



PRESS RELEASE

Amsterdam/Tel Aviv, March 26, 2010

Number of pages: 32

KARDAN: NEGATIVE RESULTS DUE TO FINANCIAL CRISIS DESPITE IMPROVED OPERATING RESULTS

- Net loss of EUR 92 million in 2009 mainly due to negative revaluation results in CEE Real Estate and credit losses in banking activities;
- CEE Real Estate: Operating revenues increased by 37% YoY;
- China Real Estate: Increase in apartment sales in 2009 compared to 2008 (2,060 units versus 1,428); Retail Center Chengdu obtained construction loan;
- Banking and Lending operating profit before credit losses substantially improved (EUR 65 million in 2009 versus EUR 25 million in 2008);
- Insurance and Pension: Capital gain on sale in difficult time proves value creation ability;
- Infrastructure: 2009 revenues increased by 22%, YoY; pipeline of Projects by the end of March 2010 significantly increased.

Breakdown of the net result For Equity Holders of Kardan N.V. (EUR million) ¹	2009	2008	Q4 2009	Q4 2008
- Real Estate	(63)	89	(44)	58
- Financial Services – Banking and Lending	(29)	(54)	3	(59)
- Financial Services – Insurance and Pension	19	8	(2)	24
- (Water) Infrastructure – Projects	2	(5)	2	(2)
- (Water) Infrastructure – Assets	(4)	(16)	(3)	(10)
- Rental and Leasing of vehicles ²	1	-	-	-
- Sale of vehicles ²	5	6	2	1
- Other ²	(23)	24	(7)	17
Total net result attributable to equity holders	(92)	52	(47)	29
Profit (loss) per share (EUR)	(0.91)	0.63		
Profit (loss) per share diluted (EUR)	(0.92)	0.28		

Kardan NV – balance sheet (non consolidated)	Dec 31, 2009	Dec 31, 2008
Total Assets (in EUR million)	909	1,026
Total Equity (in EUR million)	293	368
Equity/Total assets (%)	32	36

¹ The table shows the contribution of each of the businesses to the results attributable to the shareholder's of Kardan N.V. and excludes results attributable to minority shareholders.

² Due to IFRS 8 requirements, starting 2009, the reported segments, as stated in the table were adjusted compared to 2008.

Below are the comments of Kardan N.V.'s ("Kardan") Management Board on recent developments in emerging markets as well as Kardan's 2009 results.

The past year was characterized by gradual stabilization and the beginning of the recovery of the global economy. Although the world managed to avoid a depression, we still experienced one of the sharpest economic declines in modern time.

The circumstances in emerging markets remain challenging, as is reflected in the negative results of the Kardan Group for the year 2009.

GTC, Kardan's Real Estate division, realized a strong top line growth of almost 50%. This reflects the quality of GTC's office and retail assets, inventory of apartments, and its resilient performance despite an adverse economic environment. Due to the quality of our projects and low leverage in some of them, we also managed to raise additional debt allowing the development activities of new projects that should come on board as the economies improve. This should give us a competitive advantage compared to developers who stopped all activities due to a lack of funds. Lower estimated future rental rates and an increase of investment yields, led to significant negative revaluations of investment properties.

In KFS, Kardan's Financial Services division, we managed to improve the liquidity position of our banks in Russia and Ukraine compared to 2008 and the Russian operations have returned to profitability already in the second half of 2009. In Ukraine, our activities suffered strongly from the crisis. Western investors withdrew from this market and exports declined. Consequently, unemployment rose and the creditworthiness of borrowers significantly decreased resulting in losses and a strong reduction of lending. The macro/political environment has not stabilized completely thereby causing continued uncertainty. On the mid to long term, we are convinced that growth in Ukraine will return on the back of a recovery of the global economy, we even took the opportunity to increase the stake in our local bank without substantially increasing our exposure, in order to be able to possibly benefit from such turnaround.

In Tahal, Kardan's water infrastructure division, we continue to see strong demand, especially in China and Africa which are facing a severe lack of (clean) water. Tahal's excellent reputation resulted in an agreement in January 2010, with the Angolan government to develop a project that will generate revenues of EUR 143 million throughout the project. Due to the substantial amounts of capital required to benefit from many available opportunities, Kardan has begun the process of raising additional funds.

Our Israeli activities presented, overall, improved results in 2009 in their key sectors. The market conditions also enabled the successful raising of capital. The automotive and leasing sector presented strong results despite contraction of the local market.

Due to management's "Watch and Hold" strategy of last year and although we still see many challenges ahead, Kardan should emerge from the current economic cycle as a better-positioned company in its markets of activities."

Summary Results 2009

The results of Kardan attributable to equity holders amounted to a loss of EUR 92 million in 2009 compared to a profit of EUR 52 million in 2008.

The net contribution of the Real Estate division to the results was a loss of EUR 63 million (2008: profit of EUR 89 million). Strong top line growth, of almost 50%, was due to a resilient operating performance with higher rental revenues and increased sales of apartments in CEE & China. In combination with stable margins, results from operations before revaluation results and after finance expenses and tax increased by EUR 13 million to a profit of EUR 8 million in 2009 from a loss of EUR 5 million in 2008. Revaluation results were negative (a loss of EUR 76 million in 2009 compared to a profit of EUR 25 million in 2008) due to yield expansion in 2009 and a decrease in estimated future rental values, mainly

in Q4 2009. The net profit of 2008 was impacted by a gain of EUR 77 million resulting from the merger between Kardan NV and GTC Real Estate NV and an additional tax burden of EUR 8 million.

In the Banking and Lending activities, the net contribution improved from a loss of EUR 54 million in 2008 to a loss of EUR 29 million in 2009. The profit from operations before loan loss provisions increased by EUR 40 million (EUR 65 million in 2009 versus EUR 25 million in 2008). The results were positively impacted by fair value gains on our bond investment portfolio in Russia. Due to the global financial crisis, the quality of the loan portfolio eroded, requiring significantly higher provisions for credit losses in the amount of EUR 41 million (EUR 86 million in 2009 from EUR 45 million in 2008). In 2008, significant impairment losses on goodwill and fair value adjustments on financial instruments were recognized, on balance resulting in a loss of EUR 29 million.

The losses in Real Estate and Banking and Lending were partly offset by the positive contribution of the Insurance and Pension activities amounting to EUR 19 million (2008: profit of EUR 8 million). In 2009, a capital gain of EUR 20 million was realized upon the closing of the second part of a transaction concerning the sale of insurance activities in Bulgaria, Albania, Macedonia and Kosovo and the sale of the pension and insurance activities in Romania. In addition, a profit of EUR 13 million (2008: EUR 30 million) was recognized due to the revaluation of a put option to sell the stake in TBIH to our partner. The Insurance and Pension activities realized an operating loss of EUR 14 million (2008: loss of EUR 18 million).

The net contribution of the (Water) Infrastructure activities (Tahal) improved to a loss of EUR 2 million (loss of EUR 16 million in 2008). Higher revenues (up 22% YoY) and gross margins (up 57% YoY), as well as the absence of impairment losses, created a significant improvement of the results in this promising sector.

The contribution of the Israeli automotive activities was EUR 6 million (2008: EUR 6 million) despite the contraction of the markets.

Finally, Other Results, mainly comprising of finance and general expenses not allocated to specific activities, amounted to (a loss of) EUR 23 million in 2009. In 2008, Other Results were positive (EUR 24 million) due to the revaluation of convertible debentures of Kardan Israel and the buy back of Kardan debentures (EUR 39 million).

Outlook 2010

In the Real Estate division, the portfolio of yielding properties should increase by approximately 50% in the next two years due to the completion of properties under construction. This should translate into an increase of the operating results before results from revaluation and after finance expenses and taxation. In China, we anticipate continued strong sales of apartments and the opening of GTC's first shopping mall in Chengdu city. Based upon these expectations, management believes the operating profits before revaluation and after finance expenses and tax of the Real Estate activities should be positive.

In the Financial Services sector in CEE, the general economic environment has shown signs of improvements. If this trend continues, lending activities should increase and provision for bad loans is expected to decrease throughout 2010. On the other hand, profits made on the investment in bonds should be lower as further upside should be limited. Although the election of a new president and the formation of a new government in Ukraine may stabilize the political environment, it is too early to conclude that as a result, the economic environment will improve.

In the (Water) infrastructure division, due to completion of waste water treatment plants in China in 2009 and 2010 and the backlog increases for the design, engineering and construction activities, management expects an improvement in operating profit in 2010.

Regarding the 2010 investment activities, we are in the process of raising capital with (private equity) partners in our various divisions. Although this should cause some dilution of our equity interest, the additional capital raised should allow Kardan to benefit from the many new opportunities available in the market which should ultimately result in greater value creation for our shareholders.

The process to spinoff the majority of the shares held in Kardan Israel, as announced last October, is complex because it is subject to the laws in the Netherlands and Israel. Therefore there is no certainty about the scheme, the date of the transaction, nor its execution.

About Kardan

Kardan, with headquarters in Amsterdam, focuses on three main fields of activities: Real Estate, Financial Services and (Water) Infrastructure. The company operates in seven segments throughout emerging markets, primarily in Central and Eastern Europe and China, where it conducts most of its activities.

Kardan NV holds controlling interests in its divisions and management is actively involved in the definition and implementation of their strategy. Kardan has a consistent track record of creating long-term shareholder value through active management of investments in the group companies and by leveraging on its business experience, financial resources and local and international network.

Kardan is listed on NYSE Euronext Amsterdam and the Tel Aviv Stock Exchange.

Total assets as of December 31, 2009 amounted to EUR 5.6 billion (December 31, 2008 EUR 5.2 billion) with revenues of EUR 753 million in 2009 (2008: EUR 492 million).

