (iii) when dealing with holding of voting rights by an individual, the holding of voting rights by the members of the family of that individual, who live with that individual or who support or are supported by that individual.
- **"Independent Supervisory Director"** means a Supervisory Director who is not (i) a former member of the Board of Management or an employee of the Company or any of its Subsidiaries, or (ii) a Shareholder who holds alone or jointly with others with whom that Shareholder is legally connected, five percent (5%) or more of the voting rights in the General Meeting of Shareholders, or a representative or employee of such Shareholder, or (iii) an individual, if any other position or business of his give rise to or are likely to give rise to a conflict of interests with his role as Supervisory Director, or if these would harm his ability to serve as a Supervisory Director. For the purpose of this definition, the holding of voting rights in the General Meeting of Shareholders is construed to include also (i) the indirect holding of voting rights through a trustee, trust companies, a registration company or in any other manner, (ii) when

dealing with holding of voting rights by a company, the holding of voting rights by the Subsidiaries of that company or a company affiliated to that company, and (iii) when dealing with holding of voting rights by an individual, the holding of voting rights by the members of the family of that individual, who live with that individual or who support or are supported by that individual.

- "**Necigef**" means Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V., being the 'central institution' (*'centraal instituut'*) as referred to in the Securities Giro Act.
- "**Necigef Beneficiary**" means a person, wherever living, directly or indirectly holding book-entry rights with respect to Deposit Shares through a deposit account with a Necigef Participant.
- "**Necigef Participant**" means an institution which is an 'associated institution' (*'aangesloten instelling'*) within the meaning of the Securities Giro Act.
- "**Person**" means any individual, partnership, corporation, unincorporated organisation or association, limited liability company, trust or other natural person or legal entity, unless the contrary is apparent from the context. All references to a "Person" shall include such Person's successors and assigns, unless the contrary is apparent from the context.
- "**Personal Interest**" means a personal interest of any Person in any act or Transaction of the Company, including a personal interest of a Relative of such Person or of a legal entity in which such Person or his Relative has an interest, but excluding a personal interest stemming only from the fact of a shareholding in the Company.
- "**Private Offer**" means an offer to issue securities of the Company that is not a public offering.
- "**Relative**" means a spouse, brother, sister, parent, grandparent, descendant, spouse's descendant or the spouse of any of these.
- "**Securities Giro Act**" means the Dutch Securities Giro Act (*'Wet giraal effectenverkeer'*).
- "**Shareholder**" means a holder of one or more Shares; for the purpose of these Articles of Association, Necigef Beneficiaries shall be considered Shareholders, unless the context of these Articles of Association or the law requires otherwise.
- "**Share**" means an ordinary share in the capital of the Company; for the purpose of these Articles of Association, the book-entry rights of Necigef Beneficiaries in respect of Deposit Shares shall be considered Shares, unless the context of these Articles of Association or the law requires otherwise.
- "**Special GM Majority**" means an absolute majority of the votes cast

where either (i) such majority includes the affirmative votes of at least one third of all the votes of those Shareholders who are present at the meeting and who, according to the information of the Board of Management, do not have a Personal Interest, considering that in a count of all the votes of such Shareholders abstentions shall not be taken into account, or (ii) the opposition votes of those Shareholders who are present at the meeting and who, according to the information of the Board of Management, do not have a Personal Interest, shall not constitute more than one percent (1%) of the total number of votes that can be cast in a General Meeting of Shareholders.

- "**Special SB Majority**" means an absolute majority of the votes cast including the affirmative vote of at least one Independent Supervisory Director.
- "**Subsidiary**" means (i) a legal entity in which a company or one or more of its Subsidiaries, whether or not by virtue of agreement with another who is entitled to vote, is able to exercise alone or together more than half of the voting rights in the general meeting of members or shareholders of that legal entity, or (ii) a legal entity in respect of which a company or one or more of its Subsidiaries is a member or shareholder and, whether or not by virtue of agreement with another who is entitled to vote, alone or together, is able to appoint or remove more than half of the members of the board of management or of the supervisory board, even if all who are entitled to vote cast their votes, or (iii) another Subsidiary of a company as defined in Section 2:24a of the Dutch Civil Code.
- "**Supervisory Board**" means the supervisory board of the Company.
- "**Supervisory Director**" means a member of the Supervisory Board.
- "**Terms of Office and Employment**" means terms of office and employment including the granting of a release, insurance, undertaking to indemnify, or indemnification.
- "**Transaction**" means a contract or agreement as well as a unilateral resolution on the part of the Company with respect to the granting of a right or other benefit.

## **Chapter II. Name, Official Seat and Objects.**

### **Article 2. Name and Official Seat.**

- 2.1. The name of the Company is: **Kardan N.V.**
- 2.2. The Company's official seat is Amsterdam.

### **Article 3. Objects.**

- 3.1. The objects of the Company are:
  - a. to carry on business as a holding company and to acquire and hold shares, stocks, debenture stock, bonds, mortgages, obligations and securities of any kind, and to vary, transpose, dispose of or otherwise deal



- with from time to time as may be considered expedient any of the Company's investments for the time being;
- b. to acquire any such shares and other securities as are mentioned in the preceding paragraph (a) by subscription, syndicate participation, tender, purchase, exchange or otherwise and to subscribe for the same, either conditionally or otherwise, and to guarantee the subscription thereof and to exercise and enforce all rights and powers conferred by or incident to the ownership thereof;
  - c. to finance other persons including providing financing and financial investment, management and advisory services to such persons, granting or providing credit and financial accommodation, lending and making advances and lending to or depositing with any bank or financial institutions funds or other assets to provide security (by way of mortgage, charge, pledge, lien or otherwise) for loans or other forms of financing granted to such person by such bank or financial institution;
  - d. to take up loans, lend and invest moneys and acquire, transfer and dispose of claims and assets in general;
  - e. in accordance with the provisions of these Articles of Association and the law, to issue and allot securities of the Company for cash or in payment or part payment for any real or personal property purchased or otherwise acquired by the Company or as security for any obligation or amount or for any other purpose and to purchase its own shares;
  - f. to provide guarantees, to bind the Company and to encumber the assets of the Company for the benefit of both Group Companies and third parties;
  - g. to provide services to Group Companies and to third parties, to coordinate the administration, policies, management, supervision, control, research, planning, trading and any and all other activities of, and to act as financial advisers and consultants to, any company or companies now or hereafter incorporated or acquired which may be or may become a Group Company or any company or companies now or hereinafter incorporated or acquired with which the Company may be or become associated;
  - h. to exploit patents, trade mark rights, trade names, licences, patents, industrial property rights, designs and the like;
  - i. to buy, own, hold, lease, develop, sell and manage real estate situated in the Netherlands and elsewhere;
  - j. to provide any kind of financial services;
  - k. to engage in any kind of trade including importing and exporting of any kind, distribution, marketing, repair services and warranty services;
  - l. to engage in the field of infrastructure including, engineering, consul-

- tancy and planning in the Netherlands and elsewhere;
- m. when properly authorized to do so, to sell, lease, exchange or otherwise dispose of the undertaking of the Company or any part thereof as an entirety or substantially as an entirety for such consideration as the Company deems fit; and
  - n. to carry out other financial or industrial activities, as well as to participate in, to manage and to finance other enterprises and companies, to provide security for the debts of third parties and to do all that is connected therewith or may be conducive thereto, all to be interpreted in the broadest sense.

### **Chapter III. Capital and Shares; register of shareholders.**

#### **Article 4. Authorised Capital.**

- 4.1. The Company's authorised capital amounts to forty-five million euro (€ 45,000,000.-), divided into two hundred twenty-five million (225,000,000) Shares, with a nominal value of twenty eurocent (€ 0.20) each.
- 4.2. The Shares shall be registered shares.
- 4.3. The Company may not cooperate in the issuance of depositary receipts for its Shares.
- 4.4. If Shares or the right to Shares are jointly held, the joint Shareholders may only be represented by a single person holding a written proxy signed by them all.

#### **Article 5. Deposit Shares.**

- 5.1. A Share shall be designated a Deposit Share by way of transfer or issuance to a Necigef Participant in order to be entered into the collective depot. The Necigef Participant concerned may then transfer the Deposit Share to Necigef in order to be entered into the giro depot. The Deposit Share shall be registered in the Company's register of shareholders in the name of Necigef or the Necigef Participant concerned. Necigef Beneficiaries cannot be registered in the Company's register of shareholders as being entitled to a Deposit Share.
- 5.2. The Board of Management may, subject to the approval of the Supervisory Board, determine that Deposit Shares can be registered in the Company's register of shareholders as non-Deposit Shares in the name of the relevant Shareholder, with due observance of the provisions of the Securities Giro Act.

#### **Article 6. Register of Shareholders.**

- 6.1. The Board of Management shall keep a register containing the names and addresses of all holders of Shares (not being book-entry rights of Necigef Beneficiaries with respect to Deposit Shares).
- 6.2. The register may, in whole or in part, be kept in more than one copy and at more than one address. Part of the register may be kept outside of the Netherlands in order to comply with applicable foreign laws or applicable rules and

regulations of a foreign market on which Shares in the Company are traded, listed for trading or quoted. The Board of Management may delegate its duty to keep the register to one or more agents.

- 6.3. Every holder of one or more Shares (not being book-entry rights of Necigef Beneficiaries with respect to Deposit Shares) and any person having a right of usufruct or a right of pledge over one or more such Shares shall be obliged to provide the Company in writing with their address and each amendment thereof.
- 6.4. All entries and notes in the register of shareholders shall be signed by a member of the Board of Management or another person authorised to do so by the Board of Management.
- 6.5. Upon request and free of charge, the Board of Management shall provide all holders of Shares (not being book-entry rights of Necigef Beneficiaries with respect to Deposit Shares), and any person having a right of usufruct or a right of pledge over one or more such Shares with an extract from the register of shareholders in respect of their rights.
- 6.6. Section 2:85 of the Dutch Civil Code also applies to the register.

#### **Chapter IV. (Extraordinary) Transactions.**

##### **Article 7. Approval.**

- 7.1. The Transactions mentioned in paragraph 2 of this Article 7 shall require the approval of the following bodies, in the following order:
  - a. the Board of Management;
  - b. the Supervisory Board, with due observance of the provisions set out in paragraph 3 of this Article 7; and
  - c. the General Meeting, with due observance of the provisions set out in paragraph 4 of this Article 7.

In the approvals mentioned under a., b. and c. of this paragraph 1 to be granted by the Board of Management, the Supervisory Board and the General Meeting, it should be specified that the Transaction which requires the aforementioned approvals does not harm the best interests of the Company.

