

September 11, 2008

Israel

European Conglomerates

## Kardan (KRVN.TA - ILS 38.50) 1-Overweight

Company Update

### Restructuring is a Catalyst for KRVN

David Kaplan  
(97) 23 623 8747  
dakaplan@lehman.com  
LBIE, London

#### Investment Conclusion

- We view the planned restructure as a major catalyst that will simplify the holdings and allow investors to take a closer look at the stock. We believe this will unlock currently ignored value in the Group and lead to outperformance. KRVN's restructure will emphasise the investment focus on emerging real estate, financial services and water infrastructure. We reiterate our 1-OW rating and ILS 62 price target, implying 61% upside potential to the current share price.

#### Summary

- In stage 1 Kardan Israel (KRIS.TA) will distribute 4.6% of its holding in GTC RE (GTC.TA) to KRVN. GTC RE is a public real estate holding company that owns the assets in Western Europe, CEE, China and India. It is 55% owned by KRVN and 13% by KRIS.
- Stage 2 will see KRIS transferred to the controlling shareholders of KRVN. Excluding GTC RE, KRIS accounts for 13% of KRVN's NAV.
- The final stage will see GTC RE merged into KRVN where GTC holders will get shares of KRVN. This move brings the RE assets closer to KRVN shareholders and removes a layer of the holding discount.

#### Stock Rating

New: 1-Overweight	New: ILS 62.00
Old: 1-Overweight	Old: ILS 62.00

Sector View: 2-Neutral

FY Dec	2007A	2008E		2009E		2010E	
Currency EUR	Actual	Old	New	Old	New	Old	New
Revenues	774	851	851	979	979	1126	1126
Net Income (m)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EPS	1.10	1.21	1.21	1.39	1.39	1.60	1.60
DPS	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dividend Yield	N/A	N/A	N/A	N/A	N/A	N/A	N/A

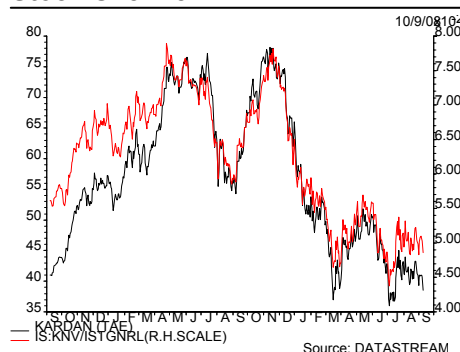
#### Market Data

Market Cap (m)	3115
Units Outstanding (m)	80.9
Float (%)	44
Net Distribution Yield (%)	N/A
Convertible	No
Shares per ADR	N/A

#### Financial Summary

Current BVPS	N/A
Net Debt (m)	N/A

#### Stock Overview



Reuters	KRVN.TA
Bloomberg	KRVN IT
ADR	

Performance	1M	3M	12M
Absolute %	-7	-22	-29
Rel. Market %	-3	-9	-19
Rel. Sector %	-6	-26	-19

52 Week Range 78.18 - 35.97

We believe that the planned restructuring is a significant catalyst for KRVN. The current structure of KRVN that includes cross holdings and layers of holding companies is, in our opinion, confusing to investors and prevents them from taking a good look at the stock. The plan to restructure was first announced in April and today the company provided more details as well as a presentation of the changes. The company will host a conference call today (Thursday, 11 September) to discuss the changes.

Currently trading at a 43% discount to NAV, we reiterate our 1-Overweight rating and ILS 62 price target, implying 61% upside potential to the current share price.

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Segment	Value	Methodology	% of Holding	Value of Holding	Holding in KNV	Value to KNV
<b>Real Estate</b>						
<b>GTC RE</b>						
Holding in GTC SA	8,630.6	LEH	46.1%	3,981.2	72.8%	3,171
Holding in GTC Investments	576.0	Cost	46.3%	266.4	4.9%	212
Holding in GTC China	1,221.4	NAV	100.0%	1,221.4	22.3%	973
Holding in GTC India	-	BV	100.0%	-		
Liabilities				1,112.7		
				4,356.2	55.6%	2,424
<b>Effect of convertibles</b>						-31
<b>Total Real Estste</b>						2,392
<b>Financial Services</b>						
<b>Kardan financial services B.V</b>						
TBIF	2,101.2	LEH	90.4%	1,899.5		
TBIH	3,085.5	LEH	40.0%	1,234.2		
Liabilities		2,228.7		-		
Value KFS				168.3		
				2,965.4	80.0%	2,371
<b>Total Financial Services</b>						2,371
<b>Infrastructure</b>						
<b>Tahal Group B.V</b>						
TCI	680	Book Value	100.0%	680.0		
<b>Total Infrastructure</b>				680.0	100.0%	680
<b>Israel Investments</b>						
Kardan Israel LTD	1,854.3	LEH	71.3%	1,323.0		1,323
<b>Effect of convertibles</b>						-77
<b>Total Israel</b>						1,246
<b>Total assets</b>						6,689
<b>Net liabilities:</b>						-1,093
NAV						5,597
<b>Effect of convertibles</b>						-97
<b>NAV after dilution</b>						5,500
<b>NAV per Share</b>						68
<b>Kardan Market Cap</b>						3,115
<b>Kardan Share Price</b>						39
<b>Discount to NAV</b>						-43%