As of Page 5 of this press release, financial reports drawn up in accordance with the Dutch and Israeli regulations are included.

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“This press release contains regulated information (gereguleerde informatie) as defined in the Dutch Act on Financial Supervision (Wet op het financieel toezicht)”



2009 FINANCIAL REPORTS

The Financial Reports contain the following sections:

PART 1 MANAGEMENT REPORT FOR THE YEAR 2009

1. Developments of divisions and their respective markets
2. Main events in the period
3. Subsequent events
4. Results and equity attributable to equity holders of Kardan NV
5. Value of investments Kardan NV
6. Financial position of Kardan Group as at December 31, 2009
7. Risk management and Israeli Sox
8. Segmental key indicators for the period

PART 2 ADDITIONAL INFORMATION

1. Financial analysis of the consolidated balance sheet, profit and loss account and cash-flow statement
2. Valuation of investment properties
3. Issuance of debt

PART 3 FINANCIAL STATEMENTS INCLUDING AUDITOR'S OPINION (PUBLISHED ON THE WEBSITE OF KARDAN N.V. (WWW.KARDAN.NL))



PART 1³ MANAGEMENT REPORT FOR THE YEAR 2009

1.1 Development of divisions⁴ of Kardan and the respective markets

Real Estate (GTC)

General Market Developments Central and Eastern Europe

In Central and Eastern Europe, the Kardan Group is active via GTC SA, a leading real estate developer, which also operates completed properties that it initially developed.

The business environment in the CEE region during 2009 was characterized by volatile and adverse economic conditions. The most dominant portion of GTC SA's asset portfolio is located in Poland where the economy is perceived as one of the most stable and developing economies in the CEE region and is the country that achieved positive 2009 economic growth of 1.7%. The GDP is expected to expand further by 3.0% in 2010, with the zloty appreciating.

In the CEE real estate sector construction and investment finance became rare and the borrowing conditions were strict and restraining. Due to the significant uncertainty in the market, asset prices were vulnerable which resulted in investors and tenants alike withholding decisions.

In the **office market**, H2 2009 saw increased tenant activity. In Q4, rental rates continued to be depressed, YoY as vacancy rates continued to increase. Due to the lower supply of new projects in the coming period, it is expected rents will recover from 2011 and onwards.

The **retail market** also experienced weakness of local currencies and retail sales slowdown lowered demand from retail chains. Lower retail sales continued to put pressure on prime rents in H2 2009. Retail sales are still expected to remain weak throughout 2010, however a recovery is forecasted in 2011.

Developments GTC SA

- GTC SA managed to secure financing for all its projects under construction and expects to complete approximately 240,000 sqm of net office and retail space and 90,000 sqm of residential space throughout 2010-2011. This may give GTC SA a competitive edge in view of a forecasted shortage of supply in the same period, caused by the slowdown of the construction pace of many developers. With these deliveries, it is estimated that GTC SA will increase its yielding properties by more than 50% compared to the volume as at December 31, 2009. The company is moderately leveraged, with a 54% long term debt to total asset ratio whilst 56% of the total debt matures in 2015 or later. With its extensive land bank and the financial resources required to commence new projects, GTC SA is well positioned to accelerate its expansion once markets return to sustainable growth.
- Properties completed in 2008 and 2009, contributed to an increase of the rental income in 2009 to EUR 96 million (+36% YoY). Despite the slowdown in the housing market, revenues in the

³ Reference is made to the disclaimer at the end of part. 1

⁴ For the percentage of ownership reference is made to paragraph 1.5. The elaborations in Par 1.1 relate to 100% of the activities

residential division increased significantly by 43% to EUR 60 million in 2009 from EUR 42 million in 2008.

The gross margin from rental income of commercial properties and sales of apartments were 77% and 19% versus 74% and 22% in 2009 and 2008, respectively and amounted to EUR 85 million (2008 : EUR 63 million)

In 2009, GTC SA wrote-off EUR 172 million of completed assets, investment properties under construction, and land. For the completed assets and assets under construction valued at fair value, yield expansion caused 26% of the losses and a decrease in ERV (estimated future rental rates) caused 48% of the losses. The revaluation of assets under construction valued at cost and of the land accounted for 26% of the revaluation losses. It should be noted that the ERV is determined by external appraisers and does not indicate that actual rental income decreased as reflected by the gross margins in 2009.

As per December 31, 2009 and 2008, the average yields in the valuation of GTC SA's investment property are:

	Poland		Other countries	
	2009	2008	2009	2008
Completed Property	7.5%	6.9%	8.2%	7.7%
Property Under Construction	NA	7.9%	9.3%	8.1%

In 2009, a total of approximately 115,000 sqm were added to the portfolio of yielding properties due to completion of multiple construction works. This includes office buildings in Cracow and Warsaw (Poland) and Bucharest (Romania) and a shopping mall in Czestochowa (Poland). These properties are let between 80% and 95% to reputable international and local tenants.

In two projects, one in Bulgaria and the aforementioned one in Romania, GTC SA managed to increase its stake by purchasing the share of its partners, requiring an investment of EUR 12 million.

As of December 31, 2009, GTC SA holds a total amount of EUR 215 million in cash and deposits.

Market Developments in China

General Market Developments in China

The Kardan group is active in real estate in China via GTC China, a developer of residential and commercial projects in Tier 2 and Tier 3 cities.

Macro

China's economy continues to grow at very high levels. With a 2010 GDP growth forecast of 11.4%, rising disposable income, and favourable demographic trends, the Chinese economy remains fundamentally healthy.

China's growth accelerated to 10.7% in Q4, the fastest pace since 2007, resulting in 8.7% of growth for FY 2009. The accompanying rise in inflation is causing some concerns and is expected to increase throughout 2010. The government is trying to reign inflation in through the control of the money supply. Still, China is expected to maintain a monetary policy encouraging investments in 2010.

Property Market

The strong GDP growth, rapid urbanization in Tier 2 and Tier 3 cities (where Kardan operates) and increases in disposable income will keep demand high for new residential space while increases in disposable income will drive the need for commercial centres throughout China.

In attempts to curb credit growth and combat soaring property prices and thereby keep home prices at reasonable levels, the Chinese government has enacted stricter policies for property deals. The

government is aiming to boost the supply of affordable housing and is using economic, legal and fiscal measures to curb home purchases for speculative purposes. China's policy makers aim to avert asset bubbles and restrain inflation after banks already extended 19% of 2010's lending targets just in January and property prices climbed the most in 21 months.

The government's key concern is excessive Average Sales Price, *not* high transaction volume. The consensus of analysts believe prices will stay firm in 2010 as developers who reaped rich rewards from sales last year are in no rush to increase sales volume by cutting prices. They further believe the fear of a widespread property bubble is exaggerated for Tier 2 and Tier 3 cities, despite of overheating in Tier 1 cities.

A moderation of price growth might be seen in response to the government's market cooling measures, such as increasing home supply, tightening lending and maintaining down payments of 40% for a second home to fight speculation. The government's policies will have significant impact on short-midterm, but they are not key drivers for long term growth.

Developments GTC China

- GTC China, active mainly in the residential real estate market, noted a significant improvement in sales of apartments in 2009 due to, among others, the stimulus program of the Chinese government. GTC China sold 2,060 apartments compared to 1,428 in 2008, an increase of 44%. The results on these sales will be recognized in the profit and loss account upon delivery of the apartments, which will lag by roughly 14 to 16 months post sale.

In Q1 2009, GTC China commenced the construction of a shopping mall in Chengdu, in Western China. Recently, GTC China managed to obtain a loan from a local bank to finance the development of the shopping mall. This is still a relatively novel concept in China where loans are typically granted as a mortgage against land or completed property. The granting of the loan supports the high expectations for this mall, once completed.

Financial Services (KFS)

General Market Developments CEE/CIS

The Kardan group is active in CEE/CIS via Kardan Financial Services (KFS) both in banking and lending through TBIF and in insurance and pension through TBIH. Important countries of activity are Russia and Ukraine.

The macroeconomic environment in CEE/CIS continues to show signs of stabilization and growth.

Russia

After a 2009 decline of 7.9%, in GDP Russia is expected to grow by 4.5% in 2010. The return to GDP growth in 2010 is being driven by higher commodity prices (mainly oil) and strong industrial production, on the back of accelerating global recovery, ongoing rate cuts and low inflation. Russia's expansionary fiscal policy (massive 12% of GDP fiscal stimulus) and signs of recovery in Europe and the US has led to a strengthening of the Rouble which should continue through 2010. These factors should stimulate both consumer demand and investment. The bullish outlook for Russia should enable ongoing modest deposit and loan growth.

After having shrunk their loan books considerably in 2008-09, the private banks are likely to resume lending in H2 2010 and into 2011. At the same time, government pressure on the state banks to boost lending is likely to be maintained in exchange for the funding from Central Bank and Ministry of Finance to be kept in place.

After heavy deposit withdrawals on the back of the banking and currency crisis in early 2009, the deposit structure and volumes have stabilized, and confidence is slowly being restored – retail deposits in Roubles have been growing since February 2009. Monthly corporate deposits growth has also been nearly flat or positive since May 2009, suggesting cash reserves of the companies have stopped bleeding.

Ukraine

Ukraine's political instability peaked with February's runoff election of President Viktor Yanukovich, which overshadowed Ukraine's economic developments. Notwithstanding the political upheaval, the economy continued to deliver positive signals. Industrial output remained on a gradual upward trend led by export-oriented industries and unemployment stabilized at about 9.0%. Inflation continued to decelerate, ending 2009 at 12.3% YoY, well below 2008 increase of 22%. The hryvnia stabilized at about UAH 8.0/\$, with additional strengthening expected, while public confidence in the banking system continued to improve. With upgraded 2010 GDP growth forecasts to 5.5% from a 15% contraction in 2009, analysts believe that despite the risks, the Ukrainian economy has passed its lowest point.