- 7.2. The approvals as mentioned in paragraph 1 of this Article 7 are required with respect to:
  - a. an Extraordinary Transaction, including a Private Offer if that offer can be qualified as an Extraordinary Transaction, of the Company with a Holder of Control;
  - b. an Extraordinary Transaction, including a Private Offer if that offer can be qualified as an Extraordinary Transaction, of the Company with another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Board of Management;
  - c. the entry into a contract by the Company with a Holder of Control with respect to the Terms of his Office and Employment if the Holder of Con-

- trol is a member of the Board of Management or of the Supervisory Board;
- d. the entry into a contract by the Company with a Holder of Control with respect to his employment by the Company if the Holder of Control is an employee of the Company but not a member of the Board of Management or of the Supervisory Board; and
  - e. an Extraordinary Transaction of the Company, as mentioned under a. and b. above, made by a company over which company the Company has Control.
- 7.3. A resolution of the Supervisory Board to grant the approval as mentioned in paragraph 1 under b. of this Article 7, shall be adopted with a Special SB Majority. Before the Supervisory Board will adopt a resolution which requires a Special SB Majority, in a formal meeting or without holding a formal meeting, the Supervisory Board will first decide which of the Supervisory Directors (who are present at the meeting) are Independent Supervisory Directors. Such decision of the Supervisory Board cannot be reconsidered or revoked.
- 7.4. A resolution of the General Meeting to grant the approval as mentioned in paragraph 1 under c. of this Article 7, shall be adopted with a Special GM Majority.
- 7.5. The lack of one or more of the approvals as mentioned in paragraph 1 of this Article 7 does not affect the authority of the Board of Management or its members to represent the Company.

#### **Article 8. Exceptions**

- 8.1. An Extraordinary Transaction as mentioned in paragraph 2 of Article 7 shall not require the approval of the General Meeting as mentioned in paragraph 1 under c. of this Article 7, if any of the following applies to it:
- a. the Transaction extends an existing Transaction ("**Additional Transaction**") provided that (i) the existing Transaction between the same parties has been lawfully approved and (ii) the Supervisory Board has approved the Additional Transaction in the way as mentioned under paragraph 3 of Article 7 and (iii) the Supervisory Board has adopted a resolution with a Special SB Majority, in which it determines that there has been no substantive change in the terms of the Additional Transaction and the other necessary circumstances vis-à-vis the existing Transaction; for the purpose of this subparagraph, Transactions between the Holders of Control and Kardan Limited, a company organised under the laws of Israel, which Transactions were lawfully approved by Kardan Limited prior to the eighteenth day of June two thousand three, shall be considered existing Transactions of the Company to which this subparagraph shall apply;
  - b. the Supervisory Board has adopted a resolution with a Special SB Major-

- ity, in which it confirms that the Transaction can only benefit the Company;
- c. it is a Transaction of the Company with a Holder of Control or with another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Board of Management, provided that the Supervisory Board has (i) approved the Transaction in the way as mentioned under paragraph 3 of Article 7 and (ii) determined that the Transaction complies with the terms set out in a Framework Agreement;
  - d. it is a Transaction of the Company together with a Holder of Control or together with another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Board of Management, for the purpose of entering into a Transaction between them and another entity or for the purpose of submitting a joint proposal for such Transaction, provided that the Supervisory Board has (i) approved the Transaction in the way as mentioned under paragraph 3 of Article 7 and (ii) determined that the terms of that Transaction with respect to the Company are not materially different from the ones with respect to the Holder of Control or from the ones with respect to the other Person, considering their relative portions in the Transaction; or
  - e. it is a Transaction between (i) the Company and another company under the Control of a Holder of Control, or (ii) the Company and a Holder of Control, or (iii) the Company and another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Board of Management, provided that the Supervisory Board has adopted a resolution with a Special SB Majority, in which it determines that the Transaction is on market terms and in the ordinary course of business and does not harm the best interests of the Company.
- 8.2. The provisions of paragraph 1 of this Article 8 will not apply if one or more Shareholders holding at least one percent (1%) of the issued share capital or of the voting rights in the General Meeting of Shareholders, gave notice of his (their) objection(s) to the approval of the Transaction under paragraph 1 of this Article 8, provided that the objection was presented to the Company in writing no later than seven days from the day on which the Company publicized (via the stock exchanges upon which Shares are traded) the adoption of the resolution. If an objection is presented as said, the Transaction will require approval of the General Meeting as mentioned in paragraph 1 of Article 7 in conjunction with paragraph 4 of Article 7. Obligation to inform the Company.

**Article 9. Obligation to inform the Company.**

- 9.1. A Holder of Control who is aware that he has a Personal Interest in an existing or proposed Transaction of the Company shall inform the Board of Management of the nature of his Personal Interest, including any material fact or document, without delay and in any case no later than on the date of the meeting of the Board of Management in which meeting the Transaction will be discussed for the first time.

#### **Chapter IV. Issuance of Shares.**

##### **Article 10. Body Competent to Issue Shares.**

- 10.1. Shares shall be issued pursuant to a resolution of the Board of Management. The resolution shall be subject to the approval of the Supervisory Board. The authority of the Board of Management to issue Shares shall relate to all unissued Shares of the Company's authorised capital, as applicable now or at any time in the future. The duration of this authority shall be established by a resolution of the General Meeting and shall be for a period of maximum five years, without prejudice to the provisions of Article 47 of these Articles of Association. The resolution of the General Meeting shall be subject to the approval of the Supervisory Board.
- 10.2. Designation of the Board of Management as the company body competent to issue Shares may be extended by amending these Articles of Association or by a resolution of the General Meeting for a period not exceeding five years in each case. The resolution of the General Meeting shall be subject to the approval of the Supervisory Board. The number of Shares which may be issued shall be determined at the time of this designation. Designation by resolution of the General Meeting cannot be revoked unless determined otherwise at the time of designation.
- 10.3. Upon termination of the authority of the Board of Management, the issue of Shares shall thenceforth require a resolution of the General Meeting, save where another company body has been designated by the General Meeting. The resolution of the General Meeting to issue Shares or to designate another company body shall be subject to the approval of the Supervisory Board.
- 10.4. The provisions of paragraphs 1 through 3 of this Article 10 shall be equally applicable to the granting of rights to subscribe for Shares but shall not be applicable to the issue of Shares to persons exercising a previously granted right to subscribe for Shares.
- 10.5. Section 2:96 of the Dutch Civil Code also applies to the issuance of Shares and the granting of rights to subscribe for Shares.

##### **Article 11. Conditions of Issuance; Rights of Pre-emption.**

- 11.1. The price and further conditions of issuance shall be determined in the resolution to issue Shares. The issue price may be no lower than par value, without prejudice to the provision of Section 2:80, subsection 2, of the Dutch Civil



Code.

- 11.2. Upon the issuance of Shares every holder of Shares shall have a right of pre-emption in accordance with Section 2:96a of the Dutch Civil Code. The same applies to the granting of rights to subscribe for Shares.
- 11.3. The rights of pre-emption may be restricted or excluded by a resolution of the Board of Management. The resolution shall be subject to the approval of the Supervisory Board. The authority granted to the Board of Management shall terminate on the date of termination of the authority of the Board of Management to issue Shares. Article 10, paragraphs 1 through 3, of these Articles of Association, shall apply by analogy, for the avoidance of doubt it being understood that a resolution to restrict or exclude the rights of pre-emption shall at all times be subject to the approval of the Supervisory Board.
- 11.4. Furthermore, the conditions of issuance and rights of pre-emption shall be subject to the provisions of Sections 2:96a and 2:97 of the Dutch Civil Code.

**Article 12. Payment for Shares.**

- 12.1. Upon the issuance of a Share the nominal value of the Share issued must be paid together with, if the Share is taken up at a price higher than par value, the difference between these amounts, without prejudice to the provisions in Section 2:80, subsection 2, of the Dutch Civil Code.
- 12.2. No obligation other than to pay up the nominal value of a Share may be imposed upon a Shareholder against his will, even by an amendment of the Articles of Association.
- 12.3. Payment for Shares must be made in cash to the extent that no other manner of payment has been agreed upon.
- 12.4. The Board of Management shall be authorised to enter into transactions concerning non-monetary contributions on Shares, and the other transactions referred to in Section 2:94, subsection 1, of the Dutch Civil Code, without the prior approval of the General Meeting. The resolution to enter into these transactions shall require the approval of the Supervisory Board.
- 12.5. Payments on Shares and non-cash contribution shall furthermore be subject to Sections 2:80, 2:80a, 2:80b and 2:94b of the Dutch Civil Code.

**Chapter V. Own shares and Depositary Receipts; Financial Assistance.**

**Article 13.**

- 13.1. The Company shall be entitled to acquire fully paid-up Shares in its own capital or depositary receipts thereof, provided either no valuable consideration is given or provided that:
  - a. the distributable part of the capital and reserves is at least equal to the purchase price; and
  - b. the nominal value of the Shares or the depositary receipts thereof which the Company acquires, holds or holds in pledge or which are held by a Subsidiary of the Company does not exceed one tenth of the Company's

issued capital.

- 13.2. The Board of Management shall require the authorisation of the General Meeting for an acquisition for valuable consideration. This authorisation may be given for a maximum of eighteen months. At the time of granting such authorisation, the General Meeting must determine how many Shares or depositary receipts thereof may be acquired and between which limits the price must be.
- 13.3. The Company may acquire its own Shares or depositary receipts thereof in order to transfer them, pursuant to an employee stock option or stock purchase plan, to staff employed by the Company or by a Group Company.
- 13.4. The acquisition or alienation by the Company of its own Shares shall take place pursuant to a resolution of the Board of Management. Such a resolution shall be subject to the approval of the Supervisory Board, without prejudice to the provisions of paragraph 2 of this Article 13.
- 13.5. In the General Meeting, no voting rights may be exercised for any Share held by the Company or a Subsidiary of the Company, nor for any Share for which the Company or a Subsidiary of the Company holds the depositary receipts thereof.
- 13.6. On Shares held by the Company, or for which the Company holds the depositary receipts thereof no distributions shall be made for the benefit of the Company. Shares or depositary receipts thereof on which, pursuant to this paragraph 6 of this Article 13, no distribution shall be made for the benefit of the Company shall not be counted when calculating allocation and entitlements to profits.
- 13.7. Own Shares and depositary receipts thereof shall furthermore be subject to Sections 2:89a, 2:95, 2:98, 2:98a, 2:98b, 2:98c, 2:98d and 2:118 of the Dutch Civil Code.

**Article 14.**

- 14.1. The Company may not grant loans, provide collateral, guarantee the price, otherwise guarantee or otherwise bind itself jointly and severally with or on behalf of third parties, for the purpose of subscription to or acquisition of Shares in its own capital, or of depositary receipts issued in respect thereof.
- 14.2. The prohibition of the previous subsection shall not apply if Shares or depositary receipts are acquired by or on behalf of employees of the Company or a Group Company.

**Chapter VI. Reduction of the Company's Issued Capital.**

**Article 15.**

- 15.1. The General Meeting may decide to reduce the Company's issued capital, but only at the proposal of the Board of Management and with the approval of the Supervisory Board:
  - a. by cancelling Shares; or

- b. by reducing the nominal value of Shares by amending these Articles of Association.

A resolution of the General Meeting to reduce the Company's issued capital must specify the Shares to which the resolution relates and must include provisions for the implementation of the resolution.

- 15.2. A resolution to cancel Shares may only involve Shares held by the Company itself or the depositary receipts of which (if any) are held by the Company itself.
- 15.3. Partial repayment of Shares is only possible in order to implement a resolution to reduce the nominal value of the Shares. Such repayment shall take place with regard to all Shares.

**Chapter VII. Transfer of Shares (not being book-entry rights of Necigef Beneficiaries with respect to Deposit Shares).**

**Article 16.**

- 16.1. The transfer of Shares shall be effected by means of a deed and, except where the Company itself is a party to the transaction, acknowledgement in writing of the transfer by the Company.