### Analyst Certification:

I, David Kaplan, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

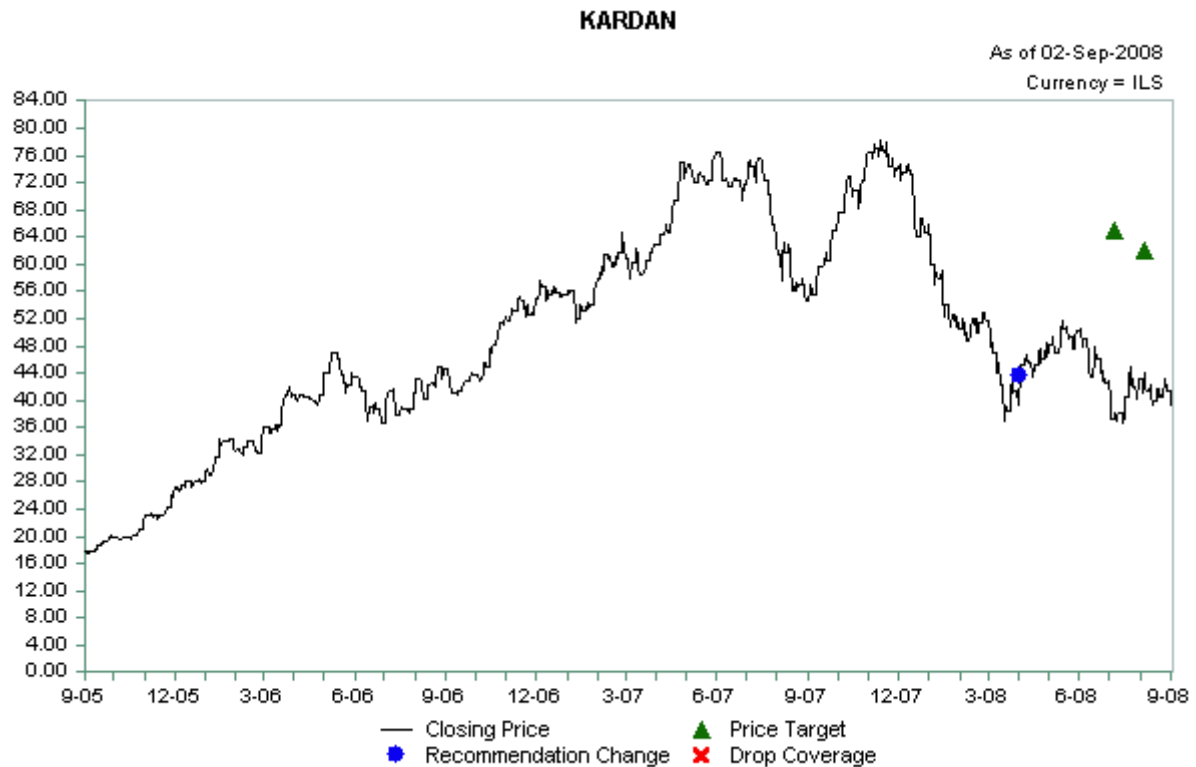
Important Disclosures:

Kardan (KRVN.TA)

ILS 38.50 (09-Sep-2008)

1-Overweight / 2-Neutral

Rating and Price Target Chart:



Currency=ILS

Date	Closing Price	Rating	Price Target
06-Aug-08	41.80		62.00
07-Jul-08	38.13		65.00

Date	Closing Price	Rating	Price Target
02-Apr-08	43.42	1 -Overweight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

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**Valuation Methodology:** We use a sum-of-the-parts methodology to value Kardan. The CEE real estate is valued using the Lehman Brothers price target. We value the Chinese real estate business at EUR 247m which implies a 1.7x price to book. We arrive at our valuation by applying a 39% margin on costs and a discount rate of 10%. The valuation for financial services is based on the most recent transaction for the company. Real Estate and Financial services account for 80% of NAV. We apply a 10% conglomerate discount to derive our price target.

**Risks Which May Impede the Achievement of the Price Target:** Kardan's investment strategy includes real estate and financial assets in emerging markets. Devaluation of the assets may have a negative impact on the valuation.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price	Price Date	Stock / Sector Rating
Kardan	KRNV.TA	ILS 38.50	09-Sep-2008	1-Overweight / 2-Neutral

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