Fiscal sustainability remains a main near-term concern. The government is likely to proceed with more severe cuts in the coming months as external financing sources remain inaccessible. The magnitude of the effect of the potential fiscal tightening can produce on the economy will depend heavily on political developments. The sooner the new government institutes greater fiscal discipline, the more likely the IMF will resume its support.

Despite encouraging signs, the overall confidence level remains low. Households continue to show preference for foreign-currency and short-term deposits. The lack of confidence also keeps lending virtually stalled. New loans remain largely inaccessible for the bulk of medium- and small-sized. Though loans to private corporations inched up by an estimated 2.5% YoY in 2009, the banking system's overall loan portfolio shrank.

S&P has recently upgraded the foreign currency rating on Ukraine to B-/C from CCC+/C previously, and local currency to B/B from B-/C. The upgrade came on the back of the formation of the new ruling coalition and new government which greatly reduces political uncertainty – the key factor behind high country risk premium.

In **Bulgaria and Romania**, where KFS is mostly active in non-banking leasing and consumer finance, signs can be seen of an improving outlook although the economy remains challenging due to a significant drop in capital inflows.

IMF-EU support has resumed to Romania after being temporarily withheld as a new government continues implementing strong reform policies. Romania's improved outlook is primarily driven by the sharp consolidation of its current account deficit and the approval and implementation of the 2010 budget. The expected GDP growth rate for 2010 is 1.9% versus a contraction of 7.2% in 2009.

S&P has revised the outlook on the sovereign credit rating to stable from negative on the back of the expectation that the Government will continue to pursue budget consolidation and will implement the structural reforms that have been promised.

In **Bulgaria**, the combination of rising unemployment, a stagnant real estate market and anaemic activity was the main causes of the contraction of the GDP in 2009 and continues to influence the economy in 2010. However, Bulgaria's low budget deficits have led Moody's to restore its pre crisis level rating. The main reason for the improved 2010 outlook is due to the improving EU economic conditions. The expected GDP growth rate for 2010 is 0.2% versus -5.1% in 2009 (-6.2% in Q42009).

The insurance and pension sector suffered significantly less from the financial crisis than the banking industry. Premium volumes are not increasing as there is a tendency among potential customers not to insure certain risks such as third party liability and casco risks.

Developments KFS

In 2009, the composition of the portfolio of the banking and lending activities (TBIF) did not change. In "insurance and pension" the portfolio of activities changed due to the completion of the disposal of certain insurance activities in Bulgaria, Albania, Macedonia, Romania and Kosovo and pension activities in Romania.

- Banking and Lending

SovCom

As a result of the macro economic developments described above and due to the high liquidity position of SovCom (Kardan's bank in Russia) the loan portfolio in Q4 2009 increased by 11.6%

QoQ, by EUR 32 million to EUR 332 million of which 60% was retail. At the end of 2008, the portfolio stood at EUR 361 million. The decrease of the portfolio in the first nine months of 2009 was primarily due to management's decision to adopt a stricter underwriting policy, depreciation of the local currency compared to the Euro and lower demand in the market.

The net growth of deposits during the year amounted to EUR 94 million (22.8%), bringing the balance to EUR 507 million. The retail deposits count for 78% of the total (December 31, 2008: 74%). The majority of the total increase of deposits was realised in Q4 2009 (EUR 67 million). This demonstrates the growing confidence in the economy overall and of depositors in SovCom in particular. As a result of these two developments as well as refinancing deals from the Central Bank of Russia, the cash position increased significantly. The non-performing loans overdue for more than 90 days (NPLs) decreased in Q4 2009 from 8.2% as at September 30, 2009 to 6.8% at year end 2009, also demonstrating the improved quality of the loan portfolio on the back of improving economic environment.

VAB Bank

In Ukraine, Q4 2009 showed decreased lending (EUR 22 million) and an increase in deposit taking (EUR 28 million). These developments resulted in a significant increase in the liquidity of VAB Bank (Kardan's Ukrainian bank)⁵. The total loan portfolio of VAB Bank decreased by 15%, to EUR 455 million at December 31, 2009 from EUR 539 million, at the end of 2008. The decline of the portfolio was caused by management's decision to nearly completely halt lending activity in 2009 due to low credibility of potential clients. In 2009, the share of retail loans decreased from 33% to 30% of the loan portfolio.

Although deposits in Q4 2009 increased, deposits for the full year 2009 decreased by EUR 92 million (26%) to EUR 256 million from EUR 348 million. In 2009, the share of retail deposits decreased to 34% from 54% at year end 2008. This is mainly due to the negative macro-economic and political environment in Ukraine in general and a lack of confidence in the financial system in particular. Due to the depreciation of the Hryvna, both lending and net deposits expressed in Euro decreased by approximately 4%.

To overcome the liquidity shortage, VAB received a line of support from the National Bank of Ukraine amounting to approximately EUR 93 million, which as of December 31, 2009 has been reduced to EUR 80 million.

Of the total loan portfolio, 15.7% is overdue for more than 90 days (September 30, 2009:13.1%). As at December 31, 2008 the NPL's were 3.4%. The increase led to significantly higher provisions.

Despite the deteriorating economy, Kardan is confident regarding the developments in the mid-to-long term. Consequently, Kardan decided to increase the stake in VAB Bank from 63% to 98%, subject to certain conditions precedent to be fulfilled by the seller and approval from Ukrainian authorities. The price to be paid is approximately EUR 24 million.

The other financial services activities, which include non-banking leasing and consumer finance (mainly in Romania and Bulgaria), saw a 39% decline in the portfolio compared to December 31, 2008. The main reason for the decline is the restrictive lending policy combined with a lack of funding and decreased market demand.

- Insurance and Pension

The contribution of the insurance and pension activity increased compared to 2008. Ray Sigorta, (our operation in Turkey with a 2.5% market share) despite being one of the top 15 companies in the market, saw premiums and investment income decrease due to the current market environment. KFS's pension business has remained profitable, particularly Doverie, (Bulgaria's largest pension fund with a market share of 33%) , increasing the assets under management by 38%, to EUR 542 million as at December 31, 2009 from EUR 393 million as at December 31, 2008.

⁵ VAB Bank is proportionally consolidated. The amounts stated in this paragraph however do relate to 100% of VAB Bank.

Water Infrastructure (Tahal)

Tahal is Kardan's water infrastructure platform. Tahal operates via Tahal Group ("Tahal Projects") providing design, planning and construction services, and Tahal Group Assets ("Tahal Assets") which invests in water infrastructure asset developments.

Global Market Developments

The global water infrastructure market continues to be very robust. Demand continues to increase globally due to population growth and industrial expansion. At the same time, the world's fresh water supply is shrinking due to pollution, draining of underground aquifers and climate change. According to an updated report by Global Water Intelligence, despite the global economic environment the 2009 water market value grew c.8.2% YoY to a value of nearly EUR 350 billion and is expected to grow in developing countries (Tahal's regions of activity) by 10% , over the next several years versus 3%-5% in developed countries. The growth is attributed to government stimulus packages worldwide, enabling many potential projects are offered for tender.

The main difficulty in bidding for and developing projects is the lack of funding. Financial institutions are restrictive in lending due to the deleveraging that is still in process and secondly the deteriorating credit quality of sovereigns.

In China, where Tahal Assets is active in the development, maintenance and operation of water supply and water treatment plants, the market is developing strongly. China is acutely strained with only 7% of the water supply for 21% of the global population. Scarcity of water and water pollution is driving significant investments. It is expected that the Chinese government will announce in its upcoming 12th Five-Year-Plan (2011-2015) that the total investment in the water sector will be more than double of the amount of the 11th Five-Year-Plan (2005-2010). China's water market is expected to grow over 20% on average over the next several years. Competition is continually growing as new suppliers enter the market and changes in ownership to private concerns from government control increases.

Developments in Tahal

In January 2010, Tahal Projects signed an agreement with the government of Angola for the development, construction of the water supply, sewage and drainage system for a new rural settlement and the irrigation of farm land. The expected revenue from this agreement is EUR 143 million. Including this new contract the current order book as at the end of January 2010 stands at EUR 324 million. The order book for new projects as per December 31, 2009 decreased to EUR 181 million from EUR 236 million as per December 31, 2008.

Tahal Assets is developing and investing in assets such as water supply systems and water treatment plants mainly in China, Turkey and Israel. During the development phase no cash is generated. After completion of a development, water is delivered to municipalities and industrial areas on long term concession basis (typically for twenty to thirty years). In 2009, Tahal Assets made significant progress in the development of its plants in Dazhou and Dingzhou, China. The plant in Dingzhou became operational during Q4 2009 and the plant in Dazhou is operational since Q1 2010. In addition, Tahal assets won a tender in China for the acquisition of a waste water treatment plant in Zhangjiakou with a capacity of 120,000 cubic meters per day. The transaction is expected to be closed in Q3 2010.

In light of the enormous deal flow potential, Kardan at the end of October 2009 announced Tahal's decision to begin the process to raise growth capital that primarily will be used to develop the current pipeline of Tahal Assets and to selectively pursue strategic acquisitions for Tahal Projects.

Activities in Israel

Kardan is active in Israel in three main sectors: Rental and Leasing of Vehicles, Sale of Vehicles and Real Estate Development

General Market Developments Israel

Israel has been perceived as a safe harbour throughout the global economic crisis as Israel's GDP posted solid growth in 2009. As Q4 2009 GDP estimates have been revised upwards from 4.4% to 4.9%, FY 2009 GDP has now risen to 0.7%, making Israel one of the most resilient markets during the global economic crisis. Israel has clearly recovered from the recession and the growth momentum remains strong.