Acknowledgement is effected in the deed, or by a dated declaration of acknowledgement either on the deed or on a copy or extract thereof which is certified by a civil law notary or by the transferor. Official service of that deed or that copy or extract on the Company shall rank as acknowledgement. The foregoing shall apply by analogy to the creation or transfer of a right of usufruct or a right of pledge over a Share.

A right of pledge over Shares may also be created without acknowledgement or official service of notice to the Company. In such case, Section 3:239 of the Dutch Civil Code shall apply by analogy, on the understanding that the communication referred to in subsection 3 of that Section, shall then be replaced by acknowledgement by or official service on the Company.

- 16.2. The acknowledgement shall be signed by a member of the Board of Management or another person authorised to do so by the Board of Management.
- 16.3. The provisions of paragraphs 1 and 2 of this Article 16 shall apply by analogy to the allocation of Shares (excluding Deposit Shares) on the division of jointly held property.
- 16.4. The Shareholder shall have voting rights in respect of a Share over which the right of usufruct or the right of pledge is created. However, the voting rights with respect to the Shares shall accrue to the usufructuary or the pledgee in the event that it was so stipulated at the creation of the right of usufruct or the right of pledge and the Board of Management has approved of the creation of the right of usufruct or the right of pledge. The Shareholder who holds no voting rights and the usufructuary or pledgee who does hold voting rights with respect to Shares shall have the rights which the law attributes to holders of

depository receipts issued for Shares in a company which are issued with that company's cooperation. A usufructuary or a pledgee who holds no voting rights shall not have the rights referred to in the preceding sentence.

- 16.5. The rights deriving from a Share over which a right of usufruct is created, relating to the acquisition of Shares shall accrue to the Shareholder. However, the Shareholder shall compensate the usufructuary for the value thereof to the extent that the latter is entitled thereto by virtue of his right of usufruct.

#### **Chapter VIII. The Board of Management.**

##### **Article 17. The Board of Management.**

- 17.1. The management of the Company shall be constituted by the Board of Management.
- 17.2. The Board of Management shall consist of a number of members to be determined by the Supervisory Board.

##### **Article 18. Appointment.**

- 18.1. Members of the Board of Management shall be appointed by the General Meeting from a list of candidates to be drawn up by the Supervisory Board.
- 18.2. If the list of candidates contains the names of at least two persons it shall be binding. However, the General Meeting may at any time, by resolution passed with a majority of at least two-thirds of the votes cast representing more than half of the Company's issued capital, resolve that such list shall not be binding.
- 18.3. If the Supervisory Board should fail to draw up a list of nominees within three months after the vacancy has occurred, the General Meeting may appoint a member of the Board of Management at its own discretion.
- 18.4. If the Supervisory Board has drawn up a non-binding nomination, the appointment of a person to the Board of Management in contravention of the nomination shall require a resolution of the General Meeting adopted with a majority of two-thirds of the votes cast representing more than half of the Company's issued capital.
- 18.5. The members of the Board of Management shall be appointed for a period of three years, ending no later than at the end of the following AGM held in the third year after the year of their appointment.
- The members of the Board of Management may be immediately re-appointed.

##### **Article 19. Suspension and Removal.**

- 19.1. Each member of the Board of Management may be suspended or removed by the General Meeting at any time.
- 19.2. A resolution to suspend or remove a member of the Board of Management other than at the proposal of the Supervisory Board may only be passed by the General Meeting with a majority of two-thirds of the votes cast representing more than half of the Company's issued capital.
- 19.3. Each member of the Board of Management can be suspended by the Super-

visory Board at any time. A suspension by the Supervisory Board may be discontinued by the General Meeting at any time.

- 19.4. Any suspension may be extended one or more times, but may not last longer than three months in the aggregate. If at the end of that period no resolution has been taken on termination of the suspension, or on removal, the suspension shall cease.
- 19.5. A board membership shall end, other than by expiry of the term for which the appointment was made, if the board member:
  - a. is removed by the General Meeting in accordance with paragraph 1 and 2 of this Article 19;
  - b. dies or - in the event that a legal entity is a board member - has been dissolved; or
  - c. resigns voluntarily, of which resignation the member shall notify the board in writing.

**Article 20. Remuneration.**

- 20.1. The General Meeting shall determine the remuneration and further conditions of employment for each member of the Board of Management.

**Article 21. Duties of the Board of Management; Process of Adoption of Resolutions; Allocation of Duties.**

- 21.1. Subject to the restrictions imposed by these Articles of Association, the Board of Management shall be entrusted with the management of the Company.
- 21.2. The Supervisory Board shall elect a Chairman from amongst the members of the Board of Management and may elect a Vice Chairman from amongst the members of the Board of Management who shall take the place of the Chairman in the latter's absence. In the absence of the Chairman and the Vice Chairman, if elected, at a meeting of the Board of Management, the meeting shall itself designate a Chairman for that particular meeting.
- 21.3. The Board of Management shall meet regularly and in all events whenever the Chairman, or two other members of the Board of Management, or the Supervisory Board deems such necessary.
- 21.4. All resolutions of the Board of Management shall be adopted by an absolute majority of the votes cast.
- 21.5. In meetings of the Board of Management each member of the Board of Management shall be entitled to cast one vote.
- 21.6. Except as provided in paragraph 8 of this Article 21, resolutions of the Board of Management shall only be valid if taken at a meeting at which the majority of the members of the Board of Management are present or represented.
- 21.7. Members of the Board of Management may only be represented in meetings of the Board of Management by another member of the Board of Management pursuant to a written power of attorney. The expression "written" shall include any message transmitted by current means of communication and re-

ceived in writing.

- 21.8. Meetings of the Board of Management may be held by means of an assembly of its members in person in a formal meeting or by conference call, video conference or by any other means of communication, provided that all members of the Board of Management participating in such meeting are able to communicate with each other simultaneously. Participation in a meeting held in any of the above ways shall constitute presence at such meeting.
- 21.9. Resolutions of the Board of Management may also be adopted without holding a formal meeting, in writing or otherwise, provided that the proposal concerned is submitted to all members of the Board of Management then in office and none of them objects to the proposed manner of adopting resolutions. A report with respect to a resolution adopted other than in writing shall be prepared by a member of the Board of Management. The report shall be signed by such member of the Board of Management and presented to the Board of Management for its information in the next meeting of the Board of Management. Adoption of resolutions in writing shall be effected by written statements from all members of the Board of Management then in office.
- 21.10. The Board of Management may draw up a set of rules governing the passing of resolutions by the Board of Management in conformity with the provisions of this Article 21. The adoption, amendment, modification, replacement or suspension of the rules shall require the approval of the Supervisory Board.
- 21.11. The Board of Management may determine the duties with which each member of the Board of Management will be charged in particular. The allocation of duties shall require the approval of the Supervisory Board.
- 21.12. The Board of Management may appoint officers and allocate certain of its duties to such officers. Such allocation shall not affect the ultimate responsibility of the Board of Management for the duties thus allocated.

**Article 22. Representation of the Company.**

- 22.1. The Board of Management shall be authorised to represent the Company. Two members of the Board of Management acting jointly shall also be authorised to represent the Company.  
The Board of Management may grant to one or more of its members a power of attorney to represent the Company alone with due observance of the restrictions of the power of attorney.
- 22.2. In the event of a conflict of interest between the Company and a member of the Board of Management, the Company shall be represented by such member of the Board of Management or of the Supervisory Board as the Supervisory Board shall designate for this purpose.

**Article 23. Approval of Resolutions of the Board of Management.**

- 23.1. Without prejudice to any other provision of these Articles of Association, the Board of Management shall require approval of the Supervisory Board for



managerial resolutions with respect to:

- a. acquiring or alienating assets the value of which exceeds an amount determined by the Supervisory Board;
- b. providing guarantees for an amount exceeding an amount determined by the Supervisory Board;
- c. performing legal acts implying an amount exceeding an amount determined by the Supervisory Board, on the understanding that more than one act with respect to the same transaction will be deemed to be one act; and
- d. other acts of the Board of Management as determined by the Supervisory Board and communicated to the Board of Management in writing.

The Supervisory Board may determine that a resolution as referred to in this paragraph 1 under a., b. or c. shall not require its approval in certain cases determined by the Supervisory Board and communicated to the Board of Management in writing.

- 23.2. The Board of Management shall require approval of the General Meeting for managerial resolutions which relate to an important change in the identity or character of the Company or the business, including in any case:
  - a. a transfer of the business or practically the entire business to a third party;
  - b. the entry into or termination of a long-term cooperation of the Company or a Subsidiary with another legal person or partnership or as a fully liable partner in a limited partnership or general partnership, if such cooperation or termination is of a far-reaching significance for the Company;
  - c. the acquisition or divestment by the Company or a Subsidiary of a participating interest in the capital of a company having a value of at least one-third of the amount of the Company's assets according to its balance sheet and explanatory notes or, if the Company prepares a consolidated balance sheet, according to its consolidated balance sheet and explanatory notes in the last adopted annual accounts of the Company.
- 23.3. The lack of approval of the Supervisory Board or the General Meeting in respect of a resolution referred to in this Article 23 does not affect the authority of the Board of Management or its members to represent the Company.

**Article 24. Vacancy or Inability to Act.**

- 24.1. If a seat on the Board of Management is vacant (*'ontstentenis'*) or a member of the Board of Management is unable to perform his duties (*'belet'*), the remaining members or member of the Board of Management shall be temporarily entrusted with the entire management of the Company. If all seats in the Board of Management are vacant or all members or the sole member of the Board of Management, as the case may be, are unable to perform their duties, the management of the Company shall be temporarily entrusted to the

Supervisory Board which shall then be authorised to temporarily entrust the management to one or more persons, whether or not from among its members.

**Chapter IX. The Supervisory Board.**

**Article 25. Number of Supervisory Directors.**

- 25.1. The Company shall have a Supervisory Board consisting of Supervisory Directors. Individuals only can be Supervisory Directors.
- 25.2. The Supervisory Board shall have at least three Supervisory Directors. Subject to this minimum, the number of Supervisory Directors shall be determined by the Supervisory Board.
- 25.3. If less than three Supervisory Directors are in office, the Supervisory Board shall still be validly constituted, but shall proceed without delay to make up its number.

**Article 26. Appointment.**

- 26.1. The Supervisory Directors shall be appointed by the General Meeting from a list of candidates to be drawn up by the Supervisory Board.
- 26.2. The provisions of Article 18, paragraphs 2, 3, and 4, of these Articles of Association shall apply by analogy to the appointment of Supervisory Directors.
- 26.3. The Supervisory Directors shall be appointed for a period of four years and may be re-appointed no more than two times.
- 26.4. The members of the Supervisory Board will step down in accordance with a retirement scheme, drafted by the Supervisory Board. Members of the Supervisory Board who have to step down in accordance with the retirement scheme will do so as at the end of the annual meeting of the relevant financial year. If a member of the Supervisory is appointed in a premature vacancy he will assume the position in the retirement scheme of the Supervisory Board member who he replaces.
- 26.5. When a person is proposed for appointment as a Supervisory Director, particulars shall be stated in respect of his age, his profession, the amount of Shares in the capital of the Company he holds and his present and past functions, in so far as such functions are of interest in connection with the performance of the duties of a Supervisory Director. Legal entities of which he is already a supervisory director shall also be mentioned; if there are companies among those which belong to the same group, it shall be sufficient to name that group. The proposal must state the reasons on which it is based.