Rental and Leasing of Vehicles

Kardan is active in rental and leasing of vehicles mainly in Israel. Kardan holds an indirect stake of approximately 24% in Avis Israel.

Developments of Rental and Leasing of vehicles Market in Israel

In light of the global crisis, at the beginning of 2009 leasing companies in Israel have faced difficulties in raising capital for new leasing transactions and therefore were in need of both fleet reduction and price increases. In addition, the leasing sector experienced additional pressure due to the reduced prices of second hand vehicles which are sold at the end of use. Since Q3 2009, both, finance availability and second hand vehicle prices improved.

Developments Avis Israel

In light of market conditions, Avis Israel reduced its fleet to 31.4 thousand vehicles from 33.7 thousand vehicles at the end of 2008. The increase in second hand vehicle prices and leasing prices allowed Avis to maintain its top line revenues and keep operating margin at approximately 11%.

Sale of vehicles

Developments of sale of vehicles market in Israel

In this segment, Kardan owns a 30% indirect stake of UMI, the exclusive importer of General Motors brands in Israel. Car importers have been working in a difficult market at the beginning of 2009 as they have seen a decrease in demand for new cars, pressure to reduce prices in light of the decrease in demand and the need of companies to reduce inventory levels. This pressure was mitigated by improvement of the Israeli economy and the expected increase of taxes levied on vehicles sold after January 1, 2010, thereby encouraging buyers to rush to purchase before year end. Contrary to consensus expectations, at year end 2008, the automotive sales market declined by only 11% in 2009, YoY.

Developments UMI

UMI's market share slightly decreased in 2009 to approximately 8% (2009: 9%). The launch of the Chevrolet Cruze in June 2009 was successful.

1.2 Main events in 2009

Kardan NV

- During Q1 2009, Kardan repurchased from Israel Discount Bank an 11% stake in KFS. Currently, Kardan owns 98.6% of KFS. The acquisition price consisted of EUR 30 million that was paid upon closing of the transaction and EUR 8.5 million that is payable after seven years.
- In September 2008, Kardan announced the intention to spin off Kardan Israel. Due to the financial and economic crises the process was delayed. In October 2009, Kardan NV announced the resumption and subsequently a delay of its plan to divest from its majority holding in Kardan Israel.

Real Estate (GTC)

- In March 2009, Kardan NV announced that GTC SA did not reach an agreement regarding the sale of its 50% holding in Galleria Mokotow (a shopping centre in Warsaw, Poland) to Unibail Rodamco, due to the volatile market conditions. Unibail Rodamco already owns 50% of the shares in Galleria Mokotow.
- In June 2009, GTC India announced that it terminated an agreement for the phased development of a commercial and residential project in the city of Pune due to certain conditions precedent not being fulfilled.
- In August 2009, GTC SA agreed on a new loan facility of EUR 205 million to refinance Galeria Mokotow, a shopping mall in Warsaw, jointly owned with Unibail Rodamco. Through this loan facility, the cash position of the group increased by EUR 60 million. The loan was granted for a period of 5 years with an option for the benefit of the borrower to extend it for additional two years.
- In September 2009, Kardan sold 3% of its indirect holding in GTC SA for a consideration of EUR 38 million. Post sale, Kardan owns 43.1% of the shares and maintains effective control in the company. The sale resulted in a profit of EUR 4 million.

Financial Services (KFS)

- TBIH, the pension and insurance company of KFS announced in June 2009 the completion of the sale of its insurance activities in Bulgaria, Albania, Macedonia and Kosovo to Vienna Insurance Group (VIG), the majority shareholder (60%) of TBIH. The sale agreement was signed in December 2008. The reason to sell the activities was among others the attractive sales price resulting in a profit of EUR 16 million for Kardan.
- In December 2009, Kardan increased its stake in the Group's Ukrainian Bank (VAB Bank) from 50% to 63%, which was subject to the approval of Ukrainian authorities. The increase was realised through the conversion of loans amounting to EUR 12 million into Equity. In the same month, the National Bank of Ukraine (NBU) granted an extension to VAB Bank for the repayment of loans borrowed from NBU in the amount of EUR 80 million until December 2010.

(Water) Infrastructure (Tahal)

- In May 2009, Tahal was granted a licence by the State of Israel to build an electricity generating facility, providing up to 300 megawatt of electricity to the Israel Electric Corporation. The total expected investment in this plant amounts to approx. EUR 225 million and building the power station is estimated to take three years. The licence was granted with the condition that Tahal will be able to arrange funding for the project. The funding must be in place within 18 months from the day the licence was granted. In addition, Tahal may decide to withdraw from the project in the event it deems the estimated turnover is not in line with current projections, depending on the final terms as set by the Israel Electricity Authority.
- At the end of October 2009, Kardan began a process to raise up to EUR 70 million of capital via the sale of a minority interest in Tahal through a private placement. The proceeds will be used to benefit from targeted opportunities in the global water infrastructure market.

Kardan Israel

- In May 2009, Kardan Israel published a shelf prospectus in order to raise funding through debentures and to refinance existing loans and increase the cash position. In June 2009, Kardan Israel raised EUR 20 million of debentures according the mentioned prospectus.

1.3 Subsequent events

(Water) Infrastructure (Tahal)

- In January 2010, Tahal signed its biggest infrastructure contract in its history with the government of Angola to develop a project for the development, construction of the water

supply, sewage and drainage system for a new rural settlement and the irrigation of farm land. The expected revenue from this agreement is EUR 143 million.

- In January 2010, Tahal assets won a tender in China for the acquisition of a waste water treatment plant in Zhangjiakou (180 km from Beijing) with a capacity of 120,000 cubic meters per day. The purchase price amounts to approximately EUR 28 million. The transaction is expected to be closed in Q3 2010.

Financial Services (KFS)

- In January 2010, Kardan decided to increase the stake in VAB Bank from 63% to 98%, subject to certain conditions precedent to be fulfilled by the seller and approval from Ukrainian authorities. The price to be paid is approximately EUR 24 million. Closing of the transaction is not expected before Q2 2010.
- In March 2010 VAB Bank refinanced debentures in the amount of approximately EUR 90 million: Maturity was extended from June 2010 to June 2014, the interest rate increases from 10.125% to 10.5%; Investors who voted in favor of the restructuring before March 19, will receive a prepayment of 10% of the principal.

1.4 Results and Equity attributable to equity holders of Kardan N.V.⁶

Breakdown of the net result For Equity Holders of Kardan N.V. (EUR million)⁷	2009	2008	Q4 2009	Q4 2008
- Real Estate	(63)	89	(44)	58
- Financial Services – Banking and Lending	(29)	(54)	3	(59)
- Financial Services – Insurance and Pension	19	8	(2)	24
- (Water) Infrastructure – Projects	2	(5)	2	(2)
- (Water) Infrastructure – Assets	(4)	(16)	(3)	(10)
- Rental and Leasing of vehicles ⁸	1	-	-	-
- Sale of vehicles ⁸	5	6	2	1
- Other ⁸	(23)	24	(7)	17
Total net result attributable to equity holders	(92)	52	(47)	29
Profit (loss) per share (EUR)	(0.91)	0.63		
Profit (loss) per share diluted (EUR)	(0.92)	0.28		

Kardan NV – Balance Sheet (non consolidated)	Dec 31, 2009	Dec 31, 2008
Total Assets (in EUR million)	909	1,026
Total Equity (in EUR million)	293	368
Equity/Total assets (%)	32	36

⁶ In this paragraph, the amounts and the explanations all reflect the share of Kardan N.V. in the consolidated results i.e. net of minority interests. For the sake of clarity, the explanations of paragraph 1.1 and 2.1 are based upon the consolidated figures, thus including minority interests.

⁷ The table shows the contribution of each of the businesses to the results attributable to the shareholder's of Kardan N.V. and excludes results attributable to minority shareholders.

⁸ Due to IFRS 8 requirements, starting 2009, the reported segments, as stated in the table were adjusted compared to 2008.

- **2009 results**

The net loss attributable to equity holders of Kardan in 2009 amounted to EUR 92 million, compared to a profit of EUR 52 million in 2008.

The net results of GTC, the Real Estate division, decreased by EUR 152 million to a loss of EUR 63 million in 2009 from a profit of EUR 89 million in 2008 as a result of:

- The direct result from operations after tax was positive (EUR 8 million). This was due to an increase in rental income following the completion of properties of GTC SA and the increase in deliveries of apartments in China and Romania. In 2008, the direct result from operation after tax of the Real Estate division was a loss of EUR 5 million.
- In 2009, total revaluation losses in CEE amounted to EUR 76 million versus a profit of EUR 25 million in 2008. Revaluation results include results on properties completed before January 1, 2009, properties completed in 2009 and properties under construction. The value of properties completed prior to January 2009, decreased by EUR 69 million in 2009 versus an increase of 24 million in 2008 (after the deduction of a provision for deferred income taxes). The negative revaluation result is mainly due to yield increases and the expectation of external appraisers that rental income of contract renewals will be lower than the existing rental levels. On properties completed in 2009, a revaluation profit of EUR 12 million (net of tax) was realized. As of December 31, 2008 Kardan applied the revised accounting standard (IAS 40), which prescribes to measure investment property under construction at fair value resulting in a revaluation loss net of tax of EUR 4 million in 2009 (2008: profit of EUR 1 million including write off of related goodwill). Finally, in 2009, properties under construction valued at cost and land have been impaired by EUR 15 million (2008: nil), due to lower fair values.
- Kardan sold 3% of its stake in GTC SA during September 2009. The capital gain as a result of this sale amounted to EUR 4 million.
- In 2008, GTC RE NV and Kardan NV merged. This resulted in a negative goodwill of EUR 77 million that was booked as a profit due to the book value of assets less liabilities of GTC RE NV exceeded the value of the shares issued by Kardan NV.
- In 2008 GTC recorded an additional tax burden of EUR 8 million due to a higher tax base in local currencies caused by the devaluation of these currencies against the Euro.

The net result in 2007 mainly comprised of positive revaluation results amounting to EUR 59 million reduced by a negative revaluation of convertible debentures in the amount of EUR 40 million.

KFS, the Financial Services division contributed a net loss of EUR 10 million, a significant improvement compared to the 2008 net loss of EUR 46 million. This loss is explained as follows:

The banking and lending activities (TBIF) recorded a net loss of EUR 29 million in 2009 versus a net loss of EUR 54 million in 2008. The main elements of the results are:

- Profit from operations (excluding risk related costs) increased to EUR 65 million in 2009 from EUR 25 million in 2008. The increase is the result of a significant decrease of operational expenses due to restructuring of the activities following the economic and financial crises and substantial returns on the investment in listed bonds by the two banks in Russia and Ukraine.
- Write-offs and provisions on the loan portfolio increased to EUR 86 million in 2009 from EUR 45 million in 2008.
- Net finance expenses relating to the funding of acquisitions and equity investment of the operational companies amounted to EUR 8 million in 2009 (2008: EUR 8 million).
- In 2008, TBIF recorded a profit of EUR 26 million on the revaluation of put options provided to the management of the company to sell shares in TBIF to the shareholder.
- Due to the deteriorating global economy Kardan recorded impairment losses in 2008 in the sum of EUR 55 million.

In 2007 the profit was EUR 6 million. The main elements are: profit from operations before credit losses (EUR 18 million), credit losses (EUR 15 million), capital gain on sale of stake in the banking and lending activities (EUR 20 million) and a loss on the revaluation of a put option (EUR 22 million).

The insurance and pension activities (TBIH) contributed a profit of EUR 19 million in 2009 versus a profit of EUR 8 million in 2008. This result can be explained as follows:

- TBIH realized operational losses during 2009 of EUR 14 million. The loss is mainly attributable to the Turkish insurance company where the market suffered from severe price competition and lower demand. In 2008, the loss amounted to EUR 18 million, of which EUR 8 million related to a Russian subsidiary that was sold in December 2008.
- In December 2008, TBIH sold part of its activities to Vienna Insurance Group. As announced, the closing of part of the transaction took place in June 2009. This closing resulted in a capital gain of EUR 16 million for Kardan. In Q3 2009, TBIH closed the sale of the Romanian pension and life insurance activities at a capital gain of EUR 4 million for Kardan N.V. bringing the total capital gain in 2009 to EUR 20 million. In 2008, the loss making Russian activities were sold resulting in a capital gain of EUR 9 million.
- In 2009, KFS recorded a fair value profit amounting to EUR 13 million (2008: EUR 30 million) relating to the value of a put option to sell its stake in TBIH to the partner. In 2008, an amount of EUR 5 million relating to a capitalized price adjustment of a prior year transaction has been written off.
- In 2008, an impairment loss amounting to EUR 10 million was recorded due to a lower valuation of some of the activities.

In 2007 the main contribution to the result was a capital gain on the sale of a stake in the insurance and pension activities.

Tahal, the Water Infrastructure division, lost EUR 2 million in 2009, a significant improvement compared to the loss of EUR 21 million in 2008. Tahal operates through two segments: Tahal Projects and Tahal Assets.

- Tahal Projects, which engages in consultancy and construction of water related projects, made a profit of EUR 2 million in 2009 versus EUR 5 million in 2008. The order book increased significantly from EUR 235 million as of December 31, 2008 to EUR 324 million as of January 31, 2010, including the new project in Angola - see also "Developments in Tahal" (December 31, 2009: EUR 181 million). In 2008, Tahal projects wrote off EUR 7 million due to losses on projects in Romania.
- Tahal Assets which invests in water related assets reduced its loss to EUR 4 million from EUR 16 million in 2008. The improvement in the results is mainly due to an increase in the revenues and profit (+ EUR 4 million) from the Chinese activities. The Turkish activities posted a EUR 1 million profit versus a loss in of EUR 2 million in 2008 due to impairment losses (EUR 3 million). Finally, a deferred tax income which was booked in 2009 decreased the loss by EUR 3 million.

In 2007 this segment contributed a total loss of EUR 7 million which were mainly occurred in Q4 and derived from impairment of assets in the assets operation which resulted in EUR 7 million.

Rental and Leasing of vehicles

The segment made a profit of EUR 1 million in 2009 (2008: break even). The increase in profit is mainly the result of tax income due to adjustment of deferred taxes, considering the Israeli government's decision to reduce the corporate income tax in the following years. In 2009, AVIS Israel was proportionally consolidated for the first time, whereas in 2008 it was included according to the equity method.

Sale of Vehicles

In 2009, the contribution of "UMI" ("GM" franchiser in Israel) to the profit for equity holders of Kardan N.V. was EUR 5 million (2008 and 2007: EUR 6 million). The decrease in profit was mainly due to economic slowdown that resulted in a decline in the total number of cars sold in Israel by 11%.

Other

Other activities include investments that are relatively small ("Communications and Technology", "Import and Sale of white goods" and "El Har" which performs contractual works in Israel) and general and administrative expenses as well as finance expenses of Kardan N.V. and Kardan Israel Ltd. The total loss of these activities amounted to EUR 23 million (2008: profit of EUR 24 million). The loss derives mainly from general and administrative expenses and finance expenses related to the funding of the equity investments in subsidiaries of Kardan Israel and Kardan N.V. The result of 2008 was positively impacted by the revaluation of the convertible debentures and options to Kardan N.V. shares to an

amount of EUR 24 million as well as EUR 15 million which were generated from early repayment of Kardan NV Debentures that were bought by Tahal Group.

In 2007, EUR 42 million were derived from revaluation of the convertible debentures of GTC RE held by Kardan NV. Part of this profit was offset due to revaluation of option to shares of Kardan NV.

- **Fourth Quarter 2009 results**

In Q4 2009, Kardan recorded a loss of EUR 47 million versus a profit of EUR 58 million in Q4 2008.

GTC

- In Q4 2009, a loss of EUR 44 million was recorded in the real estate activities (GTC) versus a profit of EUR 58 million in Q4 2008. The loss mainly stems from a negative revaluation result of EUR 50 million (Q4 2008: loss of EUR 6 million). The loss in Q4 was due to a decrease in estimated future rental values. The direct operating result after tax was positive (EUR 6 million). The direct result increased by EUR 2 million compared to Q3 2009 due to increase of the rental space as a result of completion of properties. In 2008 GTC recorded an additional tax burden of EUR 8 million due to a higher tax base in local currencies caused by the devaluation of these currencies against the Euro.

In addition, during Q4 2008, GTC RE NV and Kardan NV merged. This resulted in a negative goodwill of EUR 77 million that was booked as a profit in light of the fact that the net assets value (the book value of assets less liabilities of GTC RE NV) exceeded the value of the shares issued by Kardan NV to acquire these 33% of the net assets value.

TBIF

The banking and lending activity of TBIF reached a profit of EUR 3 million in Q4 2009 versus a loss of EUR 59 million YoY. Despite credit losses amounting to EUR 20 million (Q4 2008: EUR 22 million), the activity was profitable in Q4 2009 due to profits that derived from investments in bonds (EUR 14 million) and from the banking and lending activity (EUR 9 million). In Q4 2008, goodwill was impaired in the amount of EUR 55 million and as a result thereof, a put option provided to management to sell shares in TBIF to the shareholder was revaluated resulting in a profit of EUR 20 million.

TBIH

In the insurance and pension activity of TBIH, a loss of EUR 2 million was realized compared to a profit of EUR 24 million in the equivalent period of last year. The loss is mainly attributable to the Turkish insurance operations that suffered from deteriorating market circumstances. This was compensated by a revaluation profit of EUR 5 million relating to the value of a put option held by KFS to sell its stake in TBIH to the partner.

In Q4 2008, the profit was due to a capital gain from the sale of a part of the insurance activities to our partner (EUR 14 million), the revaluation of the put option held by KFS to sell its stake in TBIH to the partner of EUR 31 million, an operational loss of EUR 7 million and goodwill impairment of EUR 12 million

TAHAL

The (water) infrastructure division realised a loss of EUR 1 million. (Q4 2008: loss of EUR 12 million). The loss in 2008 is attributable to the Romanian and South American activities of the Tahal Projects.

Rental & Leasing

In 'rental and leasing of vehicles' neither profit nor loss was recognized (Q4 2008: nil).

Automotive Sales

In 'sale of cars' a profit of EUR 2 million was realised compared to a profit of EUR 1 million in Q4 2008.

Other

The 'other' activities resulted in a loss of EUR 7 million compared to a profit of EUR 17 million in Q4 2008. In this segment, finance expenses relating to the funding of equity investments in subsidiaries and general and administrative expenses of the head office are recorded. In Q4 2008 a profit of EUR 5 million was recognized relating to the revaluation of the convertible debentures and options to Kardan

N.V. shares as well as EUR 15 million which were generated from early repayment of KNV Debentures that were bought by Tahal Group.

- **Equity attributable to the shareholders of Kardan NV as of December 31, 2010**

As of December 31, 2009, the equity attributable to the shareholders of Kardan NV decreased to EUR 293 million, compared to EUR 368 million at year-end 2008. This decrease was mainly the result of the loss for the period (EUR 92 million). This was partly compensated by direct movements in Equity due to increase of foreign currency and hedge reserves.

The solvency ratio (shareholder's equity/total assets) of Kardan N.V. stood at 32% compared to 36% at year-end 2008.

As a result of transactions in 2009, the net debt position of Kardan N.V. as of December 31, 2009 decreased to EUR 362 million from EUR 397 million as of December 31, 2008.