**Article 27. Suspension and Removal; Retirement.**

- 27.1. Each Supervisory Director may be suspended or removed by the General Meeting at any time.
- 27.2. The provisions of Article 19, paragraphs 2 and 4, of these Articles of Association shall apply by analogy to the suspension and removal of Supervisory Directors.

- 27.3. A membership of the Supervisory Board shall end, other than by expiry of the term for which the appointment was made, if the Supervisory Director:
- a. is removed by the General Meeting in accordance with the provisions of paragraphs 1 and 2 of this Article 27;
  - b. dies; or
  - c. resigns voluntarily, of which resignation the member shall notify the board in writing.

**Article 28. Remuneration.**

- 28.1. The General Meeting shall determine the remuneration for every member of the Supervisory Board.

**Article 29. Duties and Powers.**

- 29.1. It shall be the duty of the Supervisory Board to supervise the Board of Management's management and the general course of affairs in the Company and in the business connected with it. The Supervisory Board shall advise the Board of Management. In performing their duties the Supervisory Directors shall act in accordance with the interests of the Company and of the business connected with it.
- 29.2. The Board of Management shall promptly supply the Supervisory Board with the information required for the performance of its duties.
- 29.3. The Supervisory Board shall have access to the buildings and premises of the Company and shall be authorised to inspect the books and records of the Company. The Supervisory Board may designate one or more persons from among its members or an expert to exercise these powers. The Supervisory Board may be assisted by experts in other cases also.
- 29.4. The Supervisory Board may appoint from amongst its members a delegate Supervisory Director who will especially be charged with the day-to-day contact with and supervision on the Board of Management in all matters related to the Company. The Supervisory Board may also delegate, under its own responsibility, certain of its powers to the delegate Supervisory Director. The Supervisory Board may as well appoint one or more vice delegate Supervisory Directors for the purpose of substituting the delegate Supervisory Director in case of his absence or incapability to act. The Board of Management shall contact and consult to the extent possible the delegate Supervisory Director in all important matters.

**Article 30. Proceedings and Process of Adoption of Resolution.**

- 30.1. The Supervisory Board may elect a Chairman from amongst its members, and a Vice Chairman who shall take the place of the Chairman in the latter's absence. In the event that no Chairman and Vice Chairman have been elected by the Supervisory Board, the meeting will itself designate a Chairman for each separate meeting. In the event of the absence of the elected Chairman and Vice Chairman as mentioned in the first sentence of this para-

graph, the meeting will itself designate a Chairman for that particular meeting. The Supervisory Board shall also appoint a secretary, who need not be a member of the Supervisory Board, and make arrangements for substitution in case of absence.

- 30.2. The Supervisory Board shall meet whenever the Chairman, if elected in conformity with the first sentence of paragraph 1 of this Article 30, or two other Supervisory Directors, or the Board of Management deems such necessary, but at least four times during a year.
- 30.3. The secretary shall keep minutes of the proceedings at meetings of the Supervisory Board. The minutes shall be adopted in the same meeting or in a following meeting of the Supervisory Board and shall be signed by the Chairman and the secretary as evidence thereof.
- 30.4. All resolutions of the Supervisory Board shall be adopted by an absolute majority of the votes cast.
- 30.5. In meetings of the Supervisory Board each Supervisory Director shall be entitled to cast one vote.
- 30.6. Except as provided in paragraph 8 of this Article 30, resolutions of the Supervisory Board shall only be valid if taken at a meeting at which the majority of the Supervisory Directors are present or represented.
- 30.7. A Supervisory Director may only be represented in meetings of the Supervisory Board by another Supervisory Director pursuant to a written power of attorney. The expression "written" shall include any message transmitted by current means of communication and received in writing.
- 30.8. Meetings of the Supervisory Board may be held by means of an assembly of its members in person in a formal meeting or by conference call, video conference or by any other means of communication, provided that all Supervisory Directors participating in such meeting are able to communicate with each other simultaneously. Participation in a meeting held in any of the above ways shall constitute presence at such meeting.
- 30.9. Supervisory Board resolutions may also be adopted without holding a formal meeting, in writing or otherwise, provided that the proposal concerned is submitted to all Supervisory Directors then in office and none of them objects to the proposed manner of adopting resolutions. A report with respect to a resolution adopted other than in writing shall be prepared by a member of the Supervisory Board. The report shall be signed by such member of the Supervisory Board and presented to the Supervisory Board for its information in the next meeting of the Supervisory Board. Adoption of resolutions in writing shall be effected by written statements from all Supervisory Directors then in office.
- 30.10. The Supervisory Board shall meet together with the Board of Management as often as the Supervisory Board or the Board of Management deems such necessary.

#### **Article 30A. Indemnification**

- 30A.1. The Company will, except in the event of a member of the Board of Management being at serious fault in relation to the Company, indemnify any person appointed by the General Meeting of Shareholders and who is or has been a member of the Board of Management, for the capital losses, including losses, damage, costs and expenses of whatever nature, that arise from a claim or proceedings related to the fulfilment of the duties of member of the Board of Management or to the fulfilment of any other duties for subsidiaries or other enterprises with which the Company is affiliated in a group or to duties that are fulfilled elsewhere on the request of the Company or by virtue of his position.
- 30A.2. On first request and upon submission of evidence of indebtedness the Company will enable the member of the Board of Management to pay his debts.
- 30A.3. No indemnification will be given if the member of the Board of Management in question has wilfully acted recklessly or with intent or if the member of the Board of Management is at serious fault in the relation to the Company and if this has been established in a final judgment by a Dutch court, or if and to the extent the capital losses are or can be refunded by an insurer under an insurance policy.
- 30A.4. In the event that it has been established in such final judgment that the member of the Board of Management is at serious fault in relation to the Company and except in the event that it also has been established by judgment that the member of the Board of Management is not obliged to refund payments, all payments that the Company has made in this matter will be considered to be just as many advance payments and the member of the Board of Management in question will refund such advance payments to the Company plus the statutory interest from the date when each advance payment must be deemed to have been provided.
- 30A.5. The Company will, except in the event of a Supervisory Director being at serious fault in relation to the Company, indemnify any person appointed by the General Meeting of Shareholders and who is or has been a Supervisory Director, for the capital losses, including losses, damage, costs and expenses of whatever nature, that arise from a claim or proceedings related to the fulfilment of the duties of a Supervisory Director or to the fulfilment of any other duties that are fulfilled elsewhere on the request of the Company or by virtue of his position.
- 30A.6. The paragraphs 2, 3 and 4 of this article are applicable mutatis mutandis to the indemnification of Supervisory Directors
- 30A.7. A committee made up of two Supervisory Directors will be charged with the implementation of the provisions in the preceding paragraphs, which committee will be appointed by the Supervisory Board for each specific event. Su-

pervisory Directors with a direct personal interest in the resolution to be taken shall not be a member of the committee. The Company is bound by the resolution of this committee.

- 30A.8. Resolutions to award the indemnification as laid down in the articles of association, are to be stated in the annual accounts. Adoption of the annual accounts will be considered to be the approval (and, if necessary, ratification) of such resolutions, unless the general meeting decides otherwise.
- 30A.9. Notwithstanding the preceding provisions of this article 30A, the Company will not indemnify or will undertake to indemnify a member of the Management Board or a member of the Supervisory Board which is a Holder of Control unless such indemnification or undertaking for indemnification has been approved in accordance with article 7.1.

#### **Chapter X. Annual Accounts and Annual Report; Distributions.**

##### **Article 31. Financial Year; Annual Accounts and Annual Report.**

- 31.1. The Company's financial year shall be the calendar year.
- 31.2. Annually, the Board of Management shall prepare annual accounts and shall deposit these at the Company's office and for as long as Shares are listed on the Tel Aviv Stock Exchange, at the offices of the Company or its Subsidiary in Israel, for inspection by Shareholders, not later than five months after the end of the financial year, unless by reason of special circumstances this period is extended by the General Meeting by not more than six months. Within this period, the Board of Management shall also deposit the annual report for inspection by the Shareholders.
- 31.3. Within the period referred to in paragraph 2 of this Article 31, the Board of Management shall also submit the annual accounts and the annual report to the Supervisory Board.
- 31.4. The Supervisory Board shall present its report on the annual accounts to the General Meeting.
- 31.5. The annual accounts and the annual report shall furthermore be subject to Sections 2:101, 2:102 and 2:103 and Title 9, Book 2 of the Dutch Civil Code.

##### **Article 32. Adoption of the Annual Accounts and Discharge.**

- 32.1. The annual accounts shall be adopted by the General Meeting.
- 32.2. After adoption of the annual accounts, the General Meeting shall pass a resolution concerning release of the members of the Board of Management and the Supervisory Directors from liability for the exercise of their respective duties, insofar as the exercise of such duties is reflected in the annual accounts or otherwise disclosed to the General Meeting prior to the adoption of the annual accounts. The scope of a release from liability shall be subject to limitations by virtue of the law. The provisions of Article 7 of these Articles of Association are not applicable with respect to a resolution as mentioned in this paragraph 2 of this Article 32.



**Article 33. Profits; Dividends.**

- 33.1. Annually, the Board of Management shall, subject to the approval of the Supervisory Board, determine which part of the profit shall be allocated to the reserves.
- 33.2. Any part of the profit remaining after application of paragraph 1 of this Article 33 shall be at the disposal of the General Meeting.
- 33.3. Distributions may be made only up to an amount which does not exceed the amount of the Distributable Equity.
- 33.4. The Board of Management, at the proposal of the Supervisory Board, may resolve to make interim distributions.
- 33.5. In addition, distributions to Shareholders are subject to Sections 2:103, 2:104 and 2:105 of the Dutch Civil Code.
- 33.6. The provisions of Article 7 of these Articles of Association are not applicable with respect to a resolution to make a(n) (interim) distribution as mentioned in this Article 33 and in Article 34 of these Articles of Association.

**Article 34. Distribution in Shares or Other Securities and Distributions at the Charge of Reserves.**

- 34.1. The General Meeting may, at the proposal of the Board of Management which has been approved by the Supervisory Board, resolve that a payment of dividend on Shares be wholly or partly paid by a distribution of Shares or any other securities in the Company or any other person.
- 34.2. The General Meeting may, at the proposal of the Board of Management which has been approved by the Supervisory Board, resolve that distributions to holders of Shares be made at the charge of one or more of the Company's reserves. Paragraph 1 of this Article 34 shall apply by analogy.

**Article 35. Date, Place, Currency and Manner of Payment.**

- 35.1. Dividends and other distributions shall be made payable on such date or dates, at such place or places, in such currency or currencies (in the case of a cash distribution) and in such manner as will be determined by the Board of Management. The date, the currency or currencies and the manner of payment may differ depending the place where the distribution is made payable. The making payable shall be announced in accordance with the provisions of Article 44 of these Articles of Association.

**Chapter XI. General Meetings of Shareholders.**

**Article 36. The AGM.**

- 36.1. The AGM shall be held annually, within six months of the end of the financial year. The six-month time period afore-mentioned does not apply if the period laid down in paragraph 2 of Article 31 of these Articles of Association has been extended in accordance with the provisions set out in the said article.
- 36.2. The agenda for the AGM shall contain, inter alia, the following matters:
  - a. the annual report;

- b. adoption of the annual accounts;
- c. granting of discharge of the members of the Board of Management and the Supervisory Directors;
- d. appointments to any vacancies;
- e. the policy on additions to reserves and on dividends;
- f. payment of dividend;
- g. if required by Dutch law, the retainer of an expert as referred to in Section 2:393 of the Dutch Civil Code;
- h. the language in which the items of the next annual accounts and the annual report shall be stated;
- i. any other proposals put forward for discussion by the Supervisory Board or the Board of Management such as proposals concerning the designation of a company body competent to issue Shares and to grant rights to subscribe for Shares and the authorisation of the Board of Management to cause the Company to acquire own Shares or depositary receipts thereof.

**Article 37. Other General Meetings of Shareholders.**

- 37.1. Other General Meetings of Shareholders shall be held as often as the Supervisory Board or the Board of Management deems such necessary, without prejudice to the provisions of Sections 2:110, 2:111 and 2:112 of the Dutch Civil Code.

**Article 38. Notice; Agenda.**

- 38.1. General Meetings of Shareholders shall be convened by the Supervisory Board or by the Board of Management. The Board of Management or the Supervisory Board shall, in any event, convene a General Meeting of Shareholders if two members of the Board of Management or two Supervisory Directors or Shareholders (or holders of depositary receipts for Shares) together representing at least ten percent (10%) of the issued share capital, make a written request to that effect to the Board of Management or to the Supervisory Board. Such a request shall state the subjects to be dealt with. If none of the members of the Board of Management or the Supervisory Directors subsequently convene a General Meeting of Shareholders to be held within four weeks of the day of receipt of the request as set out above, any one of those making the request shall be authorised to issue a convening notice, having due regard to Dutch law and these Articles of Association.
- 38.2. Notice of the meeting shall be given no later than on the fifteenth day prior to the date of the meeting.
- 38.3. The notice of the meeting shall state the subjects to be dealt with or it shall state that the Shareholders may find details thereof at the Company's office, without prejudice to the provisions of paragraph 3 of Article 45 of these Articles of Association and of Section 2:99, subsection 7, of the Dutch Civil

Code. Shareholders (or holders of depositary receipts for Shares) together representing at least one percent (1%) of the issued share capital or representing Shares with a value of not less than fifty million euros (€ 50,000,000.-) calculated on the basis of the Euronext Official Price List, shall be entitled to make a written request to the Board of Management or to the Supervisory Board to add a subject on the notice of the meeting. Such a request shall be submitted to the Board of Management or to the Supervisory Board at least fourteen days before the notice of the meeting will be given. The Board of Management or the Supervisory Board shall add the subject on the notice of the meeting, unless the Company has a serious interest in not adding the subject on the notice of the meeting.

- 38.4. The notice of the meeting shall state the requirement for admission to the meeting as described in Article 42 of these Articles of Association.
- 38.5. Notice shall be given in the manner stated in Article 44 of these Articles of Association.
- 38.6. Matters not stated in the notice of the meeting may be further announced, subject to the time limit pertaining to the convocation of meetings, in the manner stated in Article 44 of these Articles of Association.
- 38.7. Unless the notice of the meeting includes the contents of all documents which, according to the law or these Articles of Association, are to be available to Shareholders for inspection in connection with the meeting to be held, these documents are to be made available free of charge to Shareholders in Amsterdam and shall at the same time be deposited for inspection at the Company's office and, for as long as Shares are listed on the Tel Aviv Stock Exchange, at the offices of the Company or its Subsidiary in Israel, and in Amsterdam at the office of a paying agent (*'betaalkantoor'*) as referred to in the Euronext General Rules, such paying agent to be designated in the notice of the meeting.
- 38.8. Where used in this Article 38, the term "Shareholders" shall include usufructuaries and pledgees to which the voting rights on Shares accrue.

**Article 39. Venue of Meetings.**

- 39.1. The General Meetings of Shareholders shall be held in Amsterdam, Haarlemmermeer (including but not limited to Schiphol Airport and Schiphol-Rijk), Rotterdam or The Hague.

**Article 40. Chairmanship.**

- 40.1. The General Meetings of Shareholders shall be chaired by the Chairman of the Supervisory Board or, if he has not been elected or in his absence, by the Vice Chairman of that board; in the event that the latter has also not been elected or is also absent, the Supervisory Directors present shall elect a chairman from their midst. The Supervisory Board may designate another person to act as chairman of a General Meeting of Shareholders.

- 40.2. If the chairman of the meeting has not been appointed in accordance with paragraph 1 of this Article 40, the meeting shall itself choose a chairman. Until the time such choice is made a member of the Board of Management designated thereto by the Board of Management shall act as chairman.

**Article 41. Minutes.**

- 41.1. Minutes shall be kept of the proceedings at every General Meeting of Shareholders by a secretary to be designated by the chairman of the meeting. The minutes shall be adopted by the chairman and the secretary of the meeting and shall be signed by them as evidence thereof.
- 41.2. Each of the Supervisory Board and the chairman of the meeting may determine that notarial minutes shall be drawn up of the proceedings of the meeting. The notarial minutes shall be co-signed by the chairman.

**Article 42. Rights at Meetings; Admittance.**

- 42.1. Each Shareholder entitled to vote and each usufructuary or pledgee to whom the voting rights accrue shall be entitled to attend the General Meeting of Shareholders, to address the meeting and to exercise his voting rights. Shareholders must notify the Board of Management in writing of the intention to attend the meeting. Such notice must be received by the Board of Management not later than on the date mentioned in the notice of the meeting.
- 42.2. The right to take part in the meeting in accordance with paragraph 1 of this Article 42 may be exercised by a proxy authorised in writing, provided that the power of attorney has been received by the Board of Management not later than on the date mentioned in the notice of the meeting.
- 42.3. The date mentioned in the notice of the meeting, referred to in paragraphs 1 and 2 of this Article 42, shall not be earlier than the seventh day prior to the date of the meeting.
- 42.4. If the voting rights attributable to a Share accrue to the usufructuary or to a pledgee, instead of to the Shareholder, the Shareholder is also authorised to attend the General Meeting of Shareholders and to address the meeting. Paragraph 1 last sentence and paragraph 2 of this Article 42 shall apply by analogy.
- 42.5. Pursuant to the filing of a written statement issued for that purpose by a Necigef Participant, a Necigef Beneficiary shall be considered a Shareholder in respect of entitlement to attend the General Meeting of Shareholders and exercise voting rights. Such statement should indicate that the one mentioned therein is entitled through the Necigef Participant concerned to the number of Deposit Shares stated and that it will retain such entitlement until the end of the meeting. However, if a record date is set for the meeting, in accordance with paragraph 6 of this Article 42 of these Articles of Association, the statement should indicate that, on that record date, the one mentioned therein is entitled, through the Necigef Participant concerned, to the

number of Deposit Shares stated.

The statement must be filed on time, at such place as stated in the notice of the meeting. The final date for filing the statement shall be specified in the notice of the meeting; this date shall not be earlier than the seventh day prior to the date of the meeting. The receipt issued in respect of this filing shall serve as an entry permit for the meeting.

The foregoing provisions of this paragraph 5 of this Article 42 of these Articles of Association shall apply by analogy to pledgees and usufructuaries of book-entry rights of Necigef Beneficiaries in respect of Deposit Shares if, pursuant to their right of pledge or usufruct, they hold voting rights.

- 42.6. If the Board of Management so decides, a record date shall be scheduled for a General Meeting of Shareholders. This record date shall not be earlier than the thirtieth day prior to the date of the meeting. If this record date is scheduled the voting rights and the right to attend the meeting shall accrue to those holding such entitlements, and registered as such in a register designated for that purpose by the Board of Management, on this record date, irrespective of to whom these rights accrue at the time of the General Meeting of Shareholders.

The record date scheduled shall be specified in the notice of the meeting together with the manner in which persons with voting rights and the right to attend the meeting can register and exercise their rights.

- 42.7. Each Share confers the right to cast one (1) vote.  
42.8. Each person entitled to vote or his proxy shall sign the attendance list.  
42.9. The Supervisory Directors and the members of the Board of Management shall, as such, have the right to advise the General Meeting of Shareholders.  
42.10. The chairman of the meeting shall decide whether persons other than those who shall be admitted in accordance with the above provisions of this Article 42 shall be admitted to the meeting.

**Article 43. Adoption of Resolutions and Voting.**

- 43.1. Valid resolutions of the General Meeting can only be adopted in a General Meeting of Shareholders for which notice is given and which is held in accordance with the relevant provisions of the law and of these Articles of Association. Unless otherwise stipulated by Dutch law or these Articles of Association, all resolutions of the General Meeting shall be adopted by absolute majority of the votes cast.
- 43.2. If these Articles of Association provide that the validity of a resolution shall depend on the part of the capital represented at a General Meeting of Shareholders, and such part was not represented at such meeting, then a new meeting may be convened at which the resolution may be passed, irrespective of the part of the capital represented at such meeting.

In the notice convening the new meeting it must be stated, given the reason

therefore, that the resolution may be passed, irrespective of the part of the capital represented at the meeting.

- 43.3. If in an election of persons a majority is not obtained, a second free vote shall be taken. If again a majority is not obtained, further votes shall be taken until either one person obtains a majority or the election is between two persons only, both of whom receive an equal number of votes. In the event of such further elections (not including the second free vote), each election shall be between the persons who participated in the preceding election, but with the exclusion of the person who received the smallest number of votes in that preceding election. If in a preceding election more than one person received the lowest number of votes, it shall be decided by lot which of these persons should not participate in the new election. If there is a tie of votes in an election between two persons, it shall be decided by lot who is elected, without prejudice to the provision of the following paragraph of this Article 43.
- 43.4. In the event of a tie of votes in an election from a binding list of candidates, the candidate whose name appears first on the list shall be elected.
- 43.5. If there is a tie of votes in a vote other than a vote for the election of persons, the proposal is thus rejected.
- 43.6. All votes may be cast orally. The chairman is, however, entitled to decide a vote by a secret ballot. If it concerns an election of persons, also a person present at the meeting and entitled to vote can demand a vote by a secret ballot. Voting by secret ballot shall take place by means of secret, unsigned ballot papers.
- 43.7. Abstentions and invalid votes shall not be counted as votes cast.
- 43.8. Voting by acclamation shall be possible if none of the persons present and entitled to vote objects against it.
- 43.9. Shareholders may participate in General Meetings of Shareholders held in one of the places mentioned in paragraph 1 of Article 39 of these Articles of Association, by means of a conference call, video conference or by any other means of communication, provided that all Shareholders participating in such meeting are able to communicate with each other simultaneously. The Company will exert itself to enable participation by the above means, also from Israel. Participation in a meeting by any of the above means shall constitute presence at such meeting.

The chairman of the meeting may appoint a person who will check the identity of the Shareholders who are participating a meeting in any of the above ways.
- 43.10. In a General Meeting of Shareholders in which the entire issued capital is represented, resolutions that have been unanimously adopted and that are valid in Dutch law may still be adopted even if the requirements in respect of the convening and holding of meetings have not been complied with.



43.11. Furthermore, the provisions of the Section 2:13, subsections 3 and 4, and Section 2:117 of the Dutch Civil Code shall apply to General Meeting of Shareholders and the adoption of resolutions therein.