1.5 Value of investments Kardan N.V.

The following table summarizes the book value of the companies held directly by Kardan N.V. as of December 31, 2009 and December 31, 2008 (amounts in EUR million):

Holding Company	Name of subsidiary	Share in subsidiary	Book Value in Kardan NV	Loans granted by Kardan NV	Total Investment in books 31.12.09	Total Investment in books 31.12.08
Kardan NV	GTC RE Holding (*) (1)	100%	316	80	396	559
	KFS (**) (1)	98.6%	114	95	209	121
	Tahal	100%	19	88	107	106
	Kardan Israel	73.9%	71	-	71	68

(*)

Holding Company	Name of subsidiary	Share in subsidiary	GTC Holding Book Value	Loans granted by GTC Holding	Total Investment in books 31.12.09	Total Investment in books 31.12.08
GTC RE Holding	GTC SA (2)	43.1%	407	-	407	498
	GTC China	100%	140	21	161	120
	GTC Investments	46.3%	6	10	16	16

(**)

Holding Company	Name of subsidiary	Share in subsidiary	KFS Book Value	Loans granted by KFS	Total Investment in books 31.12.09	Total Investment in books 31.12.08
KFS	TBIF	90.4%	102	153	255	278
	TBIH	40%	67	-	67	59

(1) The main difference in the total investments in GTC RE Holding and KFS as of December 31, 2009 compared with December 31, 2008 is a change in the loans granted to the subsidiary and the results in the period.

(2) The main difference in the total investments in GTC SA as of December 31, 2009 compared with December 31, 2008 is due to the sale of 3% of GTC SA shares by GTC RE Holding (see also 1.2 "Main events in 2009) as well as the result for the period.

1.6 Financial Position of Kardan Group as of December 31, 2009

- **Maturity loans**

Kardan has a decentralized funding structure. This implies that Kardan, its direct subsidiaries (all being holding companies of the operational entities), and the operational entities mostly are responsible for the funding of their own activities. As a consequence, within the Kardan group many agreements with lenders are in place with different covenants.

The following table gives an overview of the cash positions and refinance obligations for convertible and non convertible debentures and other interest bearing loans as at December 31, 2009 for Kardan N.V. and its divisions⁹;

EUR Millions	Free Cash & Cash equivalents ⁹	Debt/loans maturing					
		Before December 31, 2010	Before December 31, 2011	Before December 31, 2012	Before December 31, 2013	After December 31, 2013 & till December 31, 2023	Total
Kardan N.V.	67	11	11	6	58	465	551
GTC Group	247	70	98	113	169	1,098	1,548
KFS	484	351	67	35	142	137	732
Tahal Group International	21	32	3	8	8	19	70
Kardan Israel	43	123	50	37	32	111	353
Total	862	587	229	199	409	1,830	3,254

For KFS, the amount due before December 31, 2010 includes the support from the Central Banks in Ukraine and Russia amounting to EUR 134 million.

For Kardan Israel, the amount due before December 2010, includes repayment of EUR 48 million of debt of AVIS Israel that may be financed by the proceeds from lease instalments and vehicles sales.

From the total debt payable after December 2013, the total amounts due in the next five years are respectively EUR 510 million, EUR 182 million, EUR 268 million, EUR 102 million and EUR 188 million.

- **Net debt¹⁰**

The following table summarizes the net debt of Kardan NV and if applicable of it's directly owned subsidiaries (company only) as of December 31, 2009:

⁹ The table provides consolidated figures for each division. It should be noted however that the cash and debt positions of an individual company within a division cannot always be compensated with the position of another company. Free Cash & Cash equivalents of KFS include the investment in tradable bonds; the debt of KFS excludes the liabilities due to deposit holders of the banking activities in Russia and Ukraine.

¹⁰ Net debt includes interest bearing loans and borrowings, debentures and convertible debentures, less cash and cash equivalents and interest bearing receivables.

Company	Net Debt (in EUR million)
Kardan NV	Liabilities: Debentures (*),(**) (460) Loans from banks (64) Assets: Loan to KFS 95 Cash and short term investments <u>67</u> Net debt (362)
GTC RE Holding	Liabilities: Loans from banks (155) Assets: Cash and short term investments <u>1</u> Net debt (154)
KFS	Liabilities: Loans from Kardan NV (95) Loans from banks (180) Assets: Cash and short term investments - Loans to minority in subsidiary 15 Loans to TBIF <u>153</u> Net debt (107)
Kardan Israel	Liabilities: Debentures (50) Loans from banks (44) Assets: Loan to subsidiary 6 Cash and short term investments <u>28</u> Net debt (60)

(*) Excluding debentures which were purchased by Tahal Group International

(**) Debentures are presented in EUR in accordance with the currency hedging transactions

1.7 Risk management and Israeli Sox

1.7.1 Risk management

The company has three main fields of activities divided into seven segments. Each sector is managed by an executive director or board of directors which are responsible for managing its market sector risks. In addition, in each operating company a senior manager is responsible for managing its risks. The director responsible for managing the risks of Kardan NV is Mr. Walter van Damme, a member of the Management Board.

Kardan is focused on further expanding its businesses in emerging markets. By nature, these markets are relatively underdeveloped and unstable in various aspects and therefore often exposed to risks arising from unforeseen changes such as (geo) political, regulatory, legal and economic changes. Through its investments in emerging markets, Kardan is exposed to a relative high degree of inherent risk which is managed among others by the strong local footprint.

Throughout 2008 and up to and including 2009, significant market turmoil was experienced in the credit markets, beginning with concerns over US sub-prime mortgages and then widening into a general banking liquidity crisis.

Although green shoots can be noticed in various markets, 2010 still will be difficult. The future developments could possibly have additional adverse economic implications possibly leading to a further slowdown in the world economy in general. These global economic factors could possibly have future negative consequences for the results of the Group, its equity base, the value of its assets, its ability to comply with the covenants agreed upon with lenders and its ability to raise financing, as well as the terms of such financing.

Like in 2008, in 2009 Kardan has been closely following the changing global economic developments and is carefully reviewing and monitoring the impact of the crisis on its financing position, valuation of assets, and liquidity position. Contacts between the Management Board and the management of its subsidiaries have remained intensive, discussing the latest development and expectations in the respective markets as well as the (financial) resilience of these subsidiaries.

The following risks are a selection of the main financial risks. For a more comprehensive overview of the main risks the Group is exposed to, reference is made to the 2009 consolidated financial statements and the 2009 Annual Report (Barnea). In addition, there may be other significant risks Kardan has not yet identified or have been assessed as not having a significant potential impact on the business but which in a later stage could materialize as such.

Credit risk: Credit risk is a risk the group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk is also applicable for derivatives, financial guarantees and loan commitments. The Group is exposed to credit risk with regard to its trade receivables, cash and cash equivalents, deposits, and other financial assets (including granted loans, derivative assets, financial guarantees and loan commitments). For the entities providing credit risk management processes are in place. For the banks within the group, the risk management function has been constantly reviewed by the respective Banking Authorities. After the financial crisis begun, underwriting criteria became more restrictive and collection efforts have been intensified. Additionally, the risk management systems and infrastructure were improved."

Interest-rate risk: The Group's exposure to changes in interest rates relates primarily to the Group's long-term debt obligations. The Group's policy is to manage its interest cost using a combination of debt with fixed and variable interest rates. Interest-rate risk management aims to limit the impact of fluctuations in interest rates on the results and reduce total interest expenses as much as possible. To manage this mix in a cost-efficient manner, the Group enters into interest-rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. Interest-rate derivatives are used to align the loan portfolio with the intended risk profile. In order to manage the risk profile, the Management Board discusses instruments to be used. Hedge accounting is only allowed if detailed requirements are met.

Liquidity Risk: Kardan is strongly depending on external (long- and short term) financing and therefore is exposed to the risk that insufficient access to capital threatens its capacity to execute its business model. Kardan NV and each division of Kardan manages its own capital structure and liquidity position. Cash flow forecasts are made on a regular basis and discussed within the divisions and with the Board of Management of Kardan. As part of these discussions decisions are made with respect to raising of capital and the form of it (Equity, Mezzanine, debt), repayment or restructuring of loans, investment or divestment of assets and dividend policy.

Foreign currency risk: Since the Group conducts business in a variety of countries; it is exposed to a foreign currency exchange rate risk, resulting from exposure to different currencies. The foreign currency exchange rate risk arises from transactions conducted in a currency that is not the functional currency of each company in the Group. Group companies conduct currency translation transactions at times to hedge the exposure to the foreign currency risk.

1.7.2 Israeli Sox

On November 24, 2009, the Knesset Finance Committee approved the proposal of the Israeli Securities Authority to adopt regulations dealing with the internal control framework for the financial reporting and disclosures of a company, so as to provide a reasonable degree of assurance regarding the fairness of the reports and their compliance with the provisions of the law (Securities Regulations (Periodic and Immediate Reports) (Revision No. 3) – 2009 (hereinafter – the “Revision”). The Revision was published in December 2009.

The aforementioned provisions will be effective for the periodic report as of December 10, 2010 (hereinafter – the “effective date”). Notwithstanding the above, according to the provisions of the Revision, during the period from the date of publication of the Revision until the effective date, a description should be given of the stages being implemented by a company in preparation for the implementation of the Revision and the progress being made in respect thereof (hereinafter – the “implementation of the project”).

The goal of the Revision is to improve the quality of financial reporting and disclosure by strengthening the internal control framework of the company.

Steps taken by Kardan to implement the project as of the date of this report:

The person responsible for implementation of the project at Kardan is Jan Slootweg.

As of the date of this report, Kardan completed the mapping of the significant processes in connection with financial reporting and disclosure. For purposes of mapping the processes and identifying the very significant business risks involving the financial reporting and disclosure at Kardan, use was made of an assessment and analysis model which takes into consideration various qualitative and quantitative factors.