#### **Chapter XII. Notices and other Communications.**

##### **Article 44.**

44.1. All notices of General Meetings of Shareholders, all announcements concerning dividends and other payments and all other communications to Shareholders shall be effected by means of a notice in a Dutch national daily paper, in two Israeli papers of broad distribution, in the Euronext Official Price List and via the Tel Aviv Stock Exchange, without prejudice to the provisions of Section 2:96a, subsection 4, of the Dutch Civil Code.

Simultaneously with the issuance of the notice, the Company shall provide Euronext Amsterdam N.V., if so required, with the information included in the notice, announcement or other communication as well as with the documents which by law, the Articles of Association or agreement must be available to or for inspection by Shareholders or other persons entitled to such information.

44.2. Where used in paragraph 1 of this Article 44, the term "Shareholders" shall include the usufructuaries and pledgees to which the voting rights on Shares accrue.

#### **Chapter XIII. Amendment of these Articles of Association; Dissolution.**

##### **Article 45. Amendment of these Articles of Association; Dissolution; Statutory Merger or Demerger**

45.1. A resolution of the General Meeting to amend these Articles of Association, to dissolve the Company or to merge or demerge the Company within the meaning of Book 2, Title 7, of the Dutch Civil Code, shall only be adopted on a proposal of the Supervisory Board. Before proposing an amendment of the Articles of Association to the General Meeting of Shareholders, the Company shall, if so required, consult with Euronext Amsterdam N.V. as to the contents of such amendment.

45.2. A resolution of the General Meeting to amend one or more of the Articles 7, 8 and 9 of these Articles of Association or this paragraph shall require the approvals as mentioned in Article 7 paragraph 1 under a., b. and c. of these Articles of Association in the order as mentioned therein.

45.3. When a proposal to amend these Articles of Association or to dissolve the Company is to be submitted to the General Meeting of Shareholders, such must be mentioned in the notice of the General Meeting of Shareholders and, if an amendment to these Articles of Association is to be discussed, a copy of the proposal, setting forth the text of the proposed amendment verbatim, shall at the same time be deposited for inspection at the Company's office and, for as long as Shares are listed on the Tel Aviv Stock Exchange, at the offices of the Company or its Subsidiary in Israel, and in Amsterdam at the office of a

paying agent (*'betaalkantoor'*) as referred to in the Euronext General Rules, such paying agent to be designated in the notice of the meeting, and shall be held available for Shareholders as well as for usufructuaries and pledgees to which the voting rights on Shares accrue, free of charge until the end of the meeting.

**Article 46. Liquidation.**

- 46.1. In the event of dissolution of the Company by virtue of a resolution of the General Meeting, the Board of Management shall be charged with the liquidation of the business of the Company and the Supervisory Board with the supervision thereof.
- 46.2. During liquidation, the provisions of these Articles of Association shall remain in force as far as possible.
- 46.3. The liquidation surplus shall be distributed to Shareholders and other parties entitled thereto in proportion to their respective rights.
- 46.4. The liquidation shall otherwise be subject to the provisions of Title 1, Book 2 of the Civil Code.

**Chapter XIV. Final and Transitional Provisions.**

**Article 47. Authorisation to Issue Shares.**

- 47.1. The duration of the authority of the Board of Management to issue Shares and to grant rights to subscribe for Shares as provided for in Article 10 of these Articles of Association, shall be fixed on five years, effective as of the date of this deed. The authorisation concerns all non-issued Shares of the authorised capital as it reads now or shall read at some point in time. The same applies to the authorisation of the Board of Management to limit or exclude the right of pre-emption, as provided for in Article 11 of these Articles of Association.

**ANNEX B**

## AMENDMENT OF THE ARTICLES OF ASSOCIATION

Draft dated 12 October 2008

On the [\*\*]

two thousand and eight, appearing before me,  
Martine Bijkerk, a civil-law notary in Amsterdam, is:

[\*\*].

The person who appeared before me, declared that:

- the latest amendment to the articles of association of the private limited liability company: **Kardan N.V.**, with corporate seat in Amsterdam, has been executed on the twentieth day of June two thousand and seven before M. Bijkerk, civil-law notary in Amsterdam;
- the supervisory board of said company has made a proposal to amend to the articles of association;
- the general meeting of shareholders of said company has resolved to amend the articles of association;
- furthermore it is resolved to authorize the person appearing to sign the deed of amendment of the articles of association;
- evidence of said proposal is by means of a copy of the resolution of the supervisory board, to be attached to this instrument;
- evidence of said resolution of the general meeting of shareholders is by means of the minutes of the meeting.

In order to carry out said resolutions the person appearing subsequently declares to amend the articles of association as follows:

### **Article 7 paragraph 2 will read as follows:**

- 7.2 The approvals as mentioned in paragraph 1 of this Article 7 are required with respect to:
- a. an Extraordinary Transaction, including a Private Offer, of the Company with a Holder of Control;
  - b. an Extraordinary Transaction, including a Private Offer, of the Company with another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Board of Management;
  - c. the entry into a contract by the Company with a Holder of Control or a Relative of such Holder of Control with respect to the Terms of Office and Employment of the Holder of Control or the Relative of such Holder of Control if the Holder of Control or the Relative of such Holder of Control is a member of the Board of Management or of the Supervisory Board;
  - d. the entry into a contract by the Company with a Holder of Control or a

Relative of such Holder of Control with respect to the Terms of Office and Employment of the Holder of Control or the Relative of such Holder of Control if the Holder of Control or the Relative of the Holder of Control is an employee of the Company but not a member of the Board of Management or of the Supervisory Board; and

- e. an Extraordinary Transaction of the Company, as mentioned under a. and b. above, made by a company over which company the Company has Control.

**Article 8 paragraph 1 will read as follows:**

- 8.1 An Extraordinary Transaction as set out in paragraph 2 of Article 7 shall not require the approval of the General Meeting as mentioned in paragraph 1 under c. of Article 7, if any of the following applies to it:
- a. the Transaction extends an existing Transaction ("**Additional Transaction**") provided that (i) the existing Transaction between the same parties has been lawfully approved and (ii) the Supervisory Board has approved the Additional Transaction in the way as mentioned under paragraph 3 of Article 7 and (iii) the Supervisory Board has adopted a resolution with a Special SB Majority, in which it determines that there has been no substantive change in the terms of the Additional Transaction and the other necessary circumstances vis-à-vis the existing Transaction; for the purpose of this subparagraph, Transactions between the Holders of Control and Kardan Israel Limited, a company organised under the laws of Israel, which Transactions were lawfully approved by Kardan Israel Limited prior to the eighteenth day of June two thousand three, shall be considered existing Transactions of the Company to which this subparagraph shall apply;
  - b. the Supervisory Board has adopted a resolution with a Special SB Majority, in which it confirms that the Transaction can only benefit the Company;
  - c. it is a Transaction of the Company with a Holder of Control or with another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Board of Management, provided that the Supervisory Board has (i) approved the Transaction in the way as mentioned under paragraph 3 of Article 7 and (ii) determined that the Transaction complies with the terms set out in a Framework Agreement;
  - d. it is a Transaction of the Company together with a Holder of Control or together with another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Board of Management, for the purpose of entering into a Transaction between them and another entity or for the purpose of submitting a joint proposal

- for such Transaction, provided that the Supervisory Board has (i) approved the Transaction in the way as mentioned under paragraph 3 of Article 7 and (ii) determined that the terms of that Transaction with respect to the Company are not materially different from the ones with respect to the Holder of Control or from the ones with respect to the other Person, considering their relative portions in the Transaction; or
- e. it is a Transaction between (i) the Company and another company under the Control of a Holder of Control, or (ii) the Company and a Holder of Control, or (iii) the Company and another Person, in which Transaction a Holder of Control has a Personal Interest according to the information of the Board of Management, provided that the Supervisory Board has adopted a resolution with a Special SB Majority, in which it determines that the Transaction is on market terms and in the ordinary course of business and does not harm the best interests of the Company;
  - f. if in the event of Article 7 paragraph 2 sub c. the proposed remuneration as a member of the Board of Management or the Supervisory Board does not exceed the lowest remuneration paid to any other member of the relevant corporate body;
  - g. if in the event of Article 7 paragraph 2 sub d. the proposed salary shall not exceed the Dutch standard income (*modaal inkomen*) as used by 'Centraal Plan Bureau' and the Supervisory Board decides with a Special SB Majority that the said salary is reasonable in view of the nature of the position and qualifications of the relevant person, provided that not more than two persons at the same time can have a position within the Company on the basis of this article 8 paragraph 1 sub g.;
  - h. if in the event of Article 7 paragraph 2 sub c. it concerns conditions of directors' and officers' insurance approved by the Supervisory Board with a Special SB Majority which are identical or less onerous or expensive to the Company than the conditions applying to the other members of the Board of Management or the Supervisory Board and, according to the decision of the Supervisory Board, are conform market conditions and not likely to materially affect the profitability of the Company, its assets or its obligations.

**Article 13 paragraph 1 will read as follows:**

- 13.1 The Company shall be entitled to acquire fully paid-up Shares in its own capital or depositary receipts thereof, provided either no valuable consideration is given or provided that:
- a. the distributable part of the capital and reserves is at least equal to the purchase price; and
  - b. the nominal value of the Shares or the depositary receipts thereof which the Company acquires, holds or holds in pledge or which are held by a



Subsidiary of the Company does not exceed half of the Company's issued capital.

**Article 14 will read as follows:**

- 14.1 The Company may not provide collateral, guarantee the price, otherwise guarantee or otherwise bind itself jointly and severally with or on behalf of third parties, for the purpose of subscription to or acquisition of Shares in its own capital or of depository receipts issued in respect thereof.
- 14.2 The Company and its Subsidiaries may not grant loans for the purpose of subscription to or acquisition of Shares in its own capital or of depository receipts issued in respect thereof, unless the Board of Management so resolves and the requirements set out in Section 2:98c of the Dutch Civil Code have been complied with.
- 14.3 The prohibition of the previous subsections shall not apply if Shares or depository receipts issued in respect thereof are acquired by or on behalf of employees of the Company or a Group Company.

**Final statement**

Finally the person appearing declares that according to a ministerial order which is to be attached to this instrument, the ministerial declaration of no-objection has been granted on the [\*\*] day of [\*\*] two thousand and eight under number N.V. 1239114.

**CONCLUSION**

The person appearing in connection with this deed is known to me, a civil-law notary, and the identity of the person appearing has been established by me, a civil-law notary, on the basis of the above-mentioned documents which are designated for such purpose.

**THIS DEED**

is executed in Amsterdam on the date stated at the head of the deed.

The substance of this deed and an explanation of the deed have been communicated to the person appearing, who has expressly taken cognisance of its contents and have agreed to its limited reading.

After a limited reading in accordance with the law, this deed was signed by the persons appearing and by me, a civil-law notary.

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## ANNEX 2

### Explanatory Memoranda

**Explanatory notes to the proposal of legal merger between GTC Real Estate N.V. as disappearing company ("Disappearing Company"), GTC Real Estate Holding B.V. as acquiring company ("Acquiring Company") and Kardan N.V. as issuing group entity ("Issuing Group Entity"), by the management board of Kardan N.V.**

informal translation

**Reasons for the legal merger:**

The management board believes that the intended merger (the "**Merger**") will create a larger holding company with a strengthened financial and equity position. The Merger is necessary to simplify the legal structure of the Kardan group as the current control situation (the Issuing Group Entity directly and indirectly holding around 65% of the shares in the Disappearing Company) and the burdens of the Disappearing Company's listing at the Tel-Aviv Stock Exchange ("**TASE**") are not optimal for supporting Kardan group's envisaged growth strategy. In addition, the management board considers the Merger necessary to further increase the transparency of the Kardan group and thus to create value for shareholders.

**Expected consequences for the activities:**

As result of the Merger the Acquiring Company will continue the activities of the Disappearing Company.

**Explanation from a legal, economic and social point of view:**

Legal

As result of the Merger:

- the Disappearing Company will cease to exist;
- the Acquiring Company will acquire all assets and liabilities of the Disappearing Company by universal title (*algemene titel*) provided that:
  - in relation to article 2:320 of the Dutch Civil Code the holders of convertible debentures issued by the Disappearing Company and traded at TASE as GTC.C1, ISIN NL0000414514 ("**Convertible GTC Debentures**"), will be proposed, under the condition precedent of the Merger becoming effective (the "**Condition Precedent**"), to exchange these debentures for convertible debentures issued by the Issuing Group Entity ("**New Convertible Debentures**"), all as set out in the merger proposal;
  - the holders of non-convertible debentures issued by the Disappearing Company and traded at TASE as GTC.B2, ISIN IL0011052383, will be proposed, under the Condition Precedent, to exchange these debentures for non-convertible debentures issued by the Issuing Group Entity, all as set out in the merger proposal;
- the shareholders of the Disappearing Company, in compliance with the law, are being granted shares in the capital of the Issuing Group Entity.

Economic

The economic consequences of the Merger are, apart from savings, expected to be a strengthened financial and equity position of the Issuing Group Entity and, as a result, creation of value for shareholders.

#### Social

The merger has no consequences with respect to employment and working conditions.

#### **Methods to determine exchange ratios:**

The shares in the capital of the Disappearing Company are admitted to the trade at TASE. The shares in the capital of the Issuing Group Entity are admitted to the trade at the NYSE Euronext Amsterdam N.V. in the Netherlands and at TASE.

The exchange ratio is based on the volume weighted average price (VWAP), meaning the ratio of the value traded on TASE in every transaction in shares of the Disappearing Company and the Issuing Group Entity to a total volume traded, over a time interval of ninety trading days ending on 2 October 2008 (the last trading day on TASE prior to the determination of the exchange ratio by the management board of the Disappearing Company and the Issuing Group Entity).

The conversion rate for the convertible debentures is based on the binomial model, a widely-used option-pricing model. This model was based on the terms and conditions of the Convertible GTC Debentures and on other parameters identified as being relevant to the computation of the fair value of the convertible debenture, such as the fact that the option prices are based on the Issuing Group Entity share price on TASE of NIS 23.5 as per 2 October 2008 and a hypothetical stock price of NIS 19.04 for the Disappearing Company (0.81 times the share price of NIS 23.5 of the Issuing Group Company). Further, in order to determine the option prices, volatility was taken into account. The volatility, as per 2 October 2008, is based on the historical volatility of a reference period of 30 days and amounts to 142% for the Disappearing Company and 128% for the Issuing Group Entity. As a result of a larger Issuing Group Entity (combined entity) after the Merger, a 10% lower volatility (of the calculated 128%) for the combined entity after the Merger was assumed, which equals 115%.

#### **Appropriateness of the exchange ratios:**

The applied methods to determine the exchange ratios are appropriate.

#### **Value resulting from the applied methods:**

The value of the shares in the Issuing Group Entity resulting from the method applied to determine the exchange ratio of the shares amounts to NIS 40.10; the value of the shares of the Disappearing Company resulting from that method applied amounts to NIS 32.61. As a result hereof, for each share in the Disappearing Company 0.81 share in the Issuing Group Entity will be granted which is equal to the value of 1 share in the Disappearing Company when applying the method as described above.

The conversion rate of the Convertible GTC Debentures amounts to NIS 16.1 nominal value (the "GTC Conversion Rate") for 1 share in the Disappearing Company. The conversion

rate for the New Convertible Debentures is based on the binomial mode, as described above under 'Methods to determine exchange ratios'. On the basis of the GTC Conversion Rate, the method applied results in an option price of NIS 9.58 for one option. For illustration purposes, for 100 GTC Convertible Debentures the option value will be NIS 59.5 ( $100/16.1 * \text{NIS } 9.58$ ). Based on the assumptions including the above, the conversion rate for the New Convertible Debentures amounts to NIS 17.88 nominal value (the "**New Conversion Rate**"); it will entitle the holders thereof to convert an amount of NIS 17.88 nominal value for 1 share in the Issuing Group Entity. On the basis of the New Conversion Rate, the method applied results in an option price of NIS 10.64 for one option. For illustration purposes, for 100 New Convertible Debentures the option value will be NIS 59.5 ( $100/17.88 * \text{NIS } 10.64$ ), which is equal to the value of 1 Convertible GTC Debenture.

**Only if more than one method is applied: whether the relative importance attributed to the valuation methods applied may be considered generally acceptable:**

Not applicable.

**Particular difficulties, if any, with respect to the valuation and with respect to the determination of the exchange ratio:**

None.



**Explanatory notes to the proposal of legal merger between GTC Real Estate N.V. as disappearing company ("Disappearing Company"), GTC Real Estate Holding B.V. as acquiring company ("Acquiring Company") and Kardan N.V. as issuing group entity ("Issuing Group Entity"), by the management board of GTC Real Estate Holding B.V.**

informal translation

**Reasons for the legal merger:**

The management board believes that the intended merger (the "**Merger**") will create a larger holding company with a strengthened financial and equity position. The Merger is necessary to simplify the legal structure of the Kardan group as the current control situation (the Issuing Group Entity directly and indirectly holding around 65% of the shares in the Disappearing Company) and the burdens of the Disappearing Company's listing at the Tel-Aviv Stock Exchange ("**TASE**") are not optimal for supporting Kardan group's envisaged growth strategy. In addition, the management board considers the Merger necessary to further increase the transparency of the Kardan group and thus to create value for shareholders.

**Expected consequences for the activities:**

As result of the Merger the Acquiring Company will continue the activities of the Disappearing Company.

**Explanation from a legal, economic and social point of view:**

Legal

As result of the Merger:

- the Disappearing Company will cease to exist;
- the Acquiring Company will acquire all assets and liabilities of the Disappearing Company by universal title (*algemene titel*) provided that:
  - in relation to article 2:320 of the Dutch Civil Code the holders of convertible debentures issued by the Disappearing Company and traded at TASE as GTC.C1, ISIN NL0000414514 ("**Convertible GTC Debentures**"), will be proposed, under the condition precedent of the Merger becoming effective (the "**Condition Precedent**"), to exchange these debentures for convertible debentures issued by the Issuing Group Entity ("**New Convertible Debentures**"), all as set out in the merger proposal;
  - the holders of non-convertible debentures issued by the Disappearing Company and traded at TASE as GTC.B2, ISIN IL0011052383, will be proposed, under the Condition Precedent, to exchange these debentures for non-convertible debentures issued by the Issuing Group Entity, all as set out in the merger proposal;
- the shareholders of the Disappearing Company, in compliance with the law, are being granted shares in the capital of the Issuing Group Entity.

Economic

The economic consequences of the Merger are, apart from savings, expected to be a strengthened financial and equity position of the Issuing Group Entity and, as a result, creation of value for shareholders.

#### Social

The merger has no consequences with respect to employment and working conditions.

#### **Methods to determine exchange ratios:**

The shares in the capital of the Disappearing Company are admitted to the trade at TASE. The shares in the capital of the Issuing Group Entity are admitted to the trade at the NYSE Euronext Amsterdam N.V. in the Netherlands and at TASE.

The exchange ratio is based on the volume weighted average price (VWAP), meaning the ratio of the value traded on TASE in every transaction in shares of the Disappearing Company and the Issuing Group Entity to a total volume traded, over a time interval of ninety trading days ending on 2 October 2008 (the last trading day on TASE prior to the determination of the exchange ratio by the management board of the Disappearing Company and the Issuing Group Entity).

The conversion rate for the convertible debentures is based on the binomial model, a widely-used option-pricing model. This model was based on the terms and conditions of the Convertible GTC Debentures and on other parameters identified as being relevant to the computation of the fair value of the convertible debenture, such as the fact that the option prices are based on the Issuing Group Entity share price on TASE of NIS 23.5 as per 2 October 2008 and a hypothetical stock price of NIS 19.04 for the Disappearing Company (0.81 times the share price of NIS 23.5 of the Issuing Group Company). Further, in order to determine the option prices, volatility was taken into account. The volatility, as per 2 October 2008, is based on the historical volatility of a reference period of 30 days and amounts to 142% for the Disappearing Company and 128% for the Issuing Group Entity. As a result of a larger Issuing Group Entity (combined entity) after the Merger, a 10% lower volatility (of the calculated 128%) for the combined entity after the Merger was assumed, which equals 115%.

#### **Appropriateness of the exchange ratios:**

The applied methods to determine the exchange ratios are appropriate.

#### **Value resulting from the applied methods:**

The value of the shares in the Issuing Group Entity resulting from the method applied to determine the exchange ratio of the shares amounts to NIS 40.10; the value of the shares of the Disappearing Company resulting from that method applied amounts to NIS 32.61. As a result hereof, for each share in the Disappearing Company 0.81 share in the Issuing Group Entity will be granted which is equal to the value of 1 share in the Disappearing Company when applying the method as described above.

The conversion rate of the Convertible GTC Debentures amounts to NIS 16.1 nominal value (the "**GTC Conversion Rate**") for 1 share in the Disappearing Company. The conversion

rate for the New Convertible Debentures is based on the binomial mode, as described above under 'Methods to determine exchange ratios'. On the basis of the GTC Conversion Rate, the method applied results in an option price of NIS 9.58 for one option. For illustration purposes, for 100 GTC Convertible Debentures the option value will be NIS 59.5 ( $100/16.1 * \text{NIS } 9.58$ ). Based on the assumptions including the above, the conversion rate for the New Convertible Debentures amounts to NIS 17.88 nominal value (the "**New Conversion Rate**"); it will entitle the holders thereof to convert an amount of NIS 17.88 nominal value for 1 share in the Issuing Group Entity. On the basis of the New Conversion Rate, the method applied results in an option price of NIS 10.64 for one option. For illustration purposes, for 100 New Convertible Debentures the option value will be NIS 59.5 ( $100/17.88 * \text{NIS } 10.64$ ), which is equal to the value of 1 Convertible GTC Debenture.

**Only if more than one method is applied: whether the relative importance attributed to the valuation methods applied may be considered generally acceptable:**

Not applicable.

**Particular difficulties, if any, with respect to the valuation and with respect to the determination of the exchange ratio:**

None.

**Explanatory notes to the proposal of legal merger between Kardan N.V. as issuing group entity ("Issuing Group Entity"), GTC Real Estate Holding B.V. as acquiring company ("Acquiring Company") and GTC Real Estate N.V. as disappearing company ("Disappearing Company"), by the management board of GTC Real Estate N.V.**

informal translation

**Reasons for the legal merger:**

The management board believes that the intended merger (the "**Merger**") will create a larger holding company with a strengthened financial and equity position. In addition hereto, we believe that the clear post-merger situation (i.e. the Issuing Group Entity being a 100% holder of the Disappearing Company's activities) will strengthen the possibilities for the GTC Real Estate group (through the Acquiring Company) to finance its activities and to grow in line with its growth strategy.