Out of all of the processes existing within Kardan, the processes that are very significant to financial reporting and disclosure were defined, as follows:

1. Entity Level Controls (ELC)
2. The Financial Statement Closing Process
3. Information Technology General Controls (ITGC)
4. Investment property
5. Loans to customers
6. Banks and cash flow management
7. Financial products

1.8 Segmental Key Indicators for the period

The following table presents key indicators for the activities of each of the three main fields of activities of Kardan N.V.

Key Indicators

The following tables contain balances as of December 31, 2009 and results for the period of 12 months ending December 31, 2009.

Real Estate

Commercial Properties

Completed

	Unit	Total	Poland	Other CEE	Czech R. pr**
NRA Pro-Rata to GTC's holdings ("pr")	[SQM '000]	455	247	196	12
Average vacancy*	[%]	7%	4%	11%	31%
Average yield used in valuations	[%]	7.8%	7.5%	8.2%	9.5%
Book value	[EUR mn]	1,468.9	807.8	649.7	11.4

* Vacancy excludes Spiral building in Hungary, NRA of 29,000 SQM which is 24% let. The vacancy in Czech Republic refers to one logistic centre.

** GTC SA holds c. 30% of the operations and thus does not consolidate the results in the financial statements.

Under construction

	Unit	Total	Poland	Other CEE	Czech R. pr	China pr
NRA pr	[SQM '000]	274	63	156	20	35
Accumulated cost	[EUR mn]	284.6	66.9	146.1	25.1	46.6
Profit from revaluations	[EUR mn]	7.8	(11.8)	12.2	7.3	-
Minority interest in commercial properties	[EUR mn]	(46.5)	-	(46.5)	-	-

Residential Properties

Under construction

	Unit	Total	CEE	Czech pr	China pr*
Area pr	[SQM '000]	699	76	14	609
Book value	[EUR mn]	172.9	64.9	25.4	82.6

* The selling rights of areas which are not yet under construction amount to 856 thousand SQM.

Net Debt

	Unit	Total	CEE	Czech R. pr	China pr
Net financial liabilities (assets)	[EUR mn]	1,072.0	1,051.7	45.7	(25.4)

Financial Services

Banking Activities

	Unit	Sovcom	VAB***	TBI Bulgaria	TBI Romania
Holding	[%]	69%	49%	100%	100%
Revenues (100%)*	[EUR mn]	131.8	41.9	22.0	25.1
Net profit / loss (100%)	[EUR mn]	(1.8)	(34.1)	(1.0)	0.8
Equity (100%)	[EUR mn]	71.1	33.5	3.1	31.4
Solvency	[%]	9%	6%	10%	22%
Credit portfolio (100%)**	[EUR mn]	332.0	455.3	113.1	114.4
Provisions	[%]	13%	15%	7%	10%
Book value in TBIF - equity and loans	[EUR mn]	74.4	41.6	45.6	64.7

* Includes net interest income, net commission income and other operating income.

** According to IFRS.

*** After the balance date the holding in VAB increased to 63%.

Insurance Activities

	Unit	Turkey	Ukraine	Georgia
Premiums (100%)	[EUR mn]	113.9	39.9	51.1
Net profit / loss (100%)	[EUR mn]	(8.1)	(4.3)	3.1
Market share	[%]	2%	6%	33%

Pension Activities

	Unit	Bulgaria	Ukraine	Croatia	Others
Members	[Thousands]	1,291.3	136.5	233.9	9.3
Assets under management (100%)	[EUR mn]	541.9	1.9	527.7	0.9
Net profit / loss (100%)	[EUR mn]	3.8	(0.2)	1.6	-
Market share	[%]	33%	4%	15%	-

Infrastructure

Projects Segment

		Total*
Backlog	[EUR mn]	181.3

* The backlog increased in January 2010 by EUR 143mn to EUR 324mn.

Assets Segment

		KWIG*	Task	Milgam
Book value (incl. shareholder loans)	[EUR mn]	35.5	6.5	21.2

* Includes Dingzhou plant which currently operates under a different subsidiary.

Disclaimer

This report contains forward looking information as defined in the Israeli Securities Act, based on macro economic data relevant to each geographical region in which Kardan NV is active, the management's experience and the condition of the local and global market. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of changes in the state of the market, new regulations, continuation and/or worsening of the global economic crisis or incorrect assessments by management.

This report also contains information regarding market developments which are based on external party research which was published in the following:

- Country Research: **Goldman Sachs**, Macro Research, **Bank of America Merrill Lynch**, EEMEA Banks in 2010: Credit, NPLs and Re-rating
- CEE Real Estate market: **CB Richard Ellis**, CEE Office & Retail Investment, *February 2010*.
- China Real Estate market: **Bank of America Merrill Lynch**, 2010 China Property Investment Strategy, February 2010
- Financial Services market: **Bank of America Merrill Lynch**, EEMEA Banks in 2010: Credit, NPLs and Re-rating, **Dragon Capital**, Ukraine Economic Overview, February 2010
- (Water) Infrastructure market: **Global Water Intelligence**
- Automotive market: **Car Importers Association** (Israel) *website*

Kardan NV is not responsible for the nature or correctness of data presented in this section regarding market developments or projections.

**PART 2 ADDITIONAL INFORMATION****2.1. Financial analysis****2.1.1 Following is a summary of Kardan NV's consolidated balance sheet (in EUR millions)**

Clause	31.12.09	31.12.08	Notes
Total balance sheet	5,633	5,251	The increase as of December 31 ,2009 compared to December 31, 2008 is mainly a result of the first time consolidation of "Kardan Nichsey Emed" in the financial statements of Kardan Israel which includes the proportionate consolidation of "Emed" and "Dan Vehicles"(*).
Current assets	2,047	1,840	The increase as of December 31, 2009, compared to December 31, 2008, is mainly a result of increase in short term investments due to revaluations of investments in the financial services segment. The increase was partly offset as a result of cash usage due to new investments in real estate projects during the reported period.
Non current assets	3,569	3,328	The increase as of December 31, 2009 compared to December 31, 2008 is mainly a result of increase in the investment properties due to progress in construction during the reported period in GTC Group.
Current liabilities	1,577	1,598	The decrease as of December 31, 2009, compared to December 31, 2008 is mainly a result of decrease in advances from buyers due to delivery of apartments in the real estate segment as well as decrease in the current interest bearing loans and borrowings due to repayment of loans in 2009.
Other debentures	866	806	The increase as of December 31, 2009 compared to December 31, 2008 is mainly a result of the first time consolidation of "Kardan Nichsey Emed" in the financial statements of Kardan Israel which include the proportionate consolidation of "Emed" and "Dan Vehicles"(*).
Interest-bearing loans and borrowings	1,698	1,128	The increase as of December 31, 2009 compared to December 31, 2008 is mainly a result of receipt of bank loans for the funding of projects in the GTC Group and in Kardan NV, for the purpose of expanding the Group's activities as well as first time consolidation of "Kardan Nichsey Emed" in the reports of Kardan Israel which include the proportionate consolidation of "Emed" and "Dan Vehicles"(*).
Options	28	55	The decrease as of December 31, 2009, compare to December 31, 2008 is mainly a result of devaluating and exercising of "Put" options for the purpose of acquiring shares from minority shareholders and managers in the various KFS Group.
Equity attributable to equity holders of the parent	293	368	The decrease as of December 31, 2009 compared to December 31, 2008 is mainly a result of the loss in the reported period amounted to EUR 92 million offset by movements in the various capital funds amounted to EUR 13 million.

(*) In January 2009, Kardan Israel completed the purchase of 10% in "Kardan Nichsey Emed" ("Emed assets.") Following the completion of this acquisition Kardan Israel holds 60% of the shares of Emed assets and consolidating the financial statements of Emed assets starting the first quarter of 2009. Emed assets hold 50% in "Emed Property Development and Investments Ltd"

("Emed"), which is proportionate, consolidated. Emed holds 54% in "Dan vehicles and transportation D.R. T. Ltd. (hereinafter "Dan vehicles"). Dan vehicles have an "AVIS" Europe franchise authorizing it to use the brand name of AVIS in Israel, working methods and computers systems for car rental. In July 2009 Kardan Israel completed the purchase of Kardan Nichey Emed shares and currently holds 100% of Emed assets.

2.1.2 Results of Business Operations (in EUR million):

	2009	2008	2007	Notes
<u>Revenues</u>				
Sale of goods	145	91	55	The increase in sale of goods in 2009 vs 2008 is mainly a result of delivery of apartments in Romania, Serbia, Poland, Hungary and China, after which income from the sale of these apartments could be recognized.
Contract revenues	173	149	86	The income mainly represents the revenues from projects in the (Water) Infrastructure segment operated by Tahal Group. The increase in 2009 in comparison to 2008 is a result of increase in the activity of Tahal in most of the operating areas.
Revenues from renting vehicles	108	-	-	Due to the first time consolidation of "Dan vehicles" (*).
Revenues from sale of rental vehicles	58	-	-	Due to the first time consolidation of "Dan vehicles" (*).
Insurance activities	59	67	16	In 2008, and in the reported period, the sale of a number of TBIH insurance companies was completed. As a result, the relevant profit and loss items were presented as "discontinued operations" in the P&L account (see below).
Banking and retail lending activities	96	96	72	In 2009 the income includes revaluations of tradable securities in the Russian bank. This income was partly offset by increase in provisions for doubtful debts in the Russian and Ukrainian banks due to the world credit crisis.
Property rental revenues	105	80	60	The increase in property rental revenues in 2009 in comparison to 2008 is mainly as a result of completion of construction and leasing of a number of commercial projects during 2008 and 2009 which generated rental income in 2009.
Services and management fees	9	9	8	-
Total Revenues	753	492	297	
<u>Expenses</u>				
Cost of goods sold	114	70	39	See explanations for the changes in sale of goods.
Contracts costs	138	126	68	See explanations for the changes in revenues from contract works.
Cost of rental vehicles	78	-	-	See explanations for the changes in revenues from sale of vehicles

Cost of sale of rental vehicles	54	-	-	See explanations for the changes in revenues from renting of vehicles.
Operating expenses of insurance activities	68	63	15	The increase in the operating expenses of the insurance activities is mainly due to Turkish operation losses (see also the net result analysis in this segment).
Cost of banking and lending activities	124	120	65	The increase in the expenses in 2009 in comparison to 2008 is mainly a result of first time full consolidation of the Russian bank results starting 2009.

(*) In January 2009, Kardan Israel completed the purchase of 10% in "Kardan Nichey Emed" ("Emed assets.") Following the completion of this acquisition Kardan Israel holds 60% of the shares of Emed assets and consolidating the financial statements of Emed assets starting the first quarter of 2009. Emed assets hold 50% in "Emed Property Development and Investments Ltd" ("Emed"), which is proportionate, consolidated. Emed holds 54% in "Dan vehicles and transportation D.R. T. Ltd. (hereinafter "Dan vehicles"). Dan vehicles have an "AVIS" Europe franchise authorizing it to use the brand name of AVIS in Israel, working methods and computers systems for car rental. In July 2009 Kardan Israel completed the purchase of Kardan Nichey Emed shares and currently holds 100% of Emed assets.

Results of Business Operations (in EUR millions) (cont'd) :

	2009	2008	2007	Notes
Cost of property rental operations	24	20	12	Please see the explanations for the changes in rental revenues.
Other expenses , net	30	10	6	The other expenses in 2009 are mainly due to impairment of assets in the (Water) Infrastructure segment (see also the net result analysis in this segment) as well as the write down to net realizable value to the cost of building in progress in the real estate segment.
Total expenses	630	409	205	-
Gross margin	123	83	92	-
Sales and marketing expenses	24	20	19	-
General and administration expenses	62	27	56	In 2008, these expenses were offset by the devaluation of a Put option which was granted to management of subsidiaries for the sum of EUR 30 mn.
Profit (loss) from operations before fair value adjustments, disposals of assets and financial expenses	37	36	17	-
Adjustment to fair value of investment properties	(179)	196	287	In 2009, all investment properties which presented according to fair value were revaluated to their fair value, resulting in a loss of EUR 137 mn. In addition, due to impairment testing done for the entire investment properties carried at cost, additional loss of EUR 33 mn was recognized in 2009. (See net result analysis in this

				segment). In the course of 2008 a numbers of properties were revaluated for the first time (Poland, Romania and Serbia) following completion of construction. In Dec. 2008, the Group had early adopted the revised IAS 40 and as a result parts of the investment properties under construction were revaluated to their fair value.
Impairment losses on goodwill	(1)	(89)	(1)	In 2008, as well as in 2009, the loss includes expenses related to impairment of goodwill mainly in the financial services segment (see also the net result analysis in this segment).
Gain on issuance of shares in associated companies and subsidiaries to third parties	1	2	45	The profit in 2007 is mainly the result of issuing KFS shares to Discount Bank as well as from the realization of the convertible debentures in GTC RE and Kardan Israel
Gain on disposal of assets and other income	30	121	47	The income in 2009 includes the revaluation of a "Put" option granted to KFS with respect to its holding in TBIH as well as the profit from the sale of 3% of GTC SA shares. The profit for 2008 was generated from the merger between Kardan NV and GTC RE as well as the revaluation of a "Put" option granted to KFS regarding its holding in TBIH.
Profit (loss) on disposal of assets and investments	31	123	92	-
Profit (loss) before finance expenses and income taxes	(112)	266	395	-

Results of Business Operations (in EUR millions) (cont'd):

	2009	2008	2007	Notes
Financial Income	63	177	42	Finance income in 2009 is mainly the result of an increase in the value of financial assets which are denominated in EUR and USD, in the financial services operations as a result of devaluation of the Russian and Romanian currencies. Due to a slight reverse in the trend of those currencies, expenses were incurred in the last 3 quarters of 2009 which were offsetting part of the income. The income in the reported period also includes interest which derived from the cash balances of the group.
Financial expenses	(186)	(247)	(104)	The financial expenses in 2009 are mainly a result of a decrease in the value of financial liabilities which are denominated in EUR and USD, mainly in the financial services operations as a result of devaluation of the Russian and Romanian currencies. In addition, the financing expenses for the reported period include the financing costs of loans and debentures in the group.
Adjustments to fair value of other financial instruments	3	58	(44)	The income in 2008 mainly results from the decrease in the fair value of the equity components in GTC RE and Kardan Israel's convertible debentures and from revaluing options for Kardan NV shares. In addition, this income also includes profit from derivatives in GTC SA which were not recognized as "hedge accounting" until Q4 2008.
Total financial expenses , net	(120)	(12)	(106)	-
Profit (loss) from operations	(232)	254	289	-
Share of profit (loss) of associates accounted for using the equity method	7	3	6	-
Net profit (loss) before income taxes	(225)	257	296	-
Income tax (benefit) expenses	(27)	81	42	Main tax expenses/benefits are a result of a provision for deferred taxes due to revaluation/devaluation of investment properties.
Net profit (loss) for the year from continuing operations	(198)	176	253	-
Net profit (loss) for the year from discontinued operations	22	(1)	(3)	See explanations for the changes in income from insurance business. In addition, in 2009 the profit also derives from the sale of the pension activity in Romania.

Net profit (loss) for the period	(176)	175	250	-
Net profit (loss) attributed to equity holders of the parent	(92)	52	90	See also analysis of the net result to the equity holders of Kardan NV.
Net profit (loss) attributed to minority interest holders	(84)	123	160	-

2.1.3 Cash flow and source of funding (in EUR millions):

	2009	2008	2007	Notes
Net cash provided by (used in) operating activities	51	(191)	(100)	-
Net cash used in investing activities	(598)	(707)	(539)	In 2009, EUR 313 million were used for acquisition of tangible fixed assets and investment properties and EUR 256 million were used for short term investment. In 2008, EUR 422 million were used for acquisition of tangible fixed assets and investment properties, EUR 502 million were used for granting long term loans, EUR 48 million were used to grant loans to bank costumers, EUR 45 million were used for investments in companies and EUR 30 million were used for acquisition of newly consolidated companies. Those amounts were offset by proceeds of collecting long term amounting to EUR 341 million. In 2007, EUR 442 million were used for granting long-term loans as well as EUR 113 million which were used as granting loans to bank costumers
Net cash provided by financing activities	504	529	1,135	In 2009, EUR 886 million were generated following the receipt of long term loans, EUR 178 million were generated from short term loans and borrowings, EUR 22 were generated from issuance of debentures and EUR 585 million were used for repayment of long term loans. In 2008, EUR 921 million were generated from proceeds from long-term loans which were offset by EUR 384 million which were used for repayment of long term loans and another EUR 77 million which were used to repay debentures. In 2007, EUR 545 million was generated from proceeds from long-term loans as well as EUR 691 million which were generated from issuance of debentures.

The Management Board of Kardan NV believes there is no reason concern for concern that Kardan NV will not be able to meet its current financial obligations and those expected in the two years following publication of the financial statements.

This assumption is based on the cash flow forecast of Kardan NV, including a breakdown of the resources, uses and the available assets for pledge as of December 31, 2009.¹¹

Due to its structure and nature of operations, Kardan NV usually has negative cash flow from operating activities.

¹¹ This estimate is forward looking information as defined in the Israeli Securities Act, based on management assumptions and expectations. The aforesaid may not materialize completely or part thereof, or materialize in a different manner, including materially different from what is expected as a result of changes in the state of the market, difficulties in raising credit, decrease in value of investments and change in cash amounts expected to be received from affiliated companies

2.2. Valuations

For detailed disclosure regarding investment property and its fair value, please refer to the relevant chapter of the annual report.

2.3. Issuance of debt

The following are details regarding the marketable debentures of Kardan NV as of December 31, 2009:

	<u>Debenture series A</u>	<u>Debenture series B</u>
Par value of issued debentures	EUR 219 million (NIS 1,190,000,000)	EUR 245 million (NIS 1,333,967,977)
Par value of debentures acquired by a subsidiary of Kardan NV	EUR 28 million (NIS 150,555,233)	-
Linkage basis	Principal and interest linked to Israeli CPI (CPI of January 2007)	Principal and interest linked to Israeli CPI (CPI of December 2006)
Par value of debentures as of December 31, 2009	EUR 219 million (NIS 1,190,000,000 par value)	EUR 245 million (NIS 1,333,967,977 par value)
Interest rate (per annum)	4.45%	4.9%
Principal repayment	Four equal instalments from: From February 2013 to February 2016	Seven equal instalments from: From February 2014 to February 2020
Interest payment dates	Nine annual instalments from February 2008 to February 2016	13 annual instalments from February 2008 to 2020
Total debt up to the date of the balance sheet (including interest and Israeli CPI linkage)	EUR 221 million (net of debentures held by a subsidiary) (*)	EUR 286 million (*)
Market capitalization as of December 31, 2009	EUR 235 million	EUR 252 million
The trustee	Aurora Fidelity Trustees Ltd (Adv. Iris Shlaien)	Hermatic trustee (1957) (Adv. Dan Avnun)
Rated by	S&P Maalot	S&P Maalot
Rating at the time of issuing	AA - (February 2007)	AA - (February 2007)
Updated rating	A - (November 2008)	A - (November 2008)

(*) The debentures are swapped to EUR by currency hedging transactions