**Expected consequences for the activities:**

As result of the Merger the Acquiring Company will continue the activities of the Disappearing Company.

**Explanation from a legal, economic and social point of view:**

Legal

As result of the Merger:

- the Disappearing Company will cease to exist;
- the Acquiring Company will acquire all assets and liabilities of the Disappearing Company by universal title (*algemene titel*) provided that:
  - in relation to article 2:320 of the Dutch Civil Code the holders of convertible debentures issued by the Disappearing Company and traded at the Tel-Aviv Stock Exchange ("**TASE**") as GTC.C1, ISIN NL0000414514 ("**Convertible GTC Debentures**"), will be proposed, under the condition precedent of the Merger becoming effective (the "**Condition Precedent**"), to exchange these debentures for convertible debentures issued by the Issuing Group Entity ("**New Convertible Debentures**"), all as set out in the merger proposal;
  - the holders of non-convertible debentures issued by the Disappearing Company and traded at TASE as GTC.B2, ISIN IL0011052383, will be proposed, under the Condition Precedent, to exchange these debentures for non-convertible debentures issued by the Issuing Group Entity, all as set out in the merger proposal;
- the shareholders of the Disappearing Company, in compliance with the law, are being granted shares in the capital of the Issuing Group Entity.

Economic

The economic consequences of the Merger are, apart from savings, expected to strengthen the possibilities for the GTC Real Estate group (through the Acquiring Company) to finance its activities and to grow in line with its growth strategy.

#### Social

The merger has no consequences with respect to employment and working conditions.

#### **Methods to determine exchange ratios:**

The shares in the capital of the Disappearing Company are admitted to the trade at TASE. The shares in the capital of the Issuing Group Entity are admitted to the trade at the NYSE Euronext Amsterdam N.V. in the Netherlands and at TASE.

The exchange ratio is based on the volume weighted average price (VWAP), meaning the ratio of the value traded on TASE in every transaction in shares of the Disappearing Company and the Issuing Group Entity to a total volume traded, over a time interval of ninety trading days ending on 2 October 2008 (the last trading day on TASE prior to the determination of the exchange ratio by the management board of the Disappearing Company and the Issuing Group Entity).

The conversion rate for the convertible debentures is based on the binomial model, a widely-used option-pricing model. This model was based on the terms and conditions of the Convertible GTC Debentures and on other parameters identified as being relevant to the computation of the fair value of the convertible debenture, such as the fact that the option prices are based on the Issuing Group Entity share price on TASE of NIS 23.5 as per 2 October 2008 and a hypothetical stock price of NIS 19.04 for the Disappearing Company (0.81 times the share price of NIS 23.5 of the Issuing Group Company). Further, in order to determine the option prices, volatility was taken into account. The volatility, as per 2 October 2008, is based on the historical volatility of a reference period of 30 days and amounts to 142% for the Disappearing Company and 128% for the Issuing Group Entity. As a result of a larger Issuing Group Entity (combined entity) after the Merger, a 10% lower volatility (of the calculated 128%) for the combined entity after the Merger was assumed, which equals 115%.

#### **Appropriateness of the exchange ratios:**

The applied methods to determine the exchange ratios are appropriate.

#### **Value resulting from the applied methods:**

The value of the shares in the Issuing Group Entity resulting from the method applied to determine the exchange ratio of the shares amounts to NIS 40.10; the value of the shares of the Disappearing Company resulting from that method applied amounts to NIS 32.61. As a result hereof, for each share in the Disappearing Company 0.81 share in the Issuing Group Entity will be granted which is equal to the value of 1 share in the Disappearing Company when applying the method as described above.

The conversion rate of the Convertible GTC Debentures amounts to NIS 16.1 nominal value (the "GTC Conversion Rate") for 1 share in the Disappearing Company. The conversion

rate for the New Convertible Debentures is based on the binomial mode, as described above under 'Methods to determine exchange ratios'. On the basis of the GTC Conversion Rate, the method applied results in an option price of NIS 9.58 for one option. For illustration purposes, for 100 GTC Convertible Debentures the option value will be NIS 958 (100/16.1 \* NIS 9.58). Based on the assumptions including the above, the conversion rate for the New Convertible Debentures amounts to NIS 17.88 nominal value (the "**New Conversion Rate**"); it will entitle the holders thereof to convert an amount of NIS 17.88 nominal value for 1 share in the Issuing Group Entity. On the basis of the New Conversion Rate, the method applied results in an option price of NIS 10.64 for one option. For illustration purposes, for 100 New Convertible Debentures the option value will be NIS 1064 (100/17.88 \* NIS 10.64), which is equal to the value of 1 Convertible GTC Debenture.

**Only if more than one method is applied: whether the relative importance attributed to the valuation methods applied may be considered generally acceptable:**

Not applicable.

**Particular difficulties, if any, with respect to the valuation and with respect to the determination of the exchange ratio:**

None.



## **ANNEX 3**

### **Auditors Statement and Auditors Report**

The Auditors Report and the Auditors Statement included as Annex 3 in this Prospectus refer to an enclosed merger proposal and explanatory notes. Please note that these documents concern the Merger Proposal and the Explanatory Memoranda which are included as Annex 1 and Annex 2 in this Prospectus, respectively.

## UNOFFICIAL TRANSLATION<sup>1</sup>

To the Management Board of  
Kardan N.V.  
Claude Debussylaan 30  
Viñoly Building, 13<sup>th</sup> Floor  
1082 MD AMSTERDAM

### AUDITORS' STATEMENT (*ACCOUNTANTSVERSLAG*) PURSUANT TO SECTION 2:328, SUBSECTION 2 OF THE DUTCH CIVIL CODE

#### *INTRODUCTION*

We have examined the information provided by the Management Board of GTC Real Estate Holding B.V., with corporate seat in Amsterdam ("Acquiring Company"), GTC Real Estate N.V., with corporate seat in Amsterdam ("Disappearing Company") and Kardan N.V., with corporate seat in Amsterdam ("Issuing Group Entity"), in conformity with section 2:327 of the Dutch Civil Code, as included in the enclosed explanatory notes (*toelichtingen op het voorstel tot fusie*) dated October 16, 2008, initialed for identification purposes, relating to the merger between GTC Real Estate Holding B.V., GTC Real Estate N.V. and Kardan N.V. The Management Board of the three companies are responsible for the information disclosed in the explanatory notes and the merger proposal. Our responsibility is to issue a report as referred to in Section 2:328, subsection 2 of the Dutch Civil Code.

#### *SCOPE*

We conducted our examination in accordance with Dutch law. This requires that we plan and perform the examination to obtain reasonable assurance about whether the information disclosed by the Management Board of GTC Real Estate Holding B.V., GTC Real Estate N.V. and Kardan N.V. in the explanatory notes according to Section 2:327 of the Dutch Civil Code, meets the statutory requirements of Section 2:327 of the Dutch Civil Code. We believe that the information we have obtained is sufficient and appropriate to provide a basis for our conclusion.

<sup>1</sup> This is an unofficial translation into English of the original Dutch text. The Dutch text will serve as the leading official document in case of anomalies or doubt.

**CONCLUSION**

We conclude that the information disclosed by the Management Board of GTC Real Estate Holding B.V., GTC Real Estate N.V. and Kardan N.V. in the explanatory notes concerning the following matters meets the relevant statutory requirements:

- a. the method(s) used to determine the proposed exchange ratio for the shares;
- b. the adequacy of the method(s) used;
- c. the values arrived at by using such method(s);

**LIMITATION ON USE**

This auditors' report is issued solely for the purposes referred to in Section 2:314 and 2:328 of the Dutch Civil Code.

Amsterdam, October 16, 2008

MAZARS PAARDEKOOPER HOFFMAN N.V.



Drs. J.D.G. Noach RA

Initial for authentication purposes: .

## UNOFFICIAL TRANSLATION<sup>1</sup>

To the Management Board of  
Kardan N.V.  
Claude Debussylaan 30  
Viñoly Building, 13<sup>th</sup> Floor  
1082 MD AMSTERDAM

### AUDITORS' REPORT (*ACCOUNTANTSVERKLARING*) PURSUANT TO SECTION 2:328, SUBSECTION 1 OF THE DUTCH CIVIL CODE

#### *INTRODUCTION*

We have examined the enclosed merger proposal (*voorstel tot fusie*) dated October 16, 2008, initialed for identification purposes, for the merger between GTC Real Estate Holding B.V., with corporate seat in Amsterdam ("Acquiring Company"), GTC Real Estate N.V., with corporate seat in Amsterdam ("Disappearing Company") and Kardan N.V., with corporate seat in Amsterdam ("Issuing Group Entity"). The merger proposal is drawn up on responsibility of the Management Board of the three companies involved. Our responsibility is to express an opinion about whether the exchange ratio as disclosed in the merger proposal is reasonable (*redelijk*) and about the shareholders' equity of GTC Real Estate N.V., as referred to in Section 2:328, subsection 1 of the Dutch Civil Code.

#### *SCOPE*

We conducted our examination in accordance with Dutch law. This requires that we plan and perform the examination to obtain reasonable assurance about whether:

1. the exchange ratio included in the merger proposal, as referred to in Section 2:326 of the Dutch Civil Code, is reasonable (*redelijk*);
2. the shareholders' equity (*eigen vermogen*) of the disappearing company, GTC Real Estate N.V., at July 1, 2008, on the basis of valuation methods generally accepted in The Netherlands at least corresponds to the accounting par value (*nominaal gestorte bedrag*) of the aggregate number of shares in Kardan N.V. to be received by the shareholders of GTC Real Estate N.V., in the merger, increased by the cash payments to which they are entitled according to the exchange ratio.

We believe that the information we have obtained is sufficient and appropriate to provide a basis for our opinion.

<sup>1</sup> This is an unofficial translation into English of the original Dutch text. The Dutch text will serve as the leading official document in case of anomalies or doubt.

**OPINION**

Based upon our examination, in our opinion:

1. the exchange ratio included in the merger proposal for the shares, as referred to in Section 2:326 of the Dutch Civil Code, is reasonable; and
2. the shareholders' equity of the disappearing company, GTC Real Estate N.V., at July 1, 2008, on the basis of valuation methods generally accepted in The Netherlands at least corresponds to the accounting par value of the aggregate number of shares in Kardan N.V. to be received by the shareholders of GTC Real Estate N.V., in the merger, that is approximately EUR 6,130,585 (which number may change with maximum EUR 230,882 between the date of this auditors' declaration and the effective date of the merger as a result of changes in GTC Real Estate N.V.'s issued and outstanding share capital due to the conversion of convertible debentures prior to the merger), increased by the cash payments to which they are entitled according to the exchange ratio.

**EMPHASIS OF MATTER**

In addition to the above statutory examination, we have also examined the proposed merger exchange ratio recorded for the Convertible Debentures.

In our opinion the exchange ratio included in the merger proposal for the Convertible Debentures, as referred to in Section 2:320 of the Dutch Civil Code, is reasonable.

**LIMITATION ON USE**

This auditors' report is issued solely for the purposes referred to in Section 2:314 and 2:328 of the Dutch Civil Code.

Amsterdam, October 16, 2008

MAZARS PAARDEKOOPEL HOFFMAN N.V.



Drs. J.D.G. Neach RA

Initial for authentication purposes